tually paid off by the proceeds of asset sales or by recurrent budget surpluses.

Even still, some governments, like the Keating Beazley federal Labor administration, were slow learners judging by the $10.3 billion budget deficit and $96 billion of debt they left behind for the Coalition to clean up in March 1996.

A look at the combined budgets of the commonwealth and states—in other words, a 'federation' budget—illustrates that governments enjoyed increasing success in meeting the twin budgetary headlines of surpluses and low net debt.

From 2000–01 to 2007–08, combined general government surpluses rose from $6.5 billion (one per cent of GDP) to $27.3 billion (2.4 per cent of GDP). Meanwhile, net debt fell from $43.5 billion (6.3 per cent of GDP) to minus $70.6 billion.

Just about every government was able to rack up fiscal success, and each drew electoral credit for the seemingly strong results delivered.

The Howard–Costello government was able to wipe away the commonwealth debt ahead of its original schedule, saving taxpayers the interest costs of debt and preventing the crowding out of private investment. It also enjoyed an enviable streak of registering budget surpluses through most of its time in office.

Just about every government has been able to rack up fiscal success in the last decade, and draw electoral credit for the seemingly strong results delivered.

Even Tasmania, a state with a notorious history of fiscal mismanagement, was able to pay back debt and record budget surpluses. With the national economy growing at the rate that it was, well above its historical trend, getting budgets into surplus and paying back debt was almost like shooting fish in the proverbial barrel.

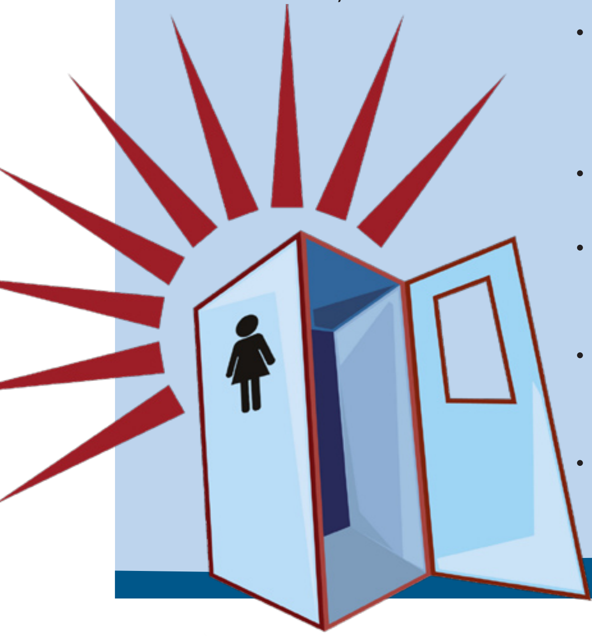
As alluded to above, the high water mark of the new fiscal orthodoxy was reached in 2007–08. Since that time, however, all governments have returned to a 1980s fiscal re-run of deficits and debt. In other words, the fiscal orthodoxy of sound public finance seemed to have been built on sandy foundations that subsequently toppled over.

With all Australian governments having released their 2009–10 budgets, the extent of the fiscal damage expected to be wrought on taxpayers is becoming clear. The expected federation budget will slip from a $27.3 billion surplus in 2007–08 to a $34.7 billion and $56 billion deficits in 2008–09 and 2009–10 respectively.

Governments are also planning to accumulate a debt bubble the likes of which Australia has never seen. According to the latest figures, federal and state and territory governments will move away from a negative net debt position to putting a fiscal mortgage on future generations. Net debt will grow from $57 billion expected this year up to a

You're paying for these:

- $150,000 to **relocate an existing heritage building** in Bruthen, VIC.



- $20,000 to construct **seating at a skate park** in Maffra, VIC.
- $300,000 to build an **environmentally-themed playground** in Keysborough, VIC.
- $200,000 to **replace a toilet block** in Bathurst, NSW.
- $30,513 to **upgrade tourist welcome signs** in Tenterfield, NSW.
- $10,000 to build a **composting toilet for a hall** in Hernani, NSW.
- $8,000 to install a **public charging station for electric scooters** in Albany, WA.
- $9,000 to create a **community produce garden** in Victoria Park, WA.
- $60,000 to complete **stage 1 of skate park construction** in Rosebury, TAS.
- $15,000 to **purchase and install stage curtains** at King Island Town Hall, TAS.
- $7,250 to **refurbish council chambers** in Two Wells, SA.
- $17,000 to install **a jumping pillow at a playground** in Wudinna, SA.
- $40,000 to construct a **Eucalyptus Distillery Museum** in Inglewood, VIC.

massive $212 billion by 2012–13.

How did it all come to this? Why did governments, after having worked to set their budgets on a sustainable path from the 1990s, travel down the Keynesian fiscal path yet again?

One version of recent events, often expressed by governments themselves, was that dysfunctional global financial markets and a domestic economic slowdown had led to an erosion of revenue. This, in turn, led to a budget meltdown experienced by all governments federal and state. While this official narrative may seem convincing at first glance, it conveniently ignores that, on the budget front, there are always two variables to tango. The other factor in the whole equation is spending, and trends in this area reveal something quite different.

Looking more closely at the federation budget, from 2000–01 to 2007–08 a gap between general government revenue and spending growth started to open up.

As the recent commodity boom was gathering a head of steam, revenues were growing at about seven per cent per annum reaching a high of eight per cent growth in 2007–08. However, not to be outdone, government spending was also growing to eventually exceed the growth in revenue in both 2006–07 and 2007–08.

In other words, governments spend as quickly as they could receive money and, in fact, got ahead of themselves as they acquired an expenditure habit. In 2008–09, a year in which the federation budget (the combined budgets of the states and the Commonwealth) slipped into a deficit, government spending grew by 13.6 per cent compared to a measly 0.4 per cent in revenue growth.

On the basis of current estimates, the excess of spending over revenue growth is expected to continue right through to 2010–11 with borrowed money used to fuel even more government expenditure.

To put it in simple terms, the current budget problems faced by governments across the country amount to a spending, and not a revenue, problem. Much of this dark side of fiscal behaviour was concealed by the budget surpluses enjoyed by government throughout most of this decade, but once fiscal circumstances changed the bias toward increasing expenditure has become fully exposed.

The basis for the pro-spending bias was explained by Milton Friedman in a 1993 pamphlet called 'Why Government is The Problem.' In it, he stated that

> the general rule is that government undertakes an activity that seems desirable at the time. Once the activity begins, whether it proves desirable or not, people in both the government and the private sector acquire a vested interest in it. If the initial reason for undertaking the activity disappears, they have a strong incentive to find another justification for its continued existence.

This argument certainly rings true in the Australian context. Rather than cut spending in response to the current circumstances of declining revenue growth, as any business or household would readily do, governments have found new reasons to maintain expenditure and find new days to do it.

At the state level, newly elected Labor governments during the late 1990s, and the early part of this decade, were able to justify more recurrent spending over a number of years by accusing their predecessors of expenditure 'neglect.'

While this political spin was untrue, it seemed nonetheless to have hit a chord with sectional interests whose existence depends on a growing government. This includes state government employees, whose total numbers have grown by more than a quarter million people since 2001, representing a huge, unionised voting bloc. At the federal level, the arguments used by Kevin Rudd and his ministers on infrastructure funding are a good example of how Australian governments tend to argue for more spending as the automatic solution for every perceived problem.

During its first twelve months, the Rudd government sang from the same 'neglect' hymn sheet as their state political counterparts. For example, in June 2008, Finance Minister Lindsay Tanner said 'we've got infrastructure problems that are the result of ten, twelve years of neglect in Brisbane, Sydney, Melbourne in particular... that's why we're committed to investing in infrastructure.'

Fast forward a year later, and we find the government still arguing for infrastructure spending but instead for reasons of stimulating the national economy. In his 2009–10 budget speech, Treasurer Wayne Swan praised Keynesian type measures 'that supports jobs today by investing in the infrastructure we need for tomorrow.'

In many ways, the current economic slowdown has emboldened governments to borrow and spend with seemingly little respect for limits regarding appropriate uses of public money.

This is well illustrated by the government's current $42 billion stimulus 'nation building' package, which includes funds for pink batt installations in private homes, fencing, cricket nets and whiteboards under a 'school pride' program, and school toilet blocks, gymnasiums and halls.

Under an $800 million community infrastructure program, councils have successfully applied for borrowed federal money to construct iPod docking stations, skate parks, garden beds, car parks, kitchens, reshaped creek banks and a headquarters for a circus troupe.

Will we see a return to normality in the form of budget balances and low government debt? In their latest budget plans, governments have announced a variety of measures to tidy their fiscal houses. At the state level, these include reducing the number of public servants, reduce public sector wages growth, clawing back generic efficiency dividends from departments, merging government agencies, eliminating selected programs and selling a range of public assets.

Some state governments, however, are combining these measures with a range of tax and fee hikes that threaten a speedy recovery by business enterprises and the economy more broadly.

The Rudd government has announced its own pathway back to surplus by the middle of the next decade, including through a commitment to peg real spending growth to two per cent (for as long as economic growth is above trend). It has also stated that its burgeoning public debt liability will be repaid by 2020.Such savings measures represent only a start to what governments need to do to return to budget normality. Many of the cited measures are tokenistic by nature, only designed to eliminate a deficit gap into the distant future by which time they may be elected out of office.

Assuming that governments successfully return budgets to surplus and repay public debt soon, there is no guarantee that they will retain that fiscal stance into the future.

The ingrained political sentiments to 'do something' with other people's money is unlikely to be rectified. The vested interests who receive taxpayer funds will undoubtedly ask for more, threatening governments with replacement by another batch of spenders if they don't deliver.

At the moment, stronger fiscal rules that limit spending growth and the raising of debt seem the best reform to ensure that governmental budget behaviour is regulated more stringently. Absent that, it seems that Australia will keep repeating damaging episodes of Keynesian unsound public finance down the track.

...and these:

- $23,000 to **construct a BMX track** in Gardiner, VIC.
- $295,000 to build a **community golf driving range** in Kilsyth, VIC.
- $202,000 to install **outdoor fitness equipment** in the Shire of Yarra Ranges, VIC.
- $300,000 to create an **'Eco-living Education Centre'** in Mt Martha, VIC.
- $53,000 to build a **'Men's Shed'** for the male community of Wingham, NSW.
- $9,000 to **replace a Croquet playing surface** in Halliday's Point, NSW.
- $1.4 million to construct a youth facility including **iPod and wireless docks** and a skate park in Eddison Park, ACT.
- $77,000 to r**efurbish council owned historic buildings** in Cobar, NSW.
- $480,000 to **construct a hydrotherapy pool** complex in Boonah, QLD.
- $200,000 to **construct a wading pool** in Mt Gravatt, QLD.