Tunnel-visioned and Incomplete:
the Queensland Government's Budget 2014-15

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In this examination of the current Budget I want to focus on the overall strategy and on alternative solutions to the 'budget problem'. This Budget continues, as in the previous two, its obsessive focus on the reduction of the debt by asset sales. In doing so it fails to give a coherent account of why the debt is an economic problem much less the mechanism by which it adversely affects economic activity.

The Budget refuses to consider any strategy other than asset sales. This approach, which I label 'tunnel-visioned' ignores the implications of its strategy, fundamental problems in the Queensland economy and alternative solutions which are favoured by a large section of the Queensland population. It is clear from the Budget papers themselves that the projections by the Costello Commission of Audit of the growth in public debt were excessively pessimistic as argued at the time by Professor Bob Walker & Dr. Betty Con Walker. There is no consideration of the optimum level of the public debt or the optimum level of future borrowing. It is asserted by the government that the optimum level is zero as is the future borrowing. I provide a counter assertion that a well managed State economy will always have outstanding debt and will have a regular borrowing program. There will be a continuing demand for more public services in the future. Some of the factors ensuring this are the demographic changes of an aging population, improved medical technology, increased urban traffic congestion coupled with antiquated public transport, which are major factors reducing productivity growth.

The implications of the current strategy are clear. I characterise the strategy as being comprised of the following elements:

- Sell public assets;
- Reduce debt;
- Keep taxes low; and
- Don't borrow for new capital expenditure.

Queensland will remain a low services State. There is simply no way to fund increased and improved services except firstly, through growth in collections from existing taxes and secondly, grants from the Commonwealth. Current State taxes will not be enough to maintain the existing level of services. The present Commonwealth government in its own budget has made it clear it intends to reduce grants to the States. An alternative strategy is to increase State taxes and royalties, borrow for productive capital projects and issue bonds regularly and examine asset sales on a case by case basis with full disclosure of all costs and lost revenue.

A major component of the Queensland economy is coal mining. Despite the boom in coal mining profits, most unearned, in the greatest boom of the last 100 years, the royalties accruing to the government have not been enough. The problem is in the design of the royalty system. Mining licences are granted too easily with imperfectly specified contracts covering future events. In the long term, new leases should be sold by a public auction or tender process and royalties more closely related to prices of coal. The next mining boom is in coal seam gas and the royalty system in this area should be examined so as not to repeat the mistakes in mining.

A suggestion for Queensland members of Parliament: on your next overseas study trip go to Norway and see how the benefits of a mineral resources boom can be obtained for the people.

The electricity supply market in Queensland is dysfunctional. It leads to excessive increases in charges for household electricity but fails to cope adequately with the household provision of solar generated energy. There are a number of subsidy schemes in operation. One thing is certain: sale of the generation assets will not resolve this dysfunction or lower retail prices.

Taxes (and charges) should be increased on gambling, liquor and on commercial motor vehicle registrations. These are generally low and a case for increasing them can be made in terms of the classic role of government. Gambling and liquor are activities which have negative social consequences and are prime candidates for increased taxes. Urban traffic congestion is has a negative effect on productivity – sitting in a motor vehicle in a traffic jam or slow moving traffic is not productive in any sense. An increase in commercial motor vehicle registration will not by itself unclog the roads but it is a start and will make operators more aware of the costs they create.

Experience of ‘public private partnerships’ in constructing public capital works has been much less than satisfactory. Large public projects are not generally financed by taxes but by borrowing which provides for better management of the projects.

One thing always forgotten in the discussion of public debt is that public debt is double-headed; it is an asset to the private sector. Financial institutions are willing to hold government bonds (have a quick look at the balance sheets of banks, insurance companies, superannuation funds) because government bonds are the ‘risk-free asset’ which serves an important part in liquidity and risk management for financial institutions. Markets for government bonds are important for determining interest rates so much so that most of the state government bonds in Australia are ‘benchmark’ bonds. The issuing authorities have committed to maintaining a minimum amount of bonds outstanding to ensure there is an active market in which large trades can be made.

In summary, my analysis of the current Queensland State budget is that it is obsessively concerned with a limited range of issues. In doing so it ignores other issues which will have to be considered in the future. Continuing this budget strategy will ensure Queensland is the ‘low services’ economy.

The alternative strategies which appeal to many people: (a) increasing State taxes and charges, (b) using borrowing for large capital works and (c) issuing bonds into capital markets have much merit. They deserve greater consideration than they have received to date.