States of Debt

TARGET30
REDUCING THE BURDEN FOR FUTURE GENERATIONS

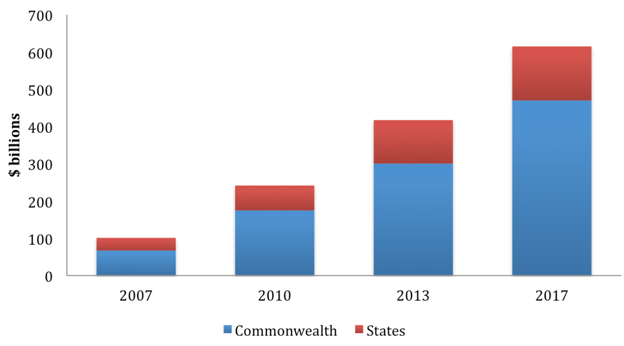
Robert Carling

SNAPSHOT

Much has been made of the projection that Commonwealth government debt (under current expenditure and tax policies) will grow to more than $400 billion in 2016–17 – and keep growing. However, the states also issue debt, which should be included for a more complete picture of public debt.

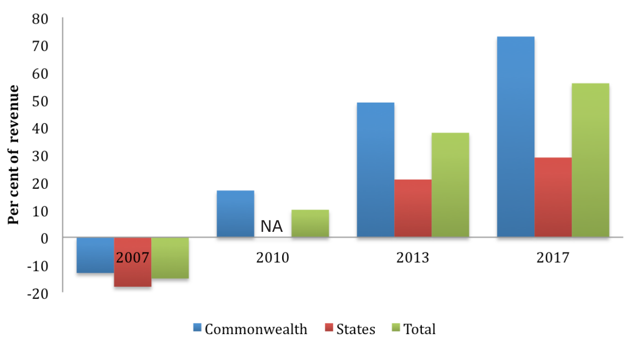
For example, gross debt for the federal and state general government sectors combined already exceeds $400 billion and is heading for more than $600 billion in 2016–17 **(Figure 1)**.

Figure 1: General government gross debt



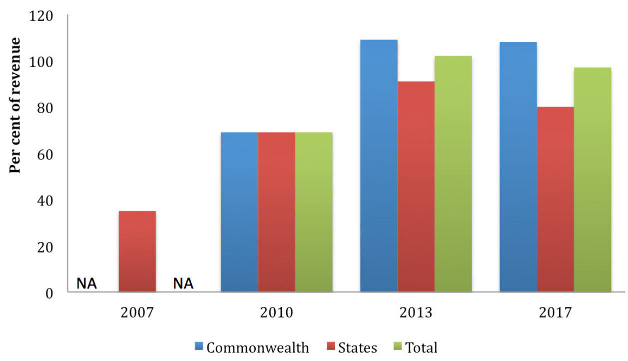
Net debt expressed as a percentage of revenue is more meaningful. On this basis, the debt burden has risen dramatically from negative levels for both the federal and aggregated state governments in 2007 **(Figure 2)**. At current levels, the debt burden is manageable but the strong upward trend calls for corrective action.

Figure 2: General government net debt as a per cent of operating revenue



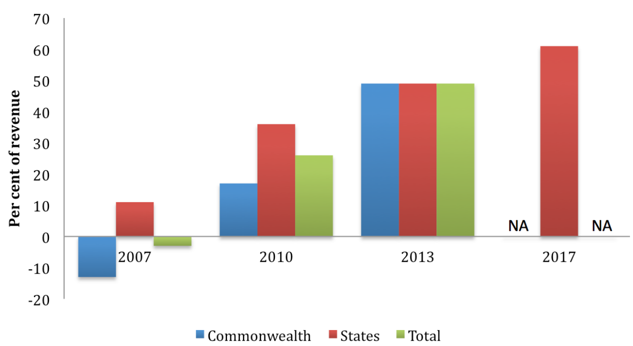
Non-debt liabilities add another dimension to the debt burden. When liabilities such as unfunded superannuation obligations are added to net debt, net financial liabilities are much larger but are expected to level out over the next few years **(Figure 3)**.

Figure 3: General government net financial liabilities as a per cent of operating revenue



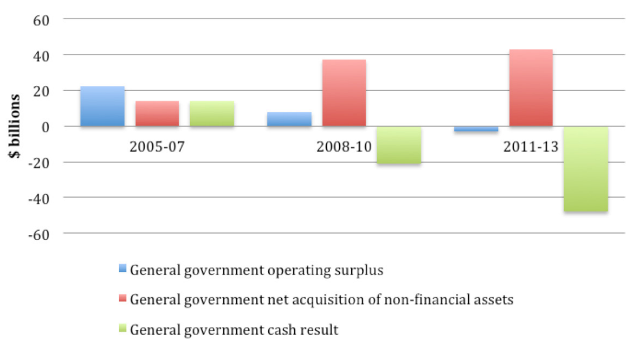
All the above figures refer to the general government sector. Government-owned corporations add another layer to total public debt, particularly at the state level. In 2013, state non-financial public sector net debt as a percentage of revenue was as large as the corresponding federal government aggregate **(Figure 4)**. The state figure is expected to increase further over the next few years.

Figure 4: Non-financial public sector net debt as a per cent of operating revenue



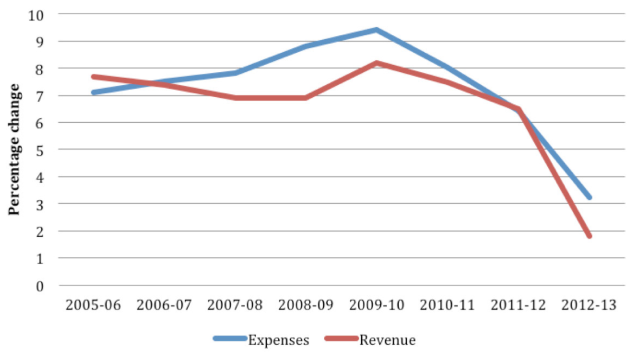
Before the global financial crisis, states' finances were very strong and all enjoyed triple-A credit ratings. In the last six years their operating surpluses dried up (in aggregate), capital ('infrastructure') spending soared, and cash surpluses turned to large deficits, driving up general government debt **(Figure 5)**. Government-owned corporations also increased debt-financed capital expenditure. Four states (Queensland, Western Australia, South Australia and Tasmania) lost their triple-A credit rating, and NSW and Victoria are at risk of doing so if current trends continue.

Figure 5: States' transition from surplus to deficit, 2007–13



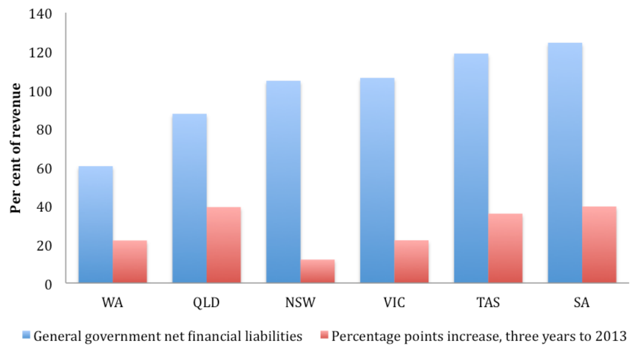
States' operating surpluses dried up because after 2007 the growth of expenses was very strong and has consistently exceeded the growth of revenue. Lately the states have curbed the growth of expenses but revenue has slowed even more sharply **(Figure 6)**.

Figure 6: States' three-year moving average growth in operating revenue and expenses (% pa)



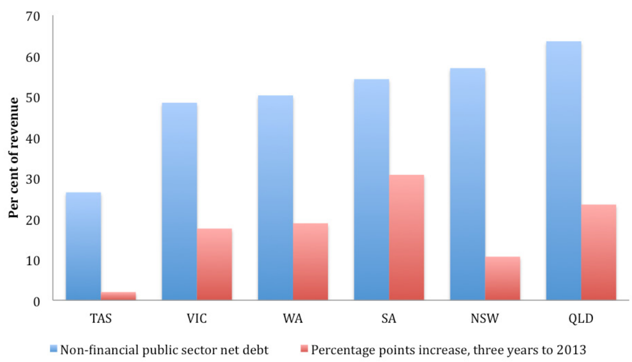
South Australia and Tasmania are in the weakest financial positions and have the most sluggish economies. They have the heaviest general government net financial liability burdens, followed by NSW and Victoria. Queensland and Western Australia have the lowest burdens, but have recorded rapid deterioration in recent years **(Figure 7)**.

Figure 7: General government net financial liabilities as a per cent of revenue – ranking the states



Queensland has the largest non-financial public sector net debt burden, followed by NSW, South Australia, Western Australia and Victoria **(Figure 8)**. The rate of deterioration has been highest in South Australia, Queensland and Western Australia, reflected in the loss of their triple-A rating.

Figure 8: Non-financial public sector net debt as a per cent of revenue – ranking the states



All states will need to persevere in restraining operating expenses in the face of sluggish revenue if they are to rebuild operating surpluses and avoid sharp cuts in capital expenditure. Privatisation of public enterprises can help relieve these tensions but on its own does not provide a lasting solution.

In the very long term, state governments – like the Commonwealth – will face chronic deficits and rising debt unless they take action to curb the fiscal costs (particularly health care costs) of an ageing population.

AUTHOR

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