

Force Daniel Andrews to bear the costs of the damage he wreaks

[Henry Ergas](#) 12:00AM September 11, 2020



Victorian Premier Daniel Andrews. Picture: NCA NewsWire / Sarah Matray

The cruellest thing one can do to Daniel Andrews's explanation of Victoria's strategy for dealing with COVID-19 is to read it a second time. After all, given the costs that are being inflicted on Victorians and on the country as a whole, one might assume, on a first reading, that a cogent justification for the strategy lay hidden in the explanatory material Andrews used last Sunday.

Unfortunately, a second reading would show that nothing could be further from the truth. Yes, Andrews's presentation draws on an article by University of Melbourne professor Tony Blakely and several of his colleagues that has been issued as a preprint in the Medical Journal of Australia; but the modelling it reports merely finds that Victoria's initial

six-week lockdown was unlikely to entirely eliminate the virus.

However, that finding hardly demonstrates that it is sensible to pursue the lockdown until there are almost no new cases.

Indeed, in a paper recently released as a preprint by The Lancet, Blakely himself concludes that the benefits of seeking to eradicate the virus — rather than prudently managing its impacts — fall well short of the costs.

That Victorians have already suffered so much in no way alters that conclusion or makes eradication easier to achieve. Rather, it remains a fact that once the case load comes under control, the incremental gains from attempting to drive the virus's incidence to zero fall steeply while the economic and social costs soar, making the goal of elimination as unreasonable as it is unattainable.

And with all of the present tests for the virus yielding a non-negligible proportion of false positives, setting very few or no cases as the hurdle for relaxing restrictions can only prolong Victoria's quixotic quest for complete eradication which, as Blakely's study and many others show, risks doing more harm than good.

It is, no doubt, on Victorians that the greatest share of the needless harm will fall. But while Andrews jealously guards the state's ability to chart its own course, he is anything but parochial when it comes to spreading the costs.

To begin with, 20 per cent or more of the immediate macro-economic damage will be borne outside of Victoria, with the extended lockdown reducing gross domestic product in the rest of the country by more than \$2bn.

And additional income losses will be caused indirectly, as the demonstration effect of Andrews's commitment to eradication reduces

the pressure on Queensland and Western Australia to ease their border closures. To make matters worse, just as their incomes shrink, it is Australians outside Victoria who will largely fund the commonwealth transfers without which the state would collapse.

The sums involved are breathtaking: in the course of this fiscal year, the payments for JobSeeker and JobKeeper alone will transfer the equivalent of \$7000 to each Victorian man, woman and child, which is 45 per cent more than has been disbursed for those programs, on a per capita basis, in the other jurisdictions.

Adding the other forms of pandemic-related assistance, Victorians will receive almost \$11,000 per capita from the commonwealth, vastly exceeding the payments to the other states.

To place those transfers into perspective, they are substantially greater than Victoria's total public spending in 2019-20.

Nor will the contributions the rest of the country makes to underwriting Andrews's strategy end there. On the contrary, our system of horizontal fiscal equalisation, which allocates the pool of GST revenue among the states and territories, will, on its present settings, effect an additional large-scale transfer to Victoria from taxpayers in NSW and Queensland.

Calculating the extent of that redistribution is complicated both by the uncertainties surrounding future GST revenues and by the phasing in of the very complex agreement the Turnbull government reached with the states and territories in 2018.

Since the methods used to determine the allocations were already mired in complexities, any estimates are necessarily subject to myriad caveats.

But given that the deterioration in Victoria's fiscal position over the four-year period to 2022-23 is likely to be 50 per cent larger, on a per capita

basis, than that in NSW and almost twice Queensland's, a greater share of a smaller pool of GST revenue will need to flow to Victoria, and away from NSW and Queensland, for fiscal capability to be equalised.

Based on the likely length and depth of its economic collapse, Victoria could gain as much as \$10bn in additional GST revenue between 2019-20 and 2022-23, despite total GST revenues shrinking by some \$14.3bn. Meanwhile, NSW and Queensland could lose up to \$9.1bn and \$3.3bn respectively to fund those transfers, with all of the smaller states facing falling GST revenues as well.

That there are no precedents in Australian history for fiscal redistributions of that magnitude scarcely needs to be said. And it also scarcely needs to be said that were the transfers necessitated by a catastrophe over which the Andrews government had no control — and which it was addressing sensibly and responsibly — the payments Victoria received would simply confirm the benefits of risk-sharing in a federation.

However, no one could claim that Victoria's woes are the consequence of acts of God; rather, their severity is the consequence of acts of Andrews, with Sunday's announcement — which was presented to the commonwealth as a *fait accompli* — once again highlighting the Premier's utter disregard for the broader costs of his decisions.

With so many of those costs being borne outside Victoria, it is readily understandable that Andrews does little to take them into account. Moreover, a glance at Queensland Premier Annastacia Palaszczuk and WA Premier Mark McGowan would show he is hardly alone in wanting to capture benefits but shed costs.

Alfred Deakin famously thought our system of federal finance, which gave the commonwealth control over revenues while placing spending responsibilities on the states, would bind the states to "the chariot

wheels of the central government". In practice, however, the warped incentives it creates are now tearing those wheels apart.

The underlying problem of our fiscal architecture, which has bedevilled Australian politics for more than a century, certainly won't be solved overnight. But if the federation is to be preserved, the Morrison government must replace the soft touch with some tough love.

Making Victoria take out as a loan a much greater share of the transfers it is receiving would be a good start. So would be freezing the process of fiscal equalisation, whose methodology the crisis has left in tatters. Ultimately, Andrews won't see reason until he is forced to fully bear the costs of the damage he wreaks. It's bad enough that the state has lost its way; we shouldn't fund it to lose its mind.