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States threaten national recovery with profligate spending

New research by the Institute of Public Affairs, Australia's leading free market think tank, shows that growing state budget deficits and debt will impair Australia's capacity to exit the recession quickly.

The report, "*State Finances at the Crossroads: The states' budget problem, and what to do about it*", shows that since 2001 state governments have spent heavily on employing more bureaucrats and paying their employees more wages, for little discernable improvement in service delivery outcomes.

Between 2001 and 2007, the number of bureaucrats working in government administration grew by 63 per cent.

'Despite the huge windfall for state government workers, there is little evidence of a significant improvement in performance outcomes in the big-ticket areas of education and health', said the author of the report, Julie Novak, a Research Fellow at the Institute of Public Affairs.

Ms Novak argues that state treasurers can try to blame the global financial crisis for their poor budget outlooks, but it is their heavy spending during the recent boom that has directly led to weak state budgets.

The latest forecasts predict total state budget deficits of \$10 billion this coming financial year.

State government borrowings have increased massively, from a projected 22 per cent of the federal government's current debt ceiling of \$200 billion in 2008-09 to 40 per cent by 2011-12.

Julie Novak said, 'With a number of states having announced tax rises in recent months, and with rising public debt to be paid off by future taxpayers, increases in the state tax and revenue burden will impair investment and job creation at the same time as Australia seeks to recover from the recession.'

'The states' budget problem is a spending problem and not a revenue issue caused by the financial crisis,' Ms Novak said.

Copies of the report are available at the IPA website: www.ipa.org.au

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