NSW PARLIAMENTARY LIBRARY RESEARCH SERVICE

Australian Federal and State Budgets – An Overview

by

John Wilkinson

Briefing Paper No 2/10

RELATED PUBLICATIONS

- Horizontal Fiscal Equalisation by John Wilkinson. NSW Parliamentary Library Research Service Briefing Paper no. 21/03.

ISSN 1325-5142
ISBN 978 0 7313 1864 3

May 2010

Australian Federal and State Budgets – An Overview

by

John Wilkinson

NSW PARLIAMENTARY LIBRARY RESEARCH SERVICE

Gareth Griffith (BSc (Econ) (Hons), LLB (Hons), PhD), Acting Manager, Politics & Government / Law……………………………………………………………..……(02) 9230 2356

Stewart Smith (BSc (Hons), MELGL), Research Officer, Environment………………………………………………………...(02) 9230 2798

Talina Drabsch (BA, LLB (Hons)) Research Officer………………………………………………………………….(02) 9230 2484

Daniel Montoya (BEnvSc (Hons), PhD), Research Officer, Environment/Planning ………………………………………………………………………….(02) 9230 2003

Holly Park (BSc, LLB) (Hons), Research Officer, Environment / Planning ……………………………………….….(02) 9230 3085

Lenny Roth (Bcom, LLB), Research Officer, Law........................ (02) 9230 2768

John Wilkinson (MA, PhD), Research Officer, Economics……….(02) 9230 2006

Should Members or their staff require further information about this publication please contact the author.

Information about Research Publications can be found on the Internet at:

http://www.parliament.nsw.gov.au/prod/parlment/publications.nsf/V3LIstRPSubject

CONTENTS

SUMMARY

The global financial crisis (GFC) has focused attention on public debt. Various western governments have re-adopted Keynesian-style deficit budgeting as a means to prevent a loss of confidence in the private sector and so underpin recovery. In Australia, the national government moved in 2008-09 from a position of budget surplus to budget deficit. **[1 and 3]**

Despite a re-adoption in recent years of deficit financing in some Australian jurisdictions, as a percentage of gross domestic product budget deficits (and general government sector net debt) remain low. **[3-10]**

In response to the 1980s and 1990s world recessions, the Australian federal and state governments all consolidated the position of their public finances: particularly through various forms of fiscal responsibility legislation. **[3-9]**

NSW has adopted debt elimination legislation, as well as fiscal responsibility legislation – the *Government Debt Elimination Act 1995* and the *Fiscal Responsibility Act 2005* respectively. **[4 and 10]**

A note to the *Fiscal Responsibility Act 2005* explains that fiscal sustainability will vary depending on:

- the strength and outlook for the economy,
- the structure of expenditure and revenue of the budget,
- the outlook for the State's credit rating,
- demographic and social trends that will affect the budget, and
- the nature of financial risks faced by the Government at any given time.**[10]**

Some of the factors impacting on the budget are internal in nature, including requirements for infrastructure development; others are external to the jurisdiction, with international developments influencing the capacity of governments to raise revenue. **[10]**

Concerns have been raised about the position of NSW finances in the longer term – particularly with regard to the state's rate of growth against that of the mineral-rich states. **[10]**

1 INTRODUCTION

The global financial crisis has focused attention on public debt. Internationally, the issue has been highlighted by the budget deficit crisis in Greece.[1] In Australia, the national government has moved from a position of budget surplus to budget deficit, raising some concerns about the level of sovereign debt.[2] The aim of this paper is to present an overview of the budgetary positions of the Australian national and State governments.

2 DEFINING TERMS

In examining the position of government finances in Australia, this briefing paper makes reference to the following key terms:

Budget: A budget, according to Don Nicholls (former assistant secretary of the NSW Treasury), is a "financial plan generally limited to the inner budget of the public sector. . .[which] consists of estimates. . .[and] refers to a specific period of time usually 12 months."[3]

Net Operating Balance [Surplus/Deficit]: Since the International Monetary Fund (IMF) first produced its Manual on Government Finance Statistics *(*GFS)[4], governments around the world have gradually adopted the IMF's terms for components of government budgets. The aim of the IMF approach was to put the presentation of budgets on a more commercial basis. The GFS system is based on accrual accounting. As the Australian Treasury explained, "The principal difference between the accrual-based. . .balance and the cash balance is. . . accrual [accounting] captures forward commitments. . . [whereas] cash-based accounting captures payments and receipts as they occur."[5]

The term **Net operating balance** is now used rather than surplus or deficit and measures, according to the Senate Select Committee on State Government Financial Management, "the difference between actual GFS recurrent revenue and expenses".[6]

---

1 See Philip Pangalos, "Crisis Meeting as Greek Debt Hits $482 bn" in *The Australian*, 12 December 2009, p.32.

2 Barnaby Joyce, "Australia Has Partied Hard but now We Face the Debt Hangover" in *The Australian*, 25 February 2010, p.12.

3 Don Nicholls, *Managing State Finance: the New South Wales Experience* (NSW Treasury, Sydney, 1991), p.154. The "inner budget" sector, according to Nicholls, includes "all [government] departments and certain statutory authorities." See ibid., p.313.

4 International Monetary Fund, *A Manual on Government Finance Statistics* (International Monetary Fund, Washington DC, 1986).

5 Australian Treasury, *Budget 2009-10* (Australian Treasury, Canberra, 2009), Budget paper No.3, p.142.

6 Senate Select Committee on State Government Financial Management, *Report* (Australian Senate, Canberra, 2008), p.16.

According to s 4(1) of the *Fiscal Responsibility Act 2005* (NSW), the term ***net operating result*** means the excess of total revenue over total expenses as described for GFS. It is noted that net operating result excludes expenditure on the acquisition of capital assets, but includes the consumption of capital (depreciation).

Public debt: Public debt, according to a recent definition by Marc Robinson, measures “the excess of [government] assets over [government] liabilities in respect to bonds and holdings of money.”[7] Some years before Robinson’s paper, the H.V. Evatt Foundation, in a report entitled *The Capital Funding of Public Enterprise in Australia*, wrote that “Public debt is the sum of borrowings by government either from domestic or international capital markets.”[8]

General Government Sector: The general government sector, as described in the *NSW Budget 2005-06*, includes:

> all. . .government agencies that receive parliamentary appropriations…Non-budget dependent general government sector agencies are generally self-financing through the imposition of regulatory and user charges.[9]

General Government Sector Net Debt: This is defined by the NSW Auditor-General as follows:

> General Government Sector net debt is the sum of all deposits held by, advances received by and borrowings made by the General Government Sector less the sum of cash and deposits held by, advances paid and investments, loans and placements made by the General Government Sector. It excludes financial assets that are allocated to fund other liabilities through legislation or contract.[10]

This definition is the same as the definition of **underlying general government net debt** in s 4(1) of the *Fiscal Responsibility Act 2005* (NSW). As the budget is a financial document focusing on the public sector, general government sector net debt is a significant indication of the position of a government’s budget.

Negative Net Debt: The term negative net debt indicates that a government has a surplus of assets over liabilities.

Net Financial Liabilities: Net debt plus unfunded liabilities (such as superannuation and long service leave). In s 4(1) of the *Fiscal Responsibility Act*

---

7 Marc Robinson, *Accrual Financial Reporting in the Australian Public Sector: An Economic Perspective* (School of Economics and Finance, Queensland University of Technology, 2000), p.11.

8 H.V. Evatt Foundation, *The Capital Funding of Public Enterprise in Australia* (H.V. Evatt Foundation, Sydney, 1988), p.99.

9 NSW Treasury, *NSW Budget 2005-06* (NSW Treasury, Sydney, 2005), Budget Paper No.2, pp.1-2.

10 *Auditor-General’s Report to Parliament 2009 Volume Four*, p 37.

2005 (NSW) the term is defined to include:

> all liabilities of the general government sector (such as unfunded superannuation and insurance liabilities) less all financial assets held by the general government sector (such as cash, advances and investments except for the Government's equity in the public financial enterprise sector and the public trading enterprise sector).

Total Asset Management: This refers to a planning method for capital acquisition and operation for all government departments.

General Government Net Sector Worth: In s 4(1) of the *Fiscal Responsibility Act 2005* (NSW) the term **net worth** is defined to mean "total assets less total liabilities as described for GFS".

3 COMMONWEALTH GOVERNMENT BUDGETS

During the early 1970s the budgets of the McMahon government were in surplus, as were those of the first years of the Whitlam government. In its 1974-75 budget, however, the Whitlam government recorded a deficit of around $2 billion (4% of Gross Domestic Product). The following Fraser government (elected at the end of 1975) continued to produce budgets in deficit during the remainder of the 1970s, as highlighted in the following table:

Federal Government Budget Deficits as a Percentage of GDP: 1976/77-1978/79[11]

1976-77	3.1%
1977-78	3.4%
1978-79	3.1%

Between 1980 and 1982 there was a worldwide slump in business conditions. In New South Wales, General Motors announced (in July 1980) that it would close its Sydney assembly plant.[12] BHP also began to experience difficulties. Jenny Stewart wrote that, "Unemployment in the industry spread rapidly in Newcastle and Port Kembla. Three thousand jobs were shed between June 1981 and May 1982, and a further 2,700 between May and September 1982."[13]

During the same period the Fraser government moved to reduce the deficit. By 1981-1982 it had been reduced to 0.3% of GDP, as illustrated by the table below:

---

11 Peter Walsh, *Confessions of a Failed Finance Minister* (Random House, Sydney, 1995), p.37.

12 Frank Crowley, *Tough Times: Australia in the Seventies* (William Heineman, Melbourne 1986), op.cit., p.398.

13 Jenny Stewart, *The Lie of the Level Playing Field: Industry Policy and Australia's Future* (Text Publishing Company, Melbourne, 1994), p.142.

Federal Government Budget Deficits as a Percentage of GDP: 1979-80 – 1981-82[14]

1979-80	1.6%
1980-81	0.7%
1981-82	0.3%

Fraser's reduction of the deficit, during an international slump, was a reflection of a global reversal of policy with regard to the management of fiscal policy during a recession. Following the publication in 1936 of Keynes's *General Theory of Employment, Interest and Money,* governments, which had previously balanced budgets (whether conditions where good or bad),[15] tended to accept Keynes's view that, in a recession, governments should allow their budgets to fall into deficit: for the long-range purpose of expanding demand and increasing employment.[16] A sudden increase in the price of oil in the early 1970s, instigated by the Arab countries during the 1973 Arab-Israeli War,[17] contributed to the development (in both western Europe and the USA) of rising unemployment and rising inflation. Budget deficits, as a response, appeared to do nothing to remedy the situation. Gradually, as Jean-Claude Chouraqui and his colleagues have described,

> Policy-makers in OECD [Organisation for Economic Co-operation and Development] countries became unsatisfied. . .with the use of fiscal policy for short-term demand management purposes. . .the failure of budgetary policy to offset the negative impact on output of what was, in large part, a supply shock associated with the oil price increases of the early 1970s resulted in widespread scepticism about the efficacy of demand management policies. . .many governments [instead] chose to reduce public indebtedness. . .In addition, measures were taken to reduce the size of government through expenditure reductions and privatisation.[18]

On a global level a number of OECD countries began to tighten fiscal policy to deal with the 1980s crisis: rather than revert to budget deficits. As Giancarlo Corsetti and Nouriel Roubini wrote the 1980s witnessed a "period of fiscal consolidation. . . Significant reductions [in debt] occur in Japan, the United Kingdom, Denmark,

---

14 Walsh, n.11, p.37.

15 Professor Charles Bastable, in his foundation text on public finance, wrote that "under normal conditions, there ought to be a balance between these two sides [expenditure and revenue] of financial activity. Outlay should not exceed income. . .tax revenue ought to be kept up to the amount required to defray expenses." See Charles Bastable, *Public Finance*, third edition (MacMillan, London, 1903), p.611.

16 David Hyman, *Economics*, fourth edition (Irwin, Chicago, 1997), p.605.

17 Philip Klein and Michael Niemira, *Forecasting Financial and Economic Cycles* (John Wiley and Sons, New York, 1994), p.291.

18 Jean-Claude Chouraqui, Robert Hageman and Nicola Sartor, *Indicators of Fiscal Policy: A Re-Examination* (Organisation for Economic Co-operation and Development, Paris, 1990), p.1.

Finland, Sweden".[19]

By 1983, the year in which Bob Hawke's ALP government was elected, unemployment (Australia-wide) had risen to 9% of the workforce.[20] The Hawke government continued the approach of the western European countries and Japan internationally, and the approach taken by the previous Fraser government domestically. Hawke adopted a fiscal stance under which, according to Kerry Carne, "the budget deficit would be reduced both in current terms and as a proportion of" Gross Domestic Product (GDP).[21] Whereas in its first budget (1983-84) the Hawke government's deficit was $7.9 billion (6.7% of GDP) by the time of its fourth budget (1986-87) the deficit had been reduced to $2.7 billion (3.8% of GDP).[22] The Hawke government attempted to maintain this approach until the onset of the 1990s recession. In 1989-90 the Hawke government produced a budget surplus of $8 billion (2.2% of GDP).[23]

To reduce pressure on the budget, the Hawke government began to sell a number of government owned assets. In 1990 then Treasurer Keating announced that the Hawke government intended to sell off the Commonwealth Bank.[24]

In the first two years of the 1990s there was another global recession. In 1991, General Motors made a loss of $4.5 billion and Ford Motor Company recorded a loss of $2.3 billion. A year later, in 1992, Ford made a loss of $7.4 billion.[25] Manufacturing concerns in Australia again suffered corresponding falls in profit. BHP reported a 50% decline in profit during the second half of 1991 (from $828 million down to $407 million). It subsequently announced that it would be reviewing its operations at Newcastle.[26] Ford of Australia made a loss, during 1991, of $114 million.[27] Unemployment, in 1991, rose to 8.7%. Then, in 1992, it increased to

---

[19] Giancarlo Corsetti and Nouriel Roubini, *Fiscal Deficits, Public Debt and Government Solvency: Evidence from OECD Countries* (National Bureau of Economic Research, Washington DC, 1991), pp.7-8.

[20] Peter Ewer, Ian Hampson, Chris Lloyd, John Rainford, Stephen Rix and Meg Smith, *Politics and the Accord* (Pluto Press, Sydney, 1991), p.24.

[21] Kerry Carne, *Fiscal Policy Rules and Public Capital Formation in Australia* (PhD, Griffith University, 2007), pp.100-101.

[22] Kevin Davis, "Managing the Economy" in Brian Head and Alan Patience (eds.), *From Fraser to Hawke* (Longman Cheshire, Melbourne, 1989), p.77.

[23] Laura Tingle, *Chasing the Future: Recession, Recovery and the New Politics in Australia* (William Heinemann, Melbourne, 1994), p.363.

[24] Tingle, n.23, p.165.

[25] John Durie, "GM Posts Record US Loss" in The Australian, 26 February 1992, p.27; "one-Off Costs Give Ford Record Loss" in the *Sydney Morning Herald*, 12 February 1993, p.21.

[26] Graeme James, "BHP Slumps 51pc to $407m" in The Australian, 21 December 1991, p.33; Mark Skulley, "Shock $515m BHP Result" in the *Sydney Morning Herald*, 27 June 1992, p.30.

[27] Richard Gluyas, "Ford Looking to Break Even after $114m Loss" in *The Australian*, 27 March 1992, p.15.

11%. According to Laura Tingle, throughout Australia, between 1990 and 1992, “Around 120,000 jobs were lost in manufacturing”.[28] In New South Wales, manufacturing’s share of Gross State Product fell from 21% (in 1981) of GSP to 15% (in 1991).[29]

Paul Keating, who at the end of 1991 succeeded Bob Hawke as the leader of the ALP federal government, returned the federal budget to deficit. As Laura Tingle wrote, “The budget. . .collapsed. . .to a deficit in 1991-92 of $9.3 billion and peaked at a deficit of $14.6 billion in 1992-93.” As a proportion of GDP, the deficit was 2.4% in 1991-92 and 3.6% of GDP in 1992-93.[30] As the budget deficits increased, the government issued more bonds to fund the deficits. Between 1990 and 1996 (the last year of the Keating Government) the number of federal government bonds on issue nearly trebled as the following table indicates:

Commonwealth Government Bonds on Issue: 1990-1996[31]

1990	$33.4 billion
1991	$31.9 billion
1992	$40 billion
1993	$55 billion
1994	$70 billion
1995	$88 billion
1996	$92 billion

To further relieve the budget, Keating proceeded with the sales of major government assets (announced when he was Treasurer in the Hawke government). Between 1992 and 1993 British Airways acquired a 25% interest in QANTAS and, a year later, the sale both of the Commonwealth Bank and the Commonwealth Serum Laboratories was initiated.[32]

John Howard, after his election as Prime Minister in the 1996 federal election, proceeded to introduce legislation to commit federal governments to restrain budget deficits: eventually obtaining passage of the *Charter of Budget Honesty Act 1998*. Section 2 of the Act specified that the government should be committed to a stance of sound financial management. In practice, as Kerry Carne has written, the objective was the reduction of “budget deficits on average over the life of the business cycle.”[33]

---

28 Tingle, n.23, p.122, 176, 300.

29 Australian Bureau of Statistics, *Australian National Accounts: State Accounts 1991-92*, ABS Catalogue no.5220.0 (Australian Bureau of Statistics, Canberra, 1992), p.5.

30 Tingle, n. 23, p.363.

31 Reserve Bank of Australia, *Statistical Tables – Commonwealth Government Securities on Issue*, table E10 (Reserve Bank of Australia, Sydney, 2010).

32 Geoffrey Hawker, “Ministerial Consultants and Privatisation: Australian Federal Government 1985-88” in the *Australian Journal of Politics and History*, vol.52, no.2, 2006 pp.250-251.

33 Carne, n.21, p.103.

The Howard government also proceeded to further dispose of major government owned instrumentalities. In 1997 it announced the first sale of 33% of Telstra. In 1999 a further 16% was sold. In 2002 the Howard government sold off Sydney Airport. Three years later (after gaining control of both Houses of Parliament in the 2004 election) the Howard government proceeded to sell a further 31% of Telstra, with the remaining 20% placed in a "Future Fund".[34]

During its three terms in office, the Howard government also proceeded to reduce general government sector net debt: from 19.5% of GDP (at the time that it assumed office) to a little over 5% in 2002 and to a position of negative net debt in 2005-06.[35] There was a corresponding reduction in the number of treasury bonds on issue. These developments can be seen in the accompanying tables:

Australian Government General Government Sector Net Debt (as a Ratio of Gross Domestic Product): 2000-01 to 2006-07[36]

2000-01	6.3%
2001-02	5.3%
2002-03	3.8%
2003-04	2.8%
2004-05	1.3%
2005-06	-0.4%
2006-07	-2.8%

34 Axel Burns and Leila Green, ".au: Australia: in Patricia Arinto and Felix Librero (eds.), *Digital Review of Asia Pacific 2007-2008* (Sage Publications, New Delhi, 2008), p.90.

35 Fred Argy, Structural Fiscal Targeting and Good Governance (Graduate Program in Public Policy, Australian National University, Canberra, 2001), p.7. See also George Argyrous, *Can Expenditure Cuts Eliminate a Budget Deficit? – The Australian Experience* (School of Social Science and Policy, University of NSW, Sydney, 1998), p.16.

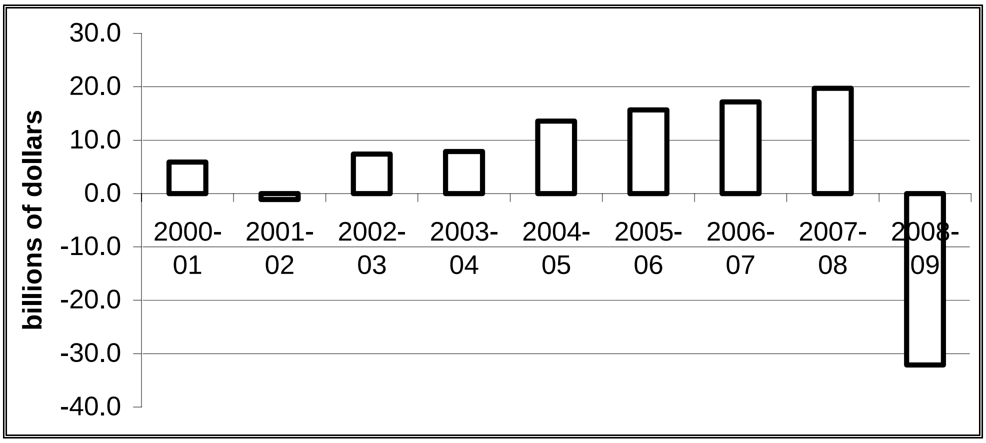
36 Commonwealth Government, *Mid-Year Economic and Fiscal Outlook 2009-10* (Australian Government, Canberra, 2009), Appendix D, table D4, p.283.

Commonwealth Government Bonds on Issue: 1997-2007[37]

1997	$95.2 billion
1998	$83.9 billion
1999	$80.4 billion
2000	$72.1 billion
2001	$64.1 billion
2002	$62.5 billion
2003	$61.7 billion
2004	$59.5 billion
2005	$60.1 billion
2006	$59 billion
2007	$58.2 billion

The current ALP federal government (led by Kevin Rudd), just over a year after its November 2007 election victory, decided to address the global financial crisis through a $42 billion stimulus program.[38] To finance the program, the Rudd government decided to allow the budget to run into deficit. Whereas the Howard government's 2007-08 budget provided for an estimated surplus of $19.7 billion, the Rudd government's 2008-09 budget foreshadowed an estimated budget deficit of just over $32 billion.[39] This course of events in federal government budget surpluses and deficits, for the period 2000-01 to 2008-09, can be seen below:

Australian Government Budgets (Surpluses/Deficits): 2000-01 to 2008-09[40]



---

[37] Reserve Bank of Australia, *Statistical Tables – Commonwealth Government Securities on Issue*, table E10, n.31.

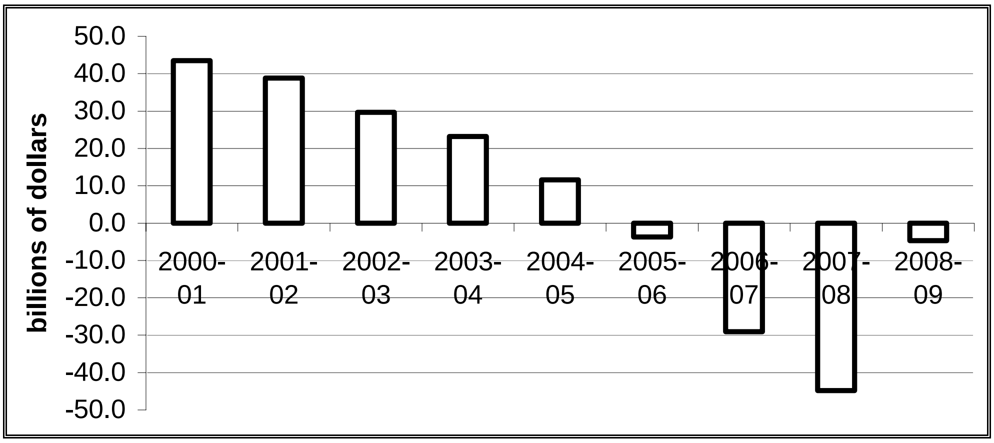
[38] The plan was announced in early February 2009 and included provision for $28.8 billion to be spent on infrastructure and for $12.7 billion to be transferred to the general population in the form of a $900 cash payment. See Matthew Franklin. "PM Kevin Rudd Goes for Broke with $42 bn Stimulus Package" in *The Australian*, 4 February 2009,

[39] Commonwealth Government, *Commonwealth of Australia Budget 2009-10*, Budget Paper No.1, p.10-6.

[40] Commonwealth Government, n. 39, Budget Paper No.1, p.10-6.

Federal Government debt (as mentioned above) was considerably reduced during the period of the Howard government. Because of the pressures of the global financial crisis, the Rudd government (at least in its second year in office) has been less focused on debt reduction, as shown in the following graph and table:

Australian Government General Government Sector Net Debt: 2000-01 to 2009-10[41]



Australian Government General Government Sector Net Debt (as a Ratio of Gross Domestic Product): 2007-08 to 2008-9[42]

2007-08	-4%
2008-09	-0.4%

4 NEW SOUTH WALES GOVERNMENT BUDGETS

After gaining office at the 1988 state election, Nick Greiner's Liberal Party-National Party government adopted a five-year financial strategy which had a major aim of balancing the budget to restrain debt. During the first half of the 1990s, Greiner also undertook a major sell-off of government owned enterprises: the Government Insurance Office (in 1991) and the State Bank of NSW (in 1994).[43] Seven years later, Bob Carr's newly elected ALP government obtained passage of the *General Government Debt Elimination Act 1995*. The focus of the legislation was on producing a budget surplus and reducing the state's debt.[44] As Marc Robinson has pointed out, "The NSW government. . .publicly indicated. . .its intention to rely upon

41 Commonwealth Government, *Mid-Year Economic and Fiscal Outlook 2009-10*, n.36, p.283. As a result of adopting a fiscal stimulus program, the number of Commonwealth government bonds on issue has risen to $116.4 billion in 2010. See website of the Australia Office of Financial Management (www.aofm.gov.au).

42 Commonwealth Government, *Mid-Year Economic and Fiscal Outlook 2009-10*, n.36, p.283.

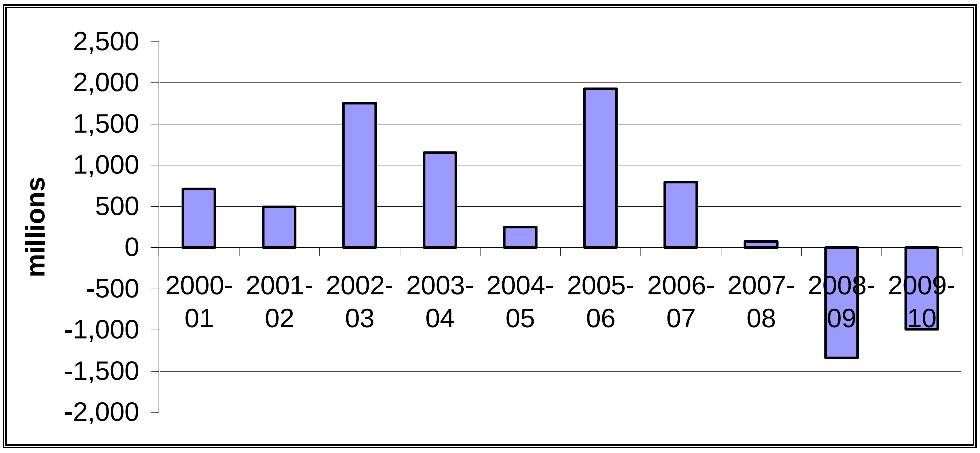
43 Carne, n.21, p.109.

44 Carne, n. 21 pp.111,113.

the privatisation of public infrastructure to enable it to meet the objectives of its debt elimination legislation."[45] In 2002, for example, the Carr government sold its share in the National Rail Corporation, as well as its wholly owned FreightCorp, to a joint venture formed by Toll Holdings and Lang Corporation.[46] The *Fiscal Responsibility Act 2005* is discussed in a later section of this paper.

Until 2005-06 the Carr government was able both to maintain budget surpluses and reduce the government sector net debt. In financial year 2005-06 the surplus was just over $1 billion and government sector net debt was $1.3 billion (0.4% of Gross State Product). After 2005-06 the government's financial position began to change and, by 2008-09, the budget delivered by Morris Iemma (who succeeded Carr in 2005) produced a deficit of $879 million and general government sector net debt of $6.4 billion (1.6% of GSP). These developments can be seen in the graphs and table below:

NSW Government Budget Surpluses/Deficits: 2000-01 – 2009-10[47]

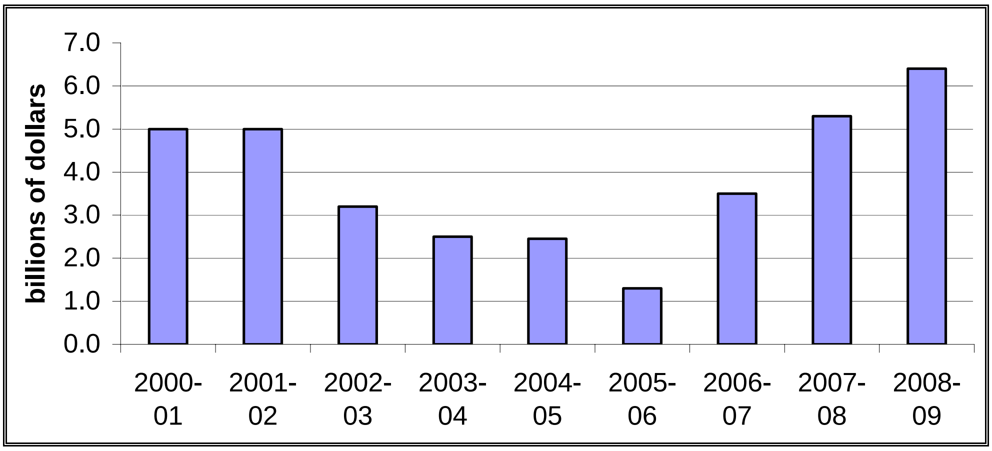


45 Marc Robinson, "Can Fiscal Responsibility Legislation be Made To Work?" in *Agenda*, vol.3, no.4, 1996, p.426.

46 NSW Treasury, *Treasury Focus* (NSW Treasury, Sydney, 2002), p.1.

47 NSW Treasury, *Budget Statement: 2008-09*, Budget Paper No.2, p.10-11; NSW Treasury, *Budget Statement: 2009-10*, Budget Paper No.2, p.9-10

NSW General Government Sector Net Debt: 2000-01 to 2008-09[48]



NSW Government Sector Net Debt (as a Ratio of Gross State Product): 2000-01 to 2008-09[49]

2000-01	2.7%
2001-02	2%
2002-03	1.2%
2003-04	0.9%
2004-05	0.8%
2005-06	0.4%
2006-07	1%
2007-08	1.4%
2008-09	1.6%

5 VICTORIAN GOVERNMENT BUDGETS

In 1992 the Victorian Liberal Party (led by Jeff Kennett) came to office partly on the basis of a commitment to drastically reduce government debt, which had then reached a figure of over $16 billion. Kennett subsequently embarked on a three-year medium term fiscal strategy, the aim of which was to achieve balance in the state budget by financial year 1995-96.[50] To achieve his objectives, Kennett began a major sell-off of publicly owned enterprises (specifically the State Electricity Commission of Victoria and the TAB). By financial year 1998-99, the Kennett government had delivered four consecutive budget surpluses and general government sector net debt had fallen to $4.8 billion.[51]

48 NSW Treasury, *Budget Statement: 2008-09*, Budget Paper No.2, p.2-17; Australian Bureau of Statistics, *Australian National Accounts: State Accounts*, ABS Catalogue 5220.0 (Australian Bureau of Statistics, Canberra, 2009), p.14.

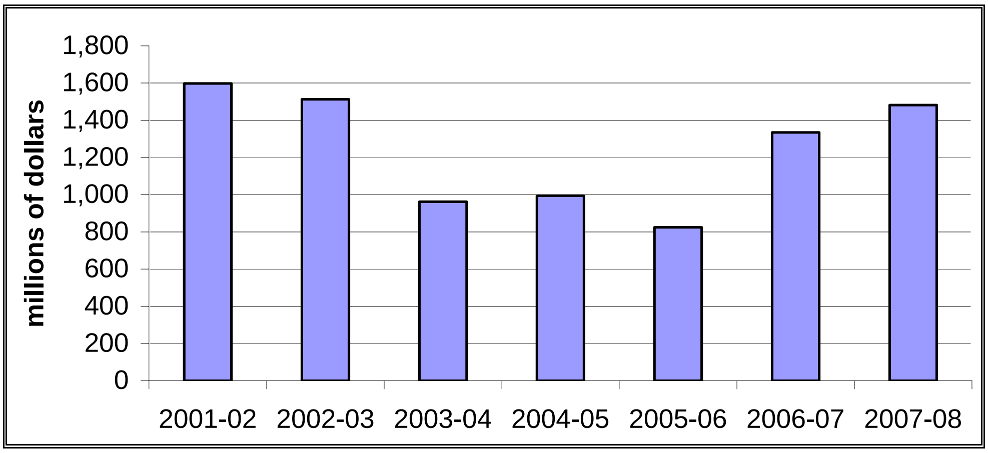
49 NSW Treasury, *Budget Statement: 2008-09*, Budget Paper No.2, p.2-17

50 Carne, n.21, p.115.

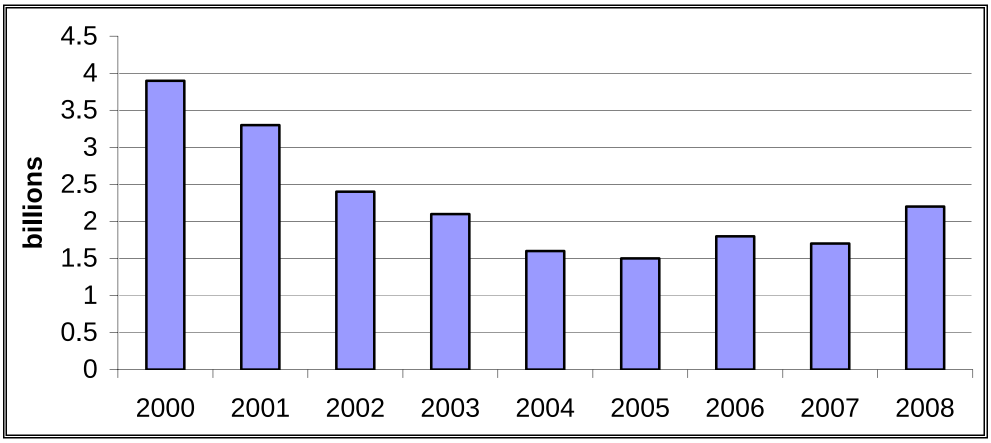
51 David Hayward, "'A Financial Revolution?': The Politics of the State Budget" and Alistair Harkness, "Prognosis Negative: Health Care Economics and the Kennett Government" in Brian Costar and Nick Economou (eds.), *The Kennett Revolution* (University of NSW Press,

A year after gaining office in the 1999 state election, Steve Bracks's ALP state government obtained passage of the *Financial Management (Financial Responsibility) Act 2000*. In financial year 2000-01, and in accordance with the legislation, as Kerry Carne has outlined, the Bracks government amended the budget sector surplus target "to a general government sector operating surplus of at least $100 million in each year."[52] John Brumby, who took over from Steve Bracks in 2007, has effectively retained the same fiscal strategy, the outcomes of which can be seen in the graphs and table below:

Victorian Government Budget Surpluses: 2000-01 to 2007-08[53]



Victorian General Government Sector Net Debt: 2000-01 to 2008-09[54]



Sydney, 1999), pp.135-138, 204: Victorian Treasury, *Financial Report for the State of Victoria: 2006-07*, p.48.

52 Carne, n.21, pp. 117-118.

53 *Victorian Budget: 2009-10*, Budget Paper No.4, Appendix A, pp.268-269.

54 Victorian Department of Treasury and Finance, *Financial Report: 2006-07*, p.48; Victorian Department of Treasury and Finance, *Financial Report: 2008-09*, p.27.

Victorian Government Sector Net Debt (as a Ratio of Gross State Product): 2000 to 2009[55]

2000	2.4%
2001	1.9%
2002	1.3%
2003	1.1%
2004	0.8
2005	0.7
2006	0.75
2007	1.1%
2008	0.9%
2009	2%

6 QUEENSLAND GOVERNMENT BUDGETS

In 1990, Wayne Goss's newly elected ALP government adopted a fiscal strategy consisting of three objectives: (a) fully funding long-term liabilities (such as superannuation and workers' compensation); (b) restraining borrowing - whereby non-revenue generating assets (such as schools and hospitals) were funded from recurrent revenues and borrowing was restricted to assets capable of generating revenue at least equal to the interest charges applicable to the debt; and (c) restraining revenue – entailing a commitment neither to introduce new taxes, nor to increase charges and fees, on average at a rate exceeding inflation.[56] By 1994, according to Marc Robinson, Goss laid claim to reducing total state net debt (general government sector debt *plus* the debts of government owned enterprises) from $4.2 billion (in 1990) to zero.[57] Rob Borbidge's National Party state government (elected in 1996) maintained the Goss government's fiscal stance.[58]

After gaining office at the 1998 election, Peter Beattie's ALP state government proceeded to amend the state's *Financial Administration and Audit Act 1977* by inserting amendments requiring the state government to prepare a Charter of Social and Fiscal Responsibility. The first charter, produced in 1999, focused on the principal objective of maintaining an overall budget surplus.[59] During the boom that followed, between 2004 and 2007, the Beattie government was indeed able to maintain a budget surplus and move the general government sector into a position of negative net debt. Anna Bligh's elevation as Queensland Premier coincided with

55 Victorian Department of Treasury and Finance, *Financial Report: 2008-09*, p.29: Australian Bureau of Statistics, *Australian National Accounts: State Accounts 2008-09*, Catalogue No.5220.0, p.14.

56 Carne, n.21, pp.122-123

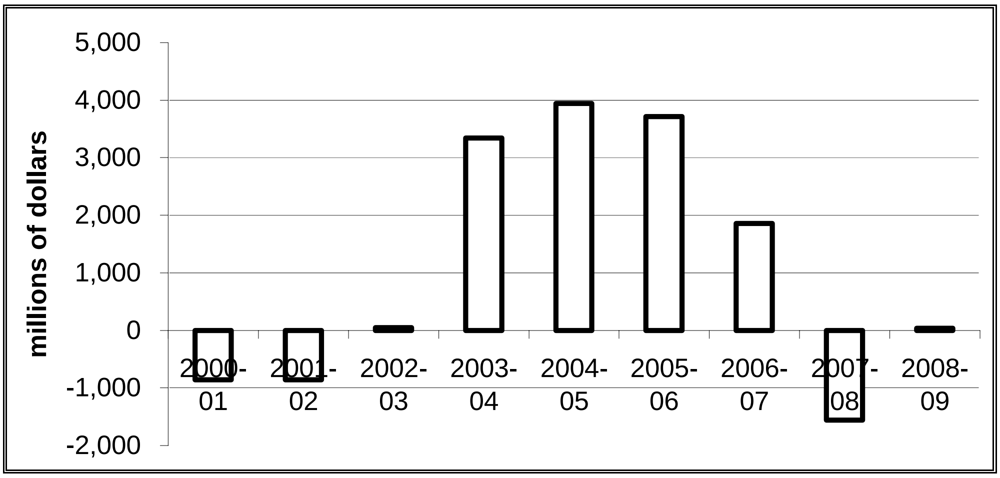
57 Marc Robinson, "Queensland Public Finance in the 1990s" in *Economic Analysis and Policy*, vol.26, no.1, March 1996, p.82.

58 Carne, n.21, p.123.

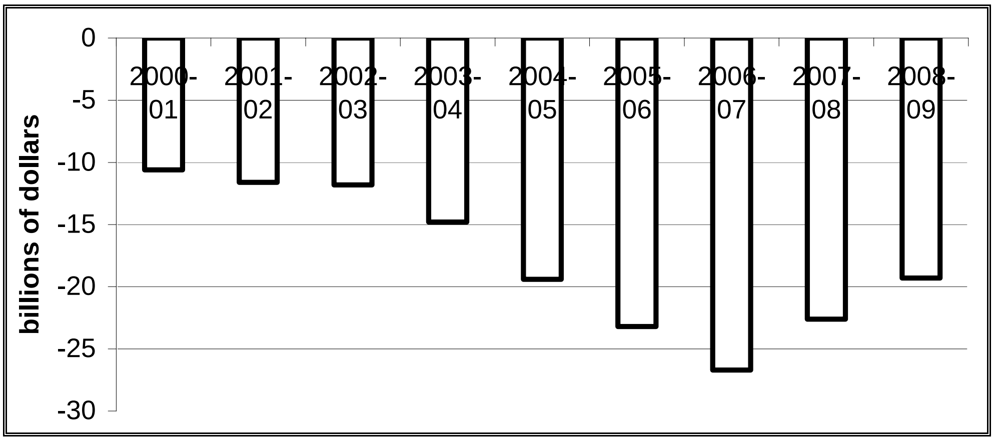
59 Carne, n.21, pp.125-126.

the Global Financial Crisis and a gradual movement of the Queensland budget into deficit. The general government sector, however, was maintained in a position of negative net debt. This can be seen in the charts and table below:

Queensland Government Budget Surpluses/Deficits: 2000-01 – 2008-09[60]



Queensland General Government Sector Net Debt: 2000-01 to 2008-09[61]



60 Queensland Treasury, *State Budget 2008-09*, Budget Paper No.2, p.168; Queensland Treasury, *State Budget 2009-10*, Budget Paper No.2, p.184; Queensland Treasury, *State Budget 2009-10*, *Mid Year Fiscal and Economic Review*, p.8.

61 Queensland Treasury, *State Budget 2008-09*, Budget Paper No.2, p.168; Queensland Treasury, *State Budget 2009-10*, Budget Paper No.2, p.184; Queensland Treasury, *State Budget 2009-10*, *Mid Year Fiscal and Economic Review*, p.8.

Queensland Government Sector Net Debt (as a Ratio of Gross State Product): 2000-01 to 2008-09[62]

2000-01	-8.8%
2001-02	-8.7%
2002-03	-8.4%
2003-04	-9.6%
2004-05	-11.4%
2005-06	-12.2%
2006-07	-12.8%
2007-08	-10.1%

7 SOUTH AUSTRALIAN GOVERNMENT BUDGETS

In 1993 Lyn Arnold's ALP state government, in collaboration with Paul Keating's federal government, began the implementation of a debt management strategy following the 1991 collapse of the State Bank of South Australia. After gaining office in the state elections at the end of 1993, Dean Brown's Liberal Party state government introduced a 4-year medium strategy which included the objectives of a budget surplus as well debt reduction. This stance was maintained by successive Liberal Party governments led by John Olsen (1996-2001) and Rob Kerin (2001-2002).[63] Following its win in the 2002 state election, Mike Rann's ALP government proceeded to obtain passage of the *Public Finance and Audit (Honesty and Accountability in Government) Amendment Act 2002*. This required the South Australian state government to introduce a Charter of Budget Honesty (reminiscent of the Howard government's 1998 legislation). Mike Rann's first budget was prepared on the basis of the Charter, having the aim of laying the basis both for budget surpluses and for the reduction of debt.[64]

Until 2008, when the global financial crisis developed, Rann was able both to keep the budget in surplus and maintain a relatively low level of general government sector net debt. By 2009, however, the South Australian budget was over $200 million in deficit, and general government sector net debt was around 0.6% of gross state product, as illustrated in the accompanying graphs and table:

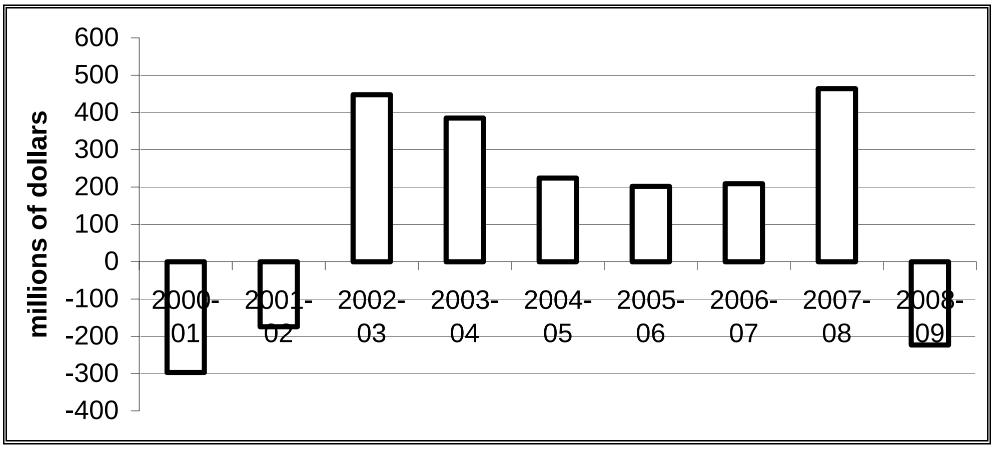
---

62 Queensland Treasury, *State Budget 2008-09*, Budget Paper No.2, p.168; Queensland Treasury, *State Budget 2009-10*, Budget Paper No.2, p.184; Queensland Treasury, *State Budget 2009-10*, *Mid Year Fiscal and Economic Review*, p.8; Australian Bureau of Statistics, *Australian National Accounts: State Accounts 2008-09*, catalogue no.5220.0, p.14.

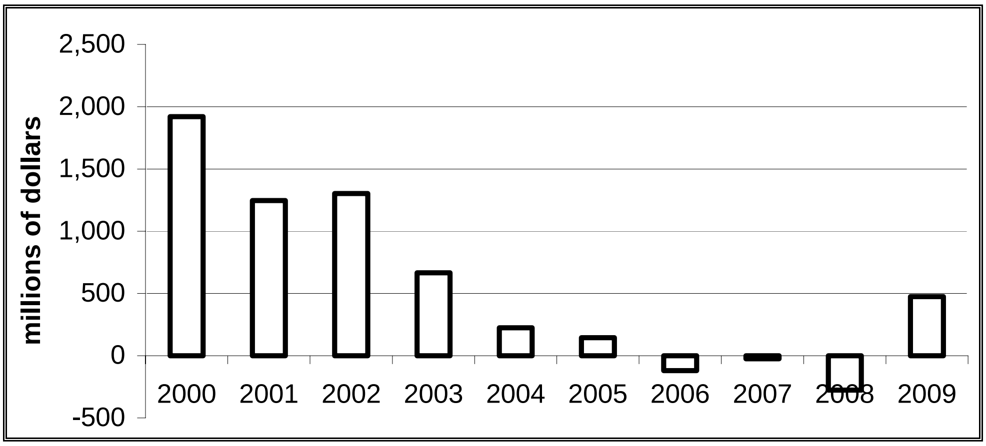
63 Carne, n.21, pp.127-128.

64 Carne, n.21, p.130.

South Australia Government Budget Surpluses/Deficits: 2000-01 – 2007-08[65]



South Australia General Government Sector Net Debt: 2000-01 to 2008-09[66]



65 Government of South Australia, *Final Budget Outcome: 2008-09* (Government of South Australia, Adelaide, 2009), p.D.1.

66 Government of South Australia, *Final Budget Outcome: 2008-09*, n.65, p.D.1.

South Australian Government Sector Net Debt (as a Ratio of Gross State Product): 2000-01 to 2008-09[67]

2000-01	2.4%
2001-02	2.4%
2002-03	1.1%
2003-04	0.4%
2004-05	0.2%
2005-06	-0.2%
2006-07	-0.05%
2007-08	-0.3%
2008-09	0.6%

8 TASMANIAN GOVERNMENT BUDGETS

Two years after gaining office at the 1992 state election, Ray Groom's ALP state government announced that, in its 1994-95 budget, it would embark on a 5-year financial strategy. As summarised by Kerry Carne, the strategy "included reducing general government net debt to not more than 10.5 per cent of Gross State Product by June 2000. This was to be achieved by applying the proceeds of asset sales and by limiting. . .deficits to $35 million." In 1994 the Groom government sold off the Tasmanian Government Insurance Office. This fiscal stance was continued under Tony Rundle's succeeding Liberal party state government (1996-98).[68]

Following its win in the 1998 state election, Jim Bacon's ALP state government introduced a new fiscal strategy in its 1998-99 state budget. The strategy focused on reducing total state government net debt to below 20 per cent by financial year 2003-04 (achieving this aim by the sale of major assets) and achieving a budget surplus by 1999-2000. In its budget of 1999-2000, the Bacon government specified that, by 2003-04, it would achieve a general government surplus of not less than 2.5 per cent of general government revenue. In its 2002-03 budget, the Bacon government declared an aim of reducing general government sector net debt to below $450 million by mid-2005.[69] Paul Lennon took over as premier in 2004 (after Jim Bacon's death) and both he, and David Bartlett (who succeeded Lennon in 2008, following the latter's resignation) were able both to maintain the Tasmanian budget in surplus and preserve the general government sector in a position of negative net debt, as indicated in the following graphs and table:

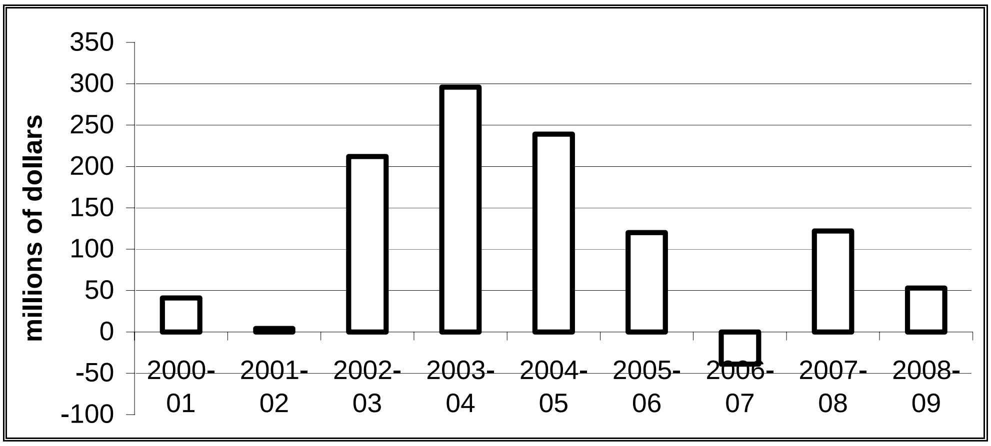
---

[67] Government of South Australia, *Final Budget Outcome: 2008-09*, n.65, p.D.1.

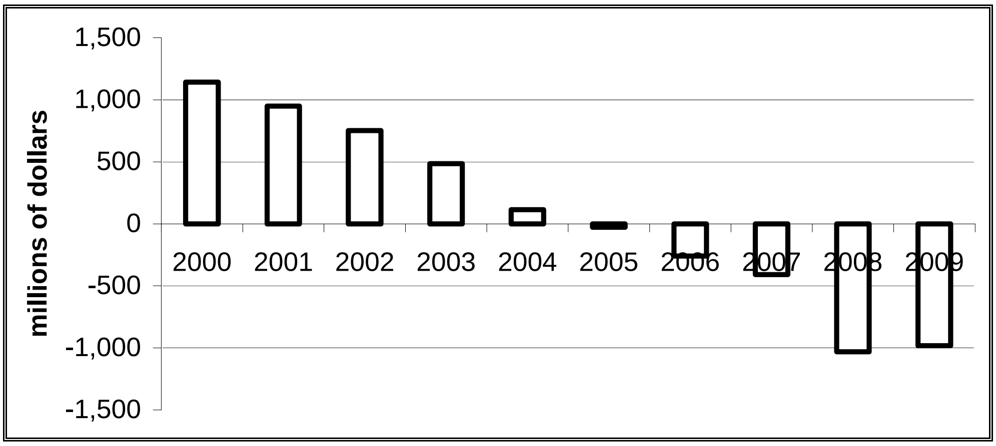
[68] Carne, n.21, pp.139-140.

[69] Carne, n.21, p.140, 141.

Tasmania Government Budget Surpluses/Deficits: 2000-01 – 2008-09[70]



Tasmanian General Government Sector Net Debt: 2000 to 2009[71]



70 Tasmanian Department of Treasury and Finance (TDTF), *Consolidated Financial Statements for the State of Tasmania 2000-01*, p.1; TDTF, *Budget: 2002-03*, p.68; TDTF, *Treasurer's Annual Financial Report: 2003-04*, p.37; TDTF, *Treasurer's Annual Financial Report: 2004-05*, p.39; TDTF, *Treasurer's Annual Financial Report: 2005-06*, p.41; TDTF, *Treasurer's Annual Financial Report: 2006-07*, p.41;TDTF, *Treasurer's Annual Financial Report: 2007-08*, p.4.25; TDTF, *Treasurer's Annual Financial Report: 2008-09*, p.3.76.

71 TDTF, *Treasurer's Annual Financial Report: 2008-09*, p.2.7.

Tasmanian Government Sector Net Debt (as a Ratio of Gross State Product): 2000-01 to 2008-09[72]

2000-01	7%
2001-02	5%
2002-03	3%
2003-04	0.7%
2004-05	-0.2%
2005-06	-1.4%
2006-07	-1.9%
2007-08	-4.6%
2008-09	-4.2%

9 WESTERN AUSTRALIAN GOVERNMENT BUDGETS

According to Kerry Carne, a focus on net debt reduction “first appeared” in Western Australia “in 1992-93” during the term of office of Carmel Lawrence’s ALP state government. Carne has described how the:

> Key targets were (a) containing increases in total state debt to at least one per cent less per annum on average than economic growth, (b) accelerated repayment of general government debt. . .and (c) an ultimate objective of regaining a AAA credit rating in the medium term. .[73]

In 1993, Richard Court’s Liberal Party state government gained office and, in successive budgets, maintained the focus on budget balance and on the reduction of state debt. Geoff Gallop’s ALP state government, elected in 2001, retained the same fiscal stance.[74] Gallop (premier from 2001-2006), and Alan Carpenter (ALP state premier from 2006-2008) were both greatly helped by the onset of another minerals boom. Between 2000-01 and 2008-09, WA gross state product grew from $74 billion to $170 billion, an annual increase of 4.3%.[75] As result of the boom, both the Gallop and Carpenter governments were able to maintain substantial budget surpluses and reduce net debt. This can be seen in the accompanying tables:

---

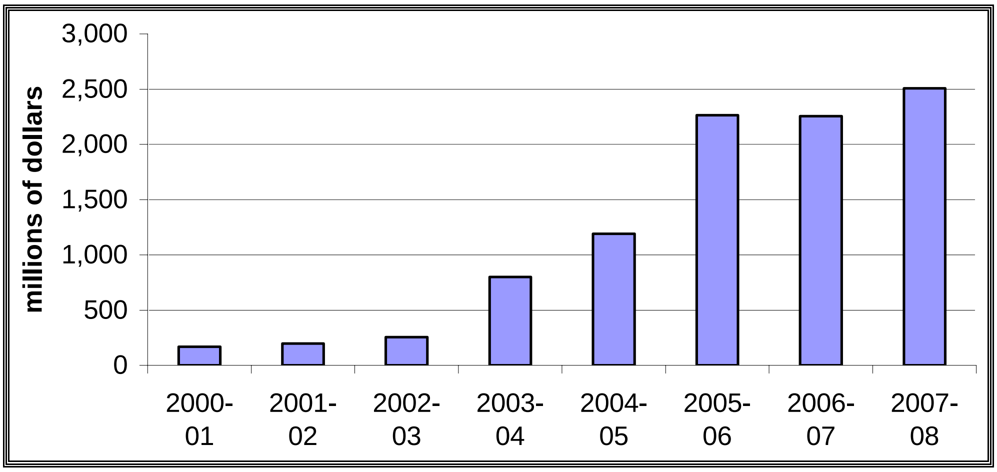
72 TDTF, *Treasurer’s Annual Financial Report: 2008-09* (Tasmanian Department of Treasury and Finance, Hobart, 2008), p.2.7; Australian Bureau of Statistics, *Australian National Accounts: State Accounts*, ABS Catalogue 5220.0; p.14.

73 Carne, n.21, pp.132-133.

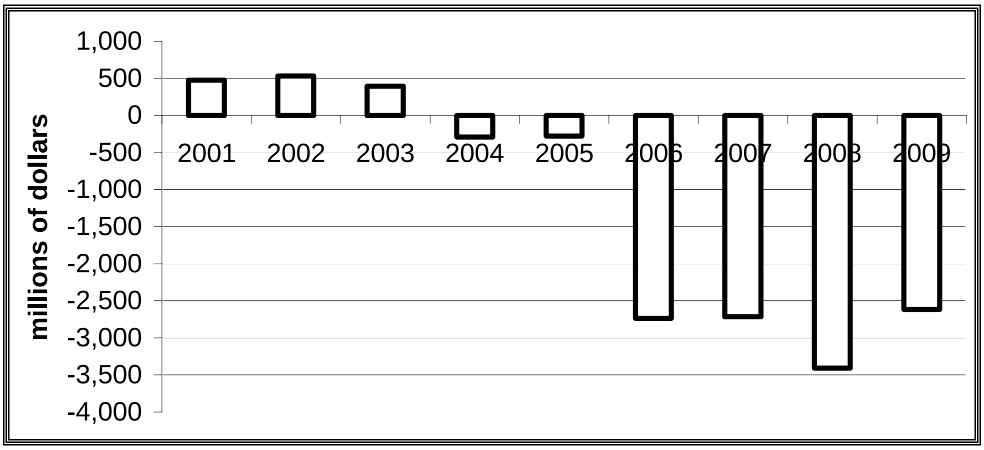
74 Carne, n.21, pp.133-134,138.

75 Australian Bureau of Statistics, *Australian National Accounts: State Accounts*, ABS Catalogue 5220.0 (Australian Bureau of Statistics, Canberra, 2009), p.12.

Western Australian Government Budget Surpluses: 2000-01 – 2007-08[76]



Western Australian General Government Sector Net Debt: 2000-01 to 2008-09[77]



[76] Western Australian Department of Treasury and Finance (WADTF), *2002-03 Budget*, Budget Paper No.3, p.3; WADTF, *2003-04 Budget*, Budget Paper No.3, p.1; WADTF, *2004-05 Budget*, Budget Paper No.3, p.1; WADTF, *2005-06 Budget*, Budget Paper No.3, p.2; WADTF, *2007-08 Budget*, Budget Paper No.3, p.2; WADTF, *2008-09 Budget*, Budget Paper No.3, p.2; WADTF, *2009-10 Budget*, Budget Paper No.3, p.2.

[77] WADTF, *Government Mid-Year Financial Projections Statement: 2000-01*, p.25; WADTF, *Government Mid-Year Financial Projections Statement: 2001-02*, p.18; WADTF, *Government Mid-Year Financial Projections Statement:* 2002-03, p.12; WADTF, *Government Mid-Year Financial Projections Statement: 2003-04*, p.17; WADTF, *Government Mid-Year Financial Projections Statement: 2004-05*, p.17; WADTF, *Government Mid-Year Financial Projections Statement: 2005-06*, p.18; WADTF, *Government Mid-Year Financial Projections Statement: 2006-07*, p.18; WADTF, *Government Mid-Year Financial Projections Statement: 2007-08* p.19; WADTF, *Government Mid-Year Financial Projections Statement: 2008-09,* p.17; WADTF, *Government Mid-Year Financial Projections Statement: 2009-10*, p.20.

Western Australian Government Sector Net Debt (as a Ratio of Gross State Product): 2000-01 to 2008-09[78]

2000-01	0.6%
2001-02	1.2%
2002-03	1.5%
2003-04	-0.3%
2004-05	-1%
2005-06	-2.3%
2006-07	-2%
2007-08	-1.9%
2008-09	-1.5%

10 COMMENTARY

The recessions of the 1980s and the 1990s marked a momentary turning point in fiscal policy in a number of OECD countries, including Australia. As P. Alonso-Gamo and his colleagues have summarised it:

> [with the] sharp decline in economic activity in 1981-82, fiscal policy was generally tightened. . .in most European countries and Japan. By 1989 the average deficit for the OECD area as a whole was down to 1.4 per cent [of GDP]. . .Eight countries – Australia, Finland, Germany, Japan, Norway, Switzerland and the United Kingdom – were in balance or in surplus.[79]

By 2001, as Fred Argy (former Australian ambassador to the OECD in the 1980s and later president of the Economic Society of Australia), observed "Australia remains in essence a small government country: it has a low overall tax burden, low public debt levels, and low government outlays relative to GDP by comparison with other OECD countries."[80] Argy's observations have recently been borne out in a graph produced by Shane Oliver (of AMP Capital Investors) as reproduced below[81]:

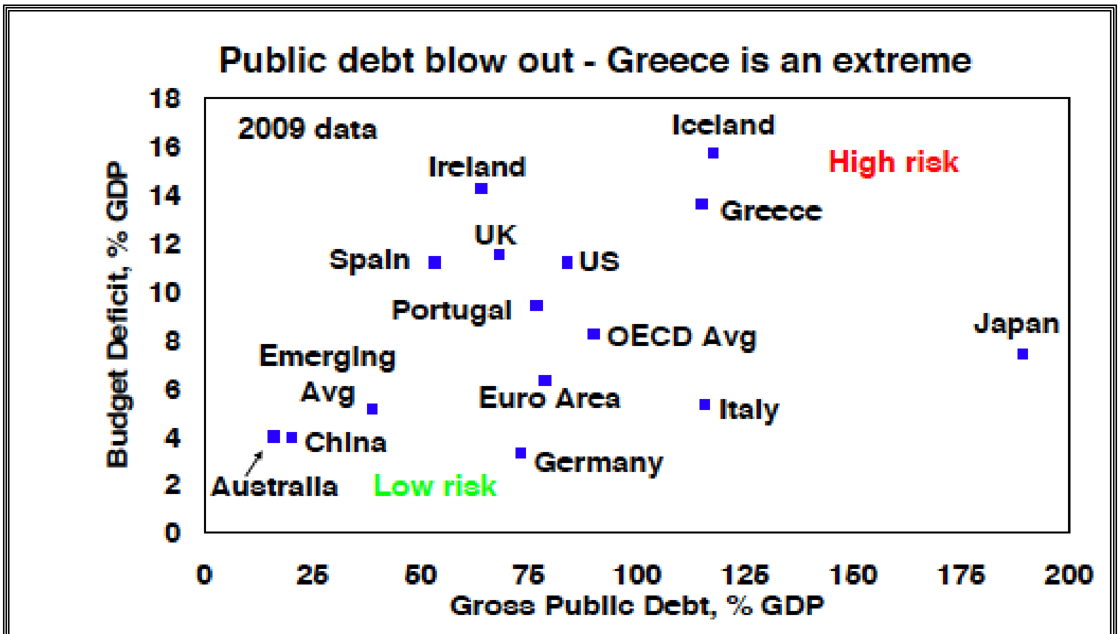
---

[78] WADTF, *Government Mid-Year Financial Projections Statement: 2000-01*, p.25; WADTF, *Government Mid-Year Financial Projections Statement: 2001-02*, p.18; WADTF, *Government Mid-Year Financial Projections Statement:* 2002-03, p.12; WADTF, *Government Mid-Year Financial Projections Statement: 2003-04*, p.17; WADTF, *Government Mid-Year Financial Projections Statement: 2004-05*, p.17; WADTF, *Government Mid-Year Financial Projections Statement: 2005-06*, p.18; WADTF, *Government Mid-Year Financial Projections Statement: 2006-07*, p.18; WADTF, *Government Mid-Year Financial Projections Statement: 2007-08* p.19; WADTF, *Government Mid-Year Financial Projections Statement: 2008-09,* p.17; WADTF, *Government Mid-Year Financial Projections Statement: 2009-10*, p.20.

[79] P. Alonso-Gamo, M. Maher, John Martin, G. Nicoletti and H. Oxley, T*he Public Sector: Issues for the 1990s* (Organisation for Economic Co-operation and Development, Paris, 1991), p.2.

[80] Argy, n.35, p.8.

[81] Shane Oliver, *Oliver's Insights: The Greek Debt Debacle* (AMP Capital Investors, Sydney, 2010), p.2.



Source: OECD, IMF, Eurostat, AMP Capital Investors

It is clear that, whereas some countries such as Greece and Iceland are in a more precarious fiscal position (with budget deficits, as a proportion of gross domestic product, of 15.7% and 13.6% respectively - as well as having high levels of gross public debt),[82] Australia is in a relatively more secure position (with a budget deficit of 4% of GDP, at least for 2007-08, as well as a lower level of debt).

In the aftermath of the 1990s recession, nearly all jurisdictions in Australia not only adopted charters of fiscal responsibility, or similar codes of financial practice, but have been fairly rigorous in implementing them. Kerry Carne (in her 2007 thesis *Fiscal Policy Rules and Public Capital Formation In Australia)* wrote that from the late 1990s:

> The Commonwealth government met its budgetary balance target. . .in each year except 2001-02. The New South Wales government met its budgetary balance target. . .from 1999-2000, failing to meet the target only in 1998-99. The Victorian government met its target. . .from 2000-01 [onwards]. . .The

---

82 The European Union (EU) developed the term “gross public debt” in its European System of Accounts 1995 (ESA 95). The term is also known commonly as Maastracht Debt. According to Ismael Ahamdanech Zarco, “Maastricht debt consists of the liabilities of general government in the following categories: currency and deposits. . .securities other than shares. . .and loans”. See Ismael Ahamdanech Zarco, “Structure of Government Debt in Europe” in *Eurostat: Statistics in Focus*, no.110, 2008, p.2. The EU definition is similar to that in the IMF’s 2001 version of its *Manual on Government Financial Statistics* in which the IMF defines gross debt as “All liabilities that require payment or payments of interest”. See International Monetary Fund, *Manual on Government Financial Statistics* (IMF, Washington DC, 2001), chapter 7. As far as Australia is concerned, Wilson Au-Yeung and his colleagues have written that, “The main component of gross debt on the Australian Government’s balance sheet is Commonwealth Government Securities (Treasury Bonds) outstanding.” See Wilson Au-Yeung, Katrina di Marco and Mitchell Pirie, *A History of Public Debt in Australia* (Australian Treasury, Canberra, 2009), p.4.

> Queensland government attained its target of positive [balance]. . .in 1999-2000, 2002-03 and 2003-04. . .[though not] in 2000-01 and 2001-02. The South Australian government attained its target in 2002-03 and 2003-04. . . The Western Australian government met its target. . . from 2000-01 onwards.[83]

In 2005 New South Wales further consolidated its approach to financial management. In that year the Carr government obtained passage of the *Fiscal Responsibility Act*. The legislation prescribed 10 principles, and 5 targets, to form the basis of financial policy in the years following passage of the Act. The principles and targets are outlined in the accompanying tables:

NSW Fiscal Responsibility Act 2005: Principles[84]

Fiscal Principle No.1	Keeping the Budget and Forward Estimates in Surplus
Fiscal Principle No.2	Constrained Growth in Net Cost of Services and Expenses
Fiscal Principle No.3	Managing Public Sector Employee Costs
Fiscal Principle No.4	Evaluation of Capital Expenditure Proposals
Fiscal Principle No.5	Managing State Finances with a View to Long-Term Fiscal Pressures
Fiscal Principle No.6	Maintaining or Increasing General Government Net Sector Worth
Fiscal Principle No.7	Funding Employer Superannuation Liabilities
Fiscal Principle No.8	Total Asset Management
Fiscal Principle No.9	Prudent Risk Management
Fiscal Principle No.10	Tax Restraint

83 Carne, n.21, p.181.

84 See *Fiscal Responsibility Act 2005* (NSW), sections 11-20.

NSW Fiscal Responsibility Act 2005:Targets[85]

Fiscal Target No.1 (Medium Term)	Reducing the Level of Government Net Financial Liabilities, as a Proportion of Gross State Product (GSP), to 7.5 per cent (or less) by 30 June 2010
Fiscal Target No.2 (Medium Term)	Maintaining General Government Net Debt, as a proportion of GSP, at (or below) its 30 June 2005 level (0.9 per cent of GSP)
Fiscal Target No.3 (Long Term)	Reducing the Level of General Government Net Financial Liabilities, as a Proportion of GSP, to 6 per cent (or less) by 30 June 2015
Fiscal Target No.4 (Long Term)	Maintaining Underlying General Government Sector Net Debt, as a Proportion of GSP, at (or below) its 30 June 2005 level (0.8% of GSP) - Unless an Increase is Required, in Net Debt, to Reduce One or More Components of General Government Net Liabilities
Fiscal Target No.5 (Long Term)	Eliminating Total State Sector Unfunded Superannuation Liabilities by 30 June 2030

Significantly, a note to the legislation identifies certain internal and external factors which impact upon the budget. It states:

> Fiscal sustainability requires that the Government be able to manage financial risks and financial shocks in future periods without having to introduce significant and economically or socially destabilising expenditure or revenue adjustments in those future periods. What is considered consistent with fiscal sustainability will vary depending on the strength and outlook for the economy, the structure of expenditure and revenue of the budget, the outlook for the State's credit rating, demographic and social trends that will affect the budget, and the nature of financial risks faced by the Government at any given time.[86]

Internal needs and pressures, including requirements for infrastructure development, which in a NSW context includes recent demands for funds to build the North West Rail Line and completion of the duplication of the Hume Highway , drive some factors.[87] Other factors are external in nature, with international

---

85 See *Fiscal Responsibility Act 2005* (NSW), sections 6-7.

86 See *Fiscal Responsibility Act 2005* (NSW), Note to s 3.

87 In his budget for 2009-10, the state Treasurer advised that his government proposed to spend around $14 billion on infrastructure in the 2009-10 financial year. NSW Treasury, *Budget Statement 2009-10* (NSW Treasury, Sydney, 2009), Budget Paper No. 2, p.3-14.

developments influencing the capacity of governments to raise revenue. The recent global financial crisis (GFC), which unfolded in 2008 with the collapse of Lehman Brothers, is one factor that has affected the capacity of the current NSW government to meet the targets of the 2005 legislation. From an international perspective, the GFC has also seen governments embracing a policy of fiscal deficits.[88] This approach was endorsed by the International Monetary Fund, with an IMF staff report stating that:

> it is essential, in our view, that public authorities play their appropriate role in preventing a collapse of confidence in the private sector that might lead to a vicious downward spiral. . .it is particularly important for fiscal policy to take on an increased share of the burden during the period in which the financial sector is recovering. . .[89]

From a NSW perspective, in his budget statement for 2009-10 the current state Treasurer (Eric Roozendaal) itemised the government's progress towards the targets established in the *Fiscal Responsibility Act*, as follows:

Refer to NSW Treasury, *State Infrastructure Strategy: 2008-09 to 2017-18* (NSW Treasury, Sydney, 2008), pp.3-4,10.

88 In late 2009 the Obama administration (USA) had a budget deficit of 11.2 per cent of GDP and the Brown government (UK) had a budget deficit of 12.6 per cent of GDP. See Organisation for Economic Co-operation and Development, *Economic Outlook No. 86* (Organisation for Economic Co-operation and Development, Paris, 2009), p.93.

89 Charles Freedman, Michael Kumhof, Douglas Laxton and Jaewoo Lee, *The Case for Global Fiscal Stimulus* (International Monetary Fund, Washington DC, 2009), p.17. In an address to the annual dinner of the Australian Business Economists, in December 2008, the governor of the Reserve Bank of Australia (Glenn Stevens) remarked that "One of the striking features of the recent G-20 meetings was the way the need for fiscal stimulus, where debt levels permitted, was readily agreed between participants, and actively encouraged by the IMF." See Glenn Stevens, "Interesting Times", address to the *Australian Business Economists Annual Dinner*, Sydney, 9 December 2008.

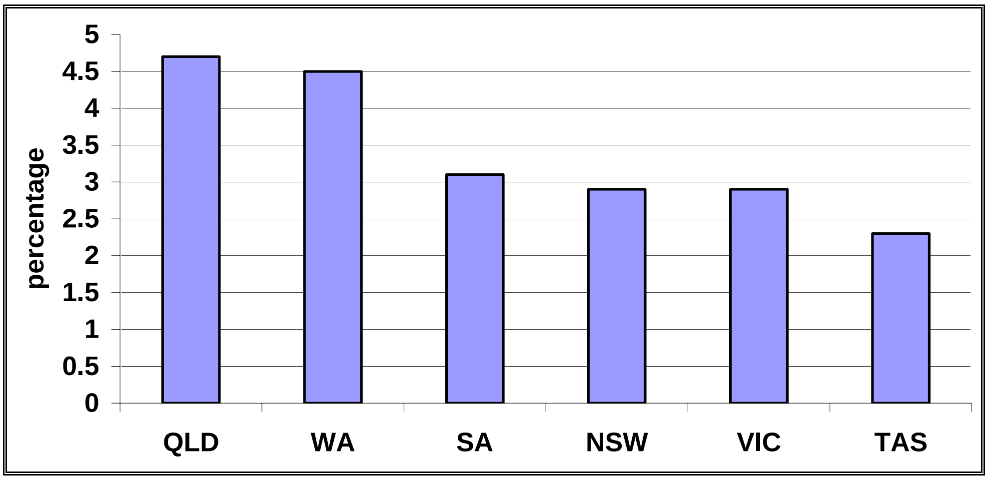
Progress Towards Fiscal Responsibility Act 2005 Targets: 2009-10[90]

Reducing the Level of Government Net Financial Liabilities, as a Proportion of Gross State Product, to 7.5 per cent (or less) by 30 June 2010	*General Government Net Financial Liabilities Estimated to be 14.5 per cent, of Gross State Product, at 30 June 2010 – Falling to 12.6 per cent by 2013*
Maintaining General Government Net Debt, as a proportion of Gross State Product, at (or below) its 30 June 2005 level (0.9 per cent of GSP)	*As a Result of the Increased Capital Program, General Government Net Debt is Estimated to be 3.4 per cent of GSP at 30 June 2010*
Reducing the Level of General Government Net Financial Liabilities, as a Proportion of Gross State Product, to 6 per cent (or less) by 30 June 2015	*General Government Net Financial Liabilities Estimated to be 12.6 per cent of GSP at 30 June 2013*
Maintaining Underlying General Government Sector Net Debt, as a Proportion of Gross State Product, at (or below) its 30 June 2005 level (0.8% of GSP) - Unless an Increase is Required, in Net Debt, to Reduce One or More Components of General Government Net Liabilities	*General Government Sector Net Debt Estimated to be 3.6 per cent of GSP at 30 June 2013*
Eliminating Total State Sector Unfunded Superannuation Liabilities by 30 June 2030	*Total State Underlying Net Unfunded Superannuation Liabilities Estimated to be $33.8 billion in June 2009 (9 per cent of GSP- Decreasing to $30.8 billion in June 2013 (7 per cent of GSP)*

What happens after the GFC is also a consideration for the state's budget, given the targets the government has set for itself. Much has been made of the "two speed economy": the difference in growth rates between the resource-rich states of Western Australia and Queensland, on the one hand, and New South Wales and the remaining states on the other. A better comparison might be between New South Wales and Victoria: both of which have production based much more on commerce and industry. At any rate, the "two speed economy" was highlighted by the Reserve Bank of Australia (RBA) in its submission to the Senate Select Committee on State Government Financial Management. Included in the RBA's submission was the following graph of state-by-state GSP growth between 1970-71 and 2006-07:

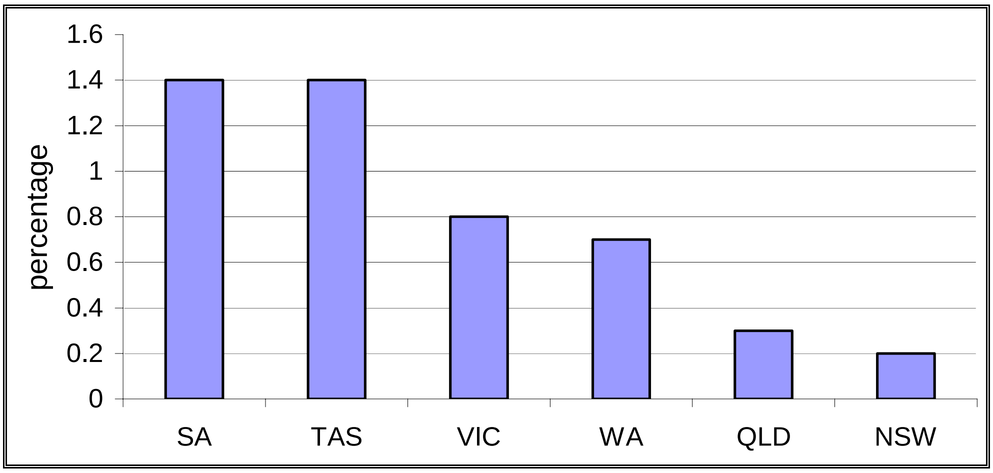
90 NSW Treasury, *Budget Statement 2009-10* (NSW Treasury, Sydney, 2009), Budget Paper No. 2, Appendix A.

State-by-State GSP Growth: 1970-71 to 2006-07[91]



A more contemporary snapshot shows the NSW growth lagging behind other jurisdictions, as the following chart shows:

State-by-State GSP Growth: 2007-08 to 2008-09[92]



This is not the place to analyse these trends and their implications in detail. It is enough to say that significant budgetary issues are likely to impact upon all non-resource rich jurisdictions in Australia in the near future. Some stress factors will be due to the immediate impact of the GFC. Victoria, for example, a state with a good record over the past decade of financial management,[93] is expected to lose $3.8

91 Reserve Bank of Australia, *Recent Developments in State Level Economic Growth and Inflation: Submission to the Senate Select Committee on State Government Financial Management* (Reserve Bank of Australia, Sydney, 2008), p.8. Access Economics, in its latest *Business Outlook*, echoes these sentiments, stating that a return to a “two speed economy will mean that NSW faces continuing losses in its shares of Australia’s economy and its population.” See Access Economics, *Business Outlook* (Access Economics, Canberra, March 2010), p.95.

92 Australian Bureau of Statistics, *Australian National Accounts: State Accounts*, ABS Catalogue 5220.0 (Australian Bureau of Statistics, Canberra, 2009), p.12.

93 Hayward writes, “Over the last ten years, Victorian Labor has demonstrated that it is a

billion in expected revenue between 2008 and 2012.[94] In the longer term the challenge will be to maintain fiscal responsibility in the face of the demands of an ageing population and other factors, the predictable and unpredictable alike.

competent economic manager. It has operated successfully within its financial policy framework, meeting or exceeding all of its targets". See David Hayward, *Visions for Victoria: Budget and Revenue* (Victorian Council of Social Service, Melbourne, 2009), p.3.

94 M Rout, 'Brumby's budget's "gaping hole"', *The Australian*, 30 April 2010, p 6.