



# **Submission Inquiry into the Queensland Government's economic response to COVID-19 by Economics and Governance Committee**

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## Introduction

This submission is on behalf of the Australian Institute for Progress. We are an Australian think tank based in Queensland.

The COVID-19 pandemic has produced not just a health problem, but an economic one. The economic problem has been significantly exacerbated by the unconventional way the health aspects of the pandemic have been dealt with here and in most overseas countries.

Both health and economics policies are interrelated. For instance, poorer communities tend to have worse health outcomes than richer communities, and poorer citizens than richer citizens. If the health response makes the country poorer, and if the economic response compounds that, then overall health outcomes will be worse again than they might have been.

The health response to the pandemic has been affected by poor analysis based on incomplete, or faulty, data and models. Our understanding of it has also been dynamic as actual data has supplanted models and assumptions. This called for a dynamic health approach as well as an economic one. It also called for detailed and dynamic cost benefit analysis coupled with transparency.

Both the federal government and the state government's approaches were neither dynamic nor transparent, which has led to the adoption of health and economic measures which have been damaging to both the lives and livelihoods of Australians, and set precedents which, if repeated, will tend to destroy national wealth rather than grow it.

It is not possible to discuss the state government's economic response without discussing its health response. At the same time it should be noted that the economic role of the state government in this situation is limited, with most of the economic firepower resting with the federal government. This is counterbalanced by the fact that the state plays the primary role in health, with the federal government being mostly an onlooker.

## The health response to COVID-19 as an economic response

We organised, and are one of 30 signatories, along with Professor Paul Frijters, a world authority on wellbeing economics, and other leading Australian academics, to an open letter to Australian heads of government advocating an immediate reopening of the economy. The letter is attached and these brief comments are based on it.

In February, the threat presented by COVID-19 appeared severe based on some early studies and modelling, particularly from organisations like Imperial College in London. On the basis of this, dire forecasts were made, including that in Australia we could see 150,000 deaths. Other better analysis became available, particularly from groups at Oxford University (Professor Gupta) and Stanford (Professor Ioannidis), which showed the potential fatalities to be grossly overstated.

So, while a lockdown, although unconventional, was understandable in the first place, as the severity of the disease was gradually understood to be closer to that of a very bad seasonal flu, such unconventional treatment could no longer be justified. In our letter we reference work showing that the loss of life directly and indirectly through the lockdowns was orders of magnitude larger than that saved. We are not the only group to have come to that conclusion, and the latest work bearing this out is in this paper "Living with COVID 19: Balancing costs against benefits in the face of the virus"<sup>i</sup>

So the most effective economic response of the state government would have been not to lock the state down and to pursue a conventional approach by isolating the vulnerable and tracking and isolating where possible, the contagious, combined with hygiene advice.

## How the health response could have been improved to help manage the economic response

To better manage the economic response the state needs to adopt a different approach to the health response so that there is a public appreciation of the risks and consequences, and of their evolution over time. We moved from “flattening the curve”, a strategy which accepted wide-spread infection, but spread over a sufficient period of time that the health system could cope with it, to an elimination strategy, without informing the public, or publicly assessing the cost.

If this extreme risk aversion policy is repeated every time there is a disease outbreak, we risk creating entrenched pockets of economic deprivation, particularly amongst the young. And this is not the last pandemic we will see with media just today reporting the possibility of a new Swine Flu epidemic starting in China now.<sup>ii</sup> We need to learn from this pandemic and plan not to repeat the mistakes next time.

Amongst the policies we suggest the state government should adopt are:

- No forecasting model can be used where the program code is not publicly available for analysis and download;
- A cost-benefit analysis, including lives saved versus lives lost, both directly and consequentially, based on the best available information, must be completed before any action is taken;
- Weekly or daily non-epidemic death figures should be posted as well as deaths from the epidemic;
- The types of people who must be part of the advisory group to government should be specified in writing, and be more inclusive than what we appear to have at the moment;
- No directive or regulation restricting individual rights can be promulgated without approval by Parliament within a one-month window.

## How the economic response could have been improved

The economic response also seems to have proceeded without a proper cost benefit analysis, and to be *ad hoc*, responding to political pressure rather than economic need.

We believe that any economic response by any government has to be calibrated to the actual need; be directed towards supporting individuals rather than businesses; equitable; add to economic growth; and improve, or at least not impair, economic resilience.

We also know that it is not possible to ensure that there are no losers, as the cost of doing this will exceed the productive capacity of the economy. Some degree of risk is unavoidable. Yet the various Australian governments, including Queensland's, have pretended that in some way everyone can win, and government has the resources to make this happen.

We also believe that the initial package should have been shorter term, allowing for it to be tailored as the real state of the pandemic became visible.

### Business Support

The business support consisted of a number of measures, some of which were targeted at businesses adversely affected by COVID, and others of which were generally available. When someone enters into business they intend to make a profit, which is the return they receive based on the return on their capital less all costs, which includes the risk in operating the business. Some risk is easy to predict and frequent, such as variations in interest rates, and other, like this pandemic are harder to predict, and infrequent.

So in the first place, it is business's responsibility to ensure they can survive whatever risk they encounter, foreseeable or not, frequent or infrequent. If they can't and they go out of business, that is the deal they did in order to be able to make a profit. If they are servicing a genuine need, then other businesses who are better situated, will take over that opportunity, and possibly the assets of the business that has failed. As we have seen with Virgin, they

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may even take over the business itself. This is how a capitalist system works. It might be brutal to shareholders, but ultimately it bestows more benefits on the whole community including workers.

Government interference in this process too often leads to favouritism, and bad businesses surviving and limiting the ability of good businesses to expand and grow. So businesses divert their resources from generating income and jobs to lobbying government, productivity growth stalls, and employment and wage growth with it.

Virtually none of the government's measures avoid these traps.

#### Payroll tax

The payroll tax concessions were skewed towards businesses that were small-to-medium, and affected by COVID-19. But many small businesses can cope better than larger businesses, and if businesses were affected by COVID-19, then that presumably would have decreased their payroll, either moving them out of the turnover where payroll tax is incurred, or reducing the tax paid. On top of that the federal government was providing the JobKeeper payment to help to maintain employees, which performed some of the same function as a payroll tax holiday.

#### Land tax

The land tax concessions were only for businesses where tenants had been affected by COVID-19. If land tax concessions were to be offered it should have been for all landlords, not just a subset. This intervention pays no heed to the ability of the tenant to pay, even if it is affected by COVID-19, nor does it put pressure on them to adapt. In part it was necessitated by the federal government's code of conduct requiring landlords to offer rent reductions to tenants. Anecdotally many landlords were already doing this on a voluntary basis, but after the code of conduct was adopted many tenants were demanding reductions when they were not justified. However, as an ameliorative measure this one makes some sense, and to a certain extent compensates for a distortion caused by the federal government.

#### Jobs support loan

If a business needs a loan to keep afloat it should be able to borrow from a bank or other financial institution. Governments who get involved in making commercial loans generally do it poorly and end up sustaining businesses that were not sustainable, losing taxpayers money in the process. As the approval rate on this scheme was 90% it must be either the case that most borrowers were good risks, and could have independently sourced finance from commercial sources, or it was a straight government handout available to those who joined the queue early enough. Either way it could not be a good scheme, and it also cuts across the payroll tax rebate, which at least was available to all eligible applicants, not just those who got to the head of the queue first.

#### Waiving liquor licencing fees

Given it was the state government that caused licensed premises to close, this would seem to be unavoidable and justified compensation.

#### Industry Support Package

This would appear to be the most invidious policy which breaks almost all of our criteria. The conditions for receiving the assistance are opaque, and the assistance goes to large companies that should be able to look after themselves, and where presumably the returns would attract new entrants if the old participants went out of business. This is likely to be a complete waste of taxpayers' money with a negative impact in the long run on growth and employment as well as wages.

#### Individual support

We see a much greater role for government in supporting individuals rather than businesses. Most of the design faults here are that the assistance is not properly targeted. While an individual may be directly affected by COVID-19 they may have a significant ability to bear that cost themselves. In general support should not go to people who do not meet the criteria for receiving social security. Queenslanders should be expected to meet their own costs from their own resources, unless they are in severe need, and be proud to do so. Giving all Queensland households a \$200 rebate means that some will receive far more than they need, and others won't get enough.

## Residential Rental Assistance

This is not mentioned in any of the government's media releases as an economic support measure, but it should be. The fact that the state government arbitrarily put this cost onto a discrete group in the community, rather than funding it through the budget, is a matter for shame. We produced a report on this which was emailed to each of you at the time, along with all of your colleagues.<sup>iii</sup>

## Increased debt means decreased growth

Apart from the poor policy design, and the economic inefficiencies that these measures introduce, the largest problem is the increase in the state debt. Queensland's debt is increasing, and before these measures will be \$90.7 billion in 22/23. While this might appear serviceable at the moment with current ultra-low interest rates, it still represents a wealth transfer from this generation to the next.

But interest rates will not always remain low. While the government may be able to currently borrow at less than 2%, this implies an inflation rate of approximately 0%. If inflation were to rise to a more normal 2 to 4 per cent, then interest repayments would double or treble (allowing a 2% return over inflation) which will require an above average growth rate in the economy.

The risk is that we are pulling growth from tomorrow into today, and spending it inefficiently by propping up vulnerable businesses that would probably have ceased trading anyway; squeezing out their superior competitors thus impairing productivity and decreasing jobs and wages; and that the return that will be required to make the repayments is higher than it appears at the moment because it will be made in the future when interest rates are higher, requiring higher hurdle rates.

We should also bear in mind that some of this debt is to be serviced from Government Owned Corporations, particularly power generators, when they are at risk of becoming stranded assets as a result of the move to renewable energy.

## What economic policies are available to the government?

There are economic policies available to the government which will support the economy as it comes out of the COVID coma. The best thing the government did during the COVID-19 crisis was to relax laws to allow shopping centres to restock 24/7. We need a more flexible economy which allows companies to do their work more efficiently, thus more productively, and allows them to expand.

A good place to start would be to review planning laws. Because of changes to the way we work and live it is highly likely that a significant amount of real estate will need to be repurposed because its current use has become redundant. This includes developments in tourist areas. There is also a lack of affordable housing which is mostly caused by constrained land supply. Relaxing planning laws will cure this.

Queensland also has a competitive advantage in mining, and increasing this by cutting unnecessary regulations will also increase employment and through royalties, directly enhance the state's income.

There will also be opportunities to take advantage of a more price-competitive environment to build or refurbish infrastructure, provided that infrastructure meets a cost benefit test and the hurdle rate is high enough to meet likely future borrowing costs. This will also require some cooperation from the federal government, as in many cases the majority of the financial benefit of these projects goes to them, rather than the states.

The state should also look at a more competitive tax structure. There will be opportunities to attract businesses from interstate, but also from overseas.

It also requires renegotiation of the Commonwealth Grants Commission guidelines which penalise states for being successful and entrepreneurial.

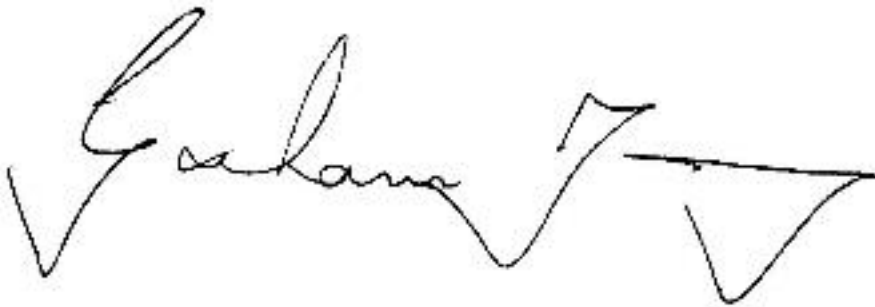
## Conclusion

It is a mistake to see health policy and economic policy as being separate. There is a clear link between them. On the one hand we are talking about lives, and on the other, livelihoods – you can't have one without the other.

State government economic policy has reacted to poor health policy in a way which worsens the impact on lives and livelihoods that it has. Just as we needed to change our focus as more facts become known about COVID-19, so we need to change our focus so that we can learn what we've learned to set the state up to recover from COVID and even benefit from it.

One lesson is that government central planning rarely meets the needs of the citizen when it tries to do more than lay down and police the rules that frame the economic game, or provide the infrastructure that allows it to be played. Individuals, and individual businesses can be trusted to negotiate, and to adjust their own circumstances, to survive and thrive.

Likewise, individuals and businesses are the best placed to gauge what health risks they will accept, provided they are given timely and accurate information. Being overly prescriptive might reduce their risk in one area, only to increase it unacceptably in another.

A handwritten signature in black ink, appearing to read 'Graham Young', with a stylized flourish at the end.

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<sup>i</sup> David Miles, Mike Stedman, Adrian Heald. Living with COVID 19: Balancing costs against benefits in the face of the virus. *Authorea*. June 17, 2020. <https://journal.sketchingscience.org/users/333926/articles/460021-living-with-covid-19-balancing-costs-against-benefits-in-the-face-of-the-virus>

<sup>ii</sup> "New swine flu with pandemic potential identified by China researchers" *The Guardian*. <https://www.theguardian.com/world/2020/jun/30/new-swine-flu-with-pandemic-potential-identified-by-china-researchers>

<sup>iii</sup> [https://aip.asn.au/wp-content/uploads/2020/04/Email\\_Rental\\_MLAs\\_20\\_04\\_21.pdf](https://aip.asn.au/wp-content/uploads/2020/04/Email_Rental_MLAs_20_04_21.pdf)