**[The RBA needs more treasurers like Daniel Mookhey](https://www.afr.com/policy/economy/the-rba-needs-more-treasurers-like-daniel-mookhey-20230619-p5dhpg) Financial Review [John Kehoe](https://www.afr.com/by/john-kehoe-j7gcg)** *Economics editor* Jun 19, 2023

**Regrettably, most of Daniel Mookhey’s state counterparts, particularly in Victoria and Queensland, are still spending tax revenue windfalls like the pandemic recession never ended**.

In Labor’s Daniel Mookhey, Australia now has a treasurer who has vowed to stop debt-fuelled government spending and avoid a wage-price spiral to help the Reserve Bank of Australia fight inflation.

At a time of rising interest rates, the NSW Labor treasurer’s ambitions to cut wasteful spending and tackle the state’s mounting debt should become a model for the federal and state treasurers to emulate.

New South Wales Treasurer Daniel Mookhey is pledging fiscal restraint.

In his economic statement on Tuesday, Mookhey will preach fiscal restraint to help reduce inflation for working people and ease interest rate pressure on indebted NSW households.

Mookhey’s first big move as treasurer on Monday to [**prevent the state investment fund borrowing a projected $25 billion to bet on financial markets**](https://www.afr.com/politics/minns-calls-a-halt-to-perrottet-s-15b-sovereign-wealth-fund-for-nsw-20230618-p5dhgu) is also a welcome step, after[**a series of articles by *The Australian Financial Review* two years ago exposed the Coalition’s risky fiscal strategy**.](https://www.afr.com/policy/economy/nsw-s-risky-10b-bet-on-markets-20210805-p58g0r)

The fund’s profits or losses had the potential to cause wild swings in the state’s budget result and become a material fiscal risk as interest rates rise and equity markets fall.

Mookhey rightly recognises that fiscal and wages policies can assist the RBA reduce the 7 per cent inflation rate.

Regrettably, most of his state counterparts, particularly in Victoria and Queensland, are still spending tax revenue windfalls like the pandemic recession never ended.

The NSW public sector is a big economic entity, spending more than $120 billion a year on services, wages and infrastructure.

A rule of thumb is that an extra $5 billion to $10 billion of government spending is equal to one 0.25 of a percentage point interest rate rise, so trimming government spending can help the RBA.

Mookhey intends to back up state Labor’s fiscally responsible election pitch, by warning that high inflation means the government must control spending.

“The reality is we are dealing with a once in a generation cost of living crisis,” he said on Monday.

“Governments need to do its fair share to bring inflation under control.

“If we don’t get our spending under control, we run the risk of the RBA continuing to put up interest rates month after month, which means our mortgage holders will be effectively making the biggest sacrifice to fight inflation.”

To be sure, the Coalition ran a generally economically responsible NSW government for the first decade, but in the final two years its[**spending ran out of control in the post-COVID rebound**](https://www.afr.com/policy/economy/nsw-s-reckless-budget-spends-on-everything-20220622-p5avrm)**. ANDREW CONSTANCE**

Former Liberal premier Dominic Perrottet and treasurer, Matt Kean, splashed an extra $27 billion approaching the election and left[**gross debt on track to rise from $129 billion to $187 billion over four years**](https://www.afr.com/politics/nsw-s-aaa-credit-rating-at-risk-as-mookhey-starts-budget-repair-20230419-p5d1ky)**.**

Now, interest rates to refinance the state debt are about 4.7 per cent, compared to as low as 1 per cent in 2020 during the pandemic.

Mookhey recognises that when NSW’s jobless rate is just 3.1 per cent, there are labour shortages and infrastructure project cost blowouts, the government is crowding out private sector activity and adding to price pressures.

Right now, home builders are struggling to get cement trucks and tip trucks, which are fully employed on Sydney tunnel projects.

Housing availability problems are being amplified by a shortage of construction workers and building materials. Hence, Mookhey is expected to slow the state’s infrastructure pipeline to help free up resources to build more homes.

This will complement Premier Chris Minns’ apparent determination to crash through [**NIMBY-sensitive local councils**](https://www.afr.com/property/residential/1-3-million-missing-homes-blamed-on-councils-and-nimbys-20230515-p5d8d3) to speed up planning and development approvals to build medium-density homes in Sydney.

Mookhey will also eliminate the financial engineering on the state’s balance sheet, synonymous with the former government’s policy to borrow billions of dollars to inject into the $15 billion NSW Generations Fund. He will unwind the [**dubious off-budget accounting for the Transport Asset Holding Entity**](https://www.afr.com/companies/professional-services/nsw-auditor-general-slams-government-over-tahe-20230124-p5cf5w).

Mookhey is moving NSW back to sound fiscal and macroeconomic policy settings.

Mookhey, from the Labor right, has taken a harder line against unions, saying the budget does “not permit us to offer pay rises that are in line with inflation”.

He argues the best way to lift real wages is to reduce inflation, rather than nominal wage rises chasing inflation.

“The government’s strategy about delivering real wage increases depends on us bringing inflation under control.”

**More frank than Chalmers**

This is more frank thank federal Treasurer Jim Chalmers, who along with Workplace Relations Minister Tony Burke, have indulged a union push for inflation-matching pay rises.

The NSW government is offering a 4 per cent wage rise to public servants. While at the upper end of the RBA’s wage sustainability band, it is less than the Albanese government-endorsed 5.75 per cent pay rise for about one in five workers receiving the Fair Work Commission’s increase for minimum and award wage workers.

Chalmers has said he doesn’t want to make the RBA’s inflation fighting task harder. The federal budget’s fiscal pulse is broadly neutral.

But [**discretional federal fiscal policy is still injecting moderate net spending into the economy**](https://www.afr.com/policy/economy/there-is-a-44b-inflation-fib-in-the-budget-20230508-p5d6i6), notwithstanding household energy subsidies and energy price caps mechanically reducing the headline inflation rate in the short term.

Much worse though, is [**Victoria’s budget**](https://www.afr.com/policy/economy/unaccountable-andrews-has-run-victoria-s-finances-into-the-ground-20230523-p5dahu). It hit business and property investors with tax rises and forecast an extra $12.2 billion in revenue over the four years to 2025-26. But Victoria is spending an extra $13 billion over the same period. Gross debt is projected to exceed $210 billion.

Queensland, facing an election next year, is [spending most of its coal royalties windfall](https://www.afr.com/politics/coal-royalties-deliver-10b-sugar-hit-to-queensland-20230612-p5dfz9).

For now, NSW seems to prefer spending restraint to balance the books.

Mookhey, an upper house MP, who does not have state leadership or federal political ambitions, appears to be determined to make his mark as a successful state treasurer.

If Mookhey delivers, the RBA will want more treasurers like him.