FINANCIAL REVIEW

Opinion

Victoria's population and construction Ponzi scheme

The Victorian budget recalls an earlier time when the state permitted the forced confiscation of property – perhaps Spring Street's most frightening legacy.

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The 2023-24 Victorian [https://www.afr.com/topic/victorian-budget-jop]budget accelerates the state's relative decline compared to the rest of the nation. That decline can be attributed to lax fiscal management and planning processes, appalling public accountability and disregard for private property rights.

The fiscal chickens have come home to roost for Treasurer Tim Pallas.

Victorian Treasurer Tim Pallas delivers the budget on Tuesday. **Joe Armao**

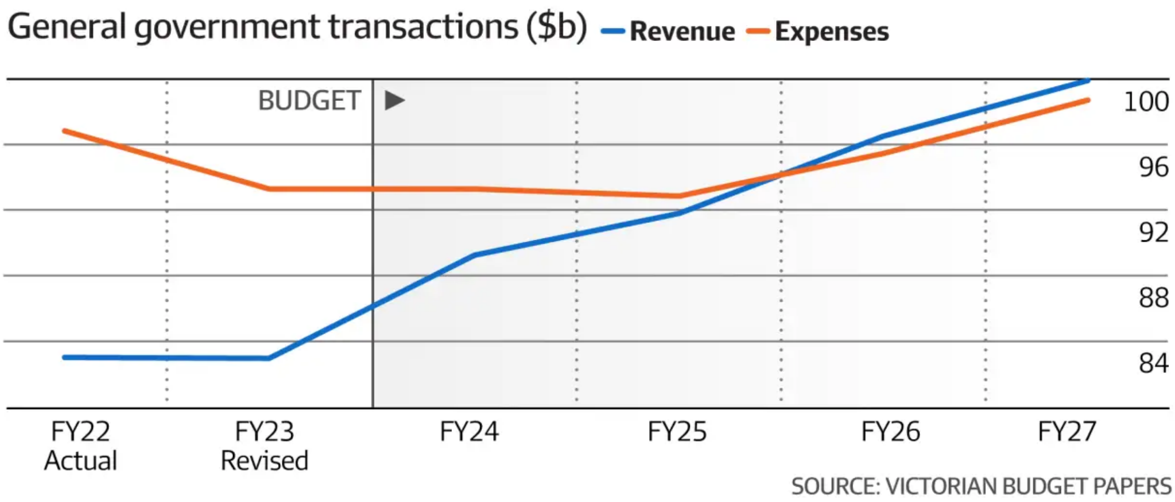
Victoria's debt is expected to reach 200 per cent of operating revenues around 2026 – an Australian record. This is double the normal ratio of concern for credit rating agencies. Nor does this count hefty unfunded superannuation liabilities.

There are significant tax rises (including an 11 per cent increase in Government Finance Statistics taxation in the budget year) that continue to grow at a neat clip over the forwards.

There is an unparalleled flat spending profile over the outlook, despite a track record of 9 per cent spending growth over the past seven years.
There are shades of the "Swan" approach as revenues are pulled into the budget year and some of the expenses pushed out. After this reprofiling, the government must still pay for its massive $20 billion-plus annual infrastructure build before it can reduce its debt level.

And there is an inflationary infrastructure build precisely delivered at the worst time for the Reserve Bank, and to control project costs and moderate demand for first home builders in terms of materials costs.

It's been a long time since Victoria had the principled and technologically astute Cain government, which followed the highly regarded Hamer government of the 1970s and early 1980s.



Since then, [https://www.afr.com/policy/economy/victoria-lags-after-decade-of-decline-20210528-p57w4z] Victoria has relied too heavily on asset sales, gambling, major events, and big projects. This while our productivity growth and environmental capital has been denuded. This has crystallised under the Andrews government – as an alliance between government, big four accounting firms, (an oligopoly of foreign-owned) major builders, construction unions, and the Property Council.

The big people and big build approach has garnered revenue windfalls from stamp duties and land taxes. It has fed momentum from construction builds (effectively a Clayton's industry policy) and fuelled property prices, for existing owners (both householders and institutional investors).

But the same approach has seen productivity growth and living standards decline relative to the national average, as successful businesses and households are "farmed" to subsidise this population and construction Ponzi scheme.

Warning bells started ringing in Canberra last month when the federal Transport Minister, Catherine King, announced a full review of all Victorian infrastructure projects. Her interest is that the Albanese government matches all state infrastructure funding.

All of Victoria's projects are to be subject to review – except the most controversial– the Suburban Rail Loop. This is surprising because in any sensible prioritisation, it would be the first to be examined.

SRL is extremely irregular. It originated outside the public sector and normal planning processes. It was developed by a team within the Premier's office and accounting firm PwC for the 2018 election, with no involvement from public sector departments including Transport and Treasury. It has been identified as the Premier's pet project ever since.

PwC is embroiled in one of the most flagrant breaches of the basic conflict obligations that are embedded into all government services contracts.

SRL is certainly the riskiest (and most expensive) infrastructure project ever conceived in Australia. A 90-kilometre-plus circular subterranean rail link from Cheltenham in the south-east to the airport in the west, with a price tag of $125 billion (experts think the final figure will be a multiple).

The project seems to have more to do with value capture than transport outcomes. Its first stage runs through the most expensive shopping and residential real estate corridor in Australia. From Box Hill, Doncaster and Cheltenham. Show me an extended strip of land in Australia that is more valuable?

Why was the proposed route chosen, and who benefits from that alignment? It would be prudent if all analysis done to support these decisions was immediately released to the public.

The SRL legislation also constitutes the largest private property grab in Australian history.

Along the proposed railway route – including an expansive project overlay (and including parkland and schools) – government has vested extensive powers in the wholly owned SRL corporation. These override the property rights of all current and future owners of residential and commercial property along the route. This includes preventing objections to developments and restricting rights to full and just compensation.

Literally, thousands of Victorian families are affected and have no practical legal redress. Many are first generation migrants.

So, a public corporation – and not elected ministers – created surreptitiously during the COVID emergency – controls the whole project, including all issues related to property rights. Indeed, the Victorian Transport Minister quietly assigned herself planning responsibility on all SRL matters.

Sadly, all major projects in Victoria have been run like SRL.

Major projects have been characterised by cost blowouts and, in the case of Melbourne Airport Rail, a failure to engage with the key stakeholder and landowner, or even include them in the business case.

The program facilitates big, complex, gold-plated, projects that will burden future generations with hundreds of billions of dollars in debt.

More modest and cost-effective technical solutions are usually available at a fraction of the cost. But identifying those would require talking to responsible public servants in the relevant agencies.

If Victoria is ever to get its budget permanently back in the black and debt burden under control, it must first be a trusted place to do business.

Governments must respect basics like rule of law, tax burden, fostering competition and open markets.

Ministers [https://www.theage.com.au/politics/victoria/jacinta-allan-quietly-takes-on-new-cabinet-responsibilities-20230503-p5d5aj.html]must be accountable for all decision-making. They and senior officials must work only for the public interest.

Framing an economic strategy around a property development Ponzi scheme [https://www.afr.com/policy/economy/the-horror-budget-that-reveals-victoria-s-state-of-decay-20210523-p57uff]is a trap door to economic decline.

Disregarding property rights puts us all on the slippery slope. It recalls an earlier time when the state permitted the forced confiscation of property – perhaps Spring Street's most frightening legacy.

Stephen Anthony is chief economist at Macroeconomics.