

THE AUSTRALIAN

Tough love needed in the lands of the begging bowl

HENRY ERGAS THE AUSTRALIAN MARCH 17, 2014 12:00AM

FEAR was all Labor offered voters in Tasmania and South Australia: fear of “cuts”, fear for jobs, fear of change. The mixed outcome, which could see Jay Weatherill cling to power, may convince the party of that message’s potency; but it is neither a credible basis for rebuilding Labor federally nor a viable answer to the profound difficulties Tasmania and SA face.

All the indicators show it: these states have fallen ever further behind. In 1992-93, per capita incomes in Tasmania and SA were 17 per cent lower than in the four larger states; by 2012-13, the gap had more than doubled, reaching 35 per cent. Their populations were ageing and barely growing; and with total hours worked increasing, over the period from 1978 to 2013, by just 29 per cent, compared to 77 per cent for the Australian economy as a whole, their unemployment rates have been stubbornly high.

With poor performance has come growing dependence on federal largesse. In the bigger states, 42 per cent of government revenues are from commonwealth grants; but grants account for 50 per cent of government revenues in SA and for fully 62 per cent in Tasmania. And as transfers have risen, so has reliance on redistribution from other states: SA and Tasmania have received \$20 billion more in GST payments than they would have had the tax’s proceeds been allocated solely on the basis of the states’ populations. But the assistance SA and Tasmania receive goes well beyond explicit transfers.

With federal parliamentary over-representation their most valuable asset (and one that becomes more pronounced as underperformance shrinks their population share), both states have been adept at extracting myriad benefits at taxpayers’ expense. The result is multi-billion-dollar fiascos that include the Collins submarine and Air Warfare Destroyer projects in SA, and the bungled deployment of the National Broadband Network in Tasmania.

Yet by far the most harmful effect of the subsidies has been to perpetuate incompetent state governments. With other taxpayers picking up the tab for poorly judged policies, the need for painful adjustment has been disguised and denied; instead, political self-indulgence has been the order of the day.

Nowhere is that clearer than in Tasmania. Whatever its defects, the Labor Party that came to office in 1934 and that under three premiers — Albert Ogilvie, Robert Cosgrove and Eric Reece — won 10 elections in a row, stood for one thing and one thing only: economic development. Yes, the Labor premiers gave the Hydro-Electric Commission powers it all too readily abused; but they knew that Tasmania had only ever prospered by making full use of its natural resources.

That in no way deterred them from seeking federal government assistance. On the contrary, Ogilvie was instrumental in convincing that other Tasmanian, prime minister Joe Lyons, to establish the Commonwealth Grants Commission in 1933; and it was yet another Tasmanian, the economist and one-time Labor MLA L.F. Giblin, who devised the formula the commission adopted to allow each state “by reasonable effort to function at a standard not appreciably below that of other states”.

But the transfers the CGC could provide were relatively small, and it insisted support only be available to states that were “economical in administration, sparing in social services and severe in taxation”.

Federal assistance therefore did little to blunt the pressure on “claimant states” to grow, as each jurisdiction’s prosperity depended largely on its own hard work.

Little wonder then that state Labor was so determined to exploit Tasmania’s growth opportunities, with its leaders boasting the island was “no place for those with soft hands”. And little wonder too that determination became ever weaker as federal transfers doubled, in real terms, from 1995-96 to 2013-14, weakening the link between living standards and the efforts the state made. Instead, faced with competition from the Greens, Labor could afford to stymie resource development, counting on external subsidies to underwrite public spending that, as a share of Gross State Product, has been 40 per cent above the Australian states’ average.

No doubt, Tasmania’s new Liberal government will seek to turn that situation around, including by scrapping Labor’s forestry agreement. And no doubt Tony Abbott will want to help that change occur, while hoping that SA follows in Tasmania’s path. But as with other forms of welfare, by far the best assistance he can provide is tough love.

After all, on current projections, commonwealth spending is set to rise by nearly a third over the next decade, causing an unprecedentedly long run of budget deficits. Slashing the \$50bn in non-GST transfers to the states, while providing them with opportunities to raise revenues for themselves, would both restore fiscal discipline and sharpen state governments’ accountability for their performance. And that cut should be accompanied by reforms to the rules that distribute GST revenues between the states: rules that currently punish Western Australia for promoting the growth of its resource industries, while rewarding SA and Tasmania for concessions to the Greens that lock their resources away.

Unfortunately, Labor is likely to oppose these changes, and to do so all the more vigorously if its skilful tactics in marginal seats secure it a walking afterlife in SA. Lara Giddings’s concession speech highlights the party’s capacity for self-delusion, just as did Kevin Rudd’s; yet these are simply the symptoms of an intellectual armoury that is entirely barren.

Appealing to nothing, least of all reason, fear seems to be the only economic policy Labor has left: but no matter how tactically successful it may be in the short term, fear is no answer to Australia’s challenges. If it believes otherwise, the party will not merely have lost its way but its mind.

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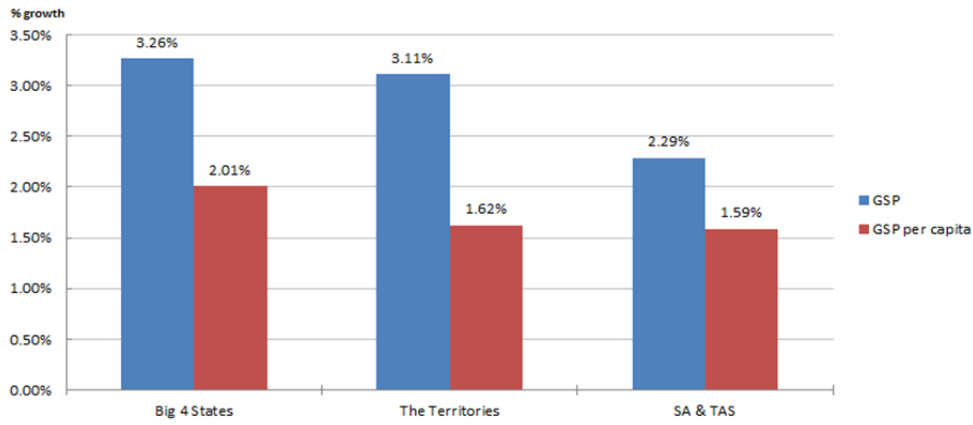
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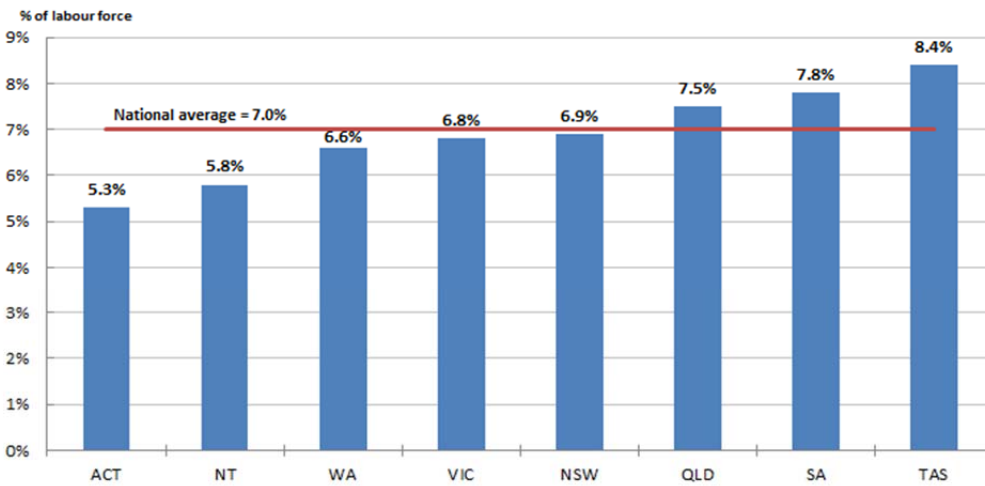
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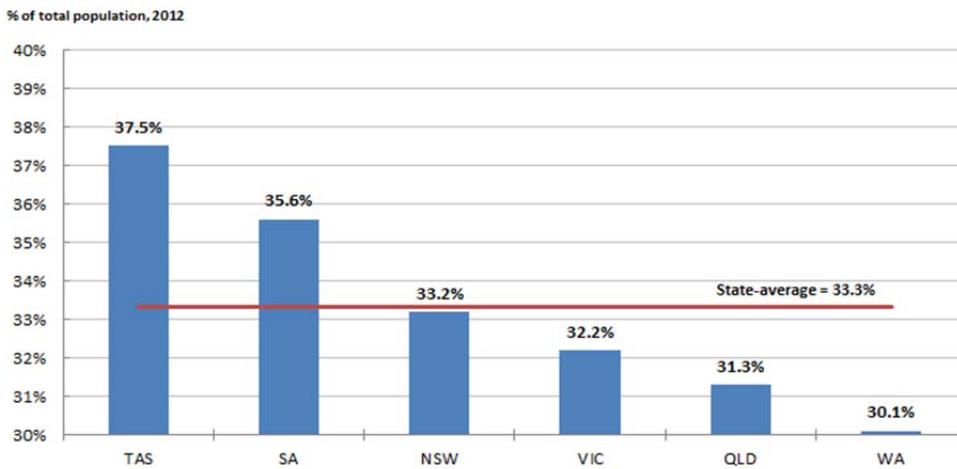
Title: Average annual growth in Gross State Product (GSP) and GSP per person since the 1990 recession



Title: Average monthly unemployment rate, by state (1978-2014)



Title: Proportion of population over 50 years, by State (2012)



Source (all charts): Australian Bureau of Statistics