CONTEST TEARING THE BUDGET APART

Healthcare and infrastructure spending is soaring

ALAN KOHLER
BusinessSpectator

ON Friday, the premiers signed off on a revolution in infrastructure spending in Australia.

They agreed — and why wouldn't they? — to a deal that the federal government would top up any money they raised through privatisations that was recycled into new infrastructure, with an extra 15 per cent.

The beautiful thing for Joe Hockey is that the 15 per cent will come from extra tax revenue that would be collected from privatised state businesses.

While they are government-owned, any company tax is returned to the state. In effect, the Treasurer is merely offering to keep returning it for a while, and it won't affect his budget because the revenue's not in it yet and the cash will come from commonwealth asset sales.

Hockey expects this to result in a new wave of privatisations, including NSW electricity, and enough infrastructure projects to help replace the mining investment boom.

But according to a Grattan Institute report out yesterday, state governments have already been sending themselves broke with infrastructure spending.

"Federal government claims of a 'massive infrastructure gap' are not borne out by analysis of state and territory budgets," the Grattan report says.

"(They) have spent more on infrastructure — mainly road and rail projects — in each of the past five years than in any comparable year since the Australian Bureau of Statistics first measured infrastructure spending in the 1980s."

The report shows that state and territory borrowing for capital expenditure over the last seven years drove their finances backwards from $37 billion in the black in 2006 to $69bn in debt in 2013.

So what's the problem? Simply that Australia's population grew by nearly 8000 people per week last year and more than half of them landed in Melbourne and Sydney.

That population growth results in overall GDP and domestic consumption spending growing at close to trend, even though in per capita terms it is flat. It's great for businesses, but governments can't keep up. Roads are clogged and public transport is groaning. The health and education systems can't cope with demand.

The fundamental problem is that none of Australia's governments can fund capital works from recurrent revenue because they are running deficits. All capital expenditure has to be borrowed.

As the Grattan report shows, this is mainly due to a massive increase in spending on health: "Growth in health spending above GDP over the past 11 years was greater than the growth above GDP of all other spending combined. Hospital spending increased above GDP more than any other individual category."

This increase is not being driven by an ageing population, but "by people of all ages seeing doctors more often, having more tests, treatments and operations, and taking more prescription drugs".

And of course, given the big increase in population lately, there are more people seeing the doctor more often.

So in essence, an expensive demand-driven health system is leaving governments unable to afford infrastructure to support the rapidly growing population.

In a way, there is a great contest between health and infrastructure spending killing Australia's budgets — a contest that health is winning.

The deal signed on Friday will be a good start to levelling the playing field, but it's temporary. Eventually they will run out of things to sell. Healthcare will have to be nobbled as well.

Alan Kohler is editor in chief of Business Spectator. Visit businessspectator.com.au