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Vote grabs heading in wrong direction

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It's probably just a coincidence that the budgets in the adjoining states of NSW and Queensland were handed down on the same day. After all, local politicians are trying to get the attention of locals; they don't much care what's happening over the border.

But here's a question worth posing: what are the differences between the budget handed down by a Coalition government and the one handed down by a Labor government? The answer is there aren't many. Indeed, you could shuffle the papers and find it hard to pick which side of the Tweed they come from, apart from the size of the numbers.

Needless to say, state budgets don't command the attention of federal budgets, but they do count, both individually and in aggregate. In 2020-21, aggregate state budget deficits amounted to close to 2.5 per cent of GDP.

And just as Covid provided a cover for the federal government to spend like crazy, it was also used as justification by state governments to turn the spending tap on full bore, driving up state government debt to levels never before seen.

In NSW, the predicted budget deficit for the coming financial year is $11.3bn. The revised figure for 2021-22 is $16.6bn, or 2.4 per cent of gross state product.

And this was notwithstanding surging revenue from stamp duty. There is a laughable estimate that the budget will be back in surplus – just – in 2024-25. Probably best not to bet the house on that.

The most alarming figure in the 2022 NSW budget papers is the extraordinary escalation in government net debt – from $37bn in 2020-21 to $115bn in 2025-26. That's an increase of more than 200 per cent; ratings agencies will be watching closely.

Don't be fooled by all that talk about the NSW government investing in women's workplace participation, early childhood education, clean energy and the like – it's all about attracting votes.

Just take a look at the Premier's Back to School program (will the Premier be personally funding it?); the $520m in road toll relief; and the Energy Bill Buster program. It looks very Labor, with spending suddenly becoming investment.

As for the very marginal change to stamp duty arrangements, the principal impact in the short term will be to create a very confused and distorted housing market around the cut-off. The fact is banks will take into account the requirement of those opting out of stamp duty to pay land tax – perhaps as high as $3000 a year – which will reduce the amount homeowners are able to borrow. It's not clear there will be many winners apart from property industry players.

Illustrating the point that bad ideas don't stop at the border, the Queensland budget is also expected to record a deficit this coming financial year of more than $1bn. But again by 2024-25, there will be a tiny surplus.

In point of fact, the high prices of coal and oil/LNG have been a boon for the Queensland Treasury coffers. Coupled with a surge in stamp duty revenue – the tail end of the housing boom courtesy of very low interest rates – revenue in 2021-22 was more than $9bn greater than the previous year. In a budget where annual spending is about $75bn, that sort of rise is very useful.

When it comes to government debt in Queensland, it is important not to be fooled by the figure for the general government sector. There is a great deal of debt held by government corporations and net debt does not include the state's superannuation liabilities. Even so, general government borrowings go from $54bn in 2020-21 to $87bn in 2025-26 – a rise of more than 66 per cent. Not as bad as NSW but no cigar.

The broader point is that the new macroeconomic conditions, most notably rising inflation and higher interest rates, demand budget responses by the states as well as the federal government. Both these budgets are heading in precisely the wrong direction.

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