Bushfires: Pennies on prevention could save the states millions

Henry Ergas 12:00AM January 13, 2020

The commonwealth took on the role of disaster 'insurer of last resort' after Cyclone Tracy struck Darwin in December 1974.

With the flames still raging, it is too early to tell how great the losses from this season's bushfires will be. Already now, however, the commonwealth government has pledged $2bn for a National Bushfire Recovery Agency, while the NSW government has announced an additional $1bn in recovery funding.

Vast as they are, the sums pale when set against the suffering of those affected. Nothing can compensate for the lives lost, nor fully offset the trauma of homes destroyed and businesses threatened with failure. That only makes it more important to reduce the likelihood of the harms recurring. Yet ever since the commonwealth took on the role of disaster "insurer of last resort" in the wake of Cyclone Tracy, it has struggled, and invariably failed, to get the balance right between prevention and cure.

To say that is not to suggest the commonwealth ought to abandon its responsibility to assist the states in coping with catastrophes which could be far costlier for them to shoulder on their own. What it does mean, however, is that the national Disaster Recovery Funding Arrangements, under which assistance is provided, need to be seriously reconsidered.

Nothing better highlights the problems than the pattern of spending. According to the Productivity Commission, over the period from 2002-03 to 2014-15, the commonwealth spent less than 5c mitigating the risk of disasters for every dollar it spent on rebuilding after they had struck. And while mitigation expenditure has increased slightly since then, the overall proportions have barely changed.

Nor do the states, which control most of the levers that affect vulnerability to the main hazards, have incentives to right the balance.

No doubt, being exposed to disasters is not in their interest. But the pay-off from investing in risk reduction is invariably long term. Moreover, the lives that are not lost to disasters and the homes that are not destroyed are far less tangible to voters than the school halls and hospital wings which can be built by skimping on mitigation.

That so many mitigation measures — from risk-reflective emergency services levies to clearing native vegetation — are politically contentious then compounds the pressures to underinvest.

It is true that the national agreements require the states to have risk-reduction strategies in place. There is, however, no evidence of the commonwealth penalising states that fail to reduce risks that could cost-effectively have been avoided.

Flood damage is a case in point. After severe flooding hit areas near

Sydney in the mid-1950s, the state government acted to protect existing urban developments from inundations while at the same time making it more difficult to develop flood-liable land for urban purposes. In subsequent decades, it spent almost four times more on controlling flood risks than Queensland, which was every bit as vulnerable but for many years lacked any formal floodplain management plan.

However, Queensland's negligence didn't prevent it from receiving growing federal relief and recovery funds, culminating in the massive payments made after the 2010-11 floods.

Indeed, far from rewarding mitigation efforts, the funding arrangements seem designed to discourage them. For example, although the commonwealth provides $3 in funding for each $1 the states spend on recovering from major disasters, it only matches mitigation outlays dollar-for- dollar, and makes the mitigation payments harder to access.

The bias that creates is then accentuated by the system for the allocation of GST revenues between the states. While that system's complexities make Schrodinger's wave equation look like child's play, the special provisions which apply to disasters basically ensure that the costs the states incur in relief and recovery are pooled, so that each state ultimately covers a share of those costs that reflects its share of the Australian population.

Once the Heath Robinson machine of "horizontal fiscal equalisation" has fully done its work, the $1bn Gladys Berejiklian recently announced could therefore end up costing the state's taxpayers half that, with the rest being borne mainly by taxpayers in Queensland and Western Australia, which have largely escaped this year's disasters.

In practice, however, expenditure on risk-reduction is not redistributed to anywhere near the same extent. On the contrary, a state which greatly outspent its counterparts on mitigation would likely end up bearing almost all the costs it had incurred, even though much of the longer-term fiscal benefit would go to other states.

Faced with those facts, the states deny they would be so venal as to allow money to affect their decisions on matters of life and death. Perhaps, but this seems an instance where the outcomes, which recur with depressing regularity, speak for themselves.

It is consequently high time the commonwealth acted as a prudent insurer, linking its disbursements to credible risk-reduction strategies in each affected area. Even within the constraints of the present arrangements, it has plenty of scope to insist on properly tested mitigation plans and to claw back outlays if the states renege on their commitments.

Every bit as importantly, it needs to begin the process of reshaping those arrangements so as to make the future safer than the past. Asking the Productivity Commission to urgently update its 2015 review of natural disaster funding would be an excellent start.

How the states would react is hard to say. What is certain is that a renewed emphasis on genuine risk-reduction will not satisfy the Greens, whose idea of mitigation involves making sacrificial offerings of penance to the gods of decarbonisation who, like Jove, may prove fickle, narcissistic and impossible to please.

But as Australia Day approaches, perhaps we could learn a lesson from the past. In March 1819, after floods had swept through the Hawkesbury River catchment near Sydney, governor Lachlan Macquarie issued an order to be read in every church and chapel for the three ensuing Sundays.

It was, the order declared, the new settlers' "wilful and wayward Habit of placing their Residences within the Reach of the Flood" that had caused "the deplorable losses which have been sustained within the last few years" — losses which "might have been in great Measure averted" had regulations limiting the area of settlement been respected.

Macquarie didn't demand that the settlers recant their sins, as would have been common in the previous century. Nor did he offer to compensate them for the losses they had incurred, as became common in the century after his own.

Rather, very much in the spirit of the Enlightenment, he told them to mitigate risk by rationally controlling their exposure to that "impetuous element which it is not for Man to contend with".

Two hundred years later, as disaster once again devastates families and communities, Australia should at long last heed his call.