

Victoria

A State on the Move with the Ying and Yang

Mike Nahan

Anyone watching the 2006 Australian Open or the Commonwealth Games on TV would have been struck by a number of things about Victoria.

Melbourne appears vibrant and prosperous. And the Victorian Government has loaded itself up with a massive ad-buy, enough to flood the media with high-cost, glib promotions about the State—and itself.

Victoria has pulled out of the rust-belt condition it was mired in a little over a decade ago and is growing strongly. And now the Victorian Government has money to burn, which it is doing with enthusiasm.

During the 1990s, Victoria did more, and is now benefiting more than any other State, perhaps with the exception of Western Australia, from the economic reforms which swept the country in that era. The reforms introduced under the Kennett/Stockdale Government energized the State's economy, creating opportunities and jobs; giving people a reason to stay in or return to Victoria; and giving businesses the capacity to compete internationally. They also improved the quality and efficiency of government and provided long overdue infrastructure, particularly in transport and recreation.

As a result, over the last decade the Victorian economy has grown at a compound average annual growth of 3.9 per cent—slightly above the national average. Unemployment has declined to a 30-year low. There is net migration to the State and Victoria has attracted a disproportionate share of



private investment.

Although the reforms achieved their aim in terms of growth, they possessed a significant flaw in terms of distribution of the gains.

When it came to power, the Kennett Government raised a number of non-business taxes to aid in reducing the deficit. While it later reduced these tax increases and shaved a bit off other taxes, it kept the State's tax take high and did not undertake any major cuts or reforms.

The Howard Government did undertake wide-ranging tax reform, but this had a number of crucial design flaws with respect to the States. It was done with the overarching objective of 'revenue neutrality' and was calculated using excessively pessimistic, pre-reform growth expectations. As result, it underestimated the States' taxing capacities and allowed the States to keep too many legacy taxes in exchange for the GST. Compounding this, it gave the States all the GST revenue without the responsibility for raising it or being otherwise accountable.

As result, the Bracks Government not only inherited a fast-growing economy and a lean and efficient public sector, but a mean taxing machine. And it is reaping and spending its inheritance—in the process wasting much of the gains generated by the reform.

Since the Bracks Government came to power in 1999, State revenue has exceeded initial expectations by

\$17.7 billion. This translates into a 'reform bonus' equivalent to 16 per cent of its total revenue in each of its first six years.

This windfall has made for easy and sloppy government. It has allowed the Bracks Government to be all things to all people. It gave them the luxury of: spending big while appearing to be fiscally responsible; keeping taxes unchanged while reaping large tax windfalls; spending heavily on infrastructure without pushing debt up too high; allowing budgets and programme costs to blow-out without detrimental impact on the bottom line; and hiding behind the Commonwealth when it came to being accountable for GST revenue.

Many of the spending priorities of the Bracks Government have been appropriate, but have been carried out without an eye to achieving value for money.

The Bracks Government's top priority has been health. Since it came to power in 1999, public hospital budgets have increased by around \$3.5 billion—nearly 70 per cent. This has included over 5,000 additional nurses as well as a substantial increase in nurses' wages and a reduction in their workloads. The spending has also employed over 1,000 additional doctors. As a result, Victorian public hospitals now have the highest staffing levels in the country (except for the Northern Territory) and the total health expenditure per person in Victoria is now the highest in the country (also with the exception of the Northern Territory).

While the spending has increased the capacity of, and throughput in public hospitals, as well reduced waiting lists and ambulance by-pass, it has achieved this with the force of money, not reform. Indeed, if anything, structural reform of the state health sector has gone backwards over the last six years.

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The government has pursued similar programmes, albeit on a smaller scale, in the other front-line services. It has hired 6,000 additional teachers and school staff, and 1,500 more police—all on higher wage schedules. It has also spent heavily on additional schools, police infrastructure, court and justice facilities, and public transportation. The focus has been to increase capacity by spending rather than introducing measures to increase efficiency and effectiveness. Moreover, in each of the front-line areas, the focus has been on empowering service providers, rather than individuals. This huge influx of money has put the public sector cartels back in charge.

The Bracks Government has also followed a similar approach with infrastructure. It has used its reform bonus to ramp up public spending on infrastructure to record levels. Although much of the spending is on reasonable projects, the costs have been characteristically inflated by cost over-runs, delays and gold-plating.

If the Bracks Government had used its reform bonus solely to enhance the capacity of front-line services and infrastructure, it would be a passable outcome, particularly given the political difficulty of pursuing efficiency in a time of plenty.

But it hasn't used the bonus this carefully. It has greatly expanded the reach and cost of government and used the resources and machinery of government for its own political ends.

The Government's television and print advertisements brag about the additional number of teachers, nurses and police that it has put on the job. However, for every new front-line job, the Government has employed an additional one-and-a-half bureaucrats.

With the bureaucrats have come new functions, laws, regulations and intrusions. Unfortunately, and contrary to popular wisdom, bureaucrats do not sit around doing nothing, they work hard at expanding the role of the

state and, in Australia, they get very well paid for the task.

So far, the Bracks Government has enacted nearly 2,000 new Acts and sets of statutory regulations totalling 34,000 pages. This outpouring of regulation

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took place in the face of a commitment to reduce red tape and despite the active resistance of the Victorian Competition and Efficiency Commission (VCEC), which arguably is the most rigorous and independent regulation review body in the country. One can only imagine what would have transpired in the absence of the VCEC.

The growth in regulation and bureaucracy has taken place not so much in traditional areas of government such as crime prevention, but in its new frontiers such as the management of native vegetation, regulation of water use, the banning of agricultural biotechnology, the promotion of alternative energy, the regulation and oversight of occupation health and safety, health promotion, racial vilification, protection of outworkers, urban planning and protection of whistleblowers. Indeed, the Government has embraced the Nanny State and its new army of earnest minions are embracing and stifling Victorian business.

The Government has also elevated communication—or, less charitably, spin—to a new level. During this year and last, it will spend at least \$80 million 'informing' Victorians of the Government's policies. While the ads may contain profound social messages—such as 'don't sleep while driving' or 'workers play a role in workplace safety'—they are, in the main, political in content and designed to polish the image of the Bracks Government in the run-up to 2006 State election—all using taxpayers funds.

The communication strategy is not restricted to advertising. The Bracks Government has hired a team of over 850 communication specialists—at an annual cost of \$60 million—placed throughout the public sector to 'keep

the community informed'. In truth, their main function is to control the flow of information to the public in order to present their political masters in a good light.

To be fair, the Bracks Government has done nothing more than most governments would do if given the chance. It has grasped the money generated by the tax system it inherited and used it for its own political advantage. It has decided that it will get more support from its constituencies with targeted spending than by reducing taxes.

The Howard Government has so far followed a similar path. It is not unreasonable to suspect that the Kennett Government was planning to do the same.

The fiscal situation in Victoria again highlights the need for tax reform—not only as a focus of the overall reform process, but as a reform *driver*. Tax cuts should precede, not follow reform.

It also highlights the need to review the GST agreement. The existing arrangement is far too generous to the States, both in terms of funding and accountability. At the very least, the States should be forced to eliminate all capital transaction taxes, including those on housing as was the original intention.

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