

# THE TASMANIAN ECONOMY – OPPORTUNITIES AND CHALLENGES

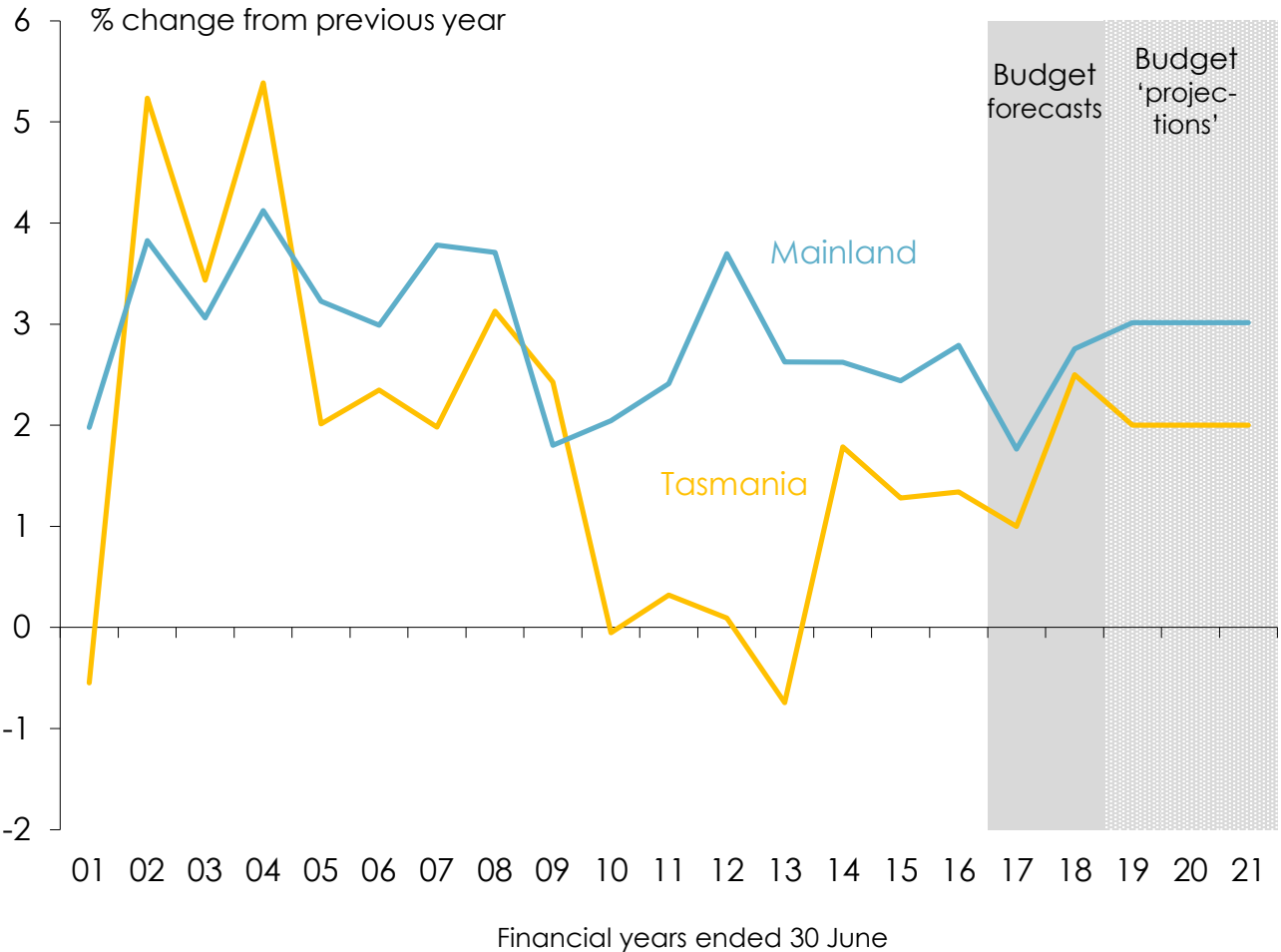
PRESENTATION TO LOCAL GOVERNMENT  
PROFESSIONALS TASMANIA CONFERENCE

C3 CONVENTION CENTRE, HOBART – 3<sup>RD</sup> NOVEMBER 2017

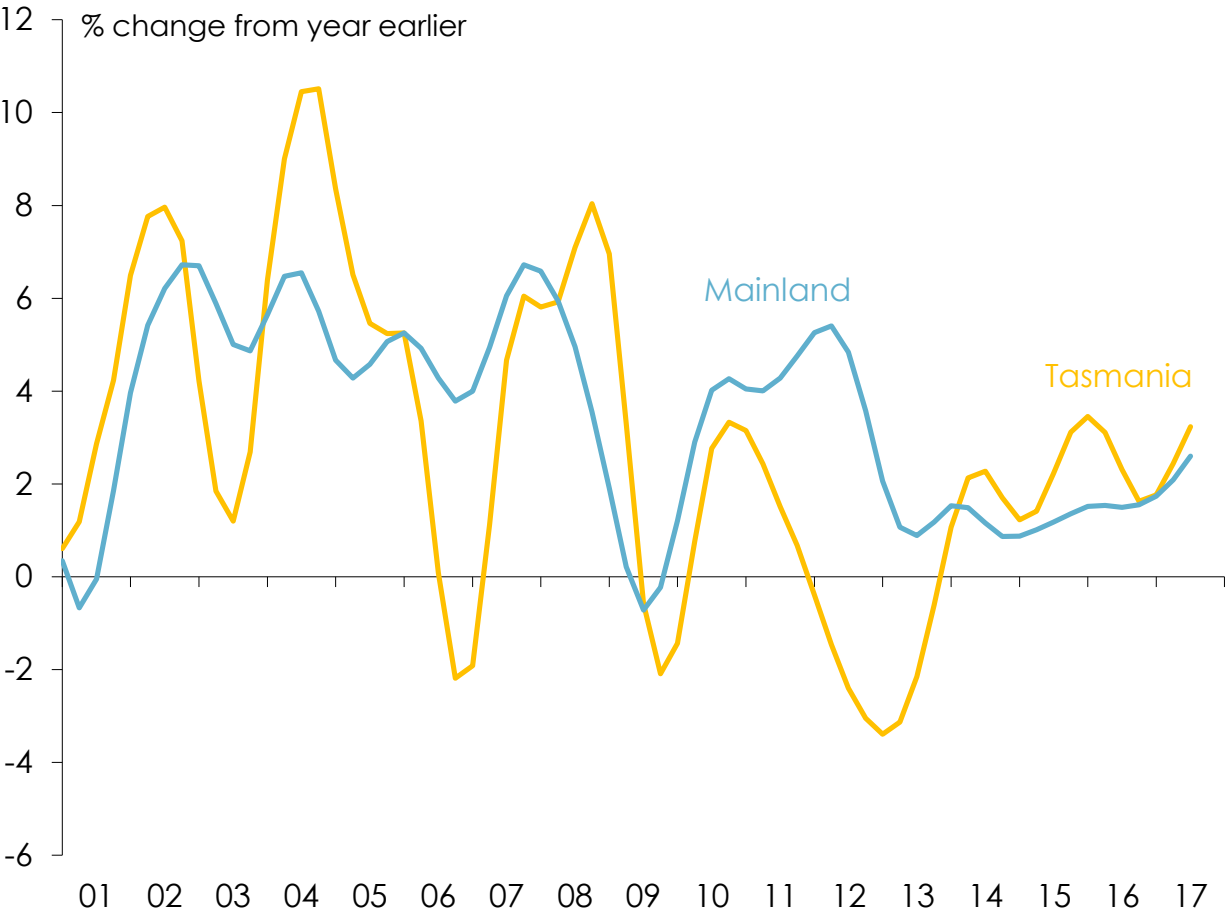
# Recent developments in the Tasmanian economy

# Broadest measures of economic activity suggest that Tasmania's economic recovery from the recession of 2010-13 is continuing

## Real gross State product



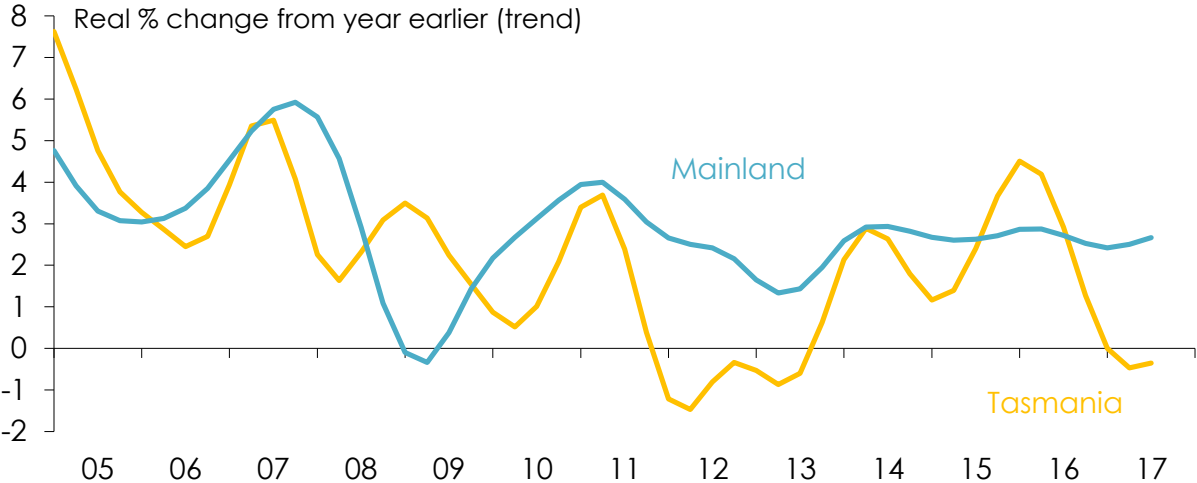
## Real State final demand



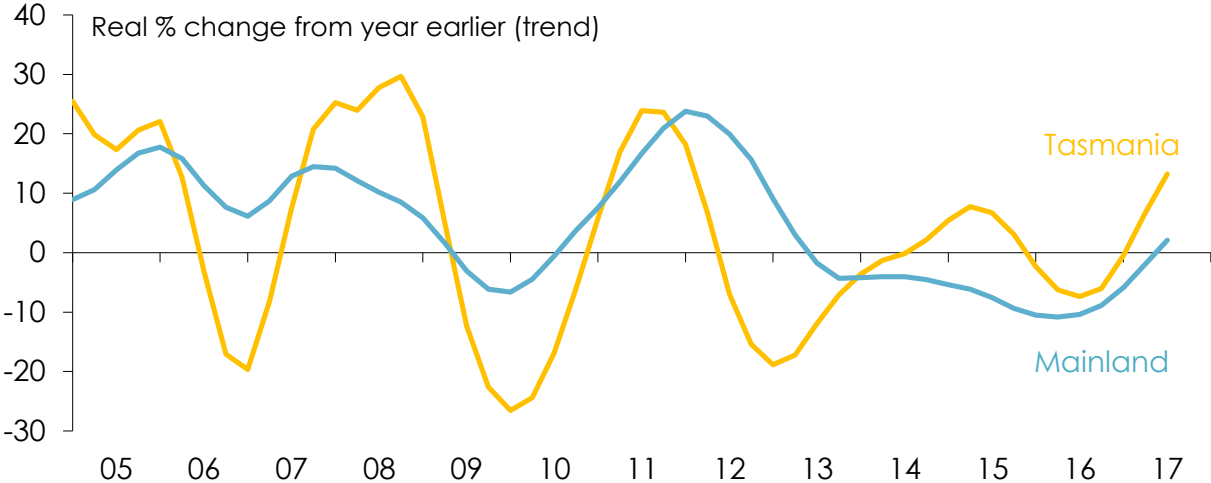
Note: 'State final demand' is the sum of spending by households, business and governments. It differs from gross State product by the sum of net interstate and international trade, and change in inventories. 'Trend' estimates are produced by 'smoothing noise from the seasonally adjusted estimates'; the ABS describes them as "the best source of information for forecasting or making decisions about what to do in the future".  
 Sources: ABS 5220.0 and 5206.0; Tasmanian and Commonwealth 2017-18 Budget Papers.

# Business investment is picking up in Tasmania while public spending is still growing strongly, but household spending has slowed

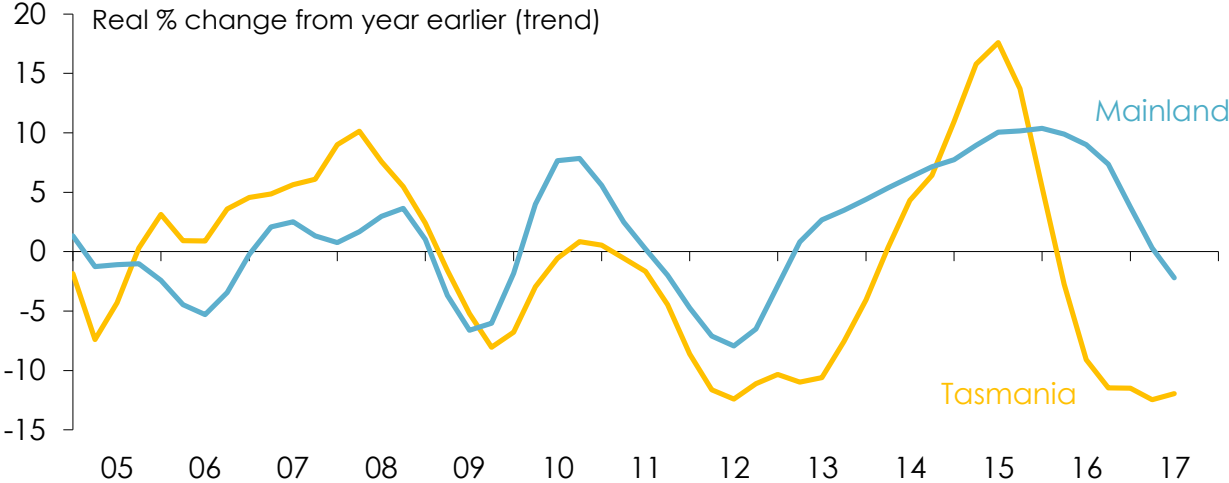
## Household consumption



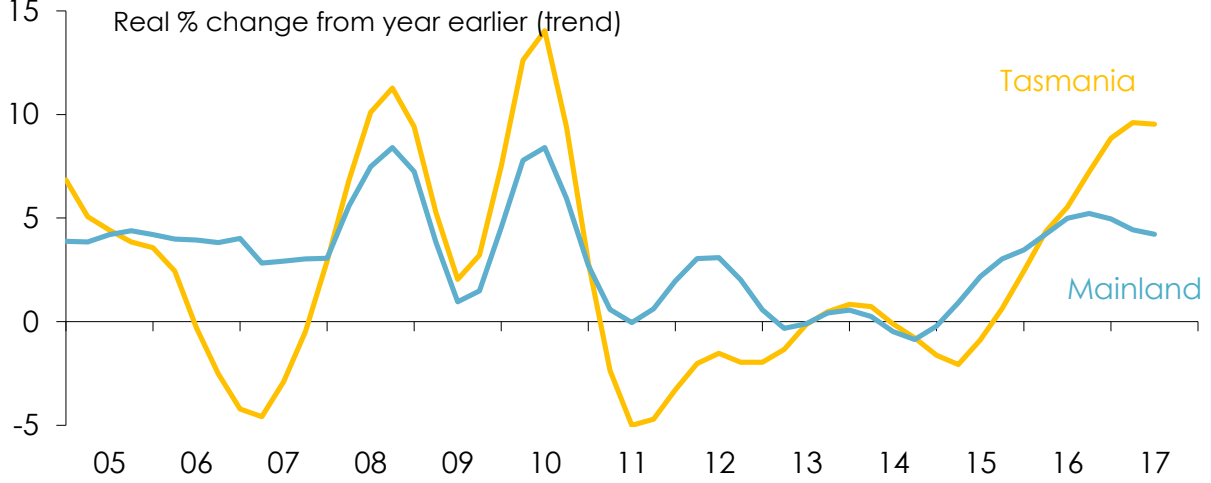
## Business investment



## Dwelling investment



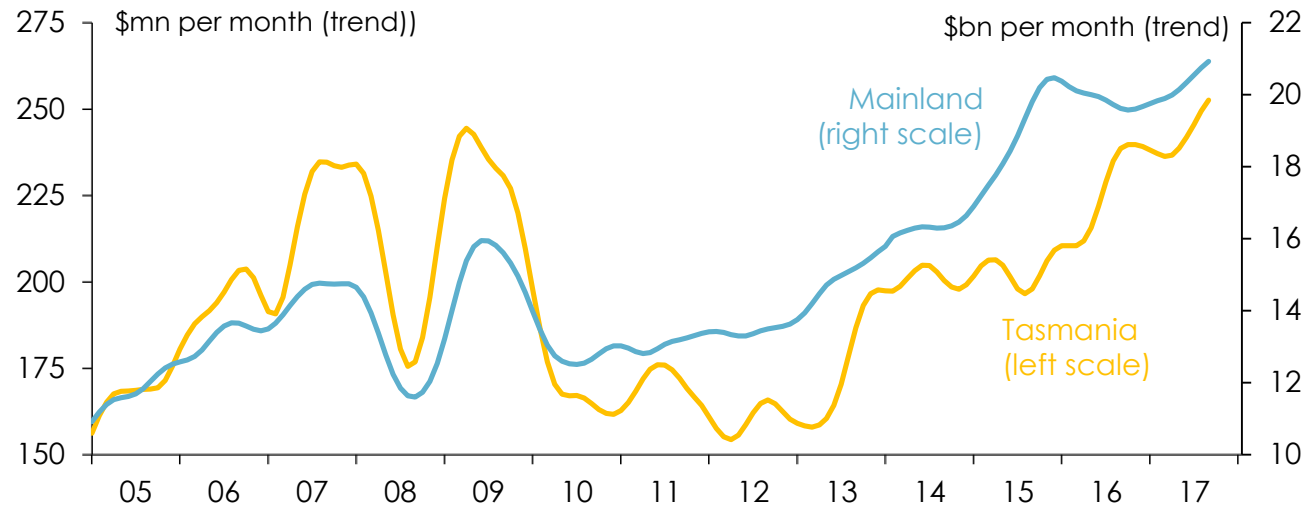
## Public sector spending



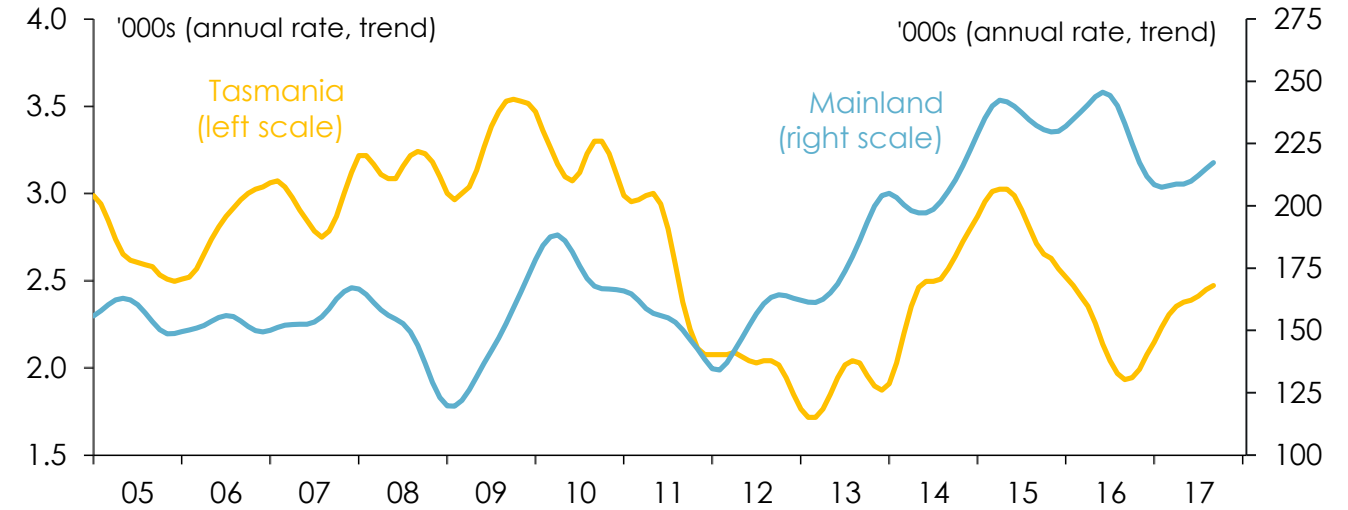
Source: ABS 5206.0.

# There are signs of an improvement in Tasmania's housing market, at a time when mainland capitals markets are close to or past their peaks

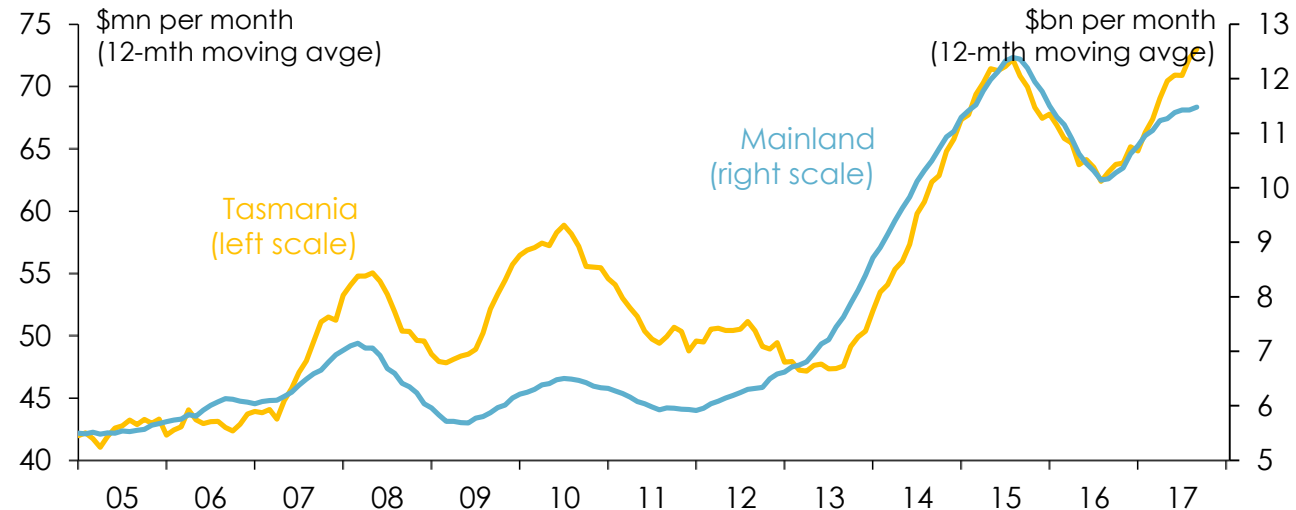
## Housing finance commitments – home-buyers



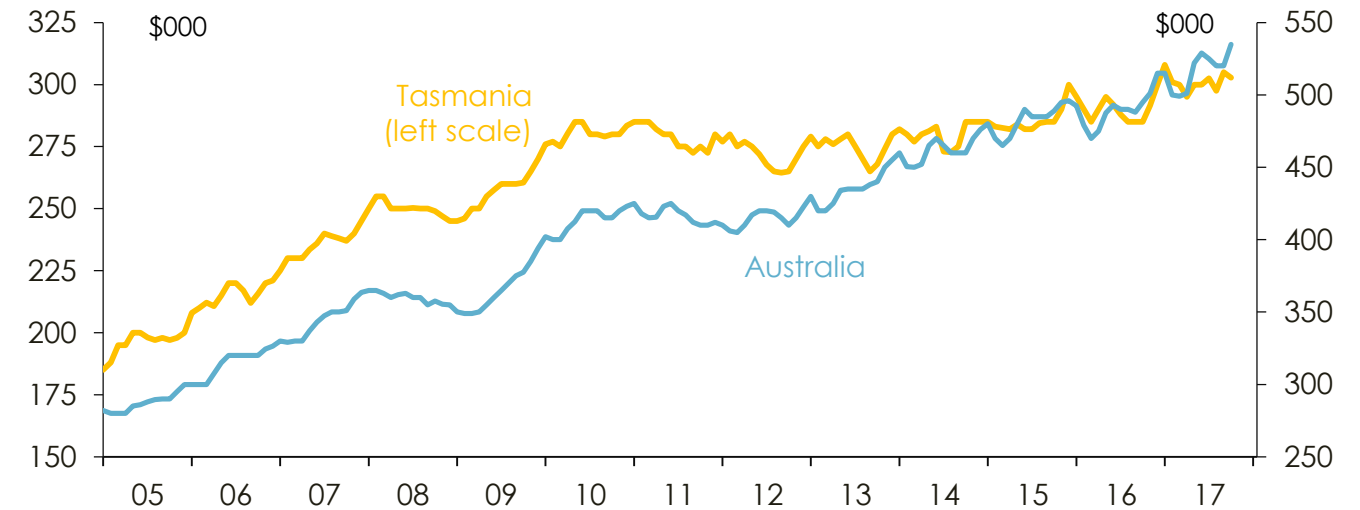
## Residential building approvals



## Housing finance commitments - investors

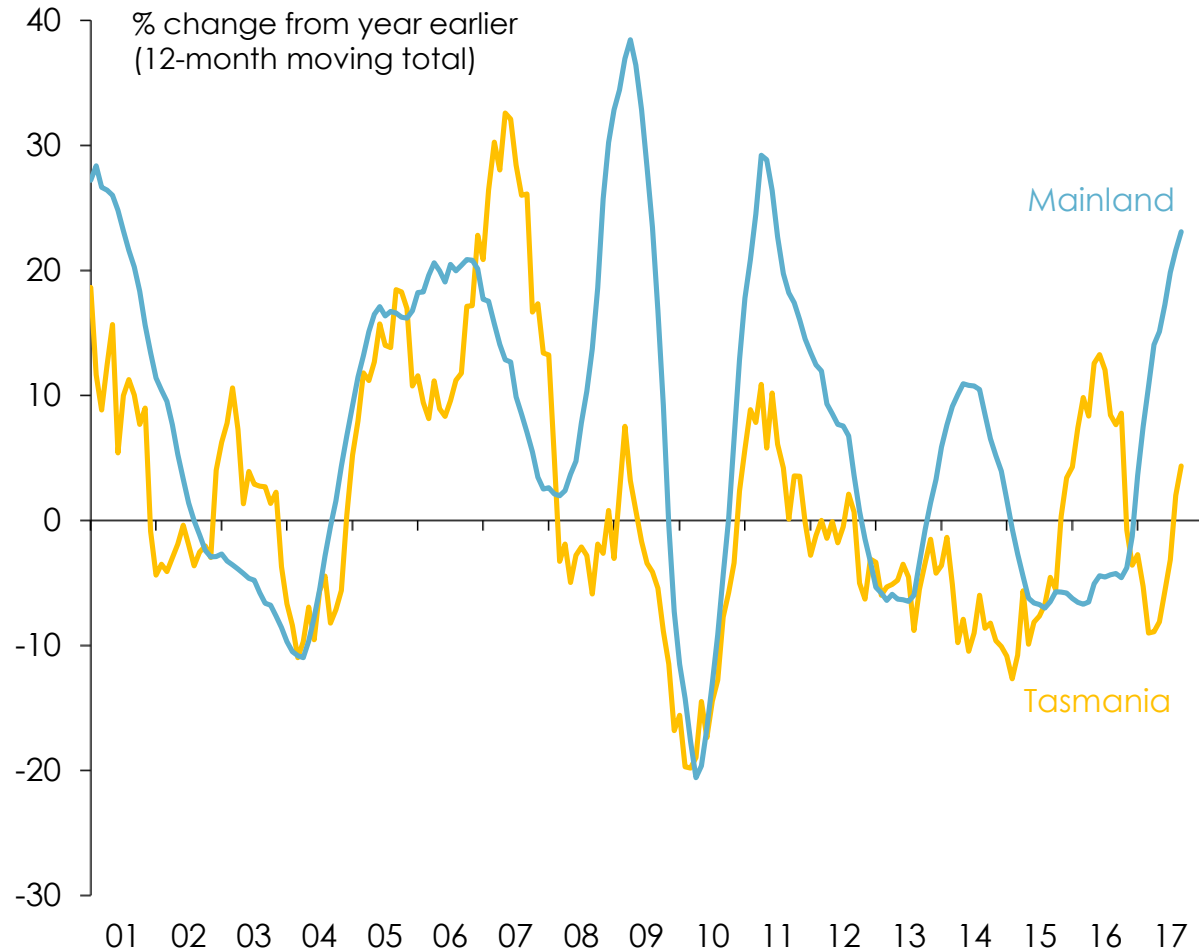


## Capital city house prices

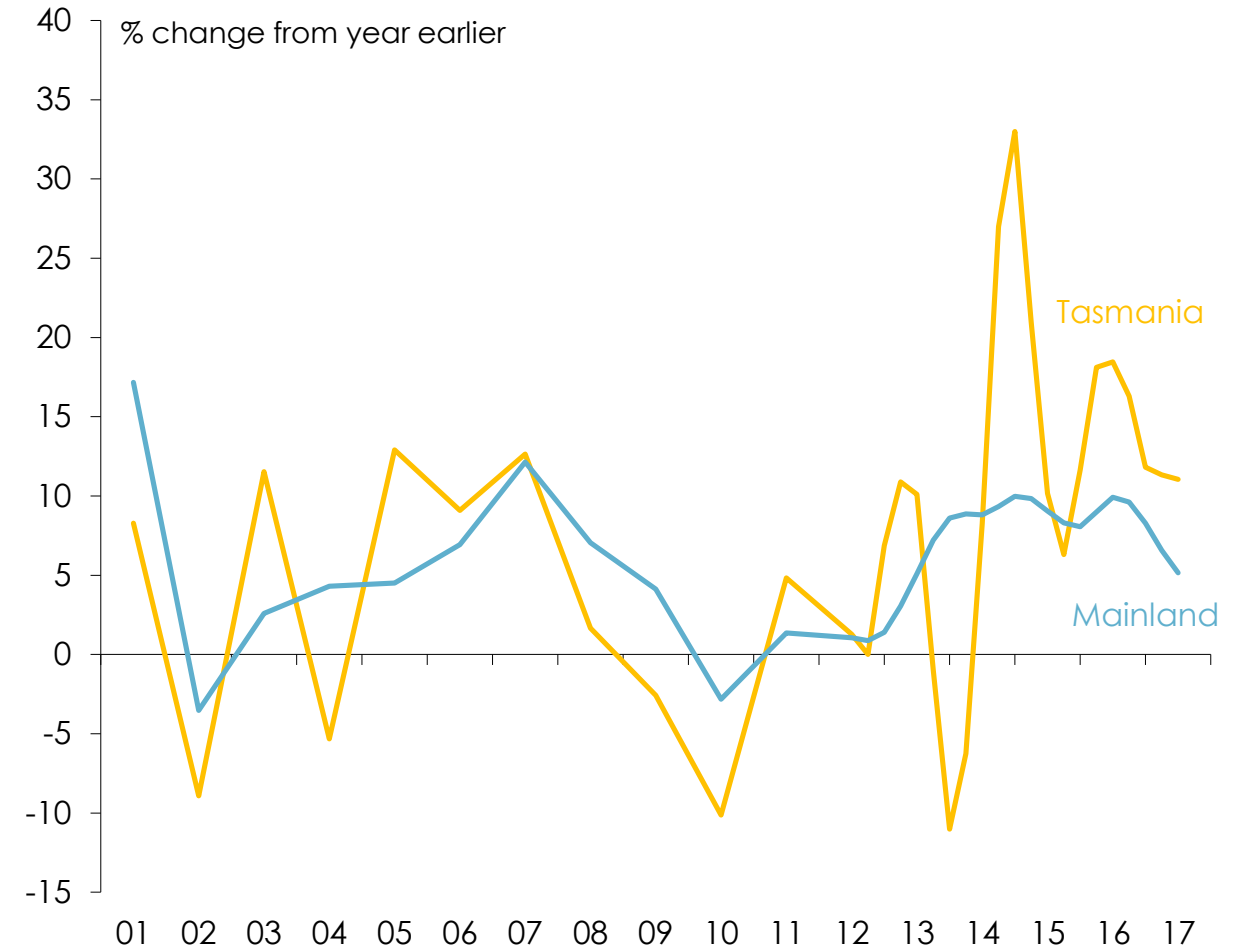


# Tasmania's goods exports have been hurt by lower prices for metals and meat over the past year, but services exports are doing well

## International exports of goods



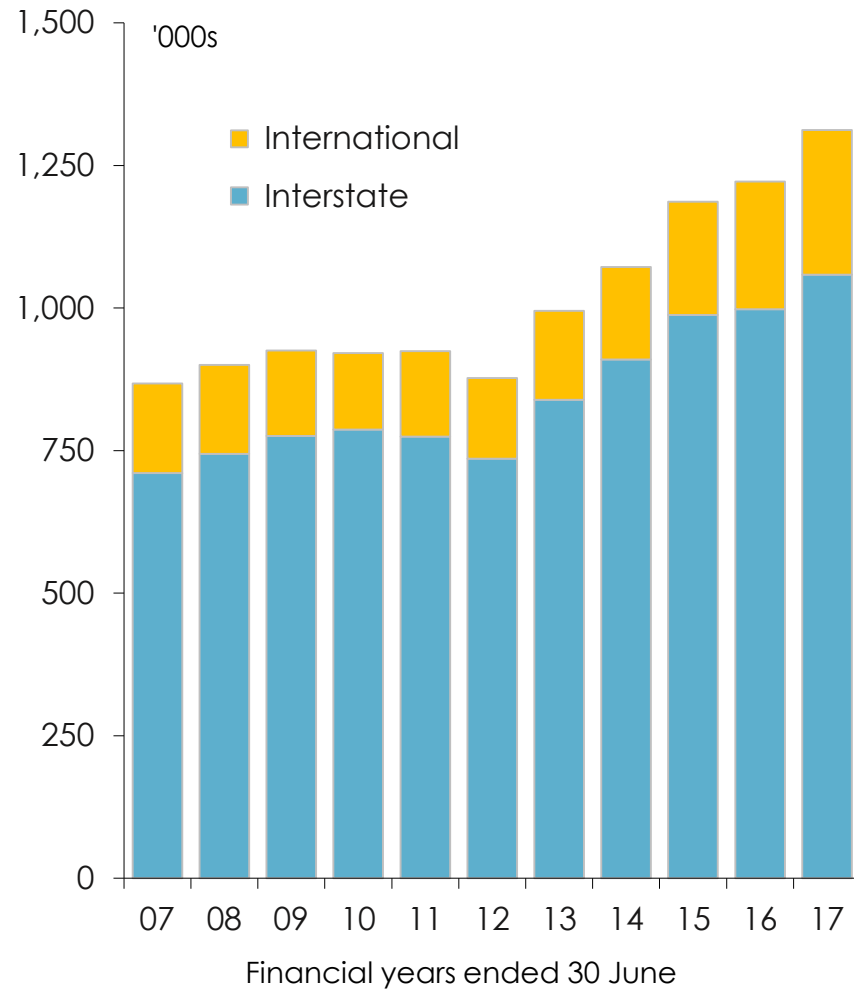
## International exports of services



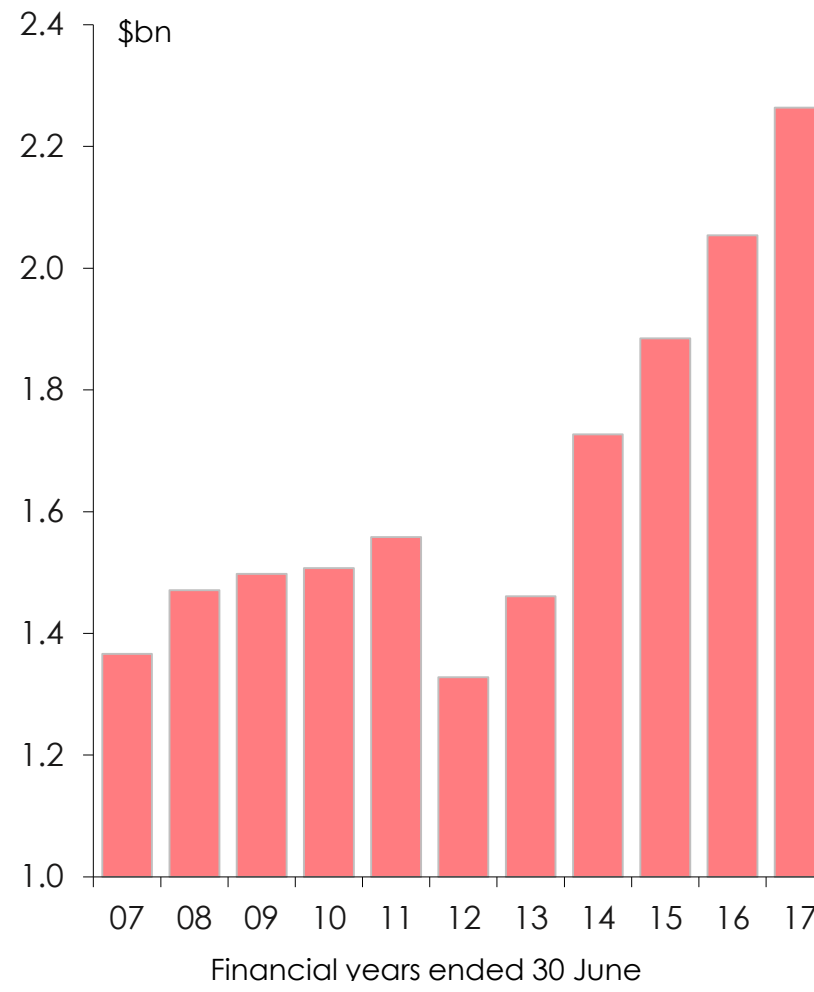
Note: Data are in current prices. Data for services exports are financial year totals until the September quarter of 2011.  
Sources: ABS 5368.0 and 5302.0.

# Tourism is a major driver of the growth in services exports

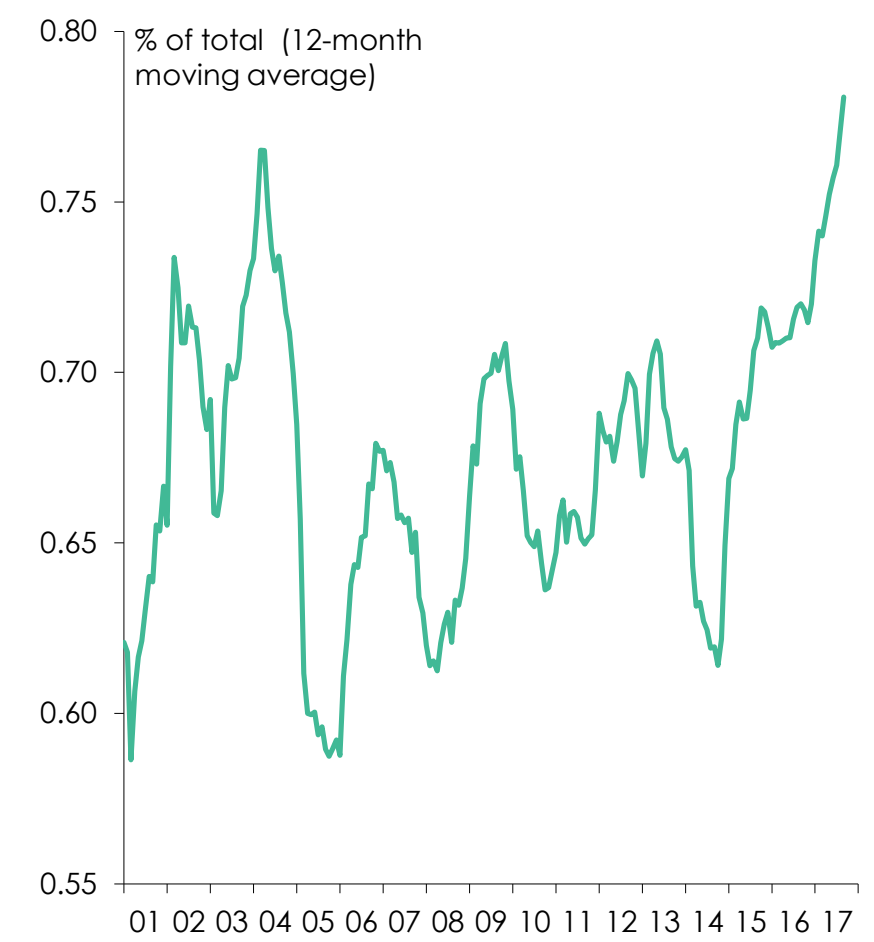
## Visitors to Tasmania



## Spending by visitors to Tasmania



## Tasmania's 'market share' of visitors to Australia

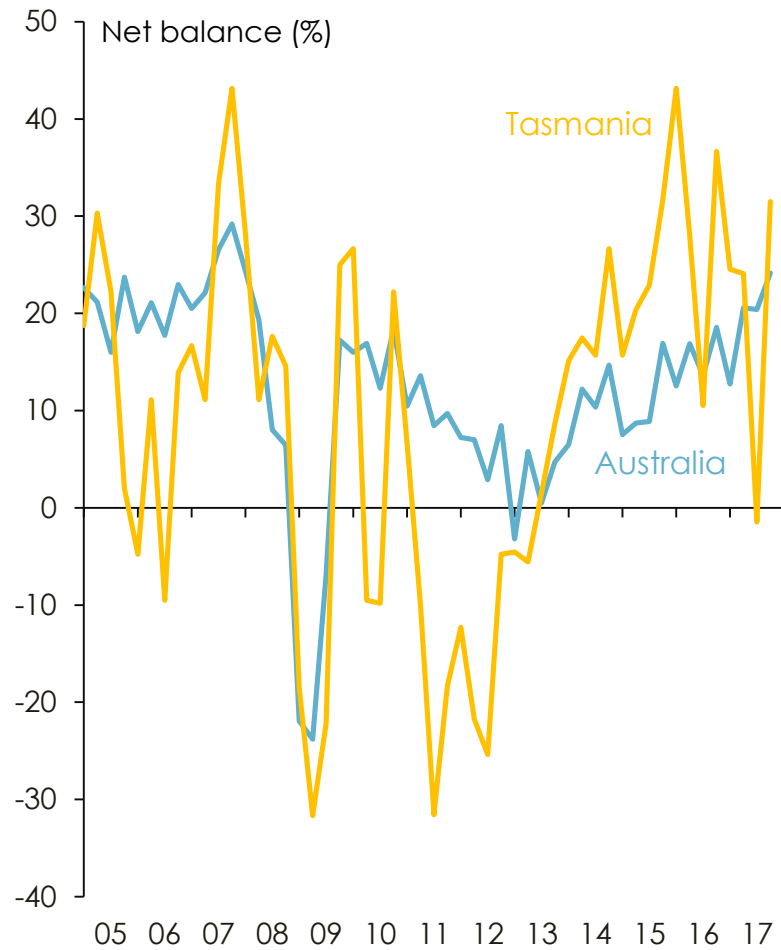


Note: 'Market share' figures based on 'intended address' given by overseas visitors on their arrival cards. It thus excludes overseas visitors who came to Tasmania but indicated an 'intended address' in another state or territory.

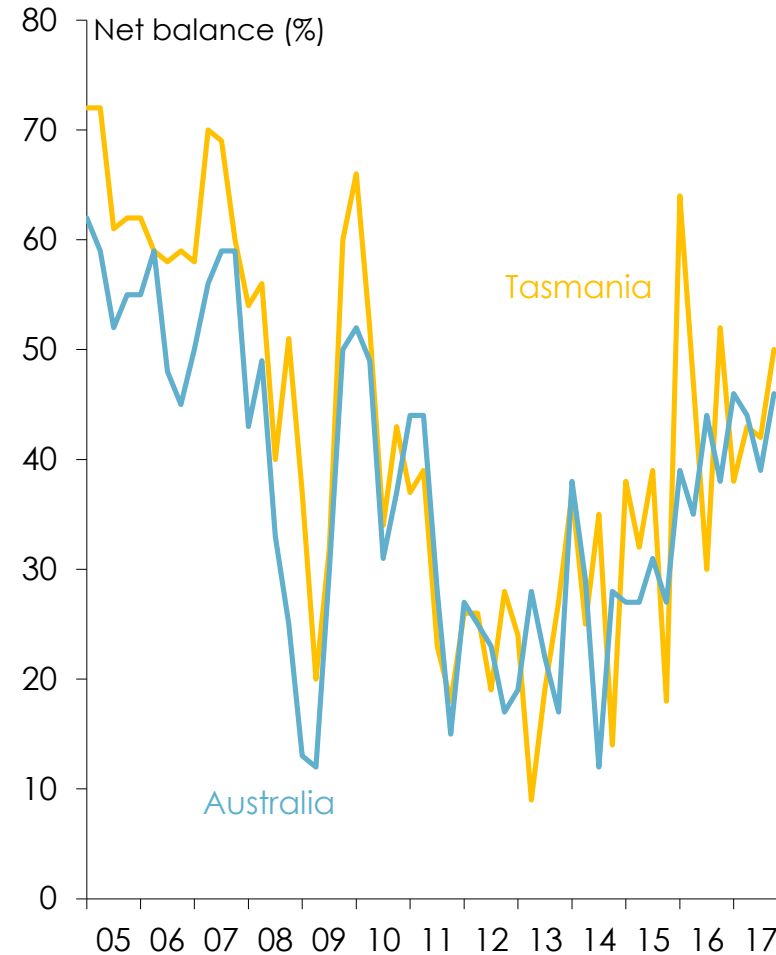
Sources: Tourism Tasmania Corporate; ABS 3401.0.

# Business confidence in Tasmania is at a high level – and the State Government can claim at least some of the credit for that

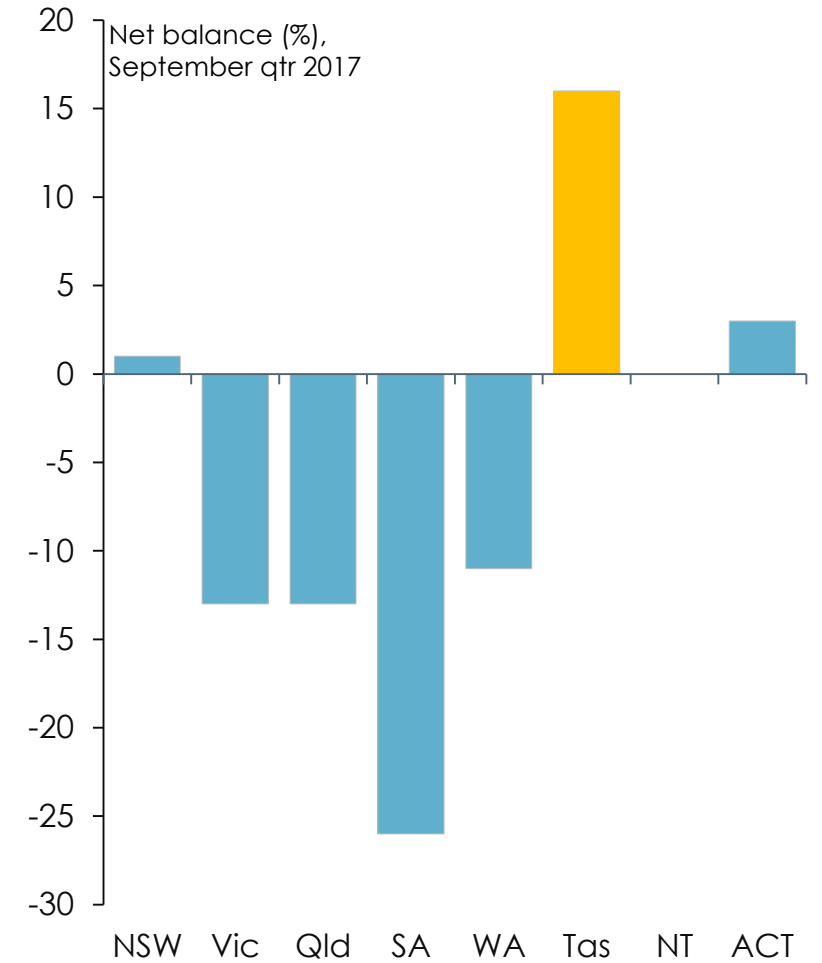
## NAB Survey expected business conditions



## Sensis SME Survey business confidence



## Approval of State/Territory government policies

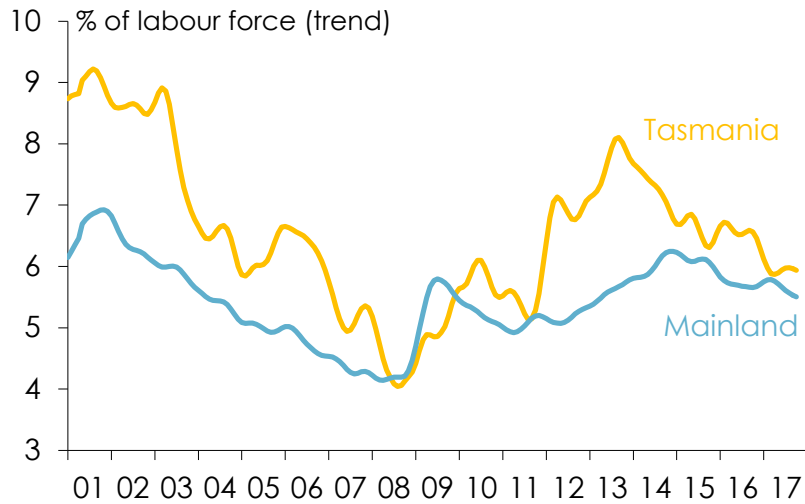


Sources: National Australia Bank; Sensis.

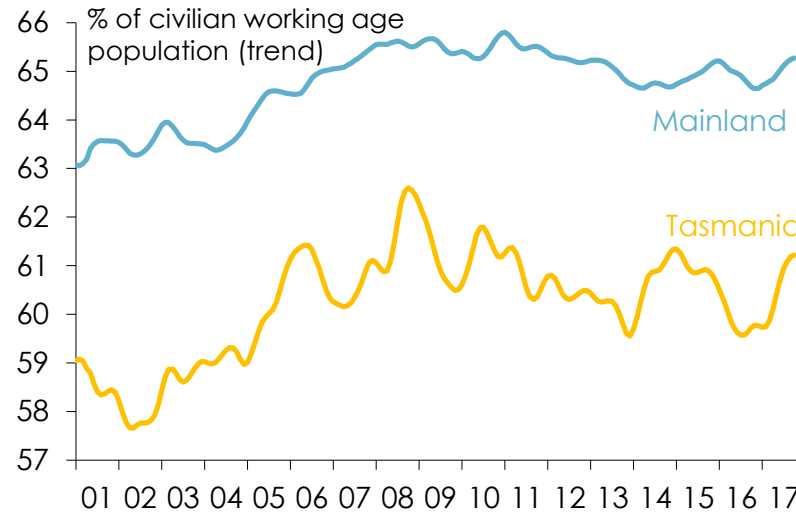


# Unemployment in Tasmania is now almost down to mainland levels: although that still conceals a lot of ongoing weakness in the labour market

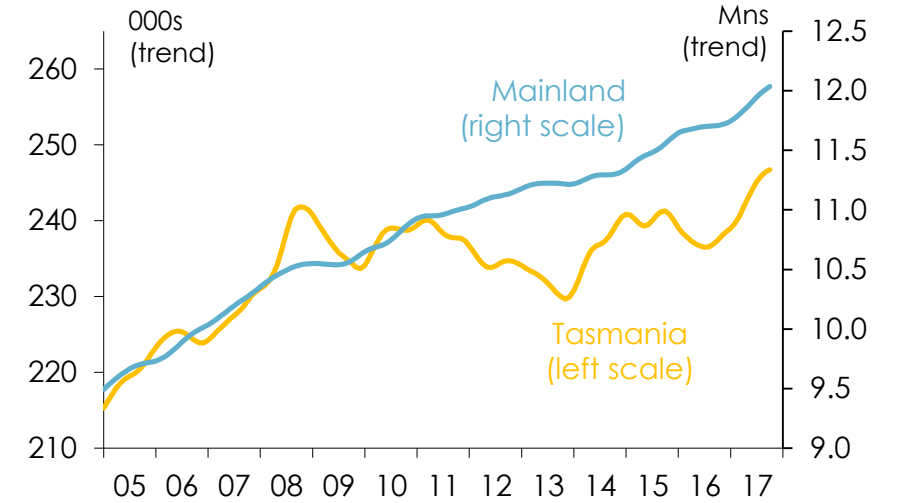
## Unemployment rate



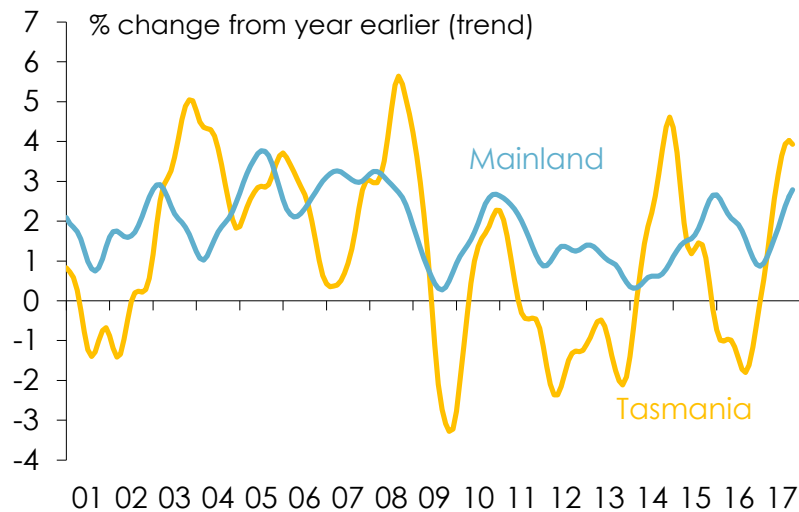
## Labor force participation rate



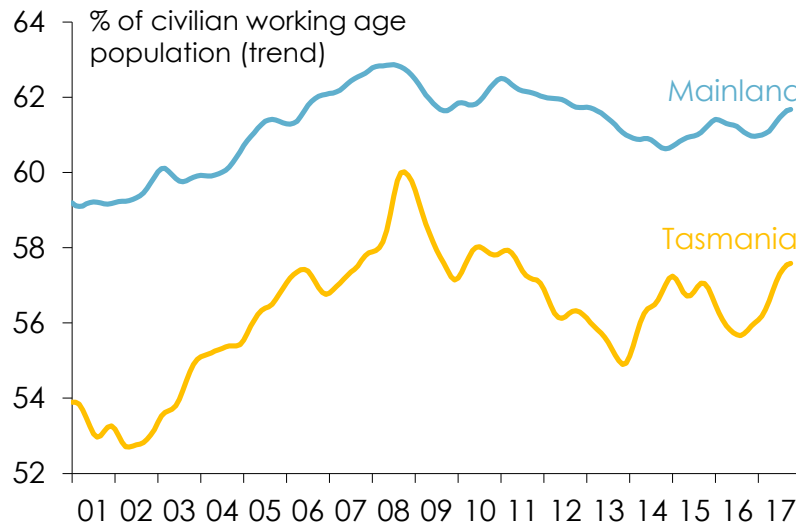
## Level of employment



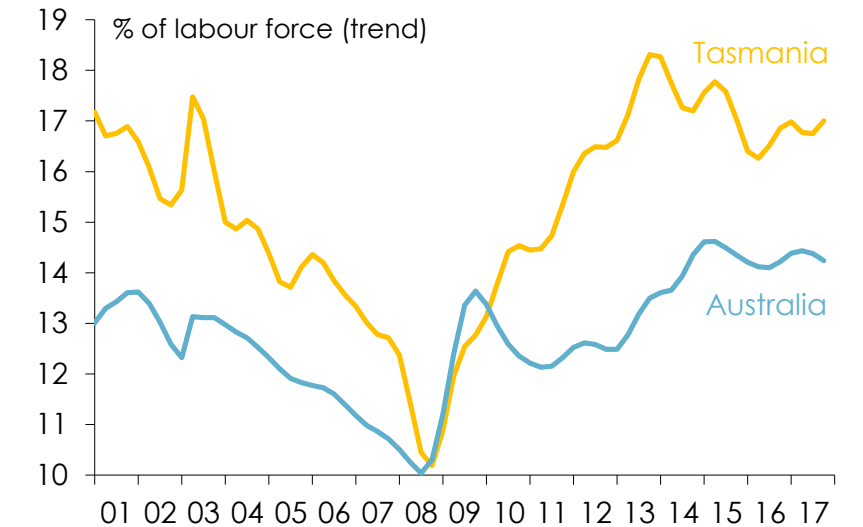
## Employment growth



## 'Employment rate'



## Labour force 'underutilization'

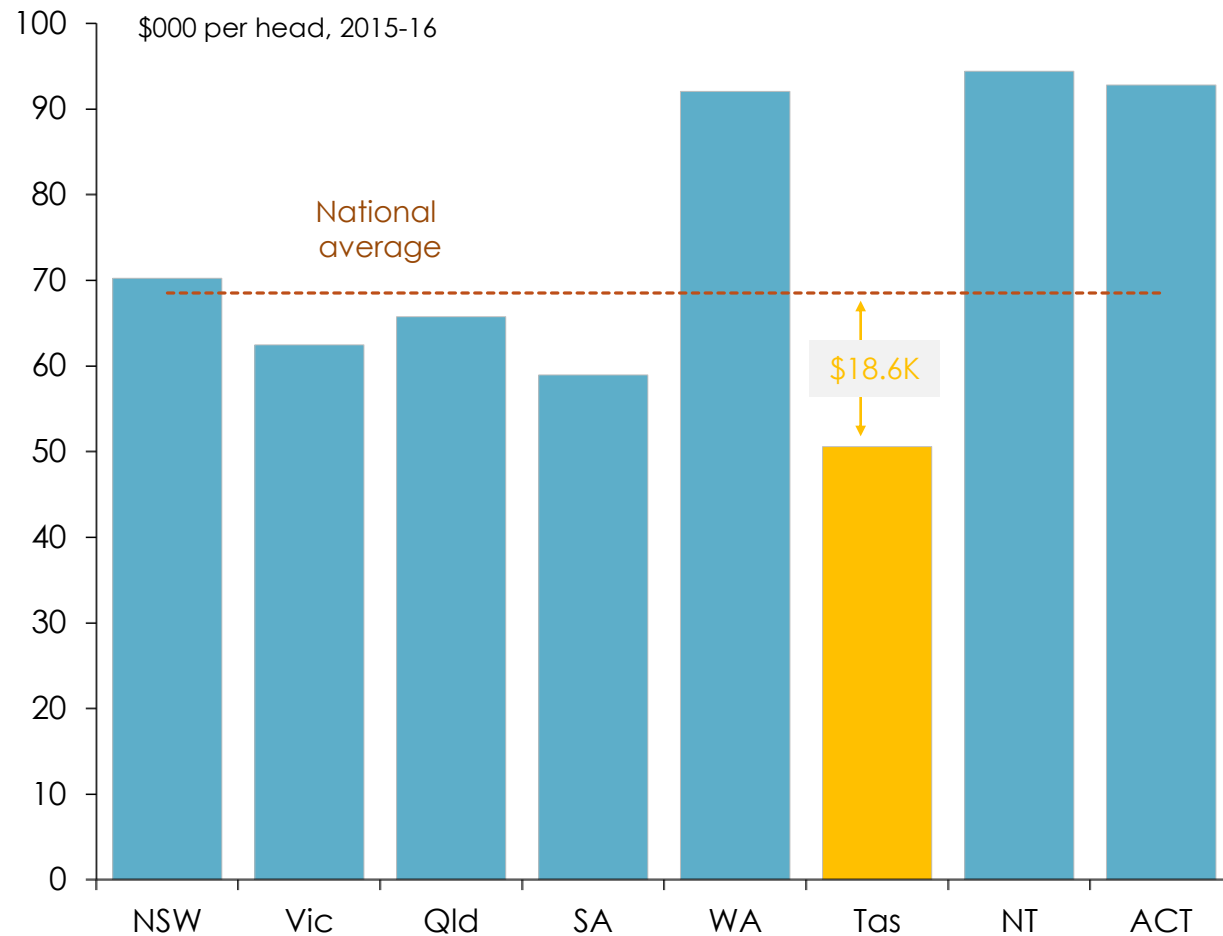


Sources: ABS, 6202.0. Note: the labour force 'under-utilization' rate is the proportion of the work force who are either unemployed (as conventionally defined) or are working part-time for fewer hours than they are willing and available to work.

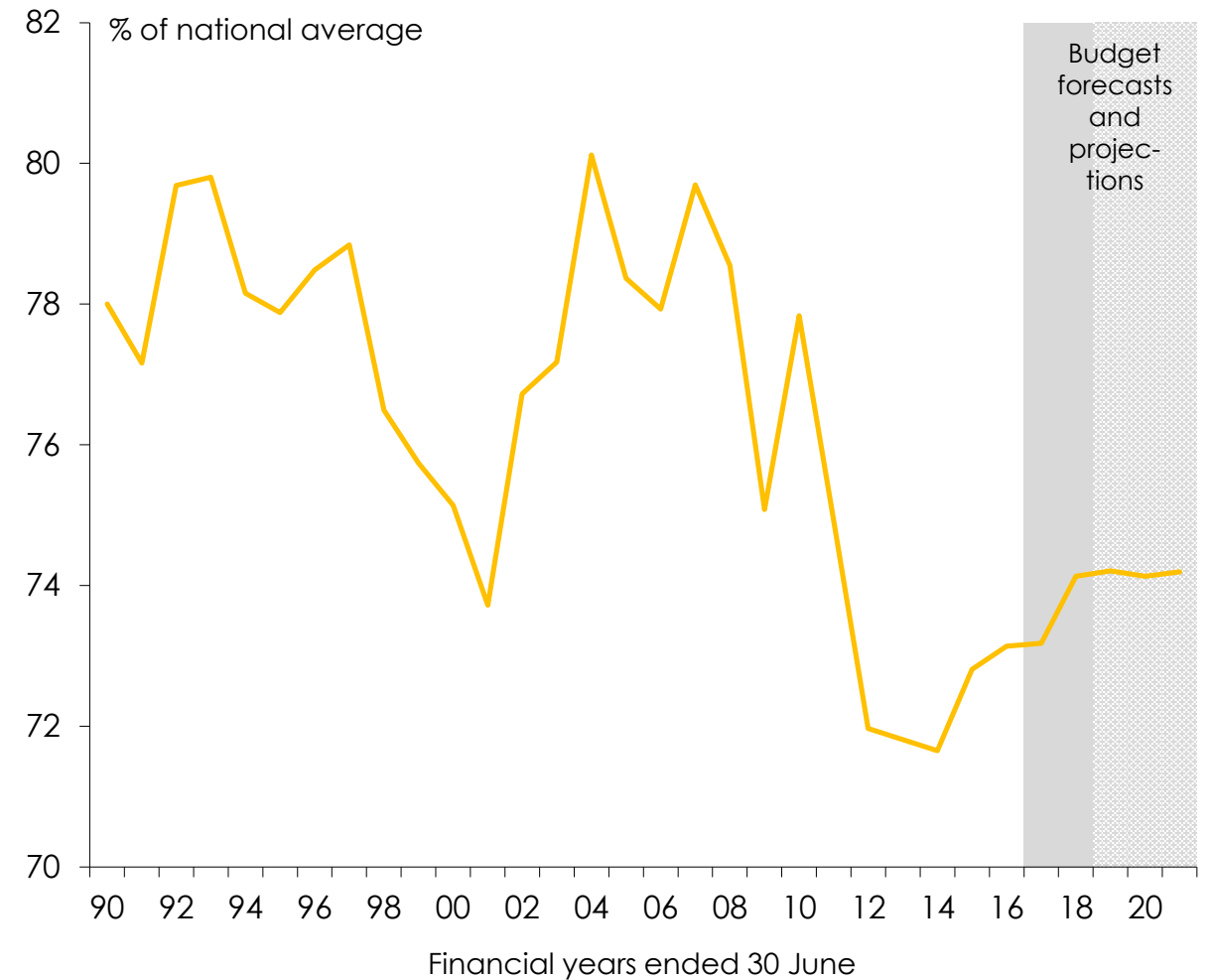
# The longer-term economic challenge for Tasmania

# Tasmania's per capita gross State product is \$18,600 or 27% below the national average

## Gross State product (GSP) per capita, States & Territories, 2015-16



## Tasmanian GSP per capita as a pc of national average, 1989-90 to 2020-21



Source: ABS 5220.0; Commonwealth and Tasmanian Budget Papers 2017-18.

# A useful way of thinking about the reasons for Tasmania's sub-par economic performance

$$\frac{\text{gross State product}}{\text{population}} = \frac{\text{employment}}{\text{population}} \times \frac{\text{total hours worked}}{\text{employment}} = \frac{\text{gross State product}}{\text{population}}$$

The diagram illustrates the decomposition of per capita gross state product into its components. The first fraction,  $\frac{\text{gross State product}}{\text{population}}$ , is equal to the product of  $\frac{\text{employment}}{\text{population}}$  and  $\frac{\text{total hours worked}}{\text{employment}}$ . The second fraction,  $\frac{\text{total hours worked}}{\text{employment}}$ , is equal to  $\frac{\text{gross State product}}{\text{total hours worked}}$ . Red and blue diagonal lines are drawn across the terms in the middle fractions to indicate the cancellation process.

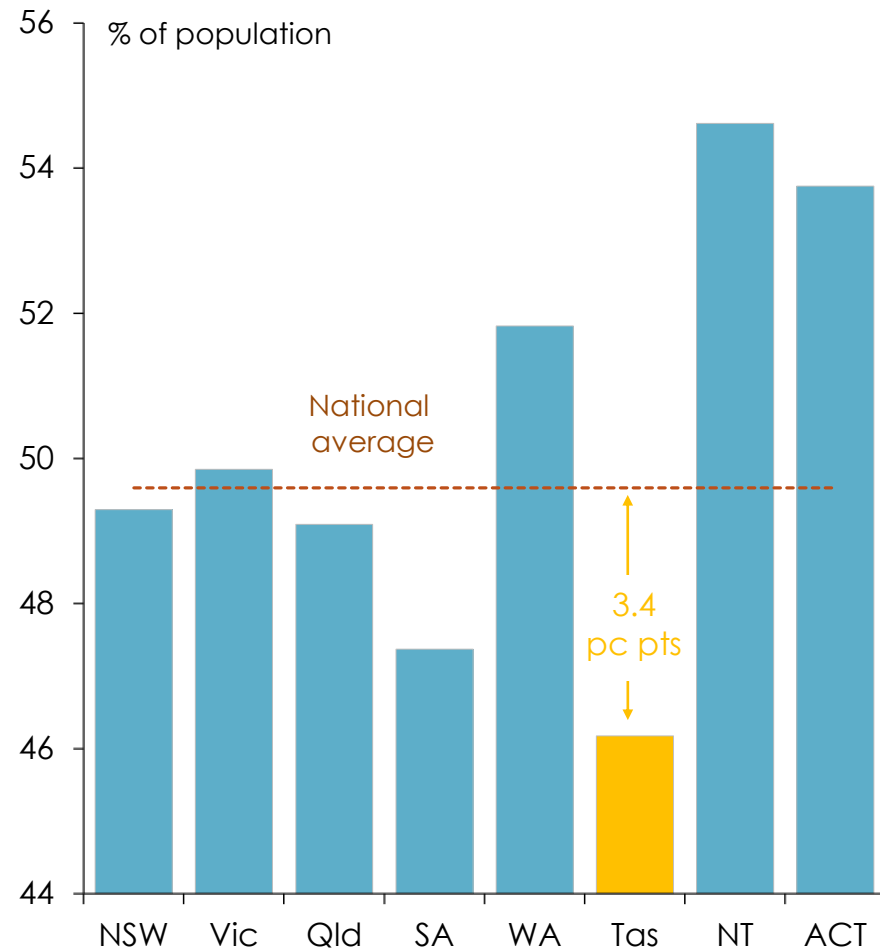
# A useful way of thinking about the reasons for Tasmania's sub-par economic performance

---

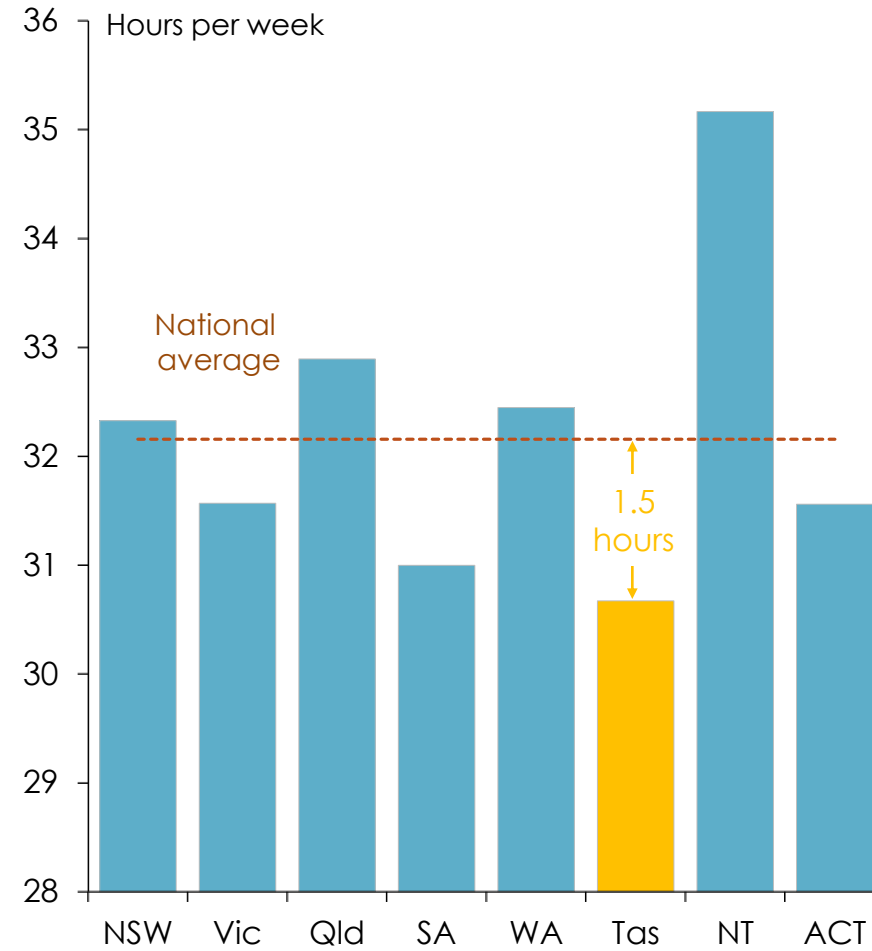
$$\frac{\text{gross State product}}{\text{population}} = \frac{\text{employment}}{\text{population}} \times \frac{\text{total hours worked}}{\text{employment}} = \frac{\text{participation rate}}{\text{rate}} \times \frac{\text{average hours worked}}{\text{worked}} \times \frac{\text{labour productivity}}{\text{productivity}}$$

# Tasmania's below-average per capita GSP reflects below-average employment participation, working hours, and productivity

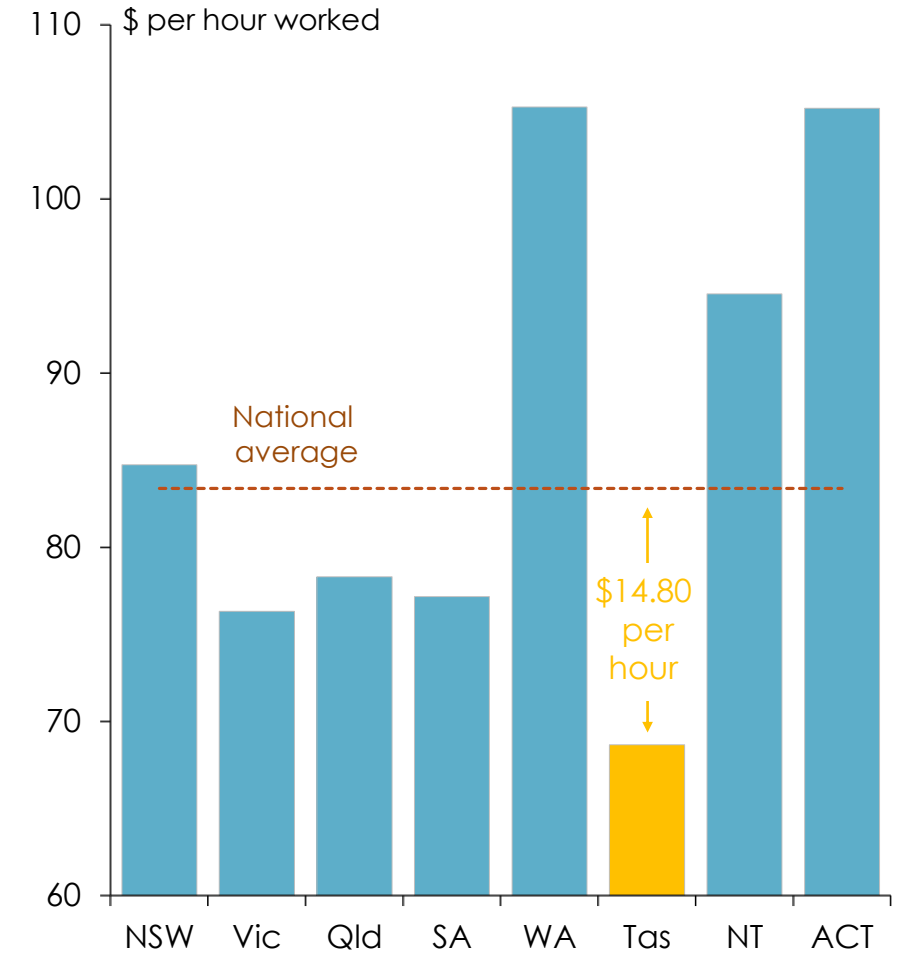
## Employment-to-population ratio, 2015-16



## Average weekly hours worked, 2015-16



## Output per hour worked (labour productivity), 2015-16



Source: ABS 5220.0 and 6201.0

# Tasmania's below-average gross product per person reflects below-average employment participation, working hours and productivity

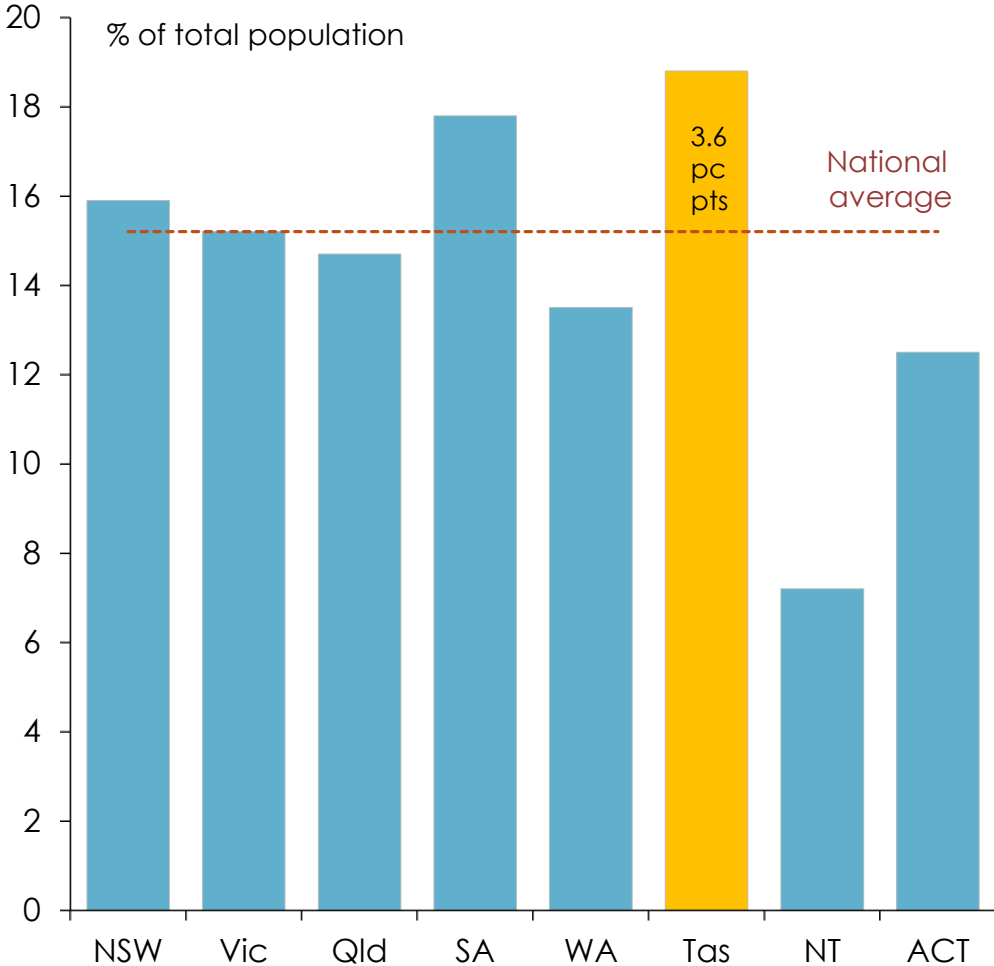
## Sources of the difference in per capita gross product between Tasmania and Australia, 2015-16



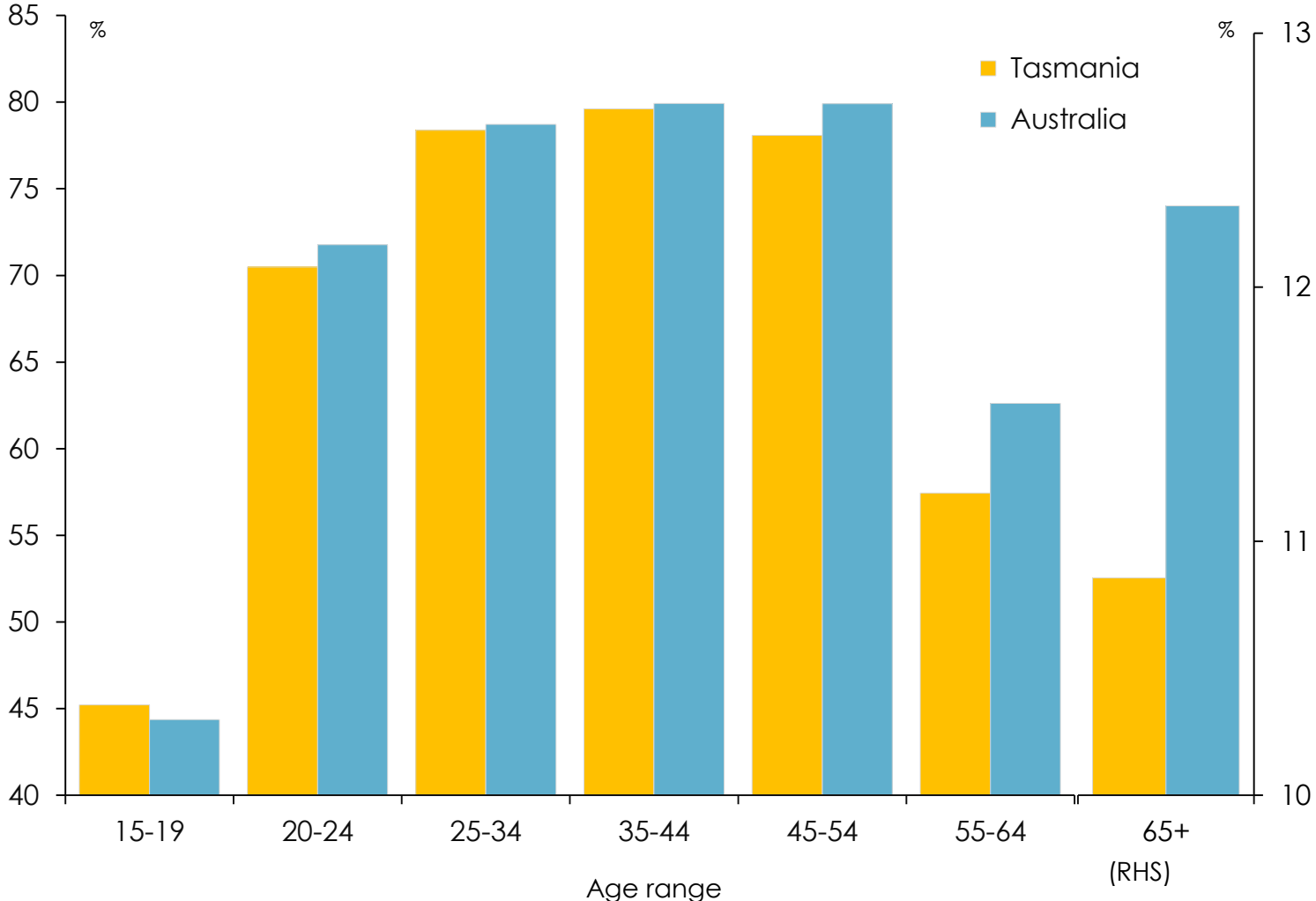
Sources: ABS, 5220.0 and 6201.0.

# Tasmania's below-average workforce participation rate is partly the result of its older-than-average population - but not entirely

Population aged 65 and over, States and Territories, June 2016



Employment as a pc of population, by age, Tasmania vs national average, 2015-16

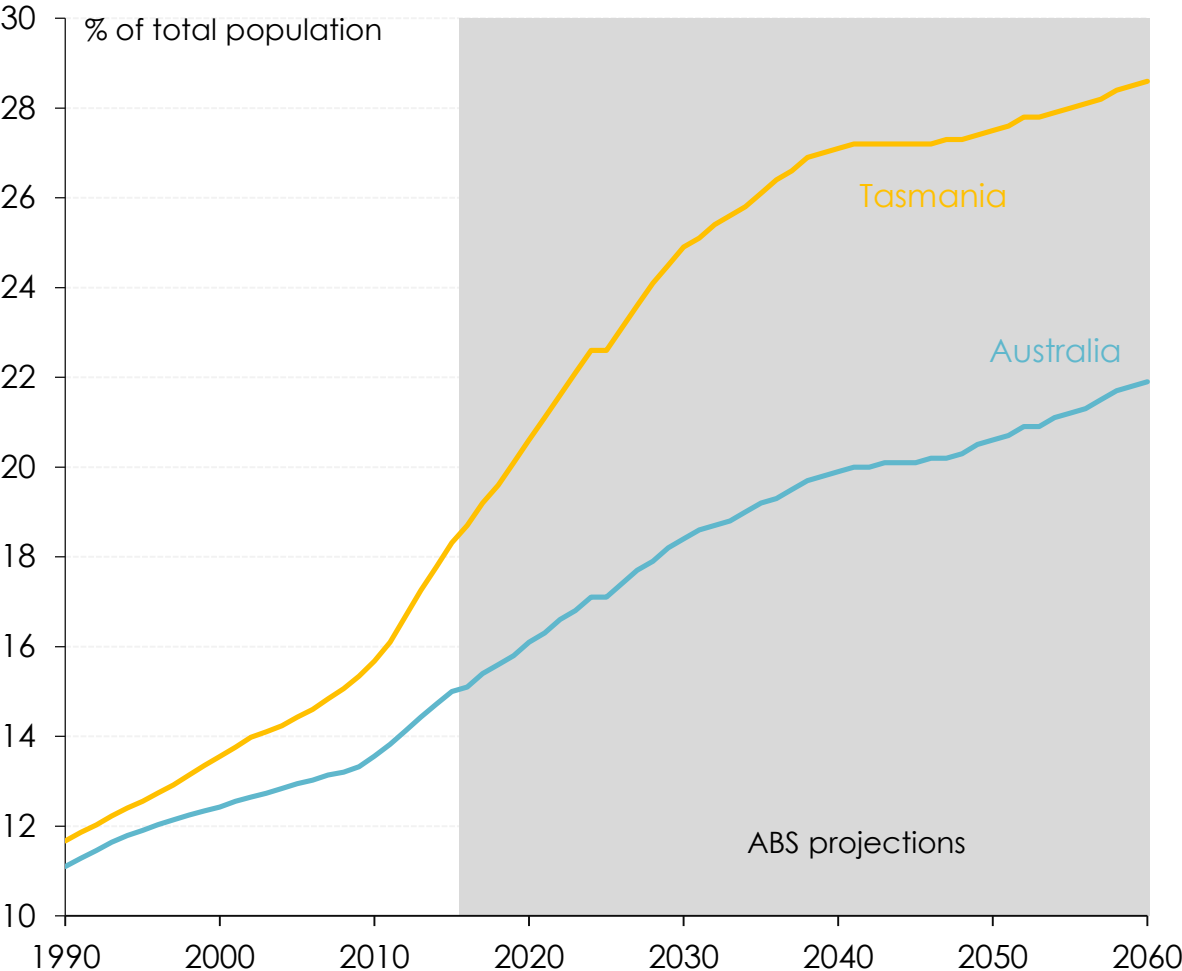


Source: ABS 3101.0 and 3105.0.65.001.

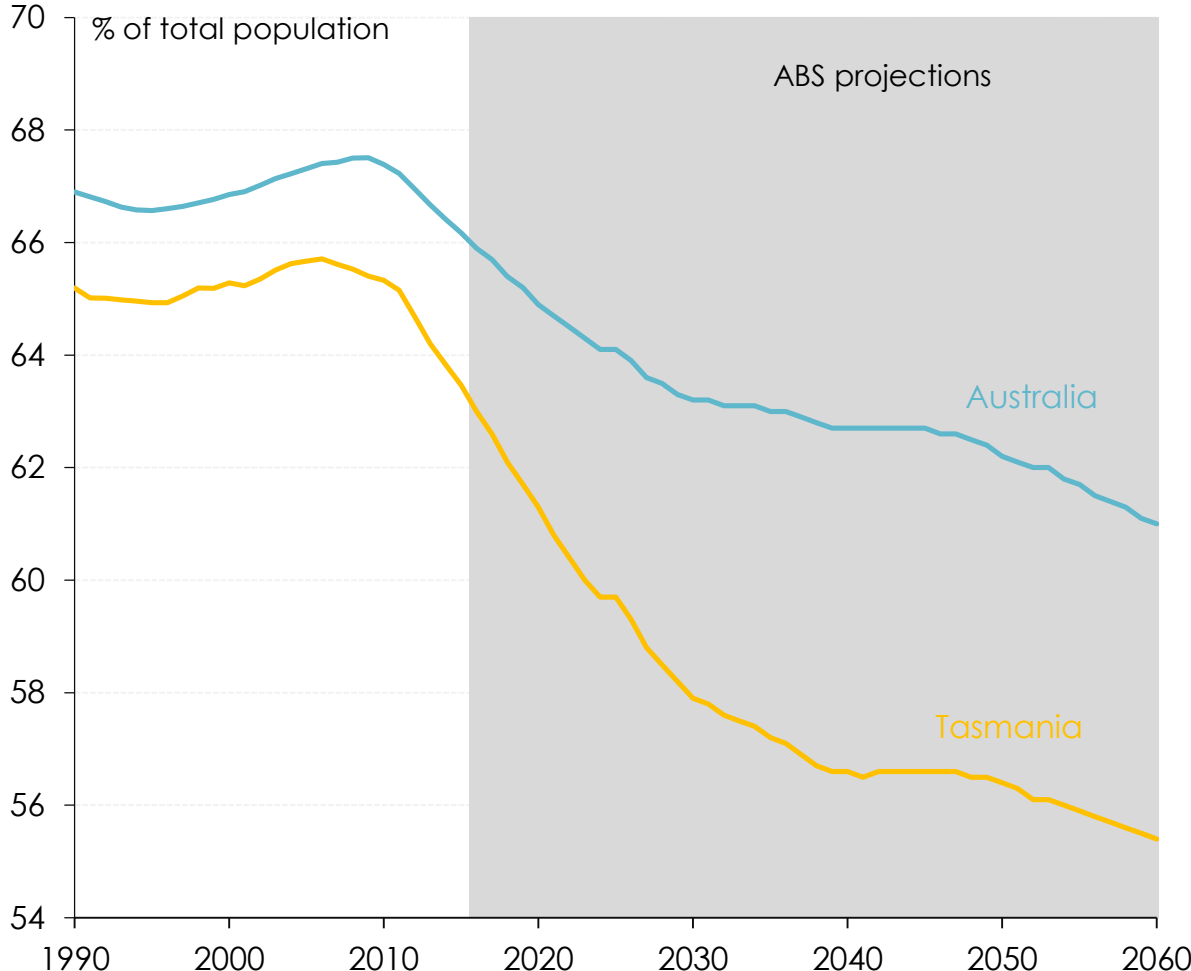


# Tasmania's population is going to age even more rapidly over the next 25 years than it has done over the past 25 ...

### Pc of population aged 65 and over



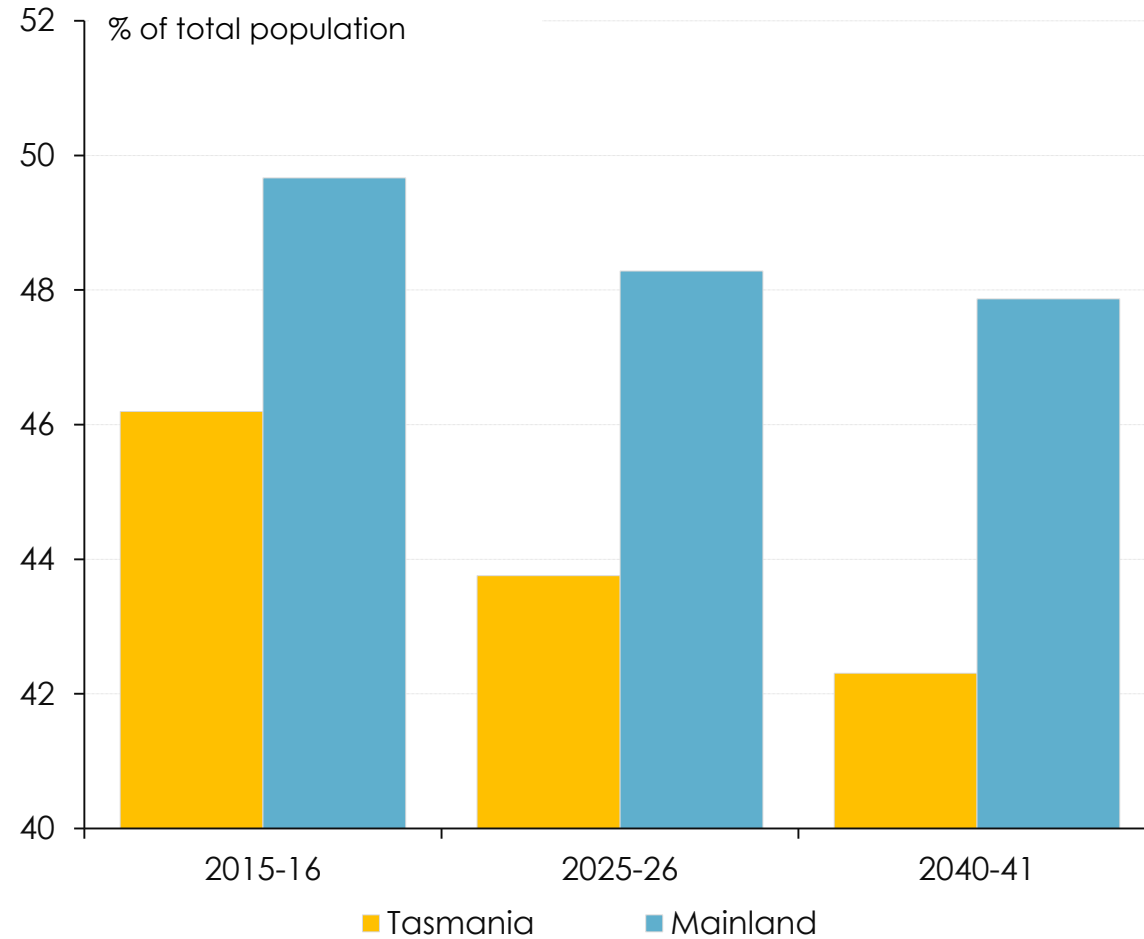
### Pc of population aged 15-64



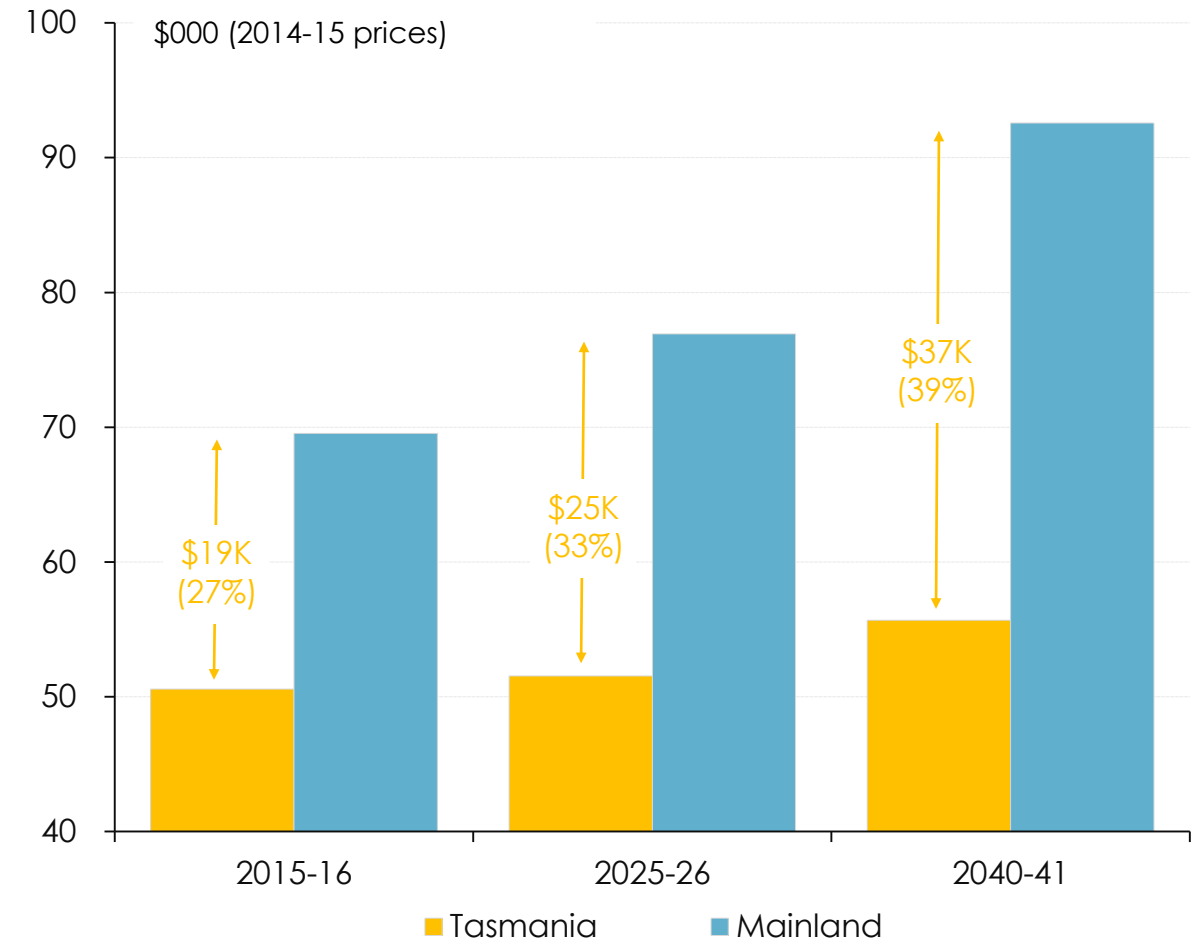
Source: ABS, 3222.0.

# ... which means that Tasmania's 'employment rate' is likely to fall further and all else being equal, the 'living standards gap' will widen further

## Projected employment-to-population ratios, Tasmania and mainland



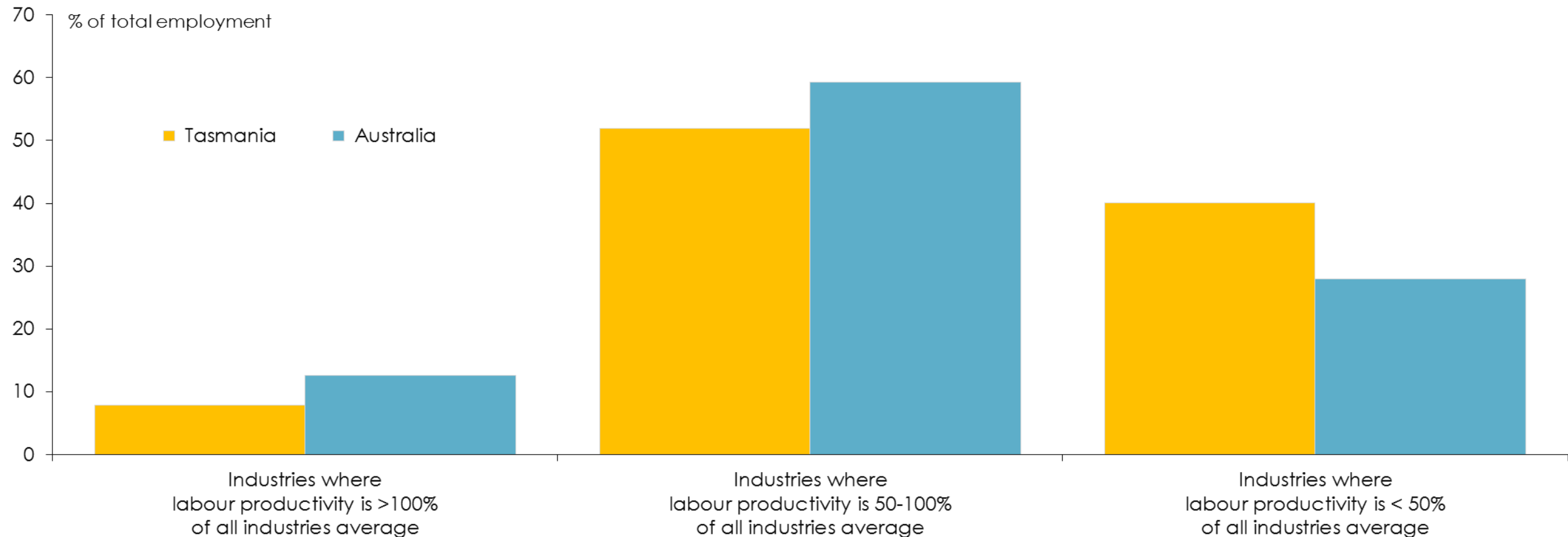
## Projected levels of per capita GSP, Tasmania and mainland



Note: Per capita GSP projections assume average hours worked unchanged at 2015-16 levels, and productivity growth for Tasmania and mainland continuing at the same rates as over the ten years to 2015-16. Source: ABS and author's calculations.

# 'High-productivity' industries are 'under-represented' in the Tasmanian economy, while 'low-productivity' industries are 'over-represented'

Proportion of workforce employed in industries where Australia-wide productivity is above or below the average for all industries – Tasmania and Australia, 2015-16

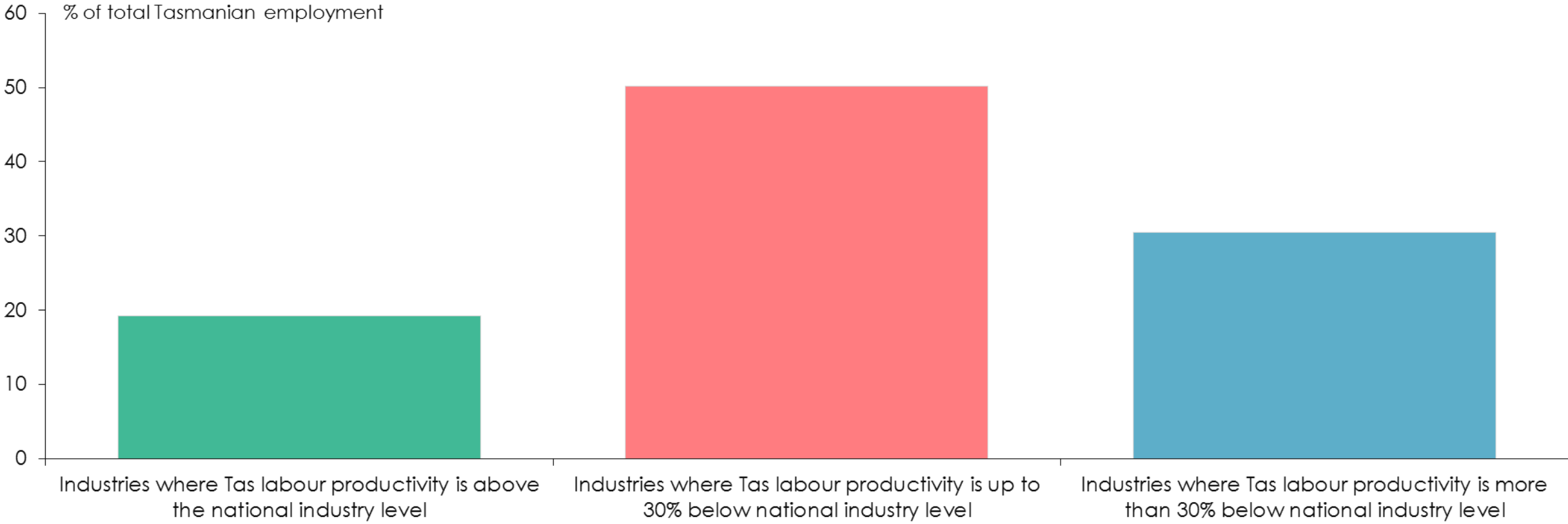


*Note:* Industries where Australia-wide labour productivity is above the national all-industries average are mining; financial & insurance services; electricity, gas, water and waste disposal services; rental, hiring & real estate services; and information, media & telecommunications services. Industries where Australia-wide labour productivity is between 50 and 100% of the all-industries average are wholesale trade; public administration & safety; administration & support services; construction; transport, postal and warehousing; manufacturing; professional, scientific & technical services; agriculture, forestry & fishing; and education & training. Industries where Australia-wide labour productivity is less than half the all-industries average are health care & social assistance; art & recreation services; retail trade; accommodation & food services; and other services.

Sources: ABS, 5220.0 and 6291.0.55.003.

# More than 80% of the Tasmanian workforce is employed in industries where Tasmanian labour productivity is below the national average

Proportion of Tasmania's workforce employed in industries where Tasmanian labour productivity is above, or below, the corresponding national averages for those industries



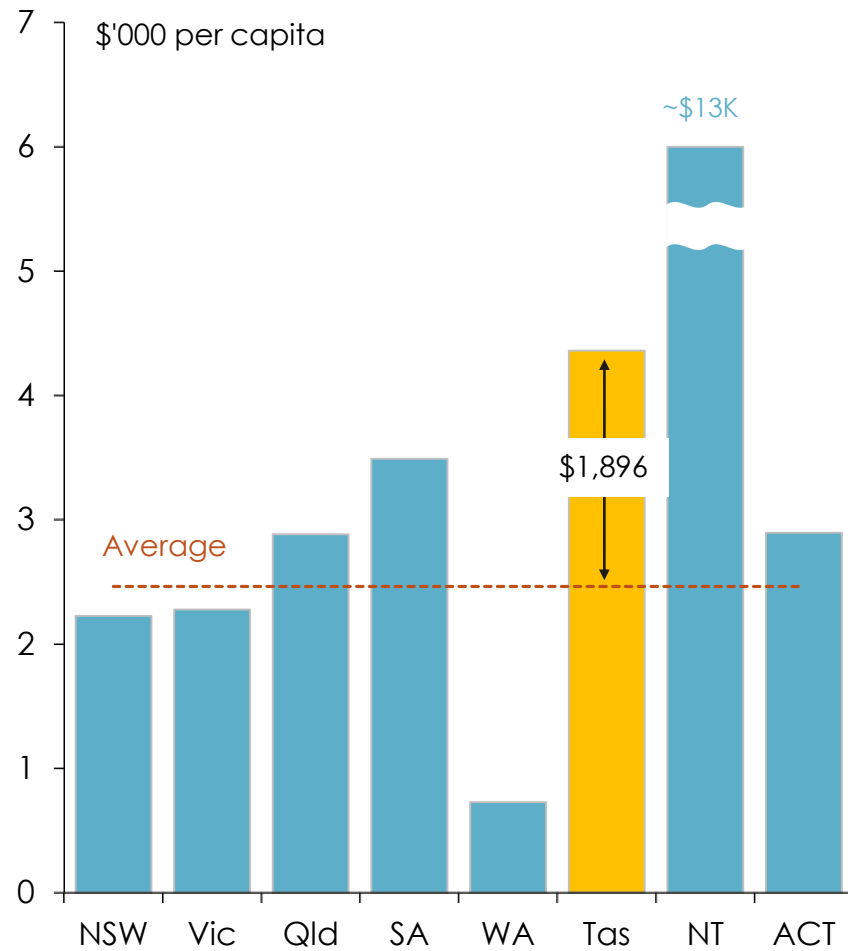
*Note:* Industries where Tasmanian labour productivity is above corresponding national industry average are electricity, gas, water and waste disposal services; financial & insurance services; information, media & telecommunications services; agriculture, forestry & fishing; transport, postal and warehousing; rental, hiring & real estate services; and wholesale trade. Industries where Tasmanian labour productivity is between 70 and 100% of the corresponding national industry average are administration & support services; manufacturing; education and training; public administration and safety; mining; construction; and health care and social assistance. Industries where Tasmanian labour productivity is less than 70% of the corresponding national industry average are professional, scientific and technical services; retail trade; accommodation & food services; art & recreation services; and other services.

Sources: ABS, 5220.0 and 6291.0.55.003.

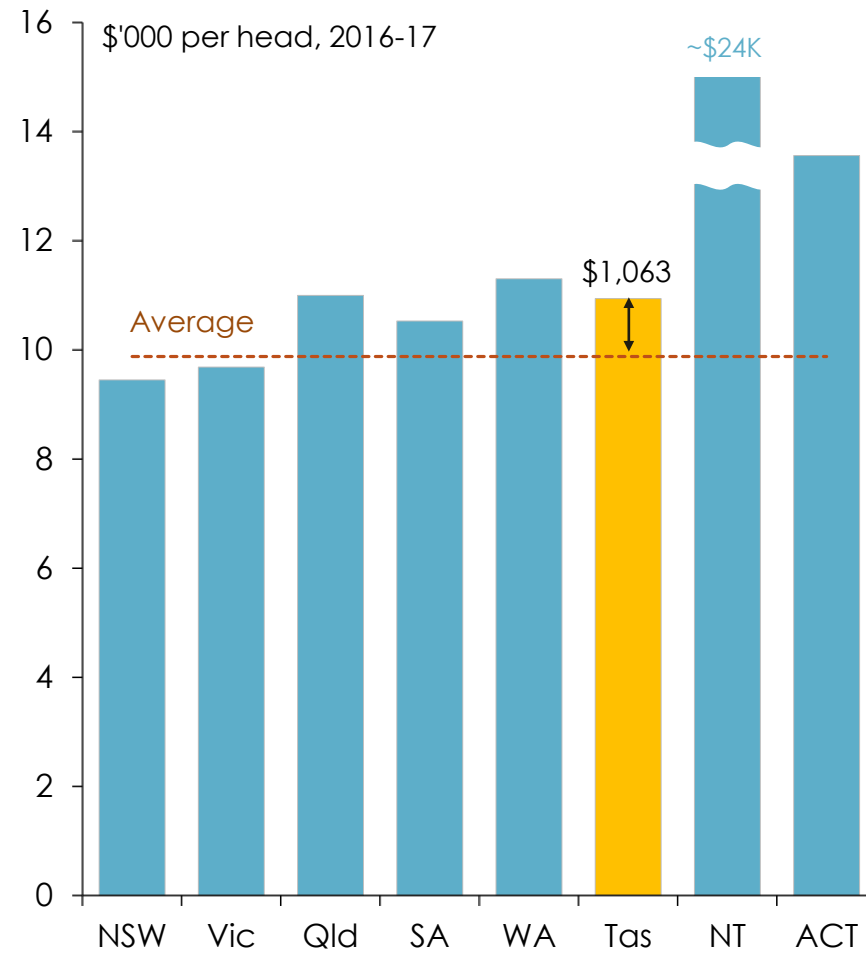
**GST 'reform' – a big risk for Tasmania**

# Tasmania does very well out of the long-standing 'horizontal fiscal equalization' formula used to distribute GST revenue

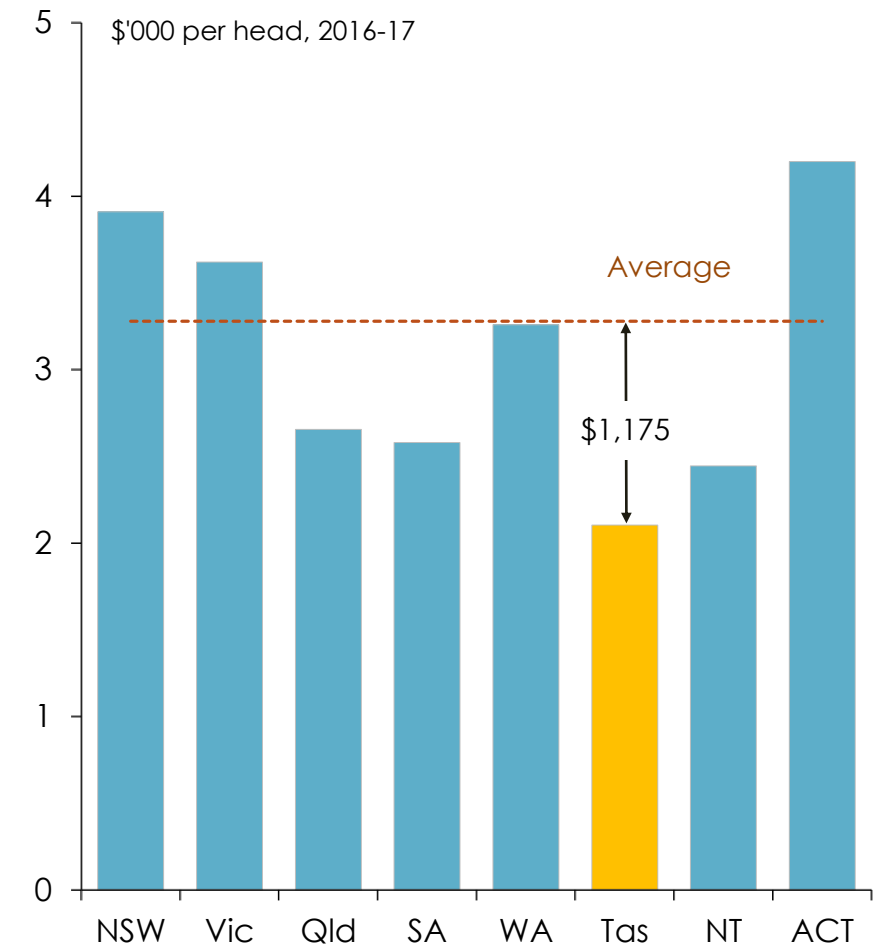
## GST revenue-sharing payments per head, 2016-17



## State government 'operating expenses' per head, 2016-17



## State taxation revenue per head, 2016-17

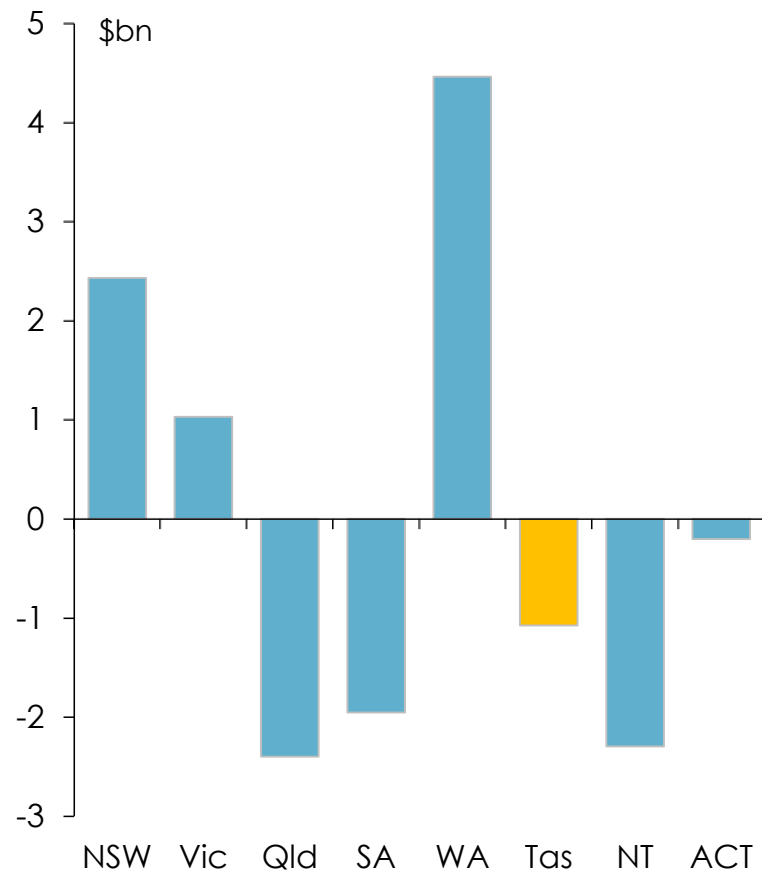


Sources: Australian Government Final Budget Outcome 2016-17; State and Territory Government 2017-18 Budget documents.

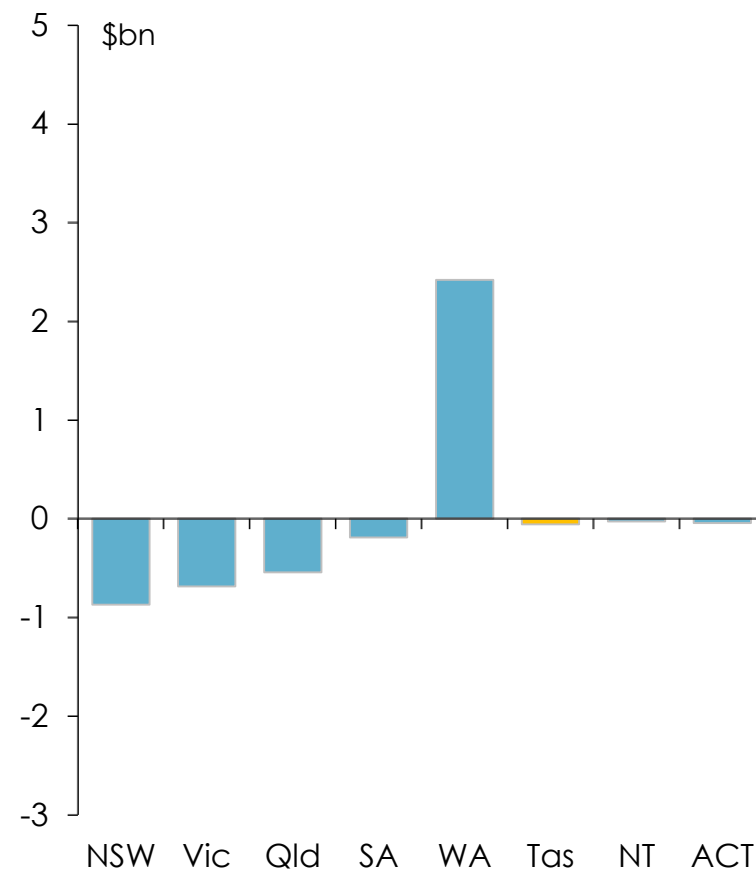
# An equal per capita distribution as sought by WA, NSW and Victoria would be disastrous for Tasmania; some other options are not quite so bad

## Impact on 2017-18 GST revenue shares of alternative 'reform' options

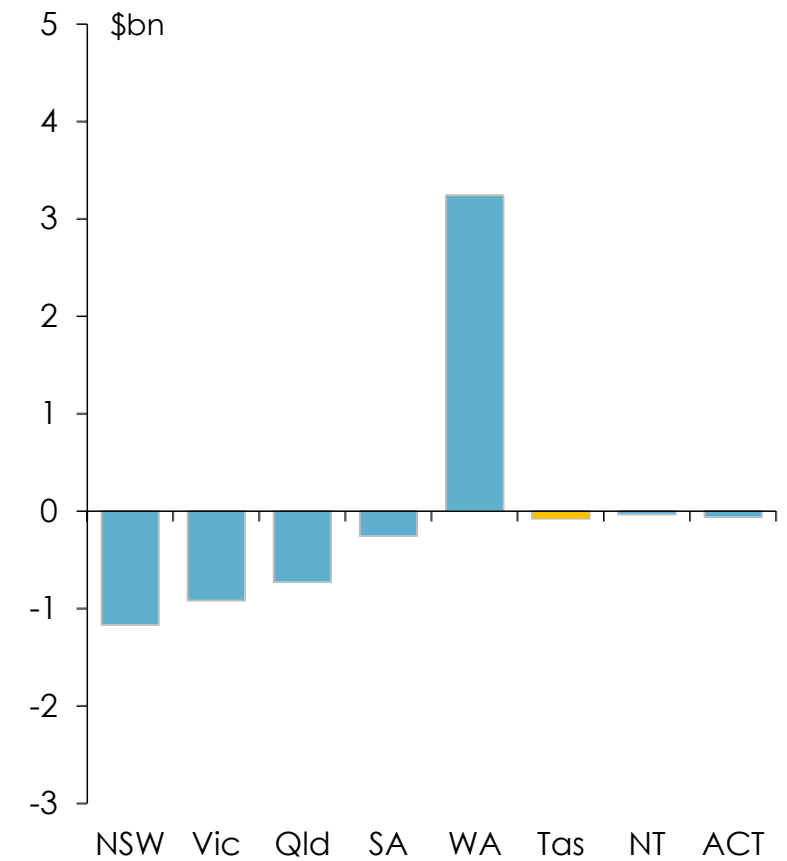
### Equal per capita



### 70% floor



### Equalization to 'second-strongest' state



Source: Productivity Commission, *Horizontal Fiscal Equalization – Draft Report*, October 2017.

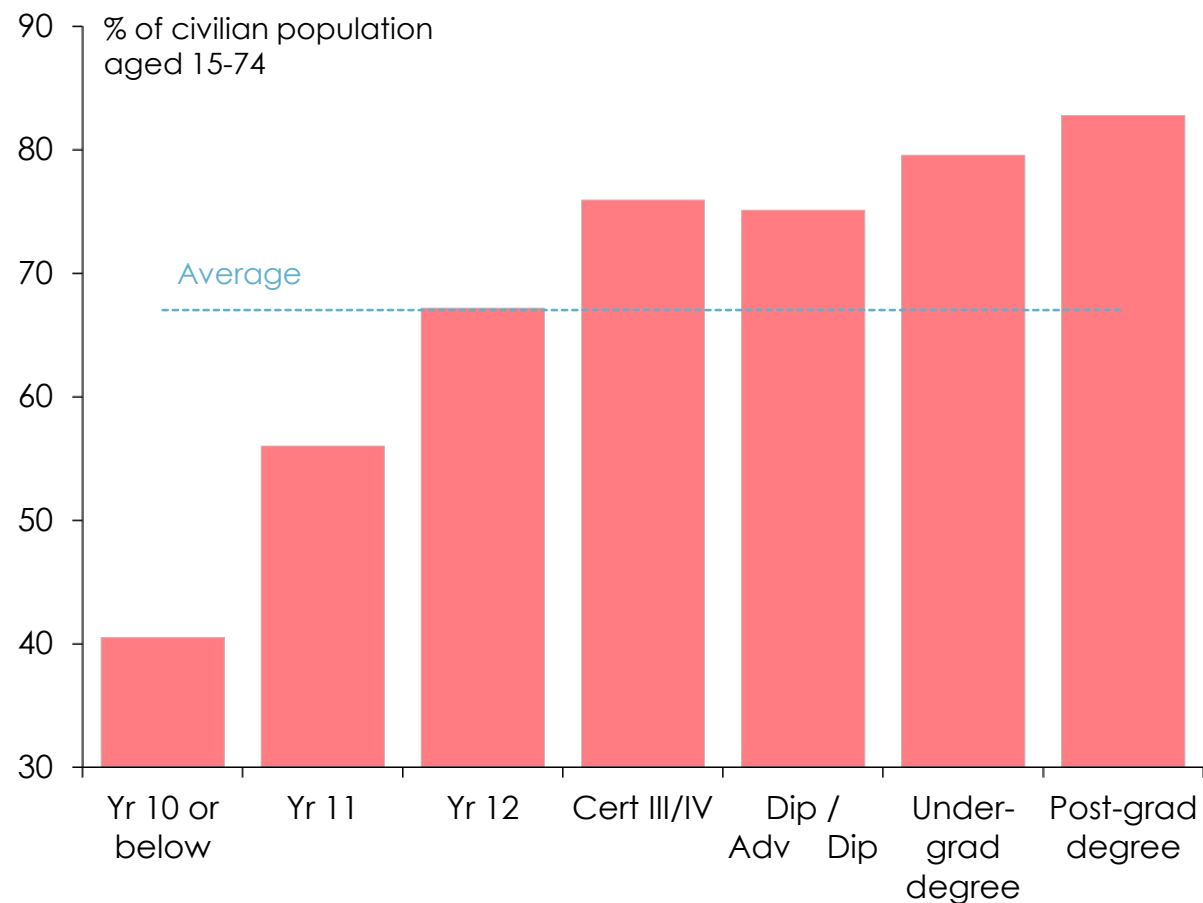
# The importance of education



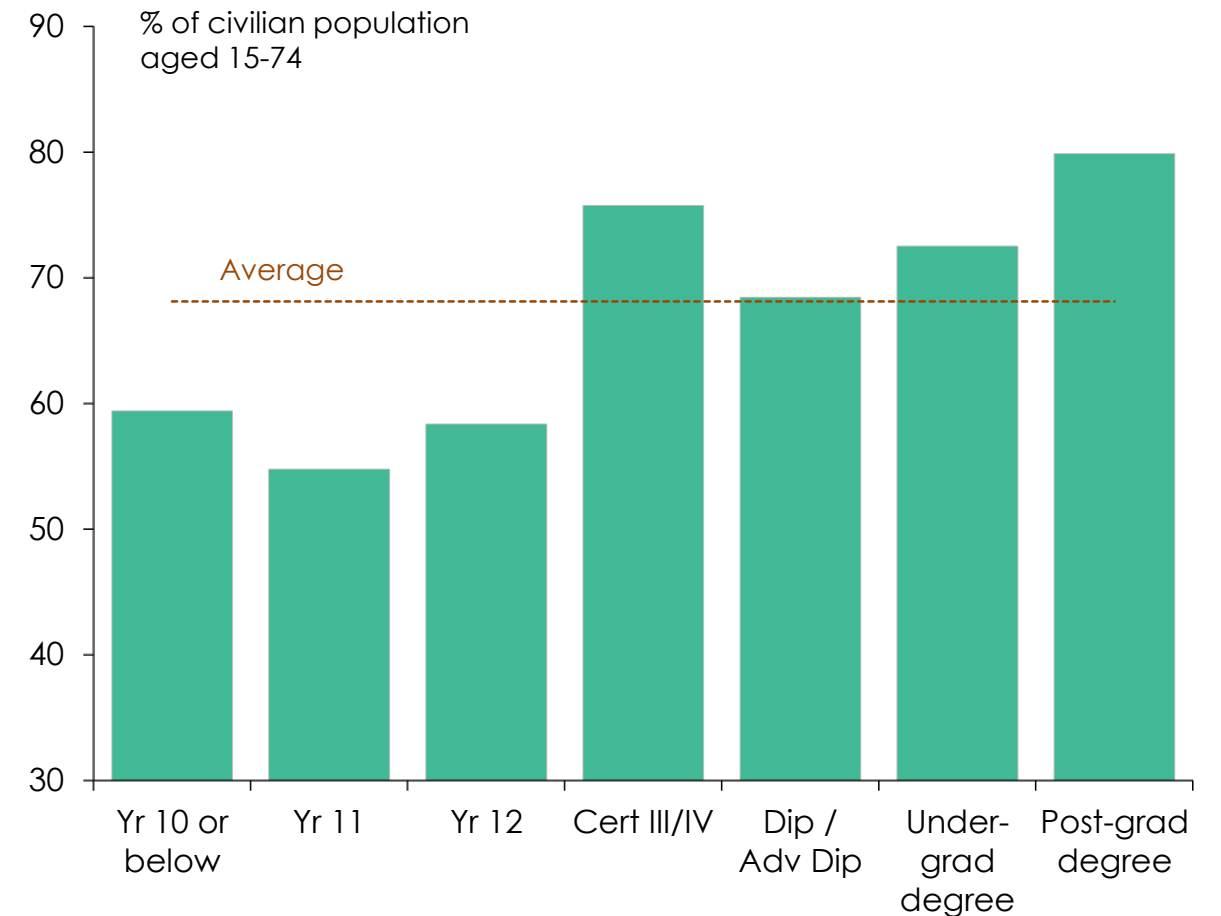
# The higher a person's level of educational attainment, the more likely he or she is to be working – and to be working full-time

## Labour force experience by level of educational attainment – Australia, May 2016

### Employment as a pc of population, by level of educational attainment



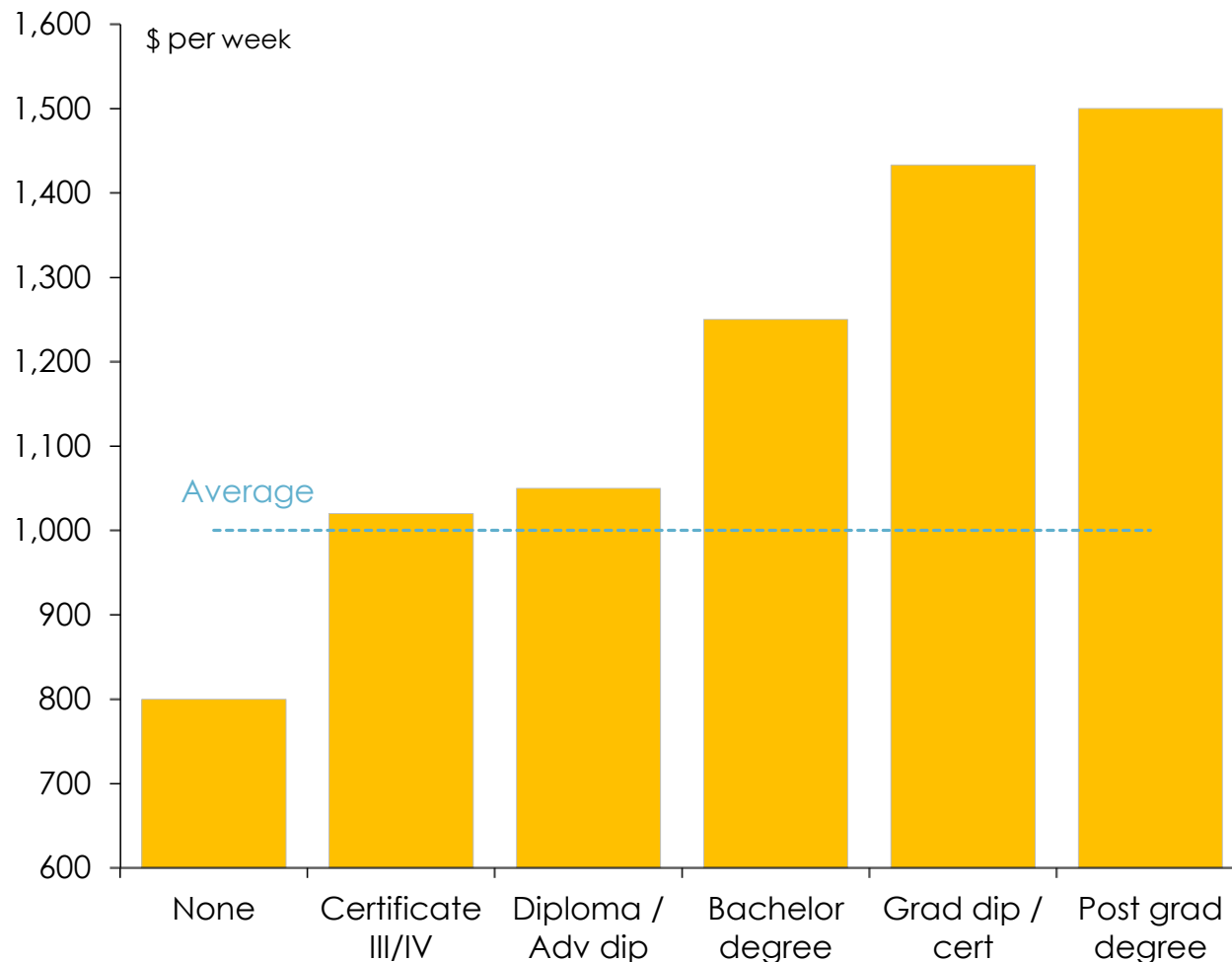
### Full-time work as a pc of total employment, by level of educational attainment



Source: ABS 6227.0.

# Educational attainment is also unambiguously correlated with earning capacity

## Educational attainment and median weekly earnings, August 2016

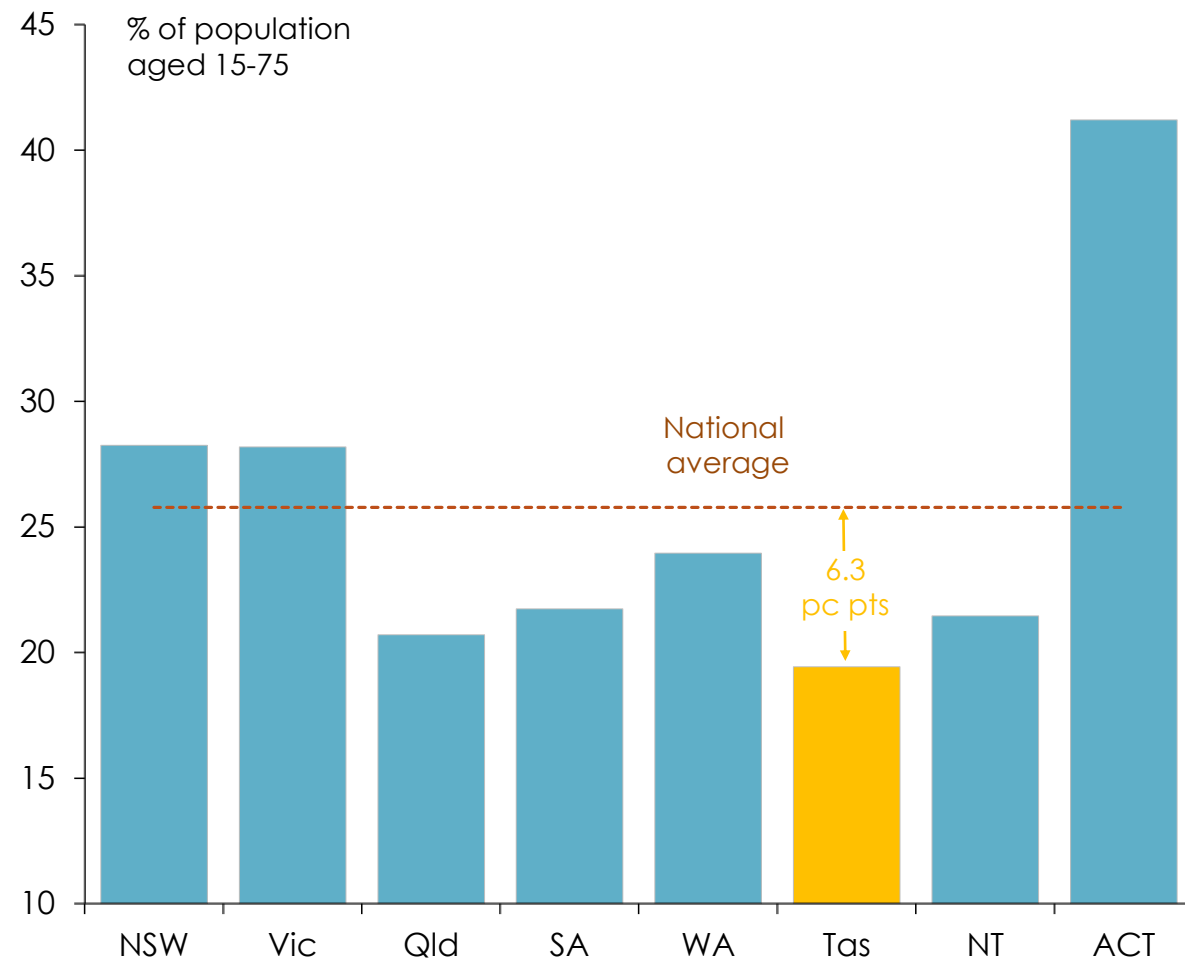


- People who complete Year 12 have lifetime earnings which are 42% higher than those who leave school at Year 10, and 64% higher than those who do not go beyond Year 9;
- The lifetime of earnings of people who complete a bachelor's degree are 45-50% higher than those whose highest educational qualification is Year 12 – while those of people with a higher degree are 66-74% higher than those of people whose highest educational qualification is Year 12.

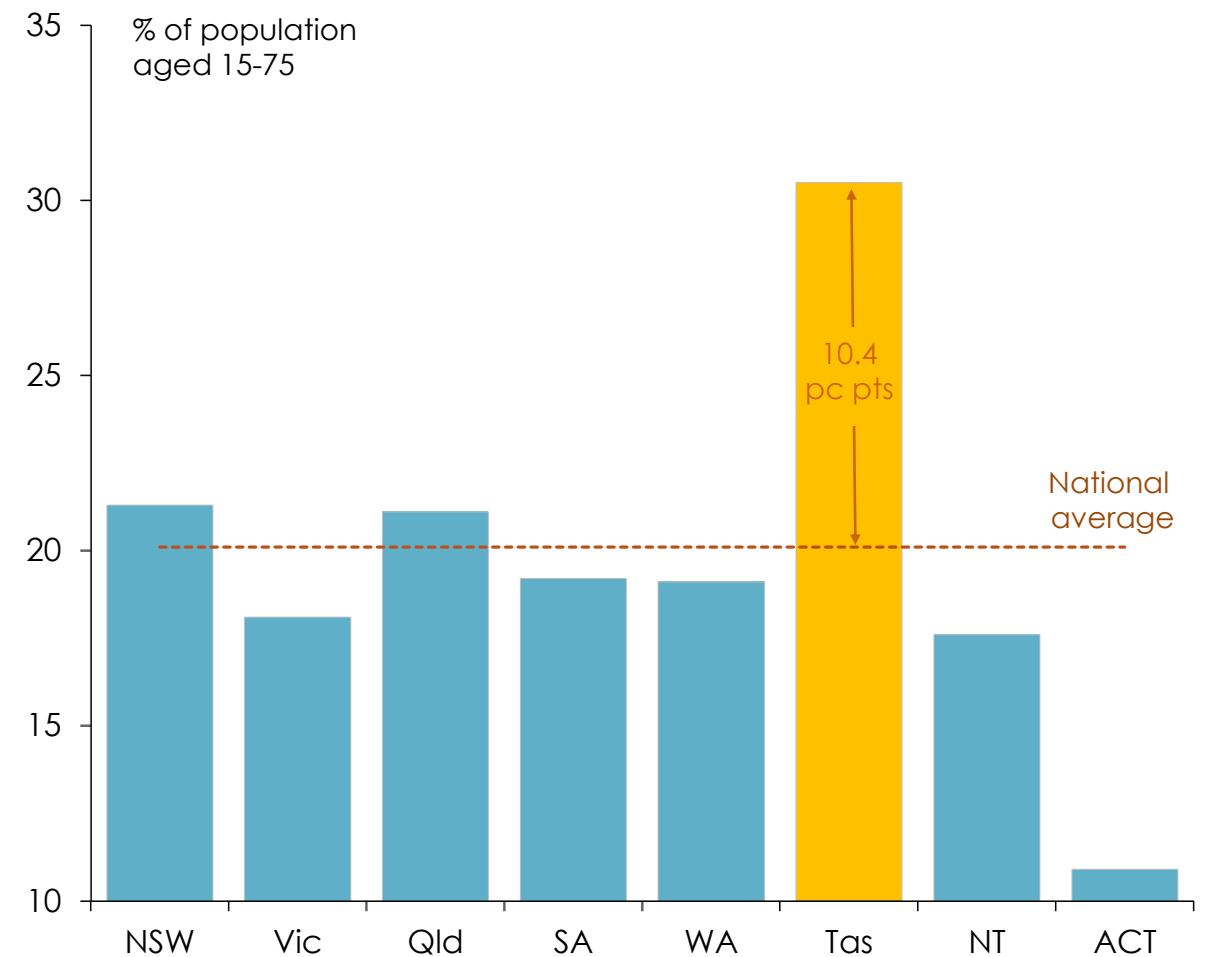
Sources: ABS 6333.0 and Andrew Leigh, 'Returns to Education in Australia', *Economic Papers*, Volume 27, No. 3, September 2008, pp. 233-249

# So, clearly, Tasmania's below-average levels of educational attainment must be detracting from its economic performance

## 15-75 population with bachelor's degree or higher, May 2016



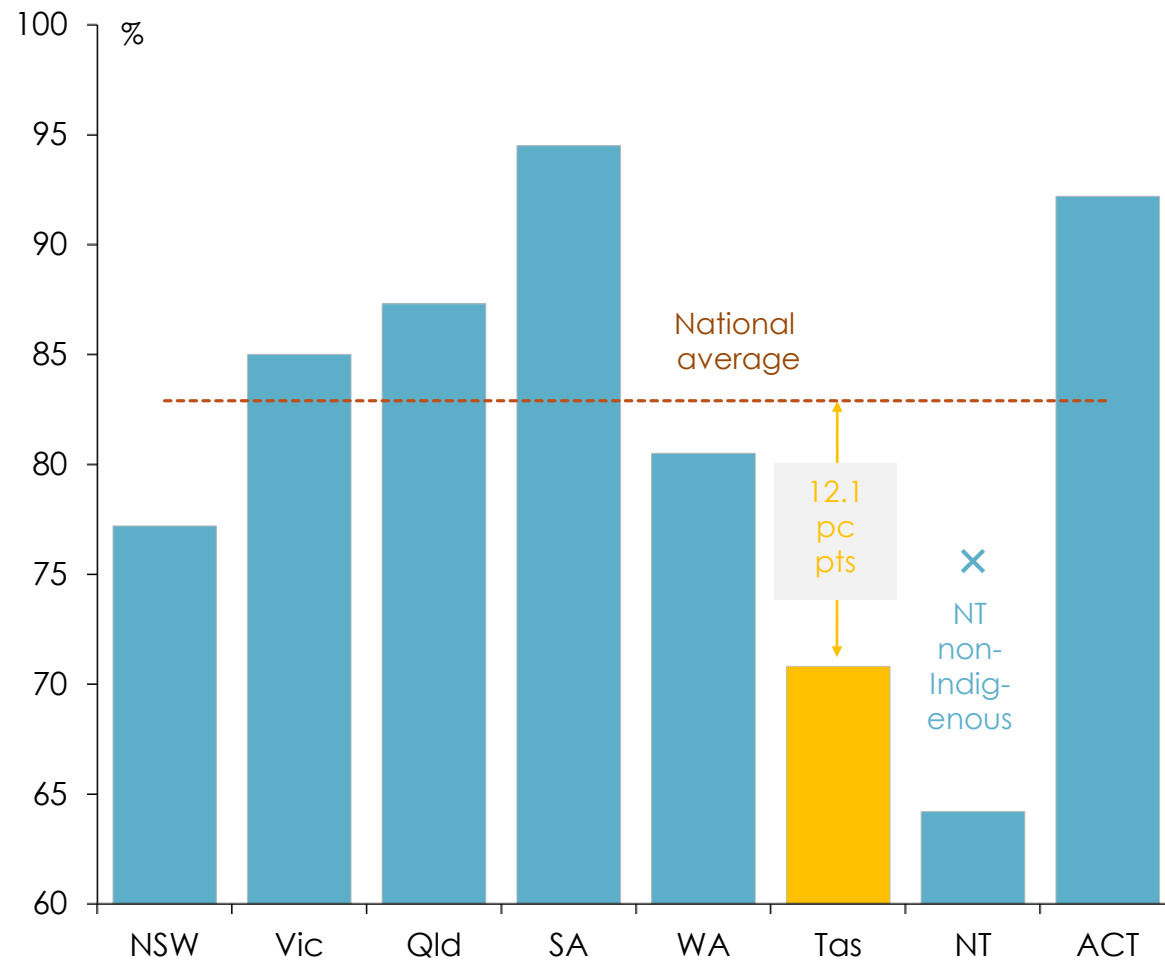
## 15-75 population with no qualification beyond Year 10 of high school, May 2016



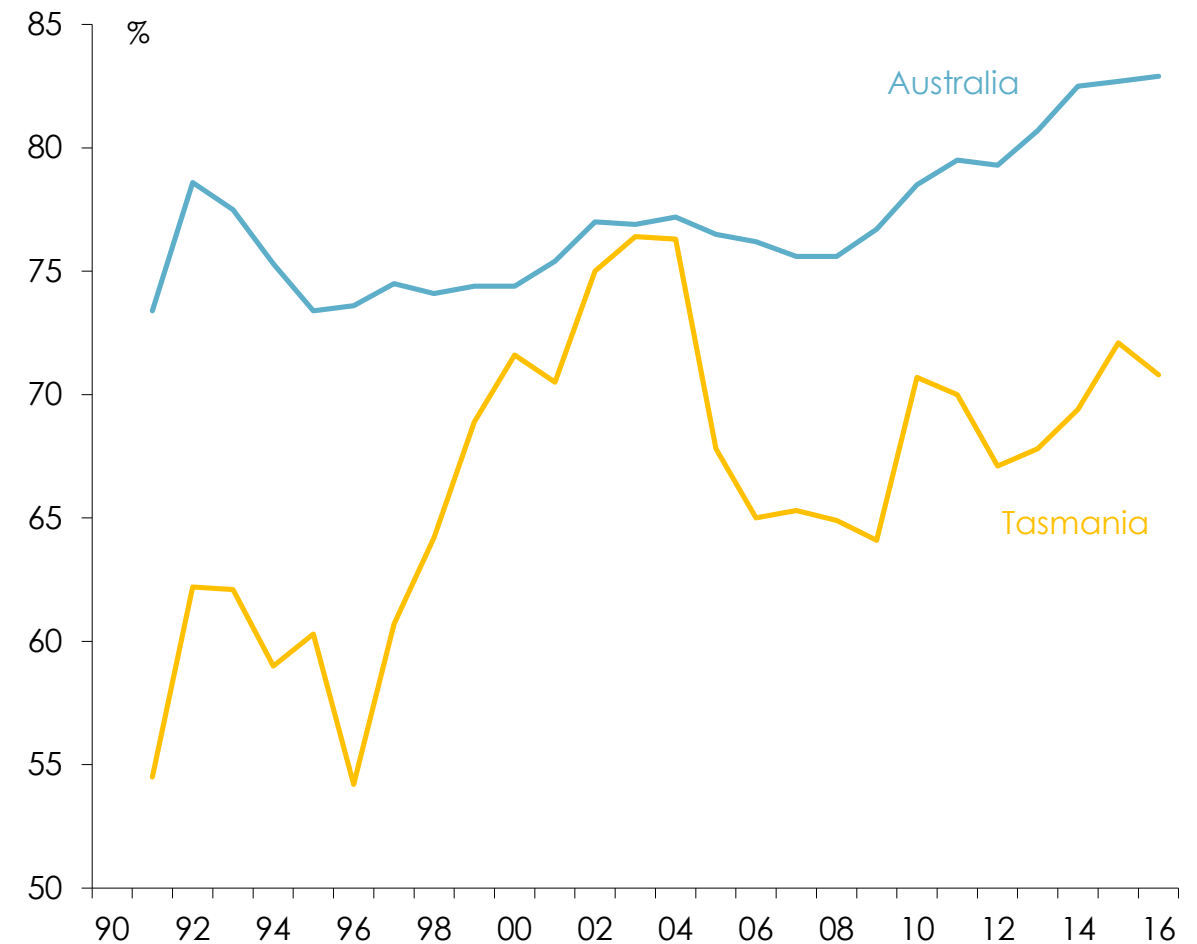
Source: ABS, Education and Work (catalogue no. 6227.0).

# It will be difficult to raise average skill levels in Tasmania while the proportion of Tasmanians doing Year 12 remains so low

## Apparent school retention rates from Year 10 to Year 12, 2016



## Apparent school retention rates from Year 10 to Year 12, Tasmania vs national average

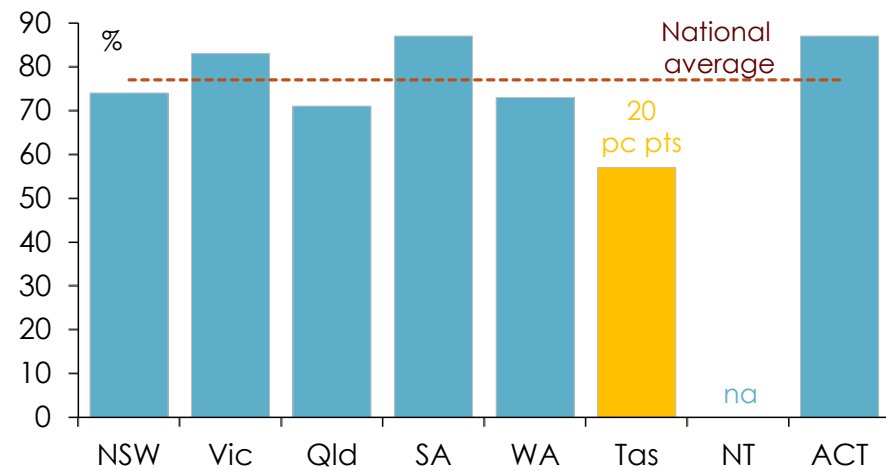


Source: ABS, Schools, Australia (catalogue no. 4221.0).

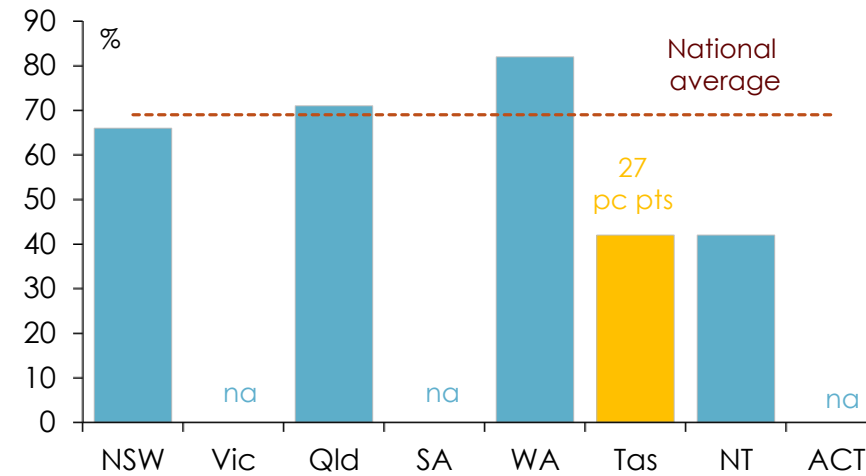
# Tasmania's below-average Year 12 completion rates are not the result of more Tasmanian students coming from rural and regional areas

## 2015 Year 12 completion rates by students' location, States and Territories

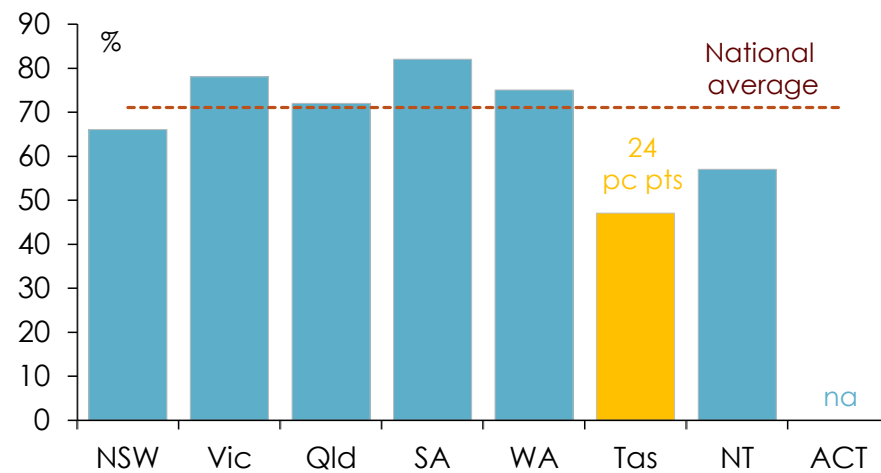
### Metropolitan



### Remote



### Provincial



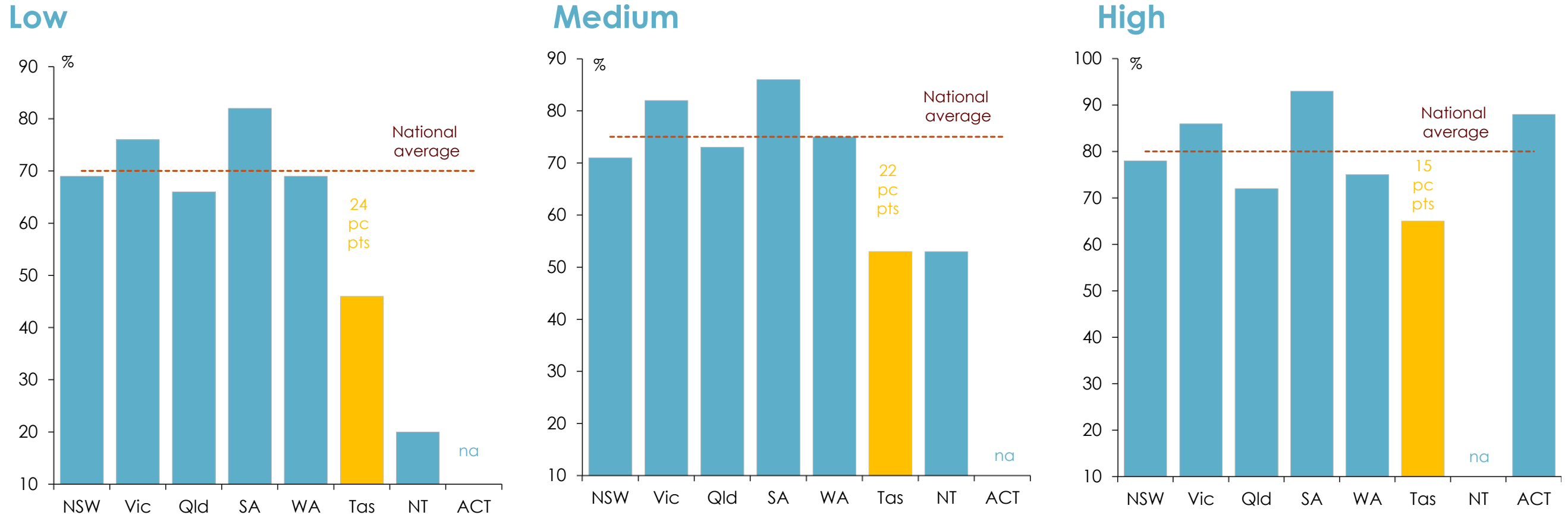
### Very remote



A student from living in Hobart was less likely to have completed Year 12 in 2015 than a student from a provincial, remote or very remote location in any other State

# Tasmania's below-average Year 12 completion rates are not the result of more Tasmanian students coming from low SES households

## 2015 Year 12 completion rates by students' socio-economic status, States and Territories

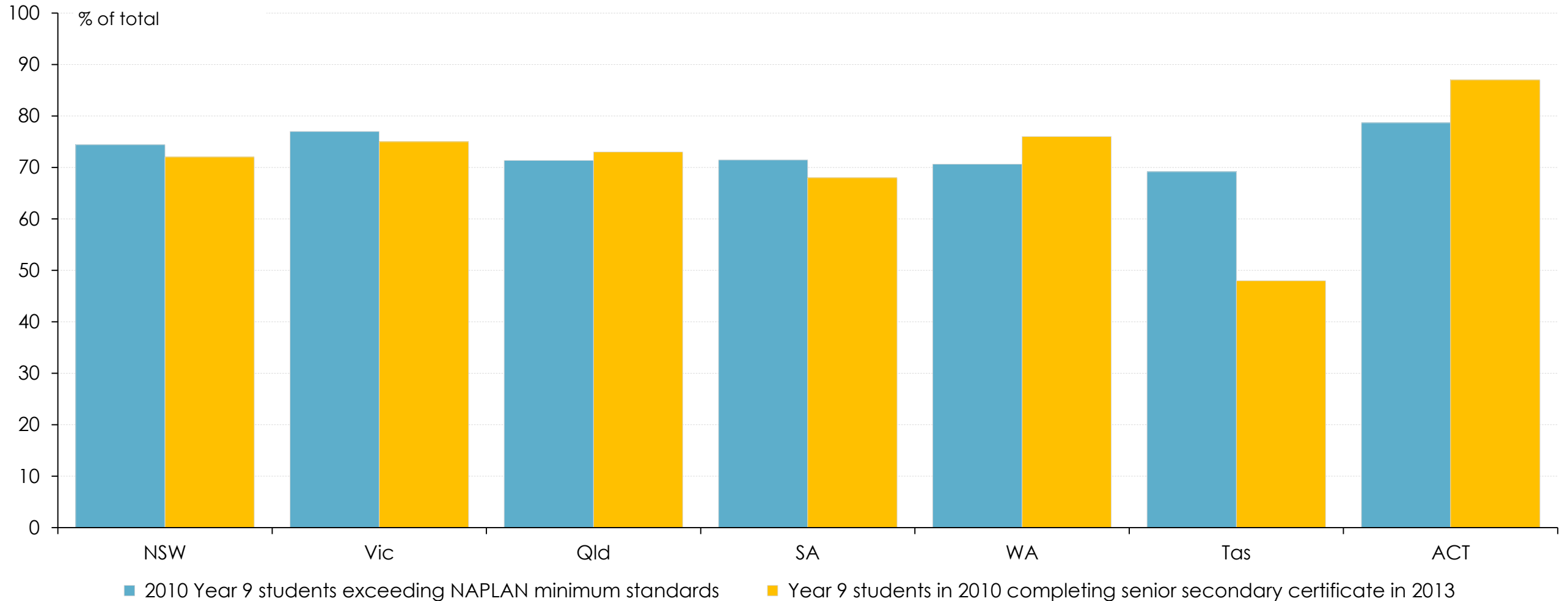


**A student from a high socio-economic status (SES) household in Tasmania was less likely to have completed Year 12 in 2015 than a student from a low SES household in any other State**

Note: Low socioeconomic status is the average of the three lowest deciles, medium socioeconomic status is the average of the four middle deciles and high socioeconomic status is the average of the three highest deciles. Source: Productivity Commission, *Report on Government Services*, 2017, Volume B, Chapter 3.

# Tasmanian students do just as well as those from elsewhere in Australia at Year 9, but much less well at completing Year 12

## Year 9 NAPLAN results 2010 and subsequent senior secondary certificate completions

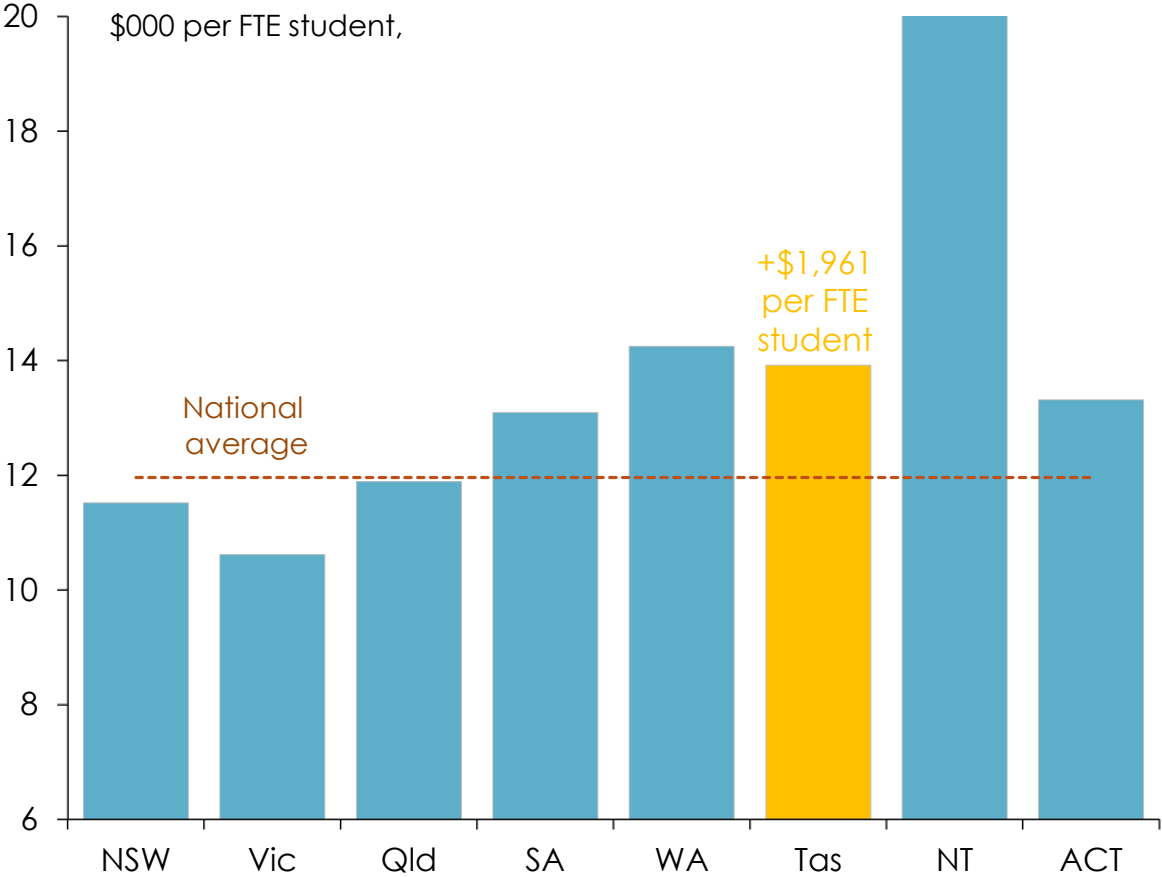


Source: Eleanor Ramsay and Michael Rowan, *Submission to State of Tasmania Years 9-12 Education Review*, September 2016

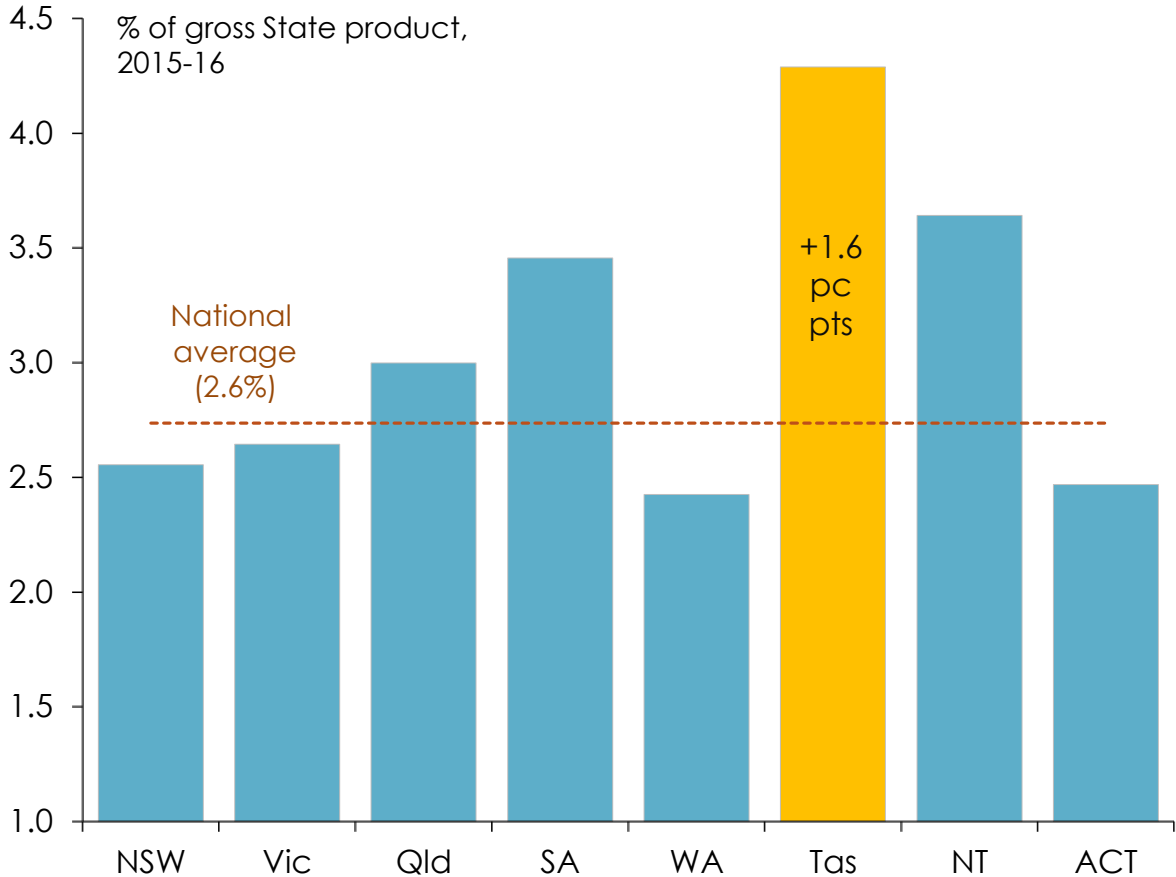
# Tasmania's poor educational participation and attainment rates aren't the result of insufficient government spending on education

## State and Territory government spending on primary and secondary education, 2015-16

Per full-time equivalent student



As a percentage of gross state product



Sources: ABS 4221.0 and 5518.0.55.001.



# So why are Tasmania's educational participation and attainment rates so low?

---

- ❑ A small part of the reason is that Tasmanian children start school about six months later than children in other states and territories
  - which means that they reach the age at which they can legally leave school having typically completed fewer full years of schooling than students in other states and territories
  - the Government failed in its attempts to bring the school starting age into line with the rest of Australia, partly because it didn't have a 'mandate', and because it hadn't understood the 'business model' of child care centres
- ❑ A much bigger part of the reason is the Tasmanian college system
  - which has created the impression that Year 10 is an acceptable 'exit point' from the education system
  - deprives students in Years 7-10 at government high schools of the opportunity to see Year 11 and 12 students as role models
  - breaks the bonds which students form with teachers and support staff in Years 7-10, forcing them to 'start again' at Year 11
  - is a much more expensive way of delivering Year 11 and 12 classes than the integrated systems of every other state
- ❑ If the college system is working so well, how come no other state has copied it?
- ❑ The Government's 'extension program' (Year 11 and 12 courses in rural and regional high schools) is showing positive results – the same opportunities should be given to students in urban areas

**Tasmania's future economy won't be  
like yesterday's – or today's**

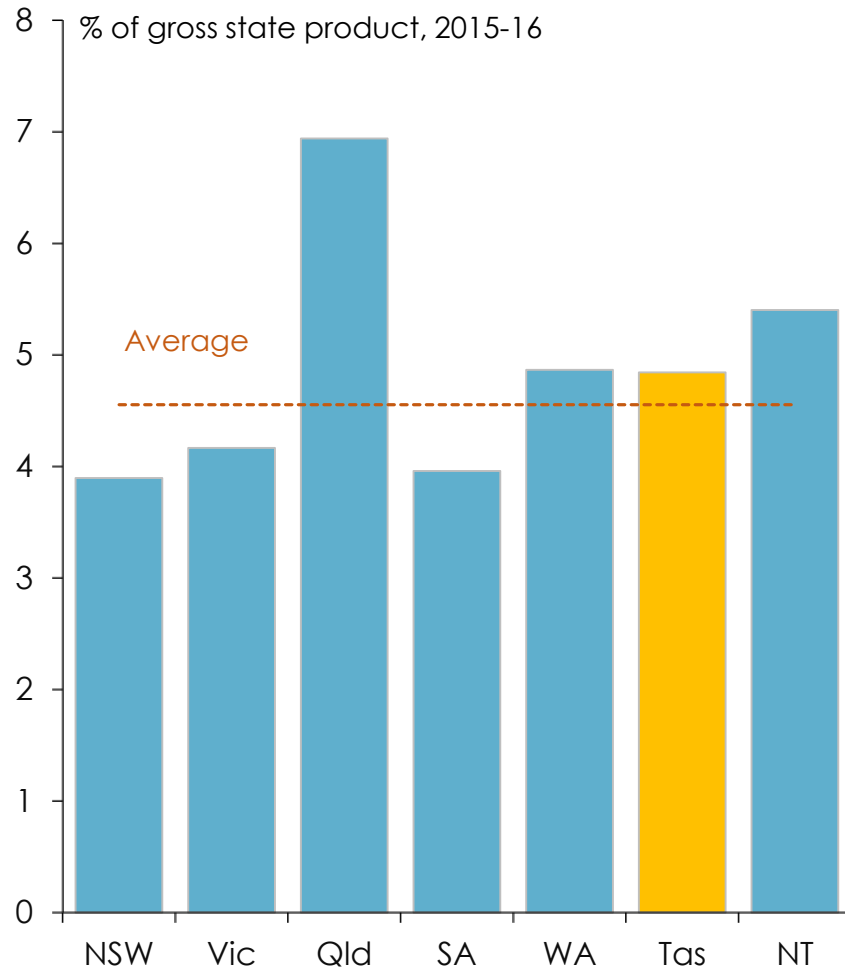
# The Tasmanian economy of tomorrow has to be different from yesterday's

- ❑ The 'old' Tasmanian economy which Bob Cosgrove and Eric Reece built – aided by Sir Allan Knight and Russ Ashton – and which Robin Gray tried to prolong using borrowed money – was only ever sustainable when 'the world' (as far as Tasmania was concerned) consisted of other high-cost locations such as the rest of Australia, Europe, North America and Japan
- ❑ In the world that has been evolving since the mid-1980s – driven by 'globalization' and the rise of 'emerging markets', and rapid technological change – it's no longer economically sustainable for Tasmania to rely on the volume production of essentially undifferentiated commodities competing solely on the basis of price
  - at least, not without paying much lower wages and taxes, and further despoiling the environment
- ❑ Instead, Tasmania's economic prosperity will increasingly depend on its ability to produce and market highly differentiated goods and services, embodying a significant intellectual content, for which customers can be persuaded to pay premium prices
  - this is the only way producers based in Tasmania can overcome the disadvantages inherent in small scale and great distance from markets – whilst still being able to pay 'decent' wages, sufficient taxes to finance the public services Tasmanians want, and being able to maintain OHS, environmental and other standards
- ❑ That's not to say that there is no role for 'traditional' commodity-based / energy intensive industries in Tasmania – they make an important and valuable contribution to the economy and employment
  - but we can't realistically expect them to be major drivers of future growth

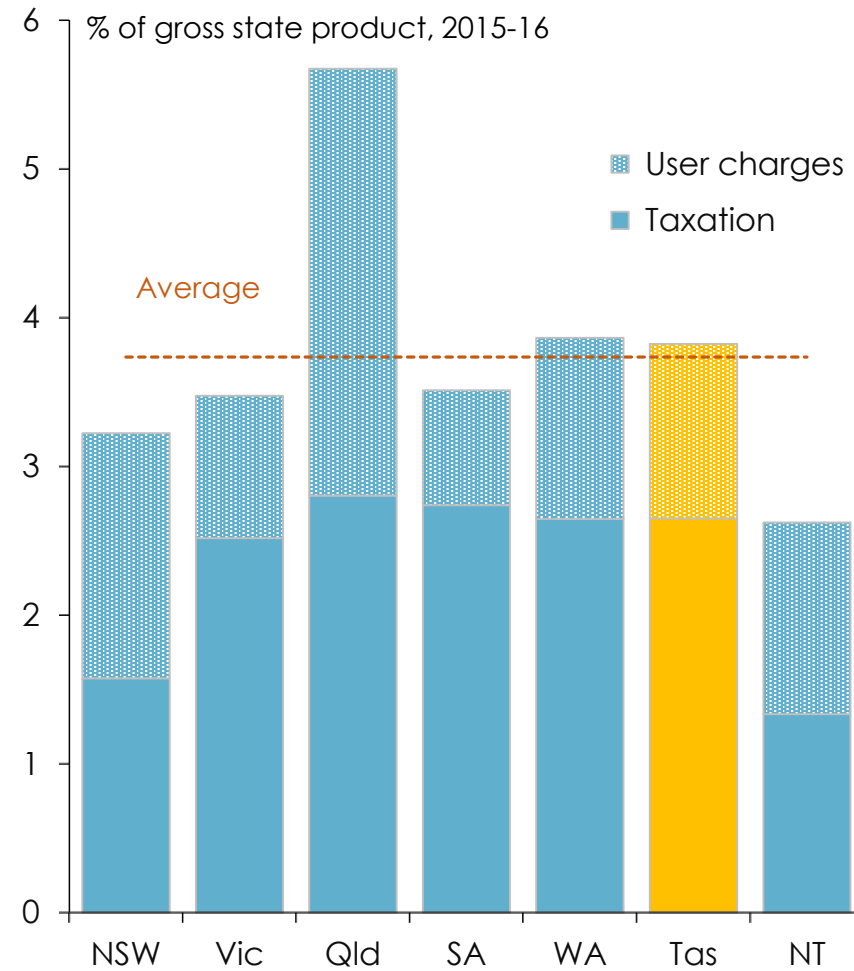
**The role of local government in all this**

# Local government in Tasmania is a little bit larger, relative to the size of the state economy, than the average

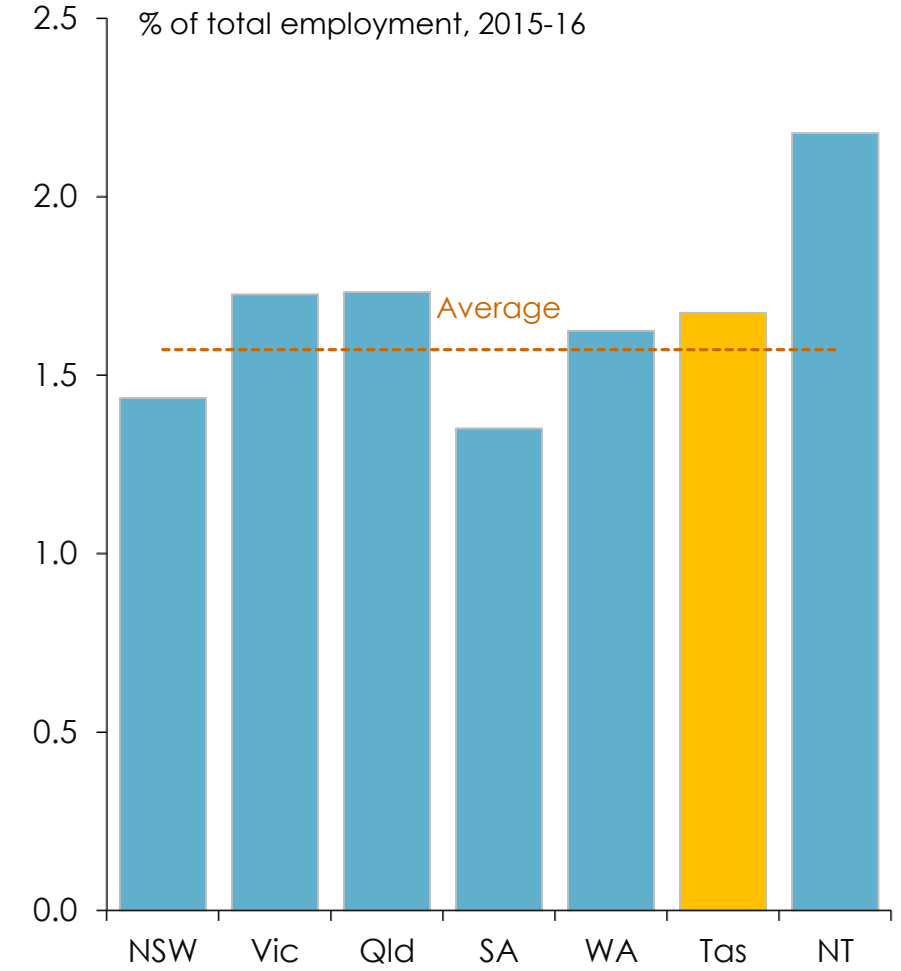
## Local government spending 2015-16



## Local government own-source revenues, 2015-16



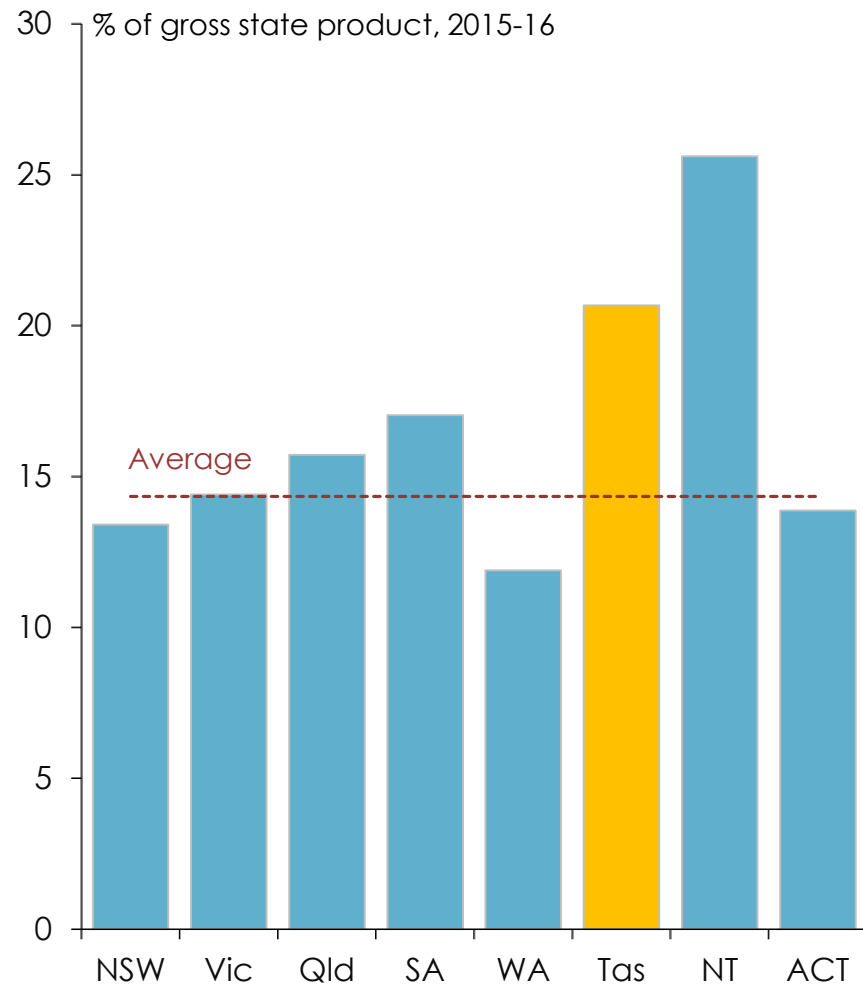
## Local government employment, June 2016



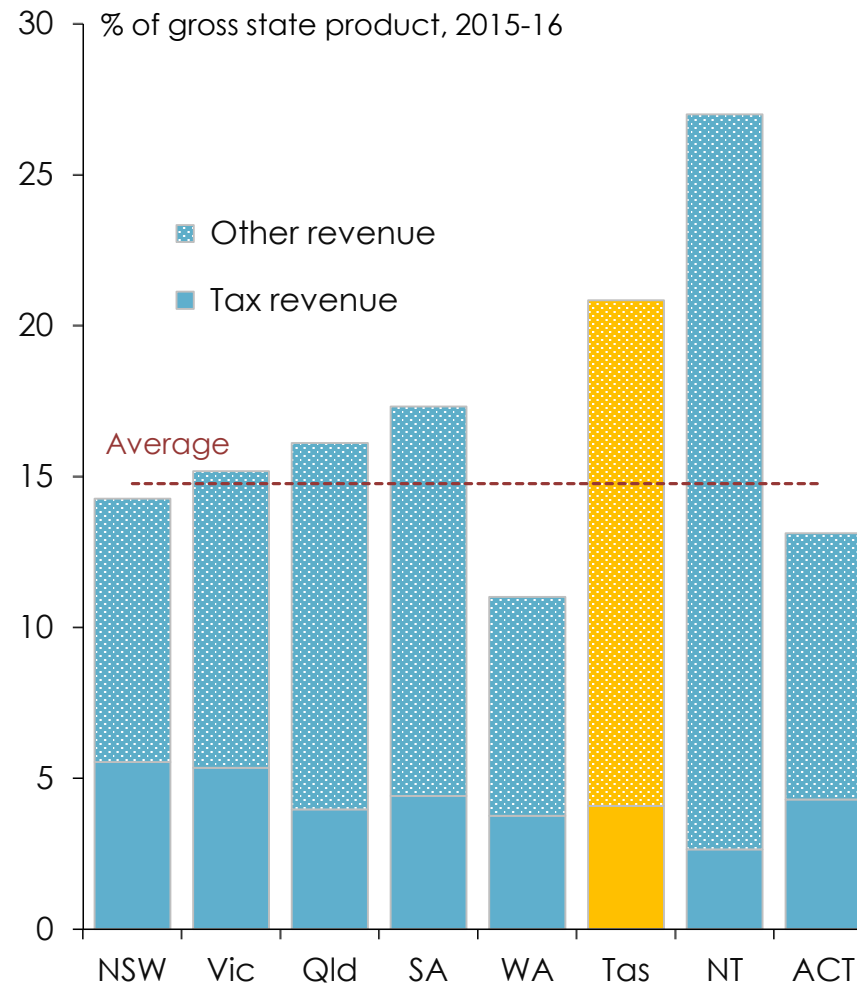
Sources: ABS 5512.0, 6248.0.55.002, 5220.0, and 6201.0

# ... though not nearly as large, by comparison with other states and territories, as the State Government

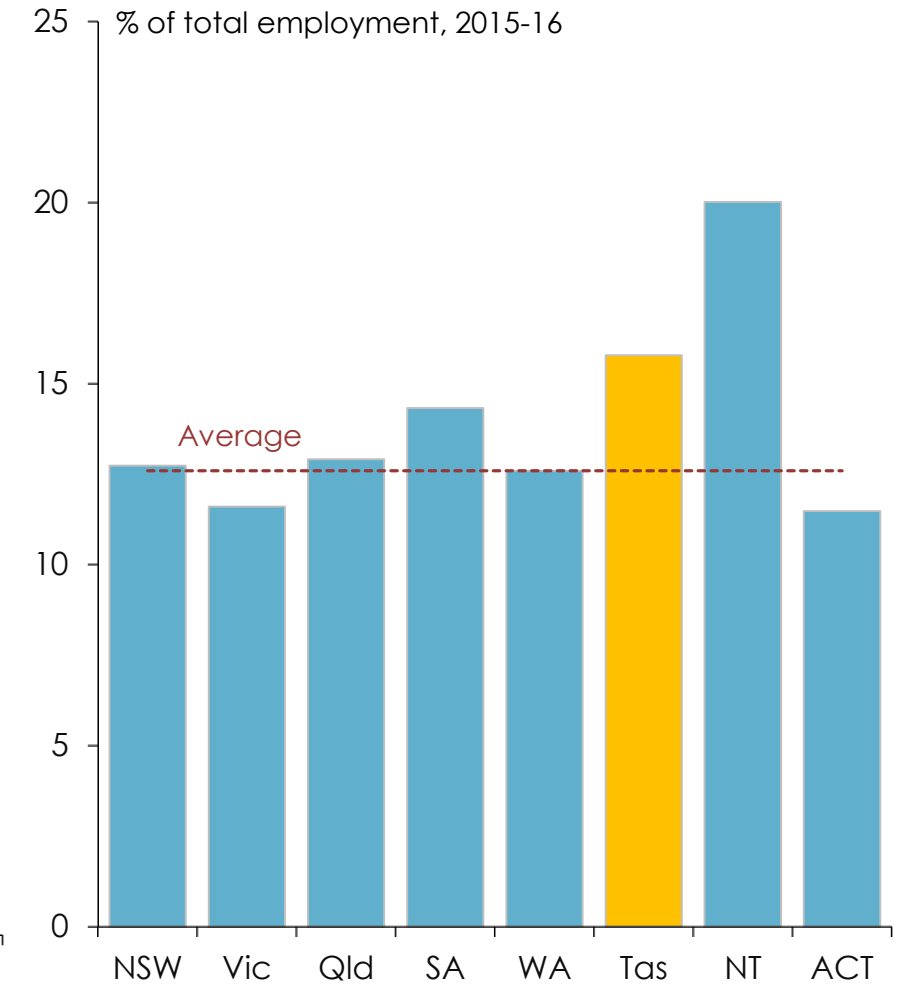
## State government spending 2015-16



## State government own-source revenues, 2015-16



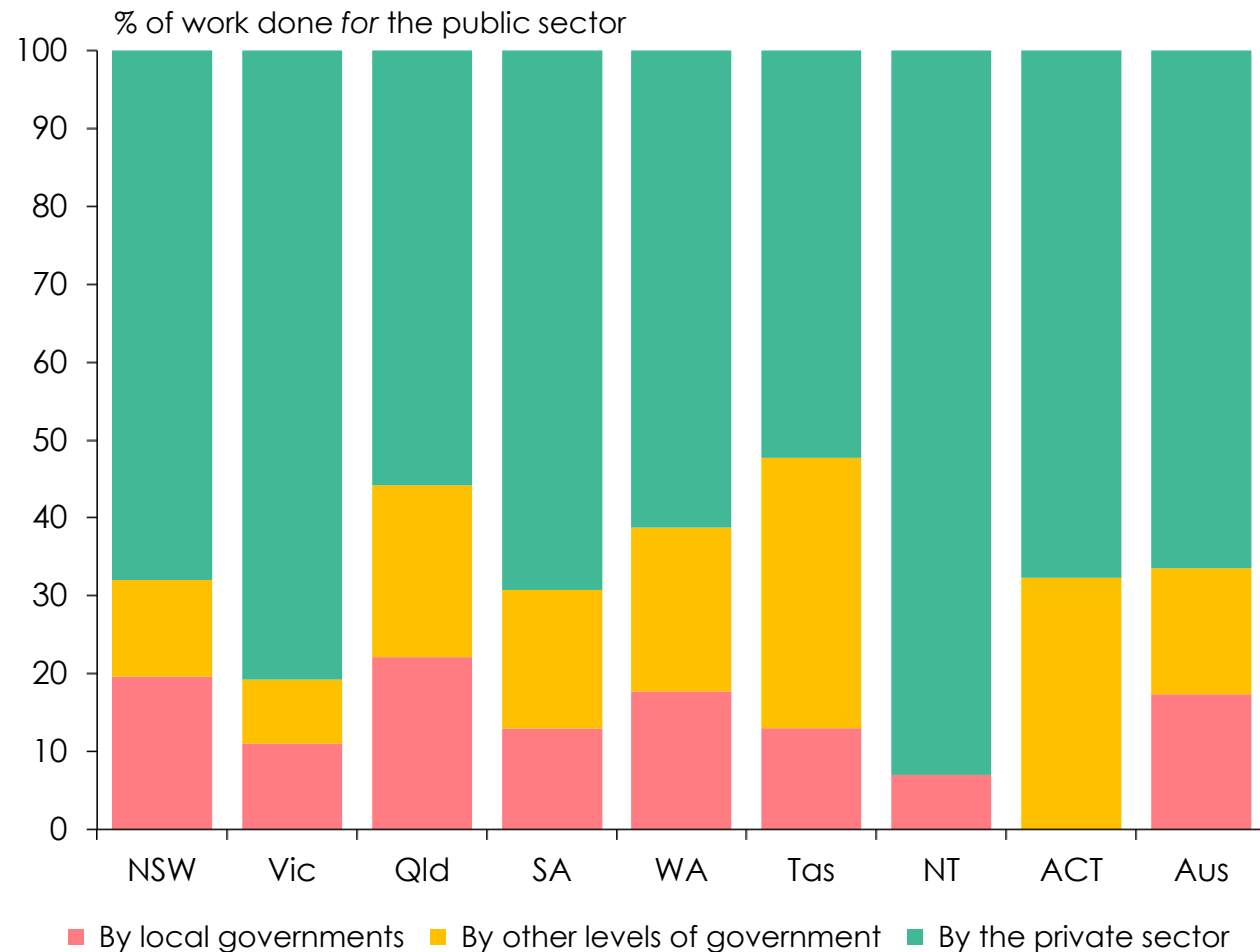
## State public sector employment, June 2016



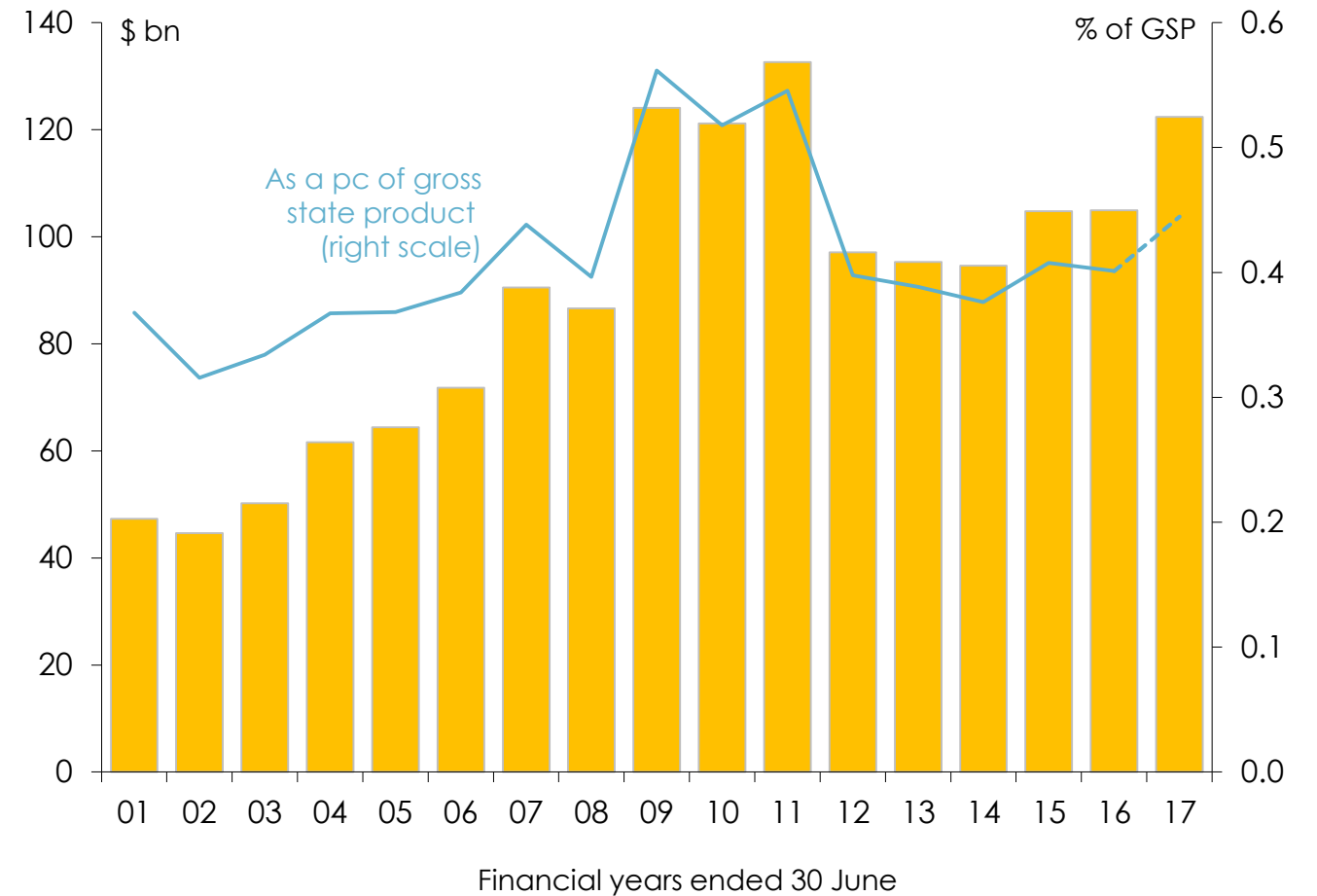
Sources: ABS 5512.0, 6248.0.55.002, 5220.0, and 6201.0

# Local government does a smaller proportion of infrastructure spending in Tasmania than most other states, but it has picked up in recent years

## EC work done by local governments as a pc of total for the public sector, 2016-17



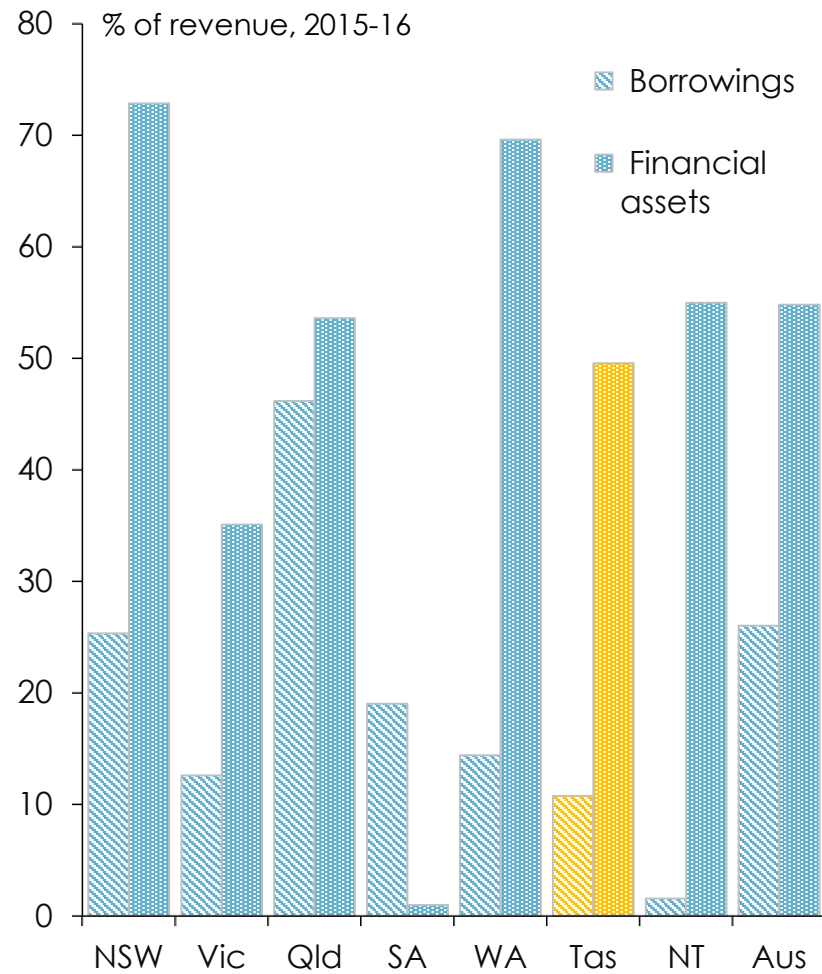
## Engineering construction (EC) work done by local governments in Tasmania



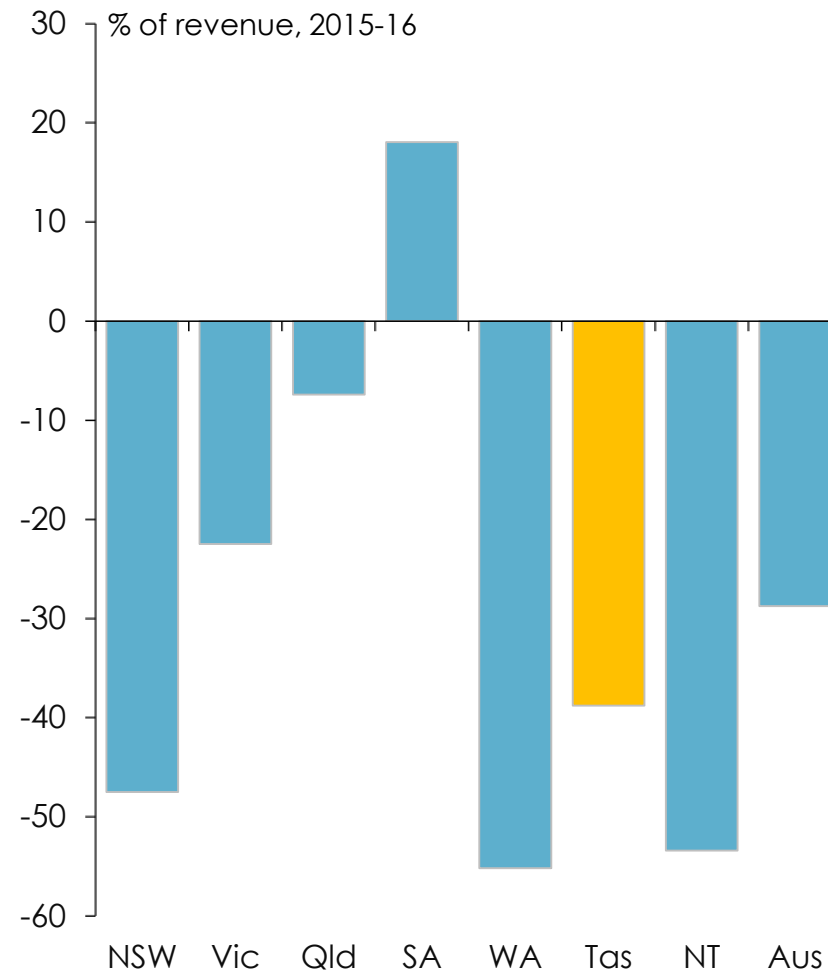
Source: ABS 8762.0

# Local governments, including in Tasmania, could afford to use debt to fund more infrastructure spending

## Local government debt and financial assets, 2015-16



## Local government net debt, 2015-16



## Tasmanian local government net debt, 2000-01 to 2015-16



Source: ABS 5512.0.



# But infrastructure investment is only a ‘Good Thing’ if projects are rigorously selected and subject to appropriate governance

**“Poor governance is a major reason why infrastructure projects often fail to meet their timeframe, budget and service delivery objectives”**

– OECD, *Getting Infrastructure Right: The Ten Key Governance Challenges and Policy Options*, March 2017, p. 2

**“All government spending, whether for day-to-day operations (recurrent) or capital, should be closely scrutinised for its quality. This requires a strong commitment to rigorous project assessment and program evaluation to determine which spending generates the strongest public benefits”**

– Australian Government, 2017-18 Budget Paper No. 1, *Budget Strategy and Outlook*, May 2017, p. 4-5

**“There are many examples in Australia of poor project selection leading to highly inefficient outcomes. In such cases investment in public infrastructure is a drain on the economy and tends to lower productivity and crowd out more efficient projects”**

– Productivity Commission, *Public Infrastructure*, Inquiry Report No 71, May 2014, p. 75

**“Strong governance is critical to make sure money is spent wisely in this area. There is no substitute for rigorous and transparent cost-benefit analysis ... Building public confidence in the governance process not only helps ensure that the most pressing projects are selected, but also helps build public confidence that the money is being spent wisely”**

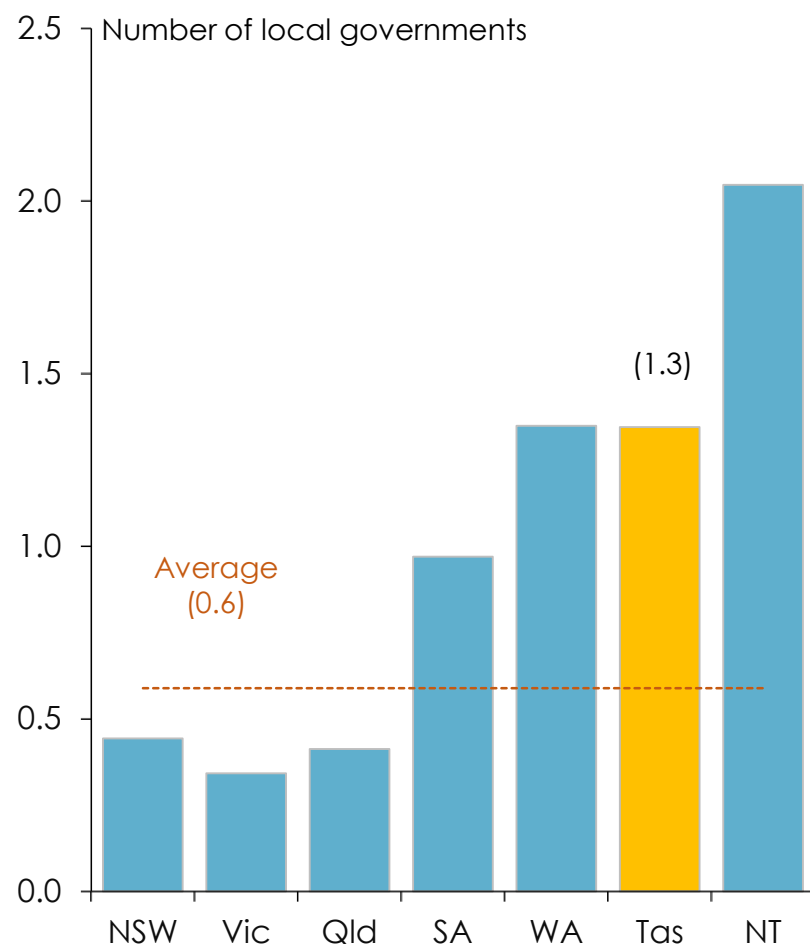
– Then Deputy RBA Governor Philip Lowe, ‘Productivity and Infrastructure’, 26<sup>th</sup> November 2013

**“Australia needs key infrastructure investments but there is a lack of rigor in identifying and assessing them ... There is unacceptable secrecy surrounding many projects; secrecy which undermines democratic accountability, erodes community trust and leaves everyone open to being misled and blindsided”**

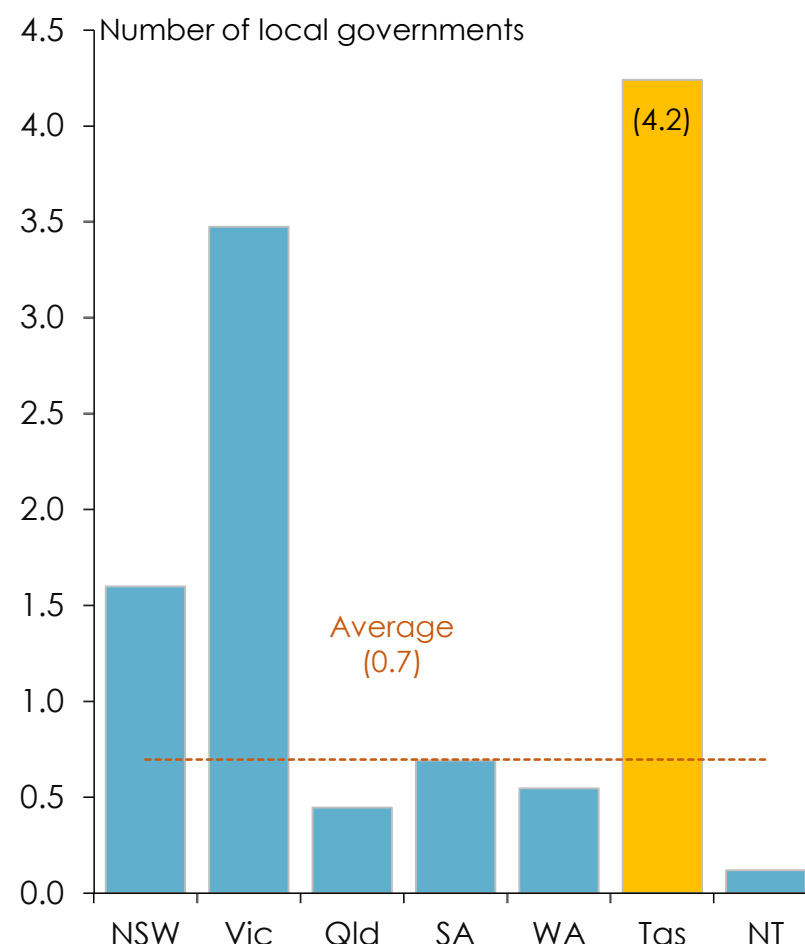
– John Menadue (former Secretary PM&C, Qantas CEO), *Pearls & Irritations*, 8<sup>th</sup> September 2017

# Tasmania has a lot of councils, relative to its population, and its area – but it doesn't seem to result in higher costs for ratepayers

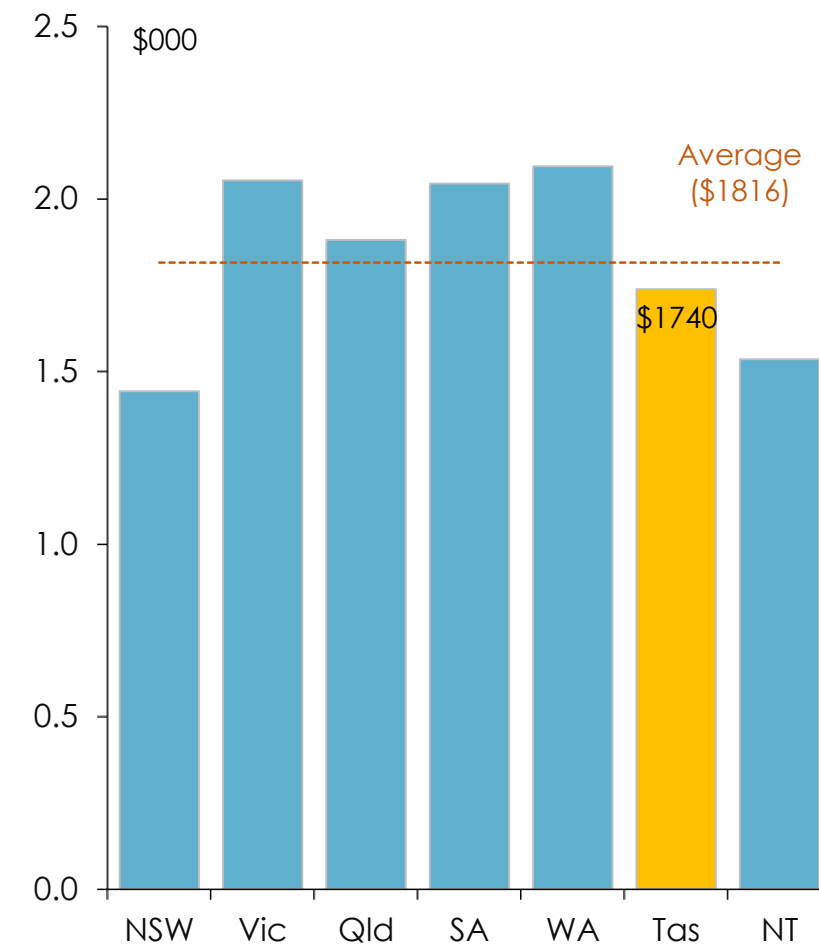
## Local governments per 10,000 households, 2015-16



## Local governments per 10,000 sq kms, 2015-16



## Rate revenue per household, 2015-16



For more details...

[bettercallsaul.com.au](http://bettercallsaul.com.au)

---

**SAUL ESLAKE**