

Is Barry a Big Spender?

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After the landslide, NSW voters expect to see earthworks from Barry O'Farrell very soon. But to fix the state's infrastructure, he'll need to go cap in hand to the Commonwealth, writes Ian McAuley.

The NSW election was a wipeout. Let's get away from the ex-post excuses from the outgoing government — we didn't communicate well enough, we had too many divisions, we had been around too long — and from the hubris of the winners — brand Labor is on the nose, only the Coalition can be trusted with responsible government. Elections are also about policy.

Tony Abbott has already made much of the O'Farrell victory, and some media commentators are seeing it as a strong general support for Coalition policies.

If anything, however, O'Farrell's success in office will depend on his distancing his government from Abbott's "small government" stance. NSW electors, particularly in Sydney, voted on the issues of health and infrastructure — singling out transport infrastructure — and in his campaign he has focussed strongly on these services. It's not just about mismanagement; it's also about under-investment.

He is burdened with the contradictory expectations which confront all governments, particularly those historically on the right of the spectrum. Those contradictions are summed up in today's article by Lisa Murray and Michael Whitebourn on the front page of the Financial Review:

"Business welcomed the change of government, calling on Mr O'Farrell to get the state's infrastructure planning back on track, cut government spending and increase assistance for small business."

O'Farrell can tinker at the edges, implementing some measures to improve efficiencies in health and public transport; there is certainly room to do this. He can defer the hard fiscal decisions, for example by announcing enquiries into the promised new rail lines to the western suburbs. But such tactics worked only for a short time for the Labor Government. Unless electors see earthworks over the next couple of years, his government could be subject to the same fury that swept Labor from office.

One message behind the huge swing is that the old tribal loyalties no longer hold; voters are fickle. (Media commentators commenting on the two party swing of 17 per cent put it too mildly because they do not start with Labor's base vote; in fact around 30 to 40 per cent of those who had voted Labor in 2007 voted for other parties this time.)

In short, the O'Farrell Government has to spend money. It will no doubt put pressure on the Gillard Government to come good with infrastructure funding, and we can expect a battle over recognition for any such new spending. It will need more than it can wring from a debt-obsessed Commonwealth. In opposition the NSW Liberals floated the idea of "Waratah Bonds" to finance public infrastructure. It's a worthy idea, reflecting the sensible business notion of using debt to finance worthwhile assets, and, given the state's AAA credit rating, it should have no trouble in attracting funds.

Sooner or later, some journalist, perhaps even one working for The Australian, may come to notice a contradiction between O'Farrell's policies and Abbott's rhetoric. O'Farrell has a state to manage — a state that has suffered mightily under the anti-debt obsession — to the extent that the previous government was prepared to sell power assets at fire-sale prices just to keep debt off its books, while ignoring the other side of the balance sheet represented by Sydney's neglected infrastructure. O'Farrell's task requires a greater skillset and a greater respect for logic than his partisan federal counterpart employs in developing three word slogans and whipping up political emotions on talkback radio.

Health care is the other area where there will be a challenge to the Commonwealth Government and to federal Opposition policies. Some journalists have already mentioned difficulties Gillard may experience in implementing the Commonwealth's health reform package, but there is no reason to believe it would have been easier with a Labor state government. Premiers fight hard at COAG, whatever their partisan persuasion.

The greater problem is the way private health insurance, so generously subsidised by the Commonwealth, diverts resources away from public hospitals into private hospitals. While some unfortunate person is suffering in a crowded and understaffed casualty department in a public hospital, chances are that the specialist who

could have attended to her is performing some low-priority elective procedure in a private hospital — for a much more lucrative fee.

One may rightly criticise the present Commonwealth Government for its failure to drop this regressive and distorting program of assistance to health insurers, but it is the Coalition which is the strongest defender of private health insurance. So long as private health insurance helps divert resources away from serving public patients, there is little the O'Farrell Government can do to improve public hospital waiting times.

The other party which has something to learn from the election is the Greens. Unlike Labor, it actually enjoyed a lift in support, particularly in the more prosperous urban electorates (not just in Balmain and Marrickville, but also in many of the harborside electorates), but its showing in the western suburbs was miserable.

It has been clear for many years that the condition of transport, both roads and public transport, is a huge political grievance in Sydney. Yet the Greens ran a strong anti-road campaign. This would have made no sense to those who spend so much of their time in gridlocked traffic. One doesn't need to be an environmental scientist to know that long lines of congested traffic actually worsen carbon (and other) pollution. And while there are some environmental benefits to be gained from better public transport, these are minor, because only a limited proportion of car trips can be diverted to public transport, and urban freight transport, the source of most growth in traffic, is firmly tied to road use. Sydney needs both better roads and better public transport, not one at the expense of the other.

Unfortunately, the NSW Greens' anti-road obsession does not help their credibility on the far more serious issue concerning the need for a carbon price, and contributes to the notion that environmental concerns are luxuries which can be indulged in only by inner-city dwellers who have the means to live a car-free life. The people of western Sydney will need their cars for a long time; they should be offered policies which help them modernise their car fleets so that when gasoline prices rise they can reduce their fuel use, to the benefit of their budgets and the planet's environment. More generally, they need reassurance that carbon pricing is not going to impose on them an ongoing financial burden or to force them to lower their living standards.