

— **Opinion**

## The horror budget that reveals Victoria's state of decay

A population Ponzi scheme followed by a bloated building boom has left a nightmare of high debt and high taxes.

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The Victorian 2021-22 budget highlights the state's decline over the past decade aided by lax national policy prioritisation. Sadly, the drivers of the fiscal erosion are mostly unrelated to the Wuhan pandemic. The scorecard is not flattering:

[Net debt, unfunded super and miscellaneous liabilities](#) projected to rise to \$241 billion (41 per cent of GSP) by 2024-25 for the non-financial sector, a three-fold increase since 2015-16.

Cumulative cash deficits over the budget outlook of \$133 billion.

Tax increases achieved via inefficient/distortionary stamp duties, land taxes and payroll tax changes.

Public service payroll growing at 5.4 per cent nominal for the 10 years to 2024-25. The actual public sector workforce growing at around 2 per cent.

An infrastructure program lacking micro foundations described by the Victorian Auditor General as overestimating benefits, underestimating costs, and deficient in technical standards (such as engineering standards and network integrity controls).

[AAA credit rating lost in February as Moody's downgrades to Aa1 and changed its financial outlook to "negative".](#)

For a decade or more, Victorian governments have relied on one singular growth driver – population. This emerged in two distinct phases.



The building boom united government, construction oligarchs, and unions. **Jason South**

*Circa 2007: A four-fold increase in population inflows to Victoria.* This saw average annual inflows rise from around 20,000 to 80,000 up to 2020, combined with lax or absent planning at the local, state and national level. The result was more than one million “unexpected” arrivals compared to official projections. Outcomes were clear-cut: falling per capita living standards; choked roads; packed trains; unaffordable housing. No more “world’s most liveable city”.

*Circa 2016: Rolling out the “major projects” list:* Having ensured that public infrastructure and services could not keep pace with demand, it was time to shore up political support by buying some votes. [The level crossing project was the test case.](#) It proved so popular it is now followed by the Metro Tunnel project, Westgate Tunnel project, Melbourne Airport Rail, Suburban Rail Loop and many others.

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The bigger the project, the less competition and transparency, with planning processes often bypassed. Major projects lacking feasibility studies, businesses cases and costings. All seem to get approved based on concocted investment cases. Projects magically emerge outside national/state planning priorities and strategies (unknown to Infrastructure Victoria and Infrastructure Australia). So if these projects don't originate from inside the public service, who does magic them up – big accounting firms and toll road companies?

Then there is the cost of construction. In Victoria the market is captured by a cosy foreign-owned oligopoly, with no incentive to reduce costs or bear risk. No engineering, procurement and construction lump sum cost for these firms, ie, the careful allocation of risks expected in competitive markets. Instead, the public is required to bear the burden of *cost plus* contracts that sheet home all but the most benign of risks to the taxpayer. This keeps build prices high and locks out domestic competition.

Big, inefficient projects will burden future generations with hundreds of billions in debt. They may also saddle the state with other liabilities such as health and environmental risks from contaminated soil and toxic land from lax technical and engineering processes in the planning stages.

**Follow the robust example of the Kennett/Stockdale and Bracks/Brumby governments. Don't limit ambitions but be better at targeting them.**

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If projects are really worthwhile, why the haste? Why not auction them off to domestic or foreign institutional investors? Or perhaps consider more modest and aesthetically pleasing designs. Why leave the Melbourne Metropolitan area looking like a concrete version of Tolkien's Mordor.

Consider Skyrail. It may have delivered a speedy outcome, well co-ordinated with the political cycle. But where is the third rail track for the south-east's two busiest lines? Mistakes compound. Remember the Kennett era sell-off of the circular railway reserve? That now leads to the enormous cost and complex engineering of the proposed Cheltenham to Box Hill line.

Projects such as the Skyrail have set a dangerous precedent and established the modus operandi for bizarre decisions such as locating industrial elements of projects like train stabling and maintenance yards in one of Melbourne's "green wedges", established by Sir Rupert Hamer and protected most effectively by former planning minister Mary Delahunty.

[So why have successive Victorian state treasurers engaged in this population Ponzi scheme?](#) It sure beats working for a living (also known as real policy reform). Big population growth generates momentum for construction (effectively a Clayton's industry policy), fuels property prices, which benefits existing owners (both householders and institutional investors).

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The strategy is embraced by the powerful property lobby and key unions. It garners big revenue windfalls from stamp duties and land taxes and delivers a bigger tax take. All this with no tough decisions and courage required.

Victoria's decline began when the Howard government ramped up the temporary visa migration program after the Work Choices defeat.

Regrettably, this approach became a permanent policy setting. It held down real wages and helped to crimp productivity growth via the Uber-isation of the low-skilled labour force. All this was against expert advice (think of Dr Ken Henry and his population-participation-productivity framework, and the work of the Productivity Commission).

So the Victorian government must slow down, be more careful and considered and observe proper processes. It has twitchy ratings agencies sitting worried on the sidelines. Any hint of incompetence or fraud will pay a heavy price tag. Follow the robust example of the Kennett/Stockdale and Bracks/Brumby governments. Don't

limit ambitions but be better at targeting them. And follow NSW in the pursuit of micro reform.

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