

FINANCIAL REVIEW

Exclusive

Victoria lags after decade of decline



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Victorians under the Andrews Labor government have become poorer than all other states and territories except South Australia, after years of weak household incomes, deteriorating economic growth per person and poor productivity, a devastating new analysis by leading economist Saul Eslake reveals.

The state's decline over the past decade has been “covered up” by record numbers of interstate and overseas migrants propping up economic growth, a strategy [upended by repeated lockdowns](#) and international border closures during COVID-19.



Victorian Premier Daniel Andrews and current acting Premier James Merlino have presided over a decline in economic fortunes for the state. **Penny Stephens**

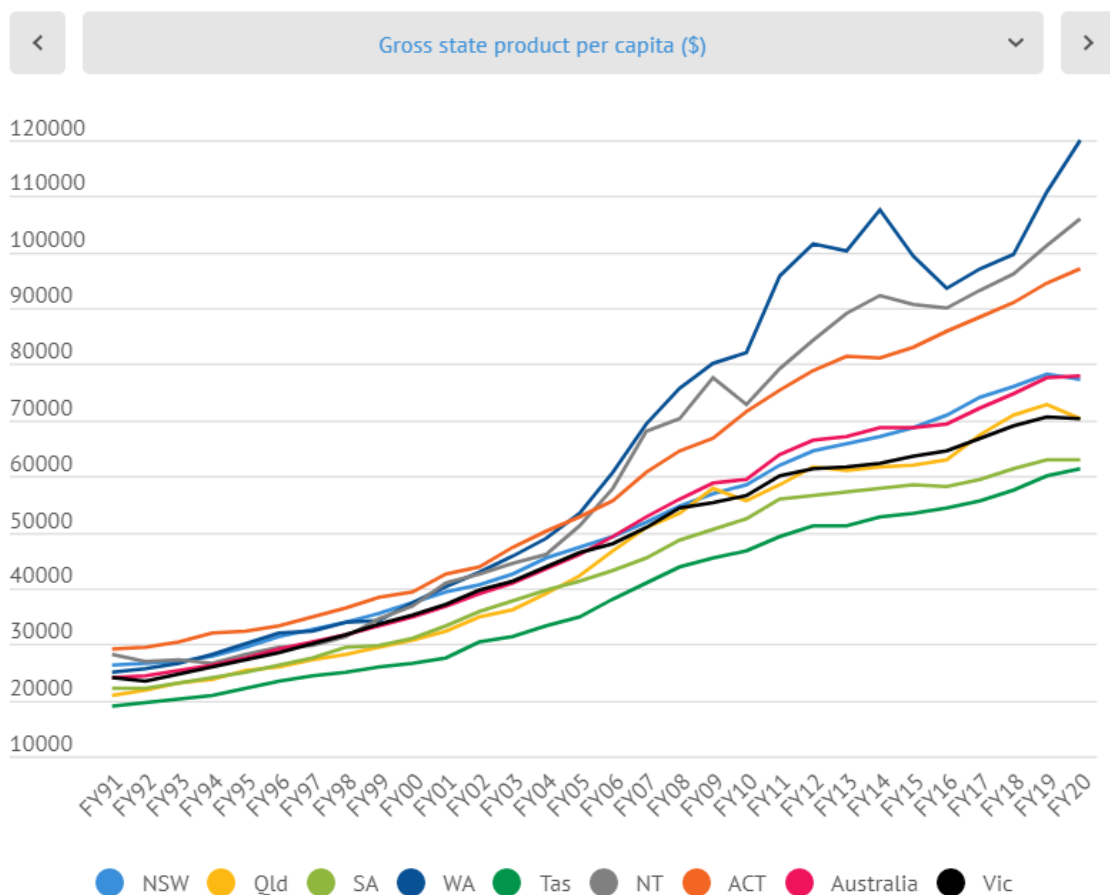
Economic growth per person and household disposable incomes per head, both key measures of people's living standards, expose how Victoria has gone from standout performer at the start of this century to a national laggard.

Victoria had the second-lowest household disposable income per person out of the eight states and territories in 2019-20, before its repeated stop-start lockdowns since last July.

Household disposable income per person in Victoria was \$48,107, more than \$3200 below the national average of \$51,394, according to Mr Eslake's analysis of Australian Bureau of Statistics data. NSW's household disposable income per head was more than \$5300 higher than Victoria.

The analysis marks a major deterioration for Victoria from 20 years ago when it had the third-highest household disposable income per head in 2000-01, soon after Labor premier Steve Bracks took over from Liberal premier Jeff Kennett.

"Victoria has become a relatively poor state," Mr Eslake said. "It is ahead only of SA and, amazingly, less even than in Tasmania."



SOURCE: ABS, SAUL ESLAKE

Economic output per person has declined from 1 per cent above the national average in 1999-2000, to 9.6 per cent below the average of the states and territories in 2019-20 – more than \$7000 a person below the national average.

“Victoria’s per capita growth over the past decade has been less than half the national average and over the past 20 years Victoria’s per capita GSP [gross state product] has gone from over 100 per cent of the national average to almost 10 per cent below the national average,” Mr Eslake said.

The former ANZ chief economist said after 18 years of competent government by Liberal premier Jeff Kennett in the 1990s and Labor premiers Steve Bracks and John Brumby until 2010, Victoria had been let down by successive Liberal and Labor governments for the past decade.

“It started to go off the rails under the ‘do nothing’ government of Napthine and Baillieu,” Mr Eslake said.

“Andrews initially was a reasonably competent government on economics, continuing on from Bracks and Brumby, running operating budget surpluses and using the strong balance sheet to invest more in infrastructure.”

But Mr Eslake was scathing of the deterioration in the Andrews government in more recent years, including its mishandling of hotel quarantine and contact tracing, and running a “police state” that imposed financial fines at almost twice the rate of other states.

“Victoria has done itself severe damage by its incompetent handling of the pandemic,” Mr Eslake said.

Population dependence

Over the past decade, Victoria relied more than other states on a growing population to drive economic growth and housing construction, both via interstate migration and migrants from overseas such as international students.

Melbourne-based Stephen Anthony, chief economist at Macroeconomics and a former federal Treasury official, said Victoria had run a [population “Ponzi scheme”](#).

Mr Anthony, a former economist for industry superannuation, said Victoria’s long-term economic decline was both “profound” and “regrettable”.

“I would describe the pairings of Kennett/Stockdale and Bracks/Brumby as economically robust.

“Indeed, both pairings fostered and relied on strong public administration.

“Since then both policy outcomes and administration standards have deteriorated.”

For the two years before the pandemic, Victoria received 33 per cent of all overseas migrants compared with its national population share of 25 per cent.

“Victoria had been covering up its deteriorating performance in productivity and per capita growth by relying increasingly on population inflow,” Mr Eslake said.

More recently, Victoria’s population declined during the pandemic. The state lost 16,000 people in the September quarter last year during its three-month lockdown.

“The outlook for an economy that has come to depend disproportionately on population from overseas and the rest of Australia, is going to be much more challenging if people don’t want to move there or want to leave there,” Mr Eslake said.

“If population is growing at a weaker rate, then housing construction will be growing at a slower rate.”

Mr Eslake’s productivity calculations estimate that Victoria’s gross state product per hour worked was 9.8 per cent below the average of states and territories in 2019-20, a marked deterioration from 1.8 per cent below the average in 1999-2000.

“Productivity is the driver of per capita incomes so the two are clearly linked,” he said.

Credit rating downgraded

Victoria [had its AAA credit rating stripped by both Moody’s Investors Service and S&P Global Ratings](#) in response to its deteriorating fiscal position during COVID-19.

The state government’s budget on May 20 included a \$5 billion increase in taxes, including from property stamp duties and other land taxes and a payroll tax hike

on large employers that was called a “mental health levy” to help deal with depression and other mental health problems in the wake of COVID-19.

“Victorians will face more tax hikes than other states and territories because of their budget position,” Mr Eslake said.

Mr Eslake in 2016 wrote a report on housing affordability that was commissioned by Labor state treasurer Tim Pallas. It recommended broadening land tax and abolishing stamp duty.

Instead, Victoria increased stamp duty in last month’s state budget.

Bigger fines in ‘police state’

The “police state” of Victoria was also much more reliant on fines to raise revenue, making the police force a defacto state “tax office” for the state, Mr Eslake said.

Victoria raised an average of \$117 per person from fines over the five years to 2019-20, almost double the average for the other states and territories of \$60 and NSW’s of \$76.

That trend has been exacerbated during the pandemic, when Victoria has led the country in issuing fines for COVID-19 breaches, according to a separate analysis by *The Age*.

The state budget further [increased penalty and fines by 10 per cent](#).

Household disposable income per head in Victoria was \$48,107 in 2019-20, well below the national average of \$51,394. Household disposable income per head was \$53,435 in NSW.

Household disposable income is after taxes and welfare payments, and deducts mortgage interest costs.

Victoria’s per capita economic output of \$70,346 was 9.5 per cent below the average of other states and territories in 2019-20.