

TASMANIA'S ECONOMY – PAST, PRESENT AND FUTURE

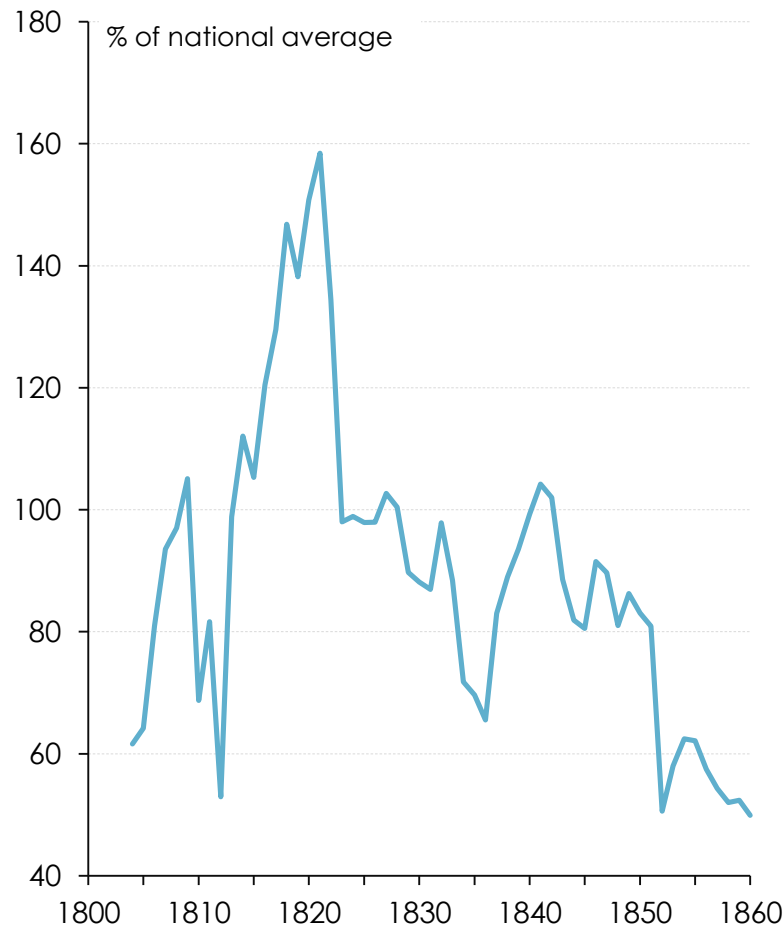
PRESENTATION TO THE TASMANIAN ECONOMIC FORUM
HOSTED BY THE ECONOMIC SOCIETY OF AUSTRALIA (TASMANIA BRANCH)

HOBART FUNCTION AND CONFERENCE CENTRE
–1ST MARCH 2018

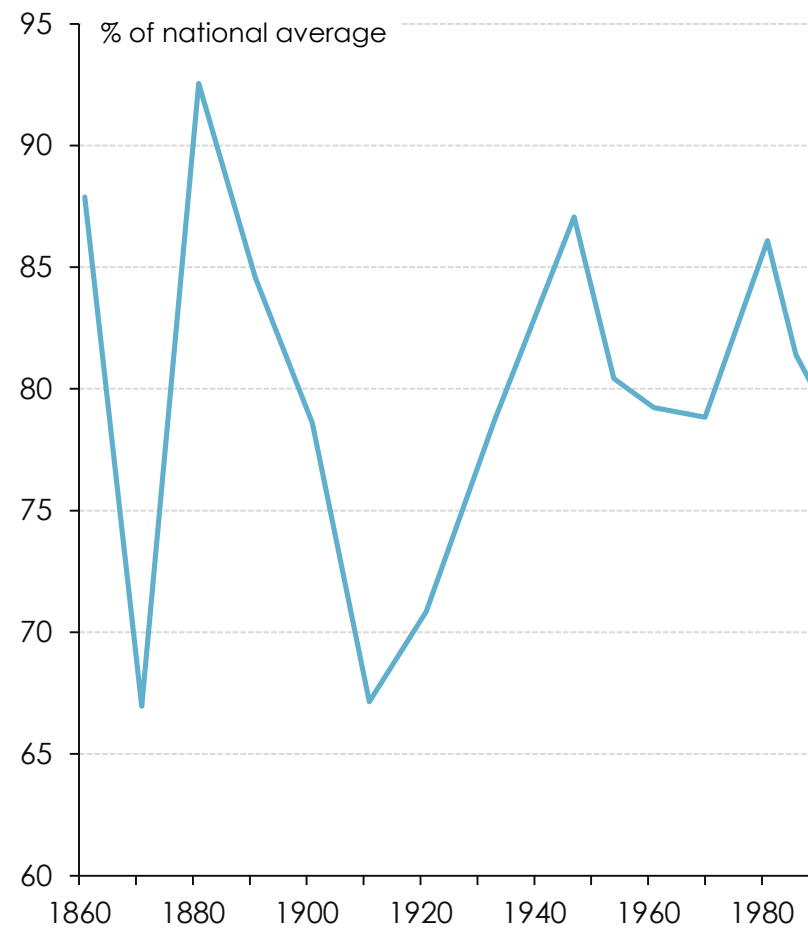
Except for a brief period 190-205 years ago, Tasmania has always been poorer than the rest of Australia

Estimates of Tasmania's per capita gross product as a percentage of the national average

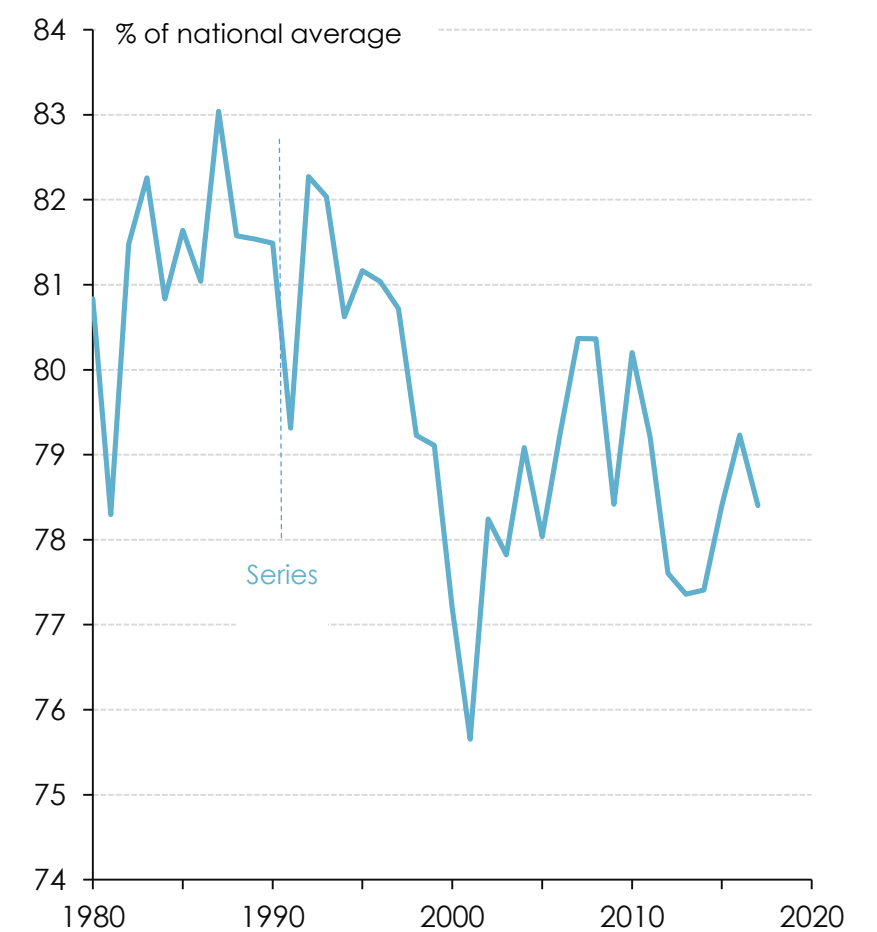
1805-1860 (Butlin & Caldwell)



1860-1981 (Cashin)



1980-2017 (ABS)



Sources: NG Butlin, 'Australian National Accounts' and JC Caldwell, 'Population', in Wray Vamplew (ed), *Australians: Historical Statistics*, 1987; PA Cashin, 'Real GDP in the Seven Colonies of Australasia 1861-1991', *Review of Income and Wealth*, Series 1, No. 1, March 1995; ABS, *State Accounts (5220.0)*, 1992-93 and 2016-17.

The Lockyer Report – April 1926

Assistance with “Severe Conditions”

Sir Nicholas Lockyer’s Report
and Recommendations on Tasmania’s Claim

“A POSITION OF SERIOUS MOMENT”

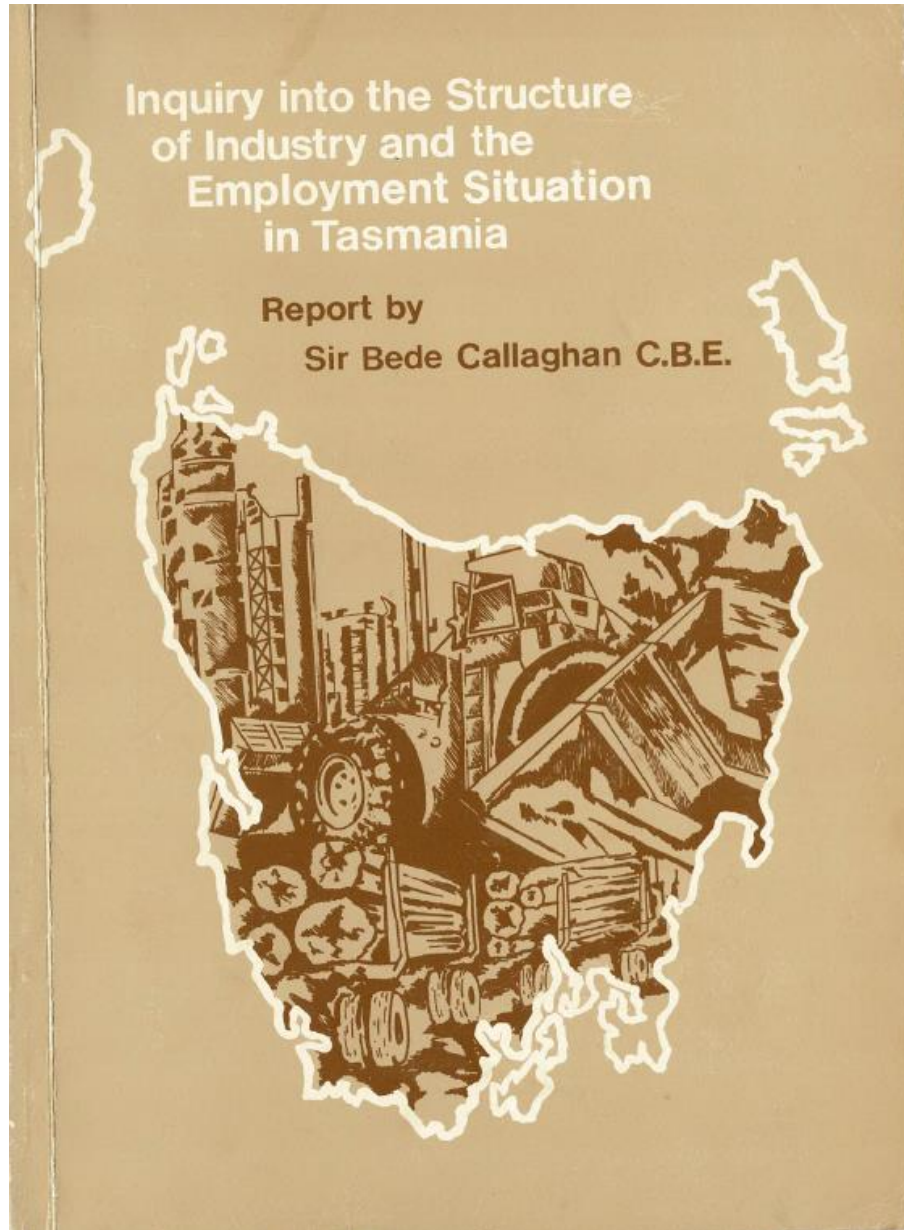
Immediate Attention Necessary



SIR NICHOLAS LOCKYER.

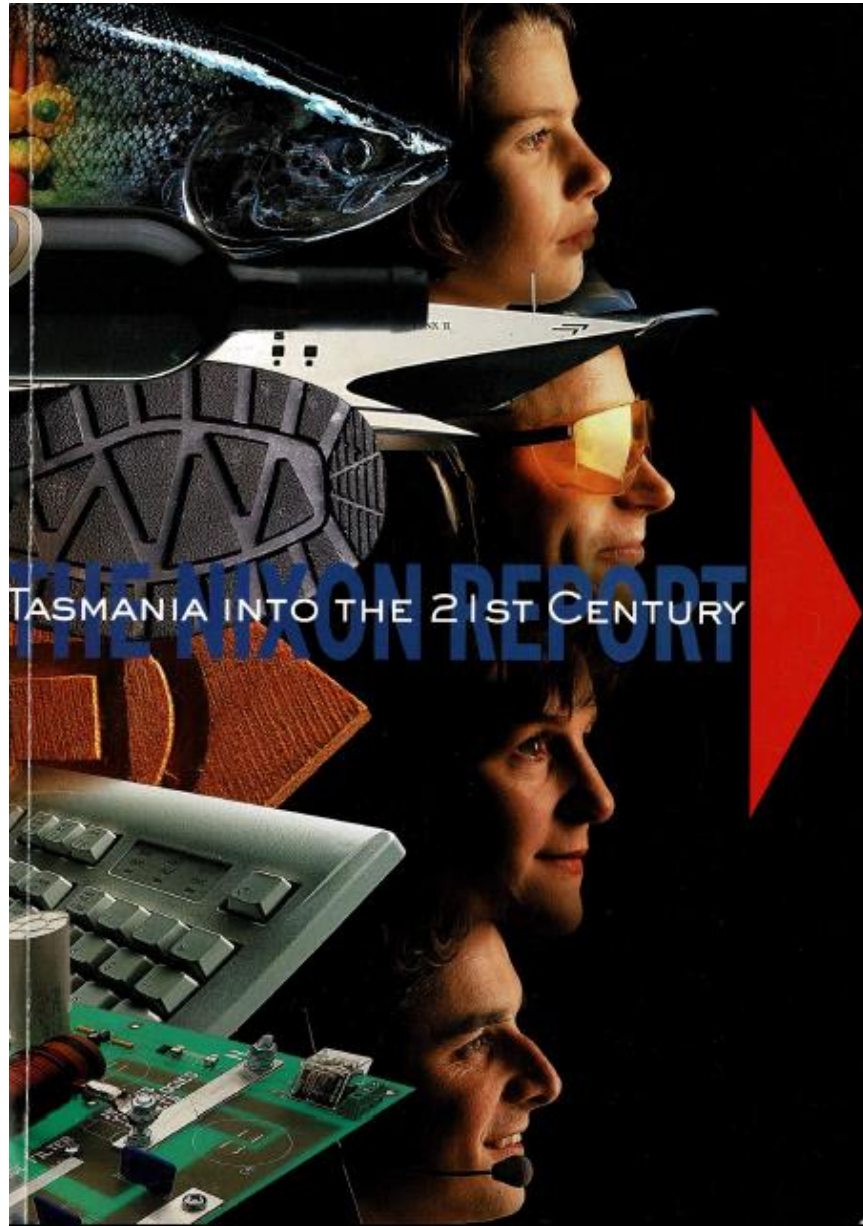
- “Tasmania ... not only has been unable to share in the remarkable prosperity which has been so marked a feature in regard to Australia generally during the period covered by Federation but to an increasing extent each year she lags behind her more fortunate sister States”
- “Not the least of the disabilities under which Tasmania is suffering is the pessimism on the part of some of the leaders of public opinion ... This want of faith ... constitutes a danger of engendering a spirit of helplessness and dependence which is about the worst thing that could happen”
- “The ultimate success of any assistance which the Commonwealth may extend to Tasmania ... will not be possible unless it is accompanied by greater confidence on the part of the leaders of public opinion and the people in the future of their [state], and by a far wiser Government administration than has been characteristic of past years”

The Callaghan Report – June 1977



- ❑ “Tasmania has not, in an economic sense, performed as well as Australia as a whole”
- ❑ “Tasmanians do not seem, in a material sense, to be as well off as Australians in general”
- ❑ “I expect Tasmania to continue its historical (economic) decline, relative to the rest of Australia ... the expected relative decline should be seen as the continuation of a long-term trend which stretches back prior to Federation”
- ❑ “Tasmania’s work force is less qualified (in the usual sense of that term) than the Australian labour force as a whole”
- ❑ “Tasmania lags well behind Australia as a whole in participation in senior secondary schooling and in all three sectors of post-secondary education”

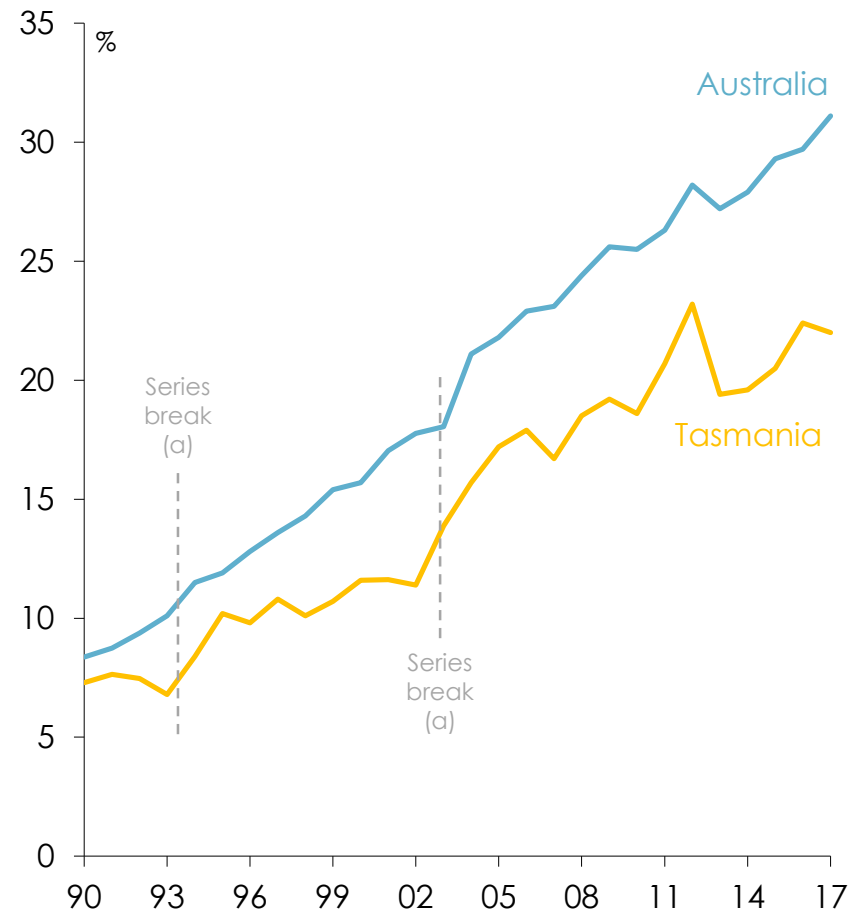
The Nixon Report – July 1997



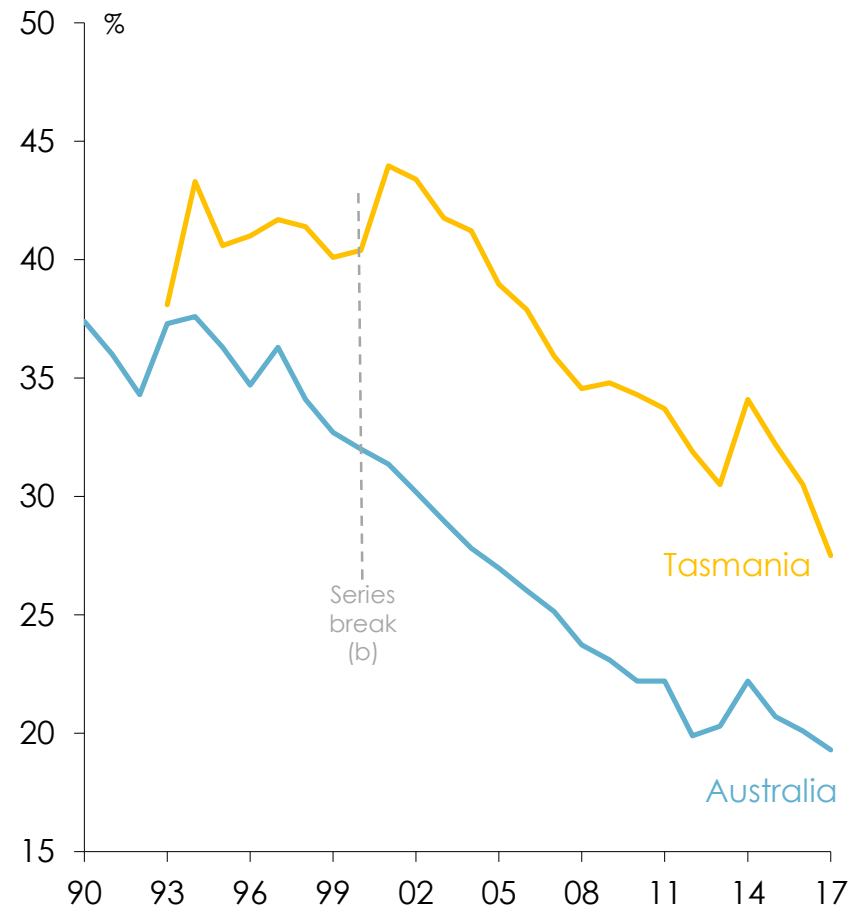
- ❑ “the long-term growth in the output of Tasmania’s economy ... has been substantially lower than the national average, and in all other States”
- ❑ “the Tasmanian economy has the poorest job creation record of any State since the late 1970s”
- ❑ “Tasmanians have lower incomes than other Australians, and the gap appears to be widening over time”
- ❑ “Tasmania suffers from low labour productivity, and a lower growth in productivity, over the past decade in comparison with other States”
- ❑ “The education system, in its current form, does not appear to be delivering the appropriate training to support economic growth in the State ... the Tasmanian work force has a lower level of educational qualification compared to other States and the national average”

Tasmania has continued to lag the rest of Australia in terms of educational attainment and participation

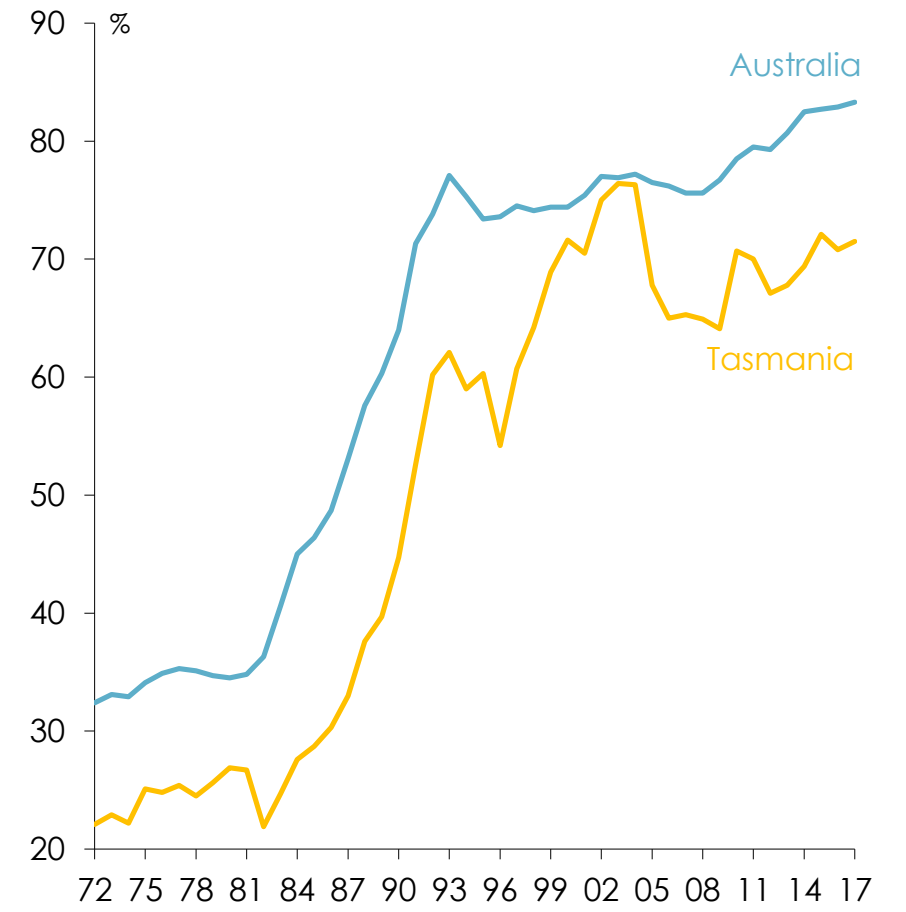
Proportion of 15-74 year olds with a bachelor degree or higher



Proportion of 15-74 year olds who left school at Year 10 or earlier



Apparent retention rate from Year 10 to Year 12 of high school



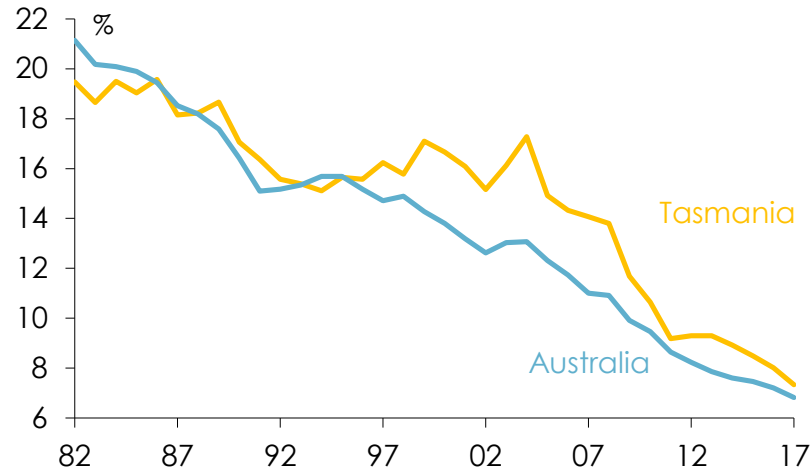
Note: (a) Populations are those aged 15-69 before 1993, and 15-65 between 1994 and 2003. (b) Prior to 2000, proportion of population who had 'not completed highest year of school'.

Sources: ABS, Education and Work (6227.0); Australian Social Trends (4102.0); Labour Force Status and Educational Attainment (6235.0); Schools, Australia (4221.0).

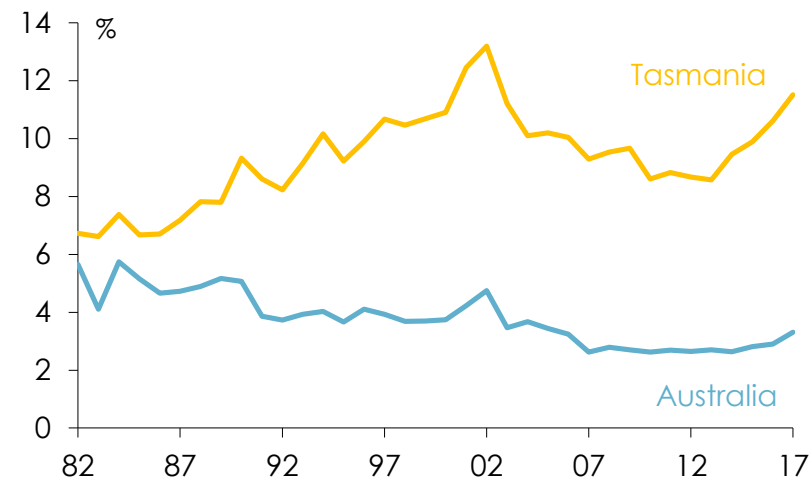
The structure of Tasmania's economy has changed a lot since the 1980s – in many ways becoming less like the rest of Australia

Industry shares of gross product at factor cost – Tasmania and Australia

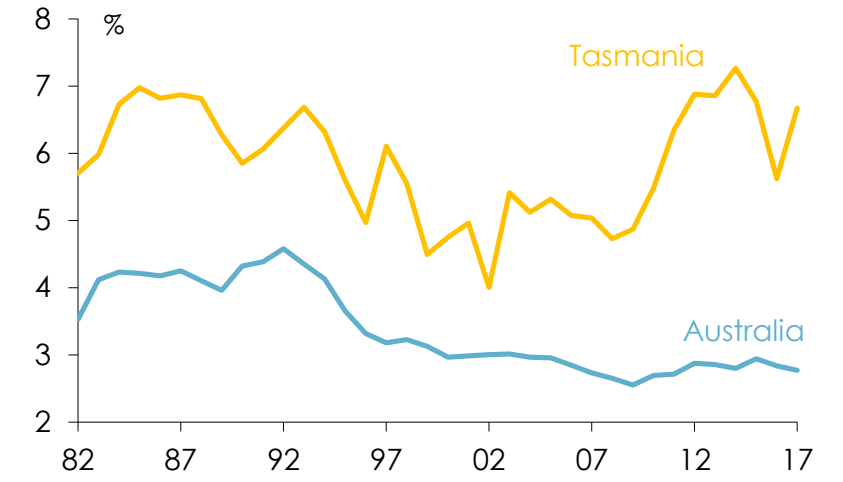
Manufacturing



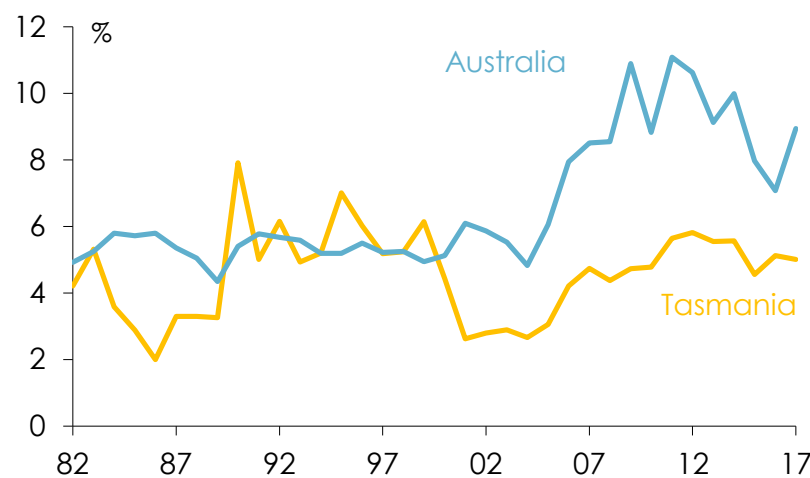
Agriculture, forestry & fishing



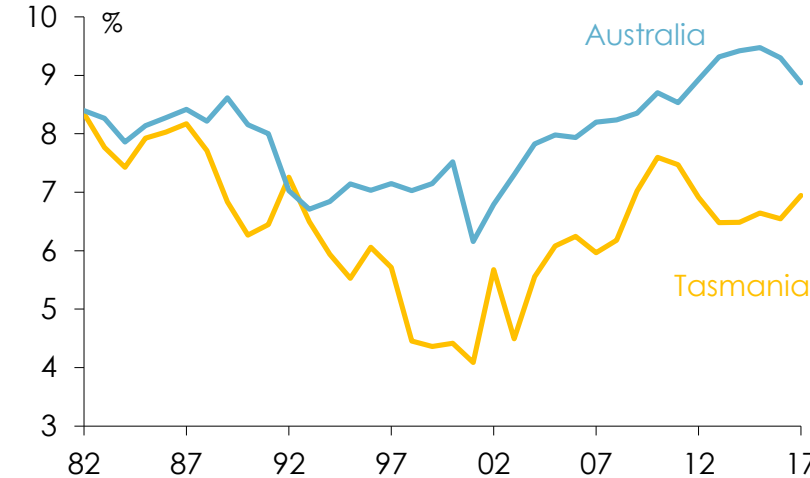
Electricity, gas & water supply



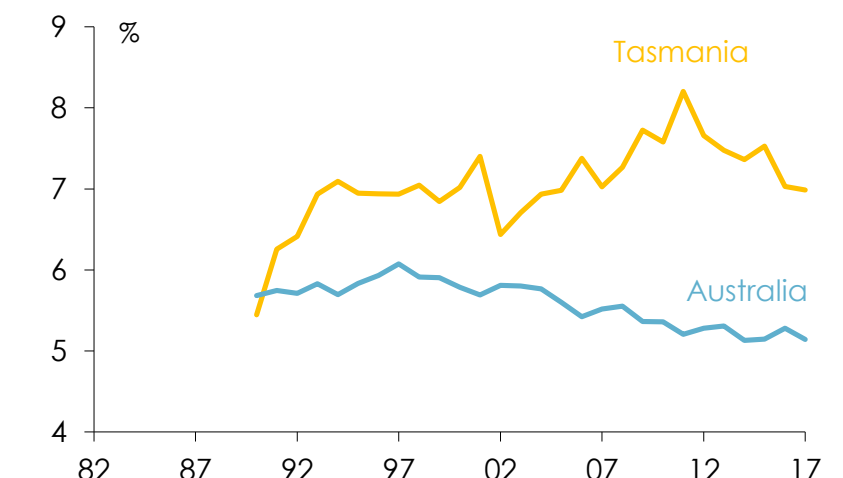
Mining



Construction



Retail trade

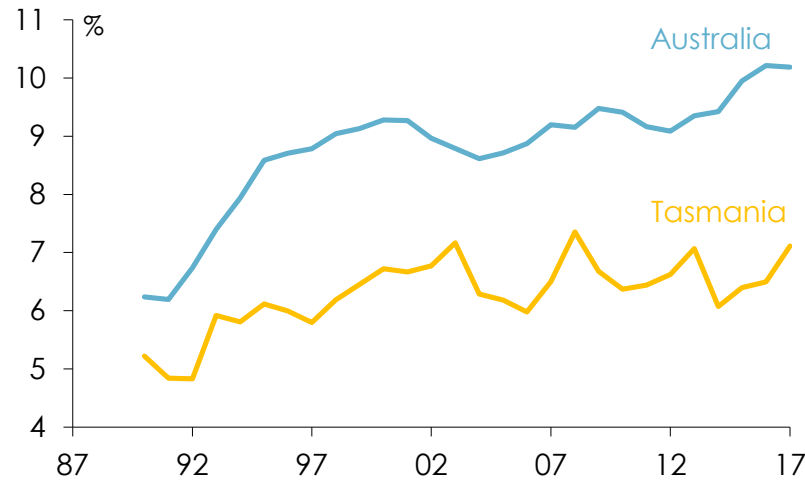


Note: Data are for financial years ended 30 June. 'GDP at factor cost' is the sum of employee compensation, gross operating surplus and gross mixed income; the total excludes gross operating surplus in ownership of dwellings, indirect taxes less subsidies and the statistical discrepancy. Note that there is a 'series break' between 1988-89 and 1989-90. Sources: ABS State Accounts (5220.0), 1992-93 and 2016-17.

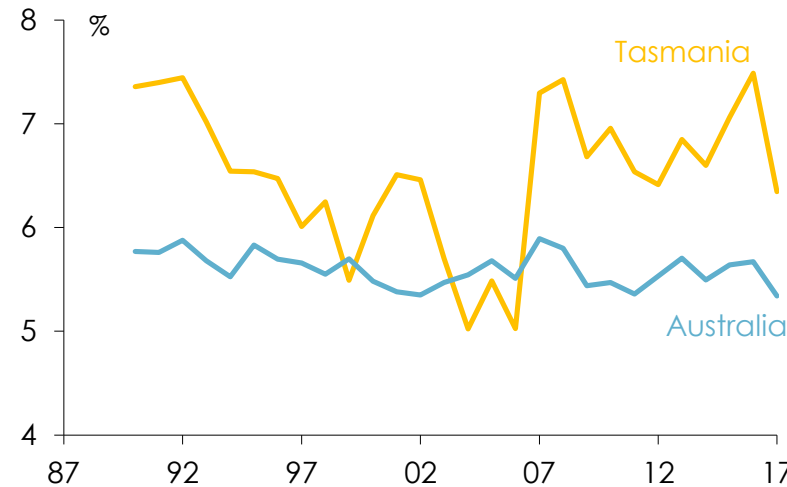
The structure of Tasmania's economy has changed a lot since the 1980s – in many ways becoming less like the rest of Australia

Industry shares of gross product at factor cost – Tasmania and Australia (continued)

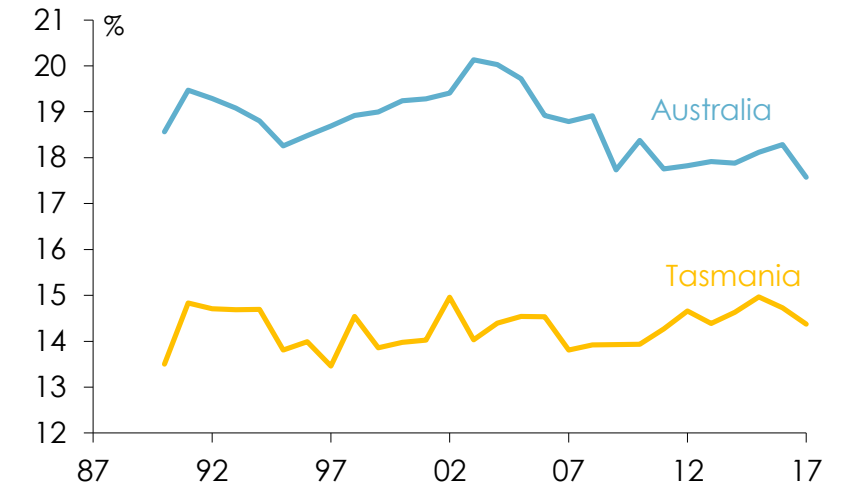
Finance and insurance



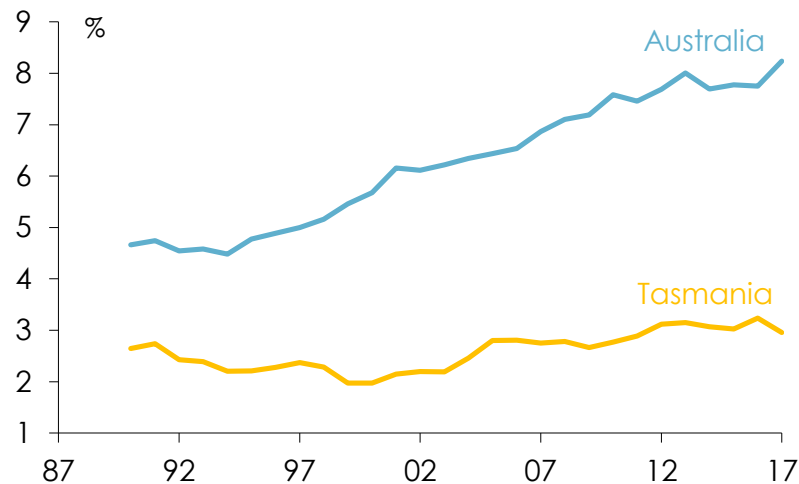
Transport, postal & warehousing



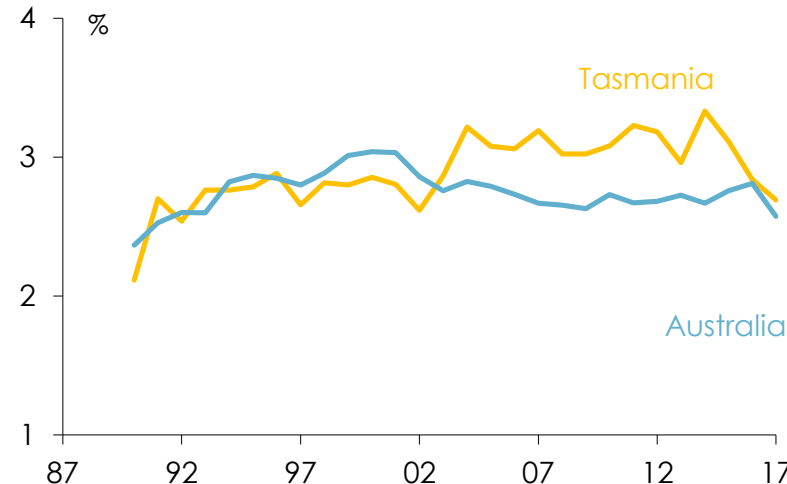
Other (mostly) private services



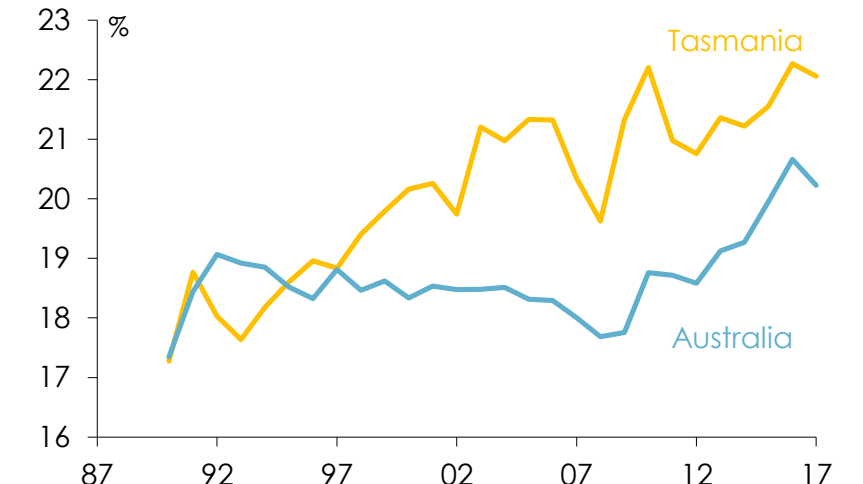
Professional & technical services



Accommodation & food services



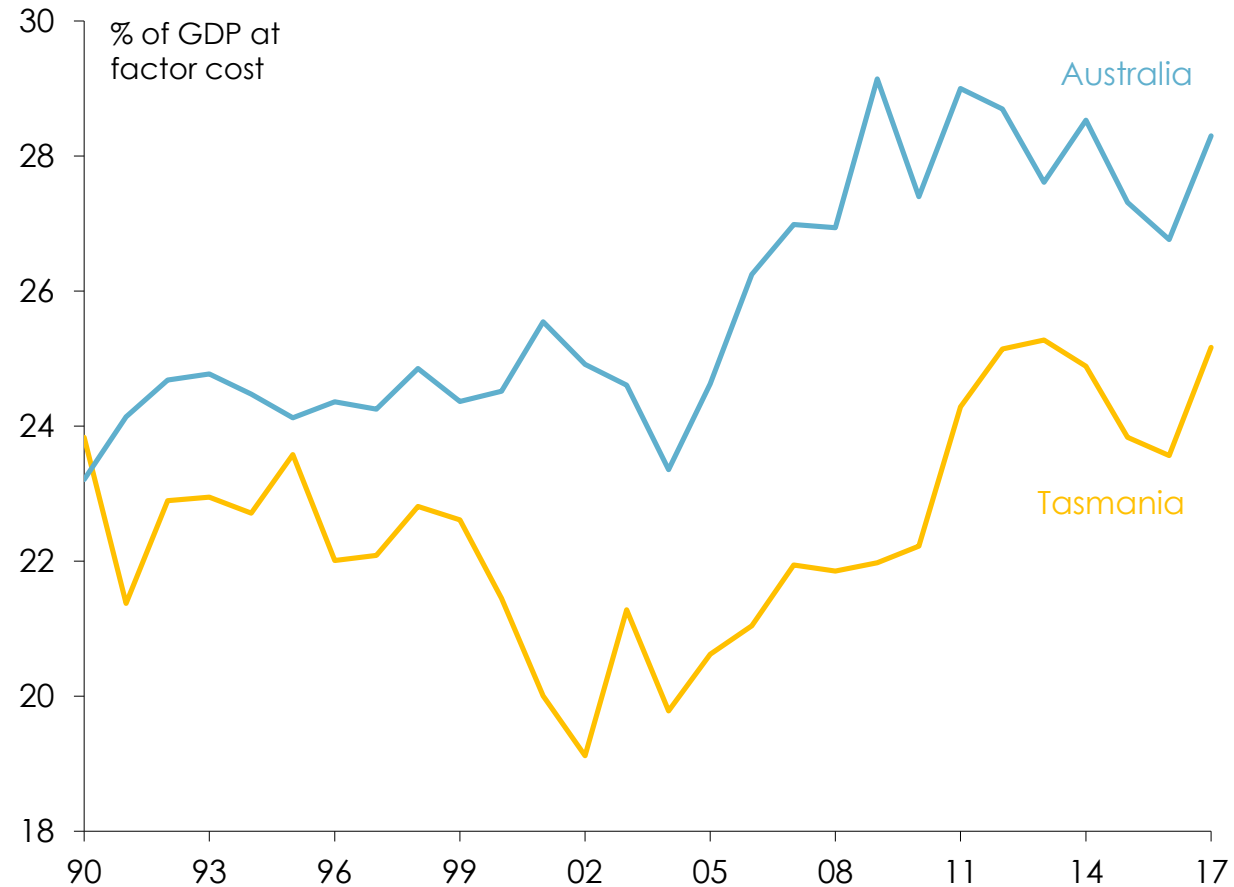
(Mostly) public services



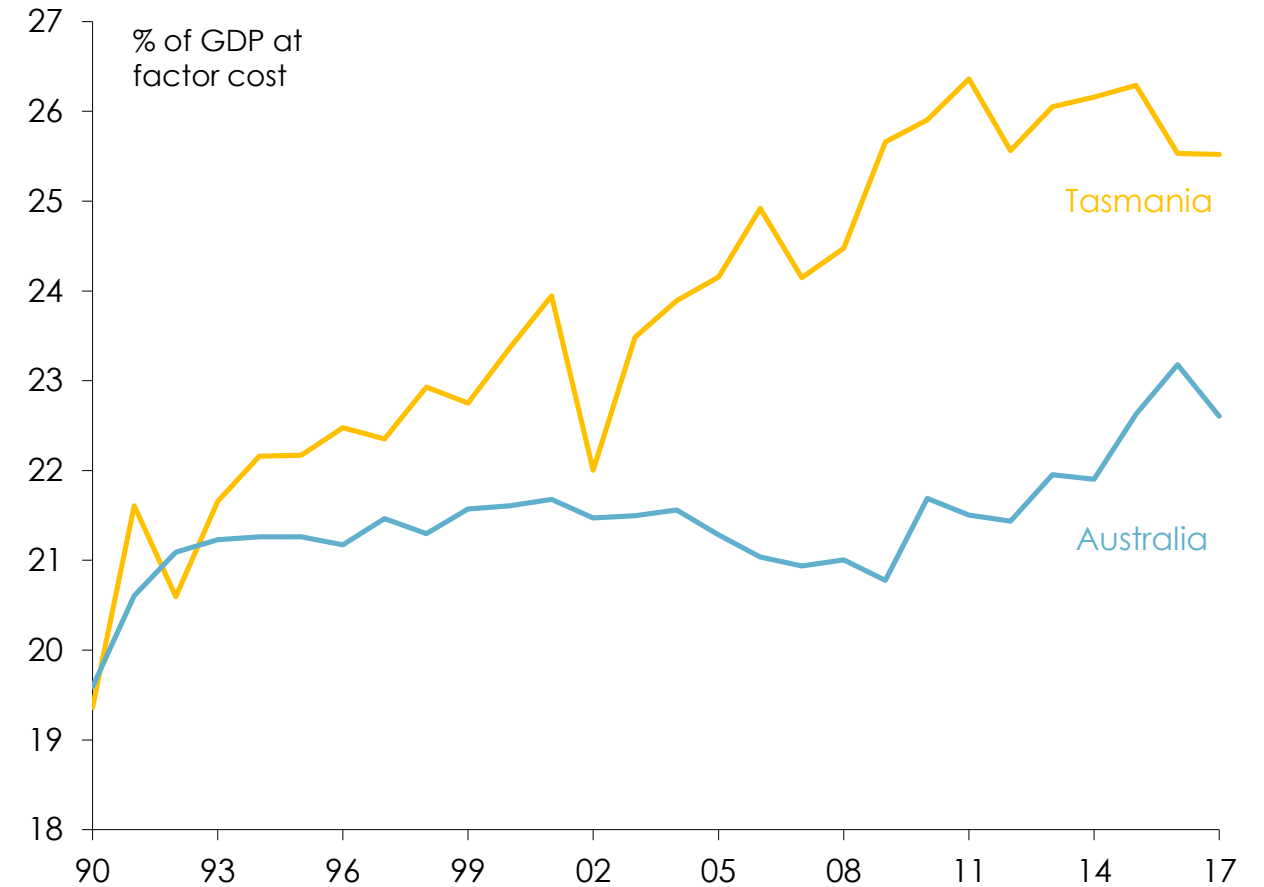
Note: See footnotes to previous chart. 'Other (mostly) private services' includes wholesale trade; information, media & telecoms services; rental, hiring & real estate services; administration & support services; art & recreation services; and other services. '(Mostly) public services' includes public administration & safety; education & training; and health care & social assistance. Sources: ABS State Accounts (5220.0), 1992-93 and 2016-17.

This structural change has detracted from Tasmania's overall level of labour productivity compared with that of Australia as a whole

'Intrinsically high' labour productivity industries as a pc of GDP at factor cost



'Intrinsically low' labour productivity industries as a pc of GDP at factor cost

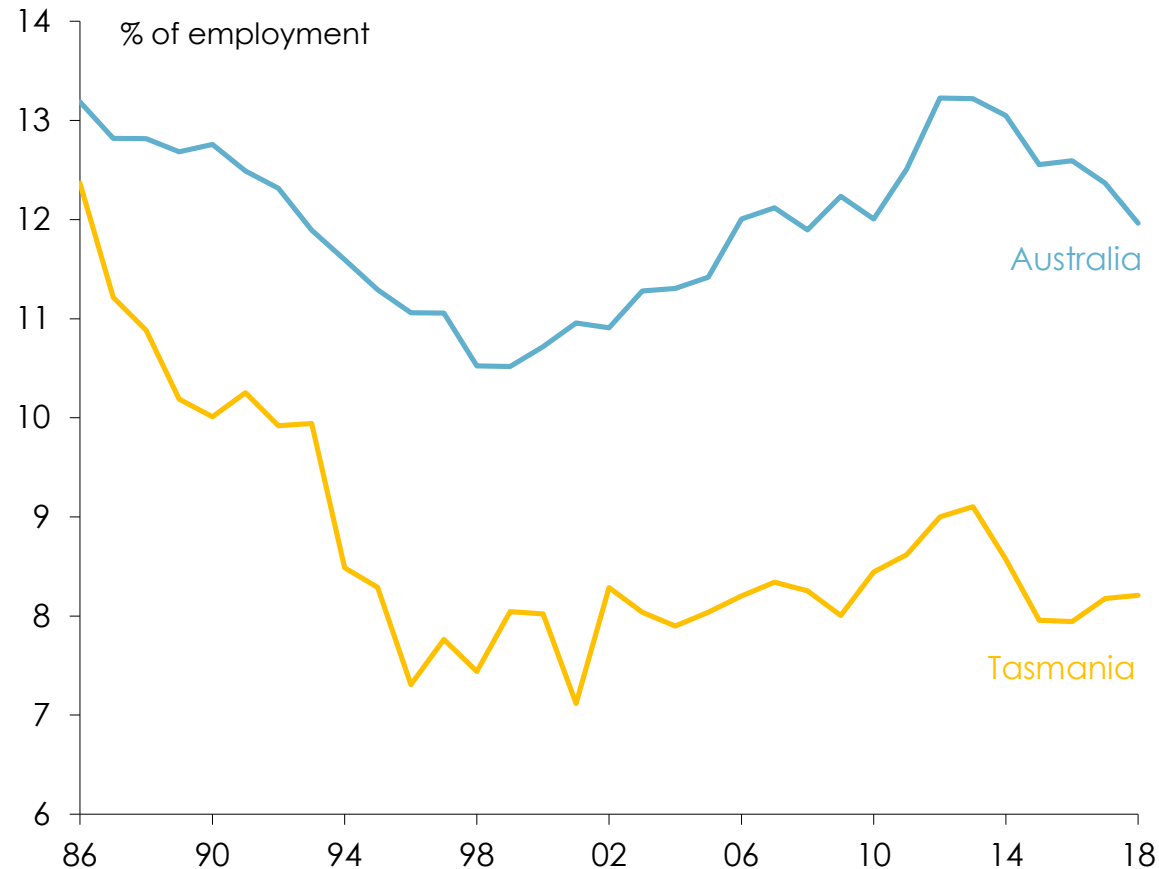


Note: 'Intrinsically high' labour productivity industries are mining; finance & insurance services; electricity, gas, water & waste services; rental, hiring & real estate services; and information, media & telecommunications services – in all of which, gross value added per hour worked was above the average for all industries across Australia in 2016-17. 'Intrinsically low' labour productivity industries are education & training; health care & social assistance; retail trade; art & recreation services; accommodation & food services; and other services – in all of which, gross value added per hour worked was less than 55% of the national average for all industries in 2016-17. Note that in some of these sectors, particularly education & training and health care & social assistance, labour productivity is very difficult to measure. Labour productivity calculated as gross value added per hour worked, with hours worked derived as the average of the published estimates for the labour force survey in the middle month of each quarter in each financial year, multiplied by 52. Data are for financial years ended 30 June.

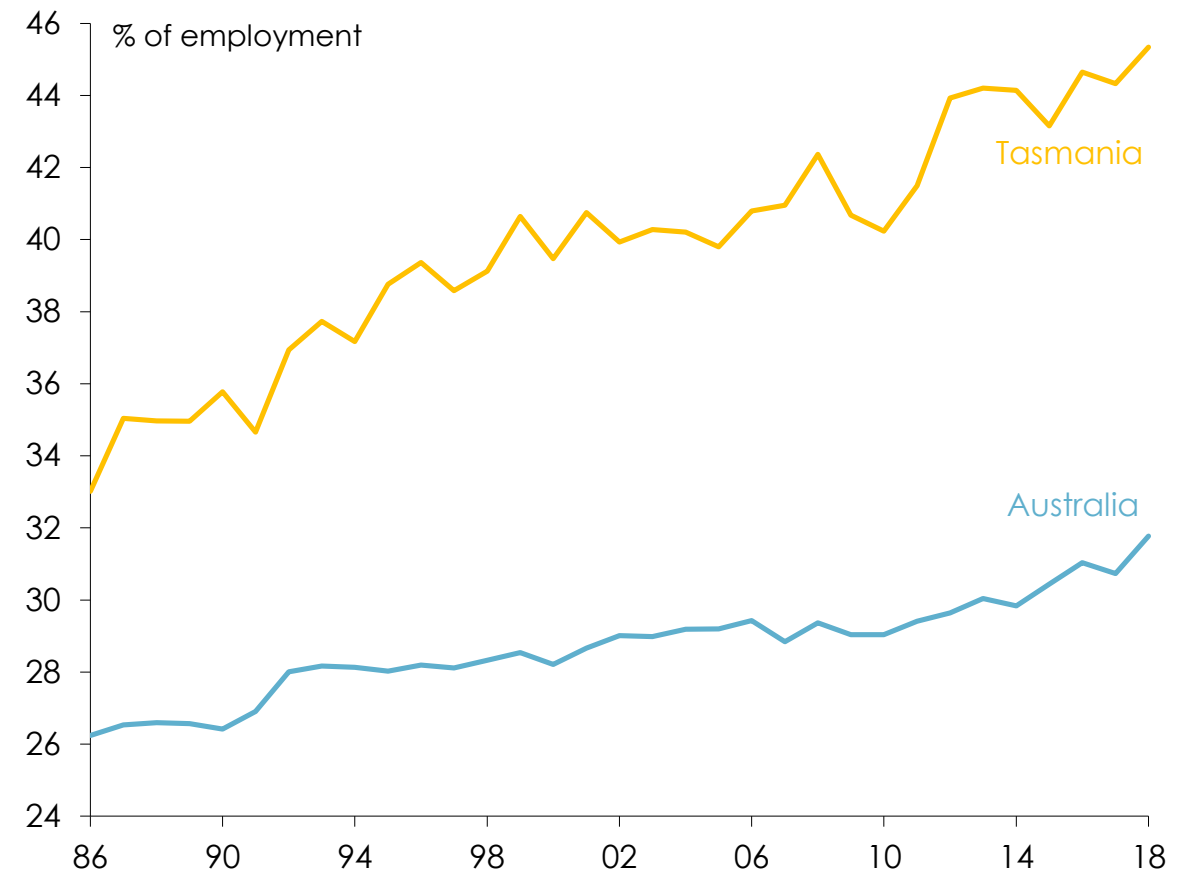
Sources: ABS, State Accounts (5220.0), 2016-17; Labour Force, Australia, Detailed, Quarterly (6291.0.55.003), November 2017; Corinna Economic Advisory.

This structural change has detracted from Tasmania's overall level of labour productivity compared with that of Australia as a whole

'Intrinsically high' labour productivity industries as a pc of total employment



'Intrinsically low' labour productivity industries as a pc of total employment

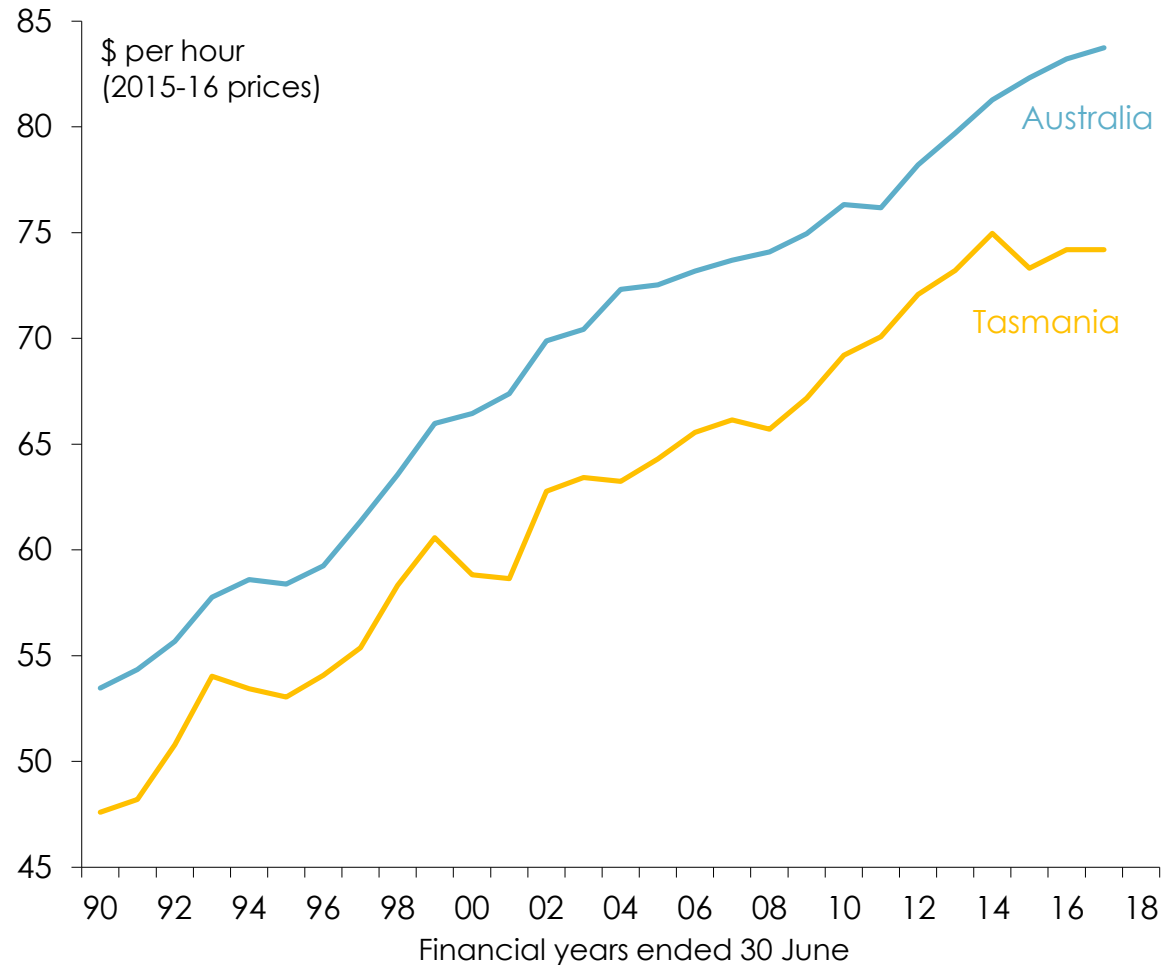


Note: 'Intrinsically high' labour productivity industries are mining; finance & insurance services; electricity, gas, water & waste services; rental, hiring & real estate services; and information, media & telecommunications services – in all of which, gross value added per hour worked was above the average for all industries across Australia in 2016-17. 'Intrinsically low' labour productivity industries are education & training; health care & social assistance; retail trade; art & recreation services; accommodation & food services; and other services – in all of which, gross value added per hour worked was less than 55% of the national average for all industries in 2016-17. Note that in some of these sectors, particularly education & training and health care & social assistance, labour productivity is very difficult to measure. Labour productivity calculated as gross value added per hour worked, with hours worked derived as the average of the published estimates for the labour force survey in the middle month of each quarter in each financial year, multiplied by 52. 2017-18 estimates are for the first half of the financial year.

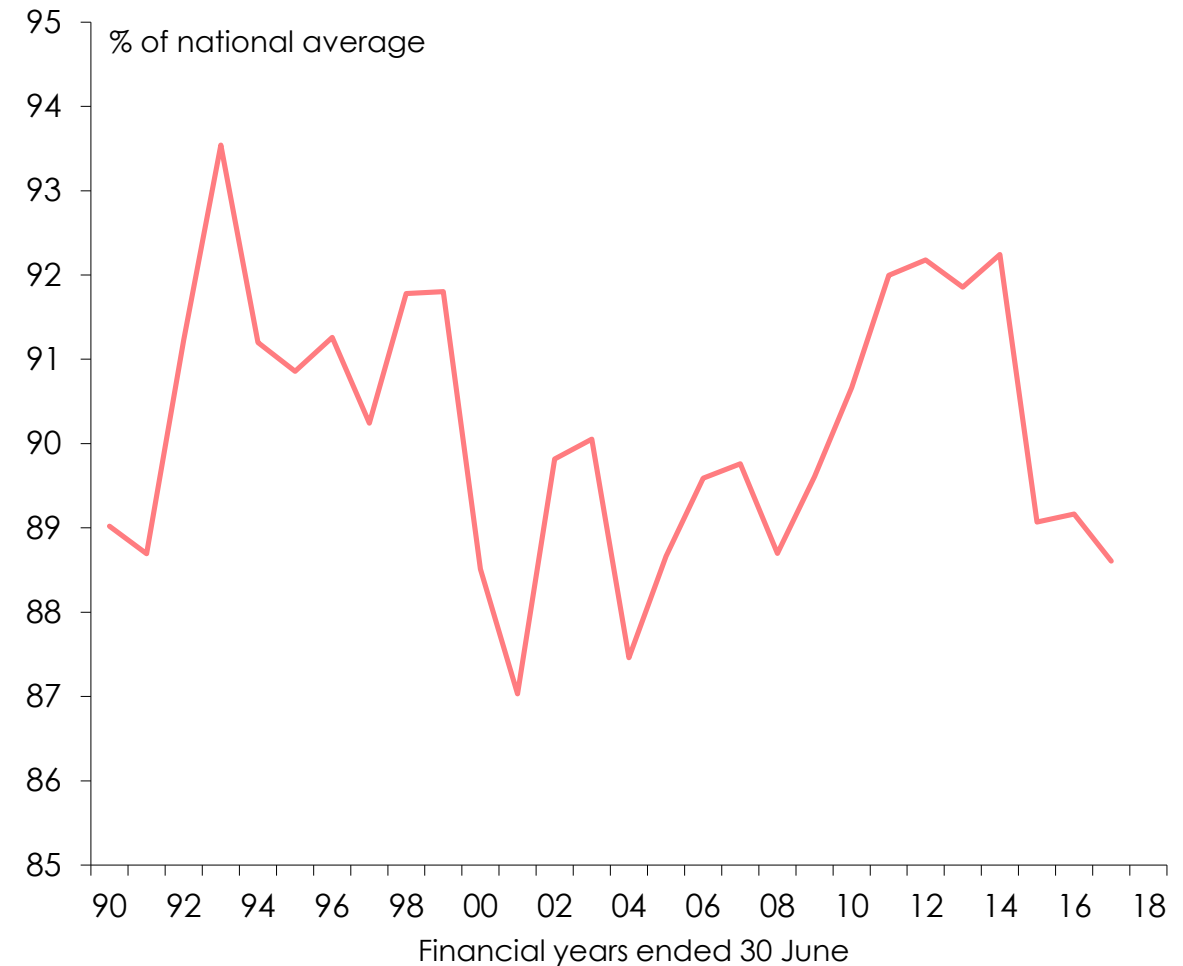
Sources: ABS, State Accounts (5220.0), 2016-17; Labour Force, Australia, Detailed, Quarterly (6291.0.55.003), November 2017; Corinna Economic Advisory.

That's one reason why the 'labour productivity gap' between Tasmania and the rest of Australia has widened over the past 25 years

Gross product per hour worked (labour productivity) – Tasmania and Australia



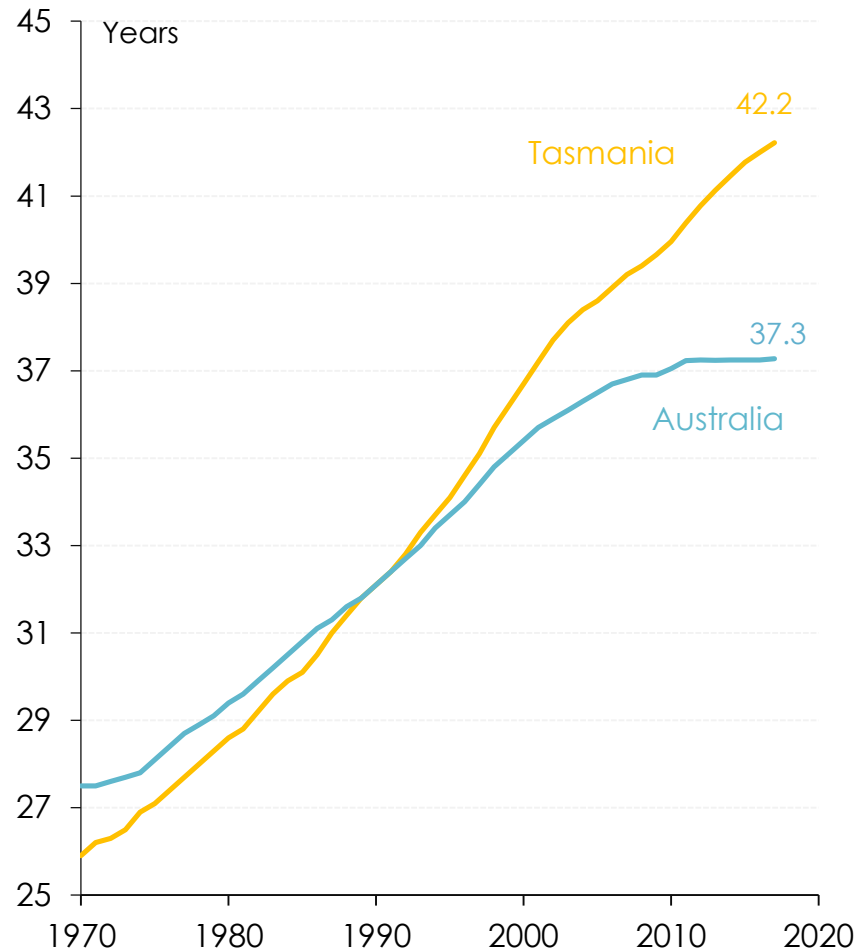
Tasmanian labour productivity as a pc of national average



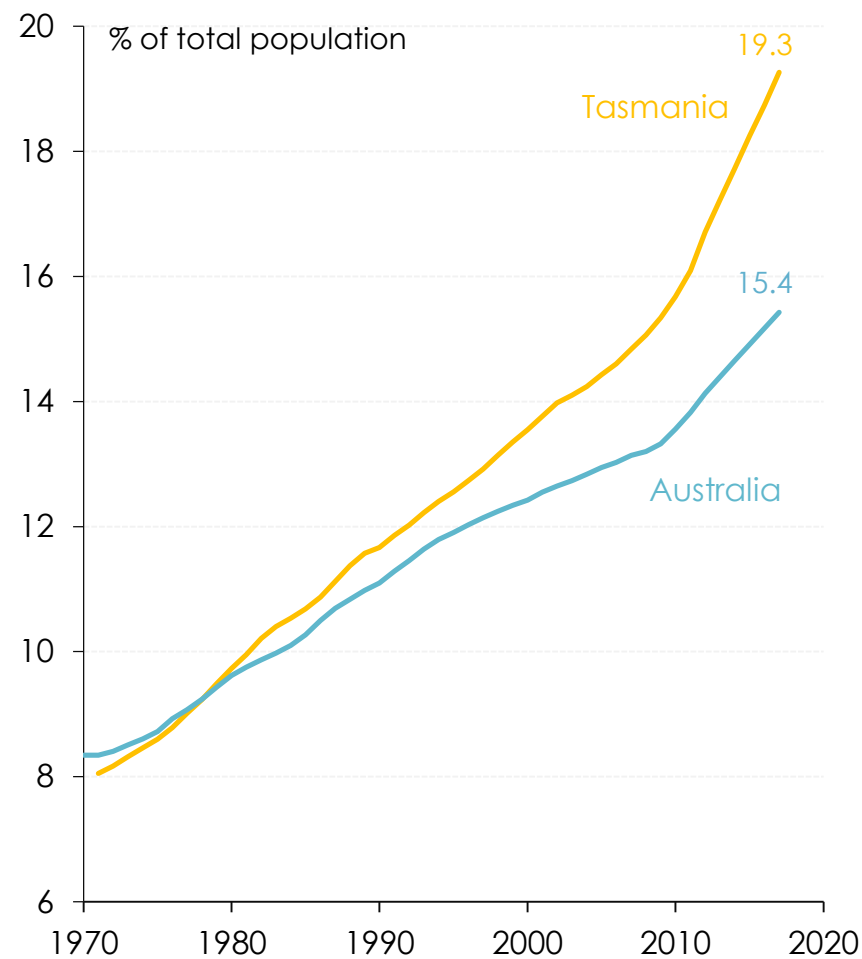
Sources: ABS, State Accounts (5220.0), 2016-17; Labour Force, Australia (6202.0), January 2018; Corinna Economic Advisory.

Another way in which Tasmania has become a lot less like the rest of Australia is as a result of much more rapid ageing

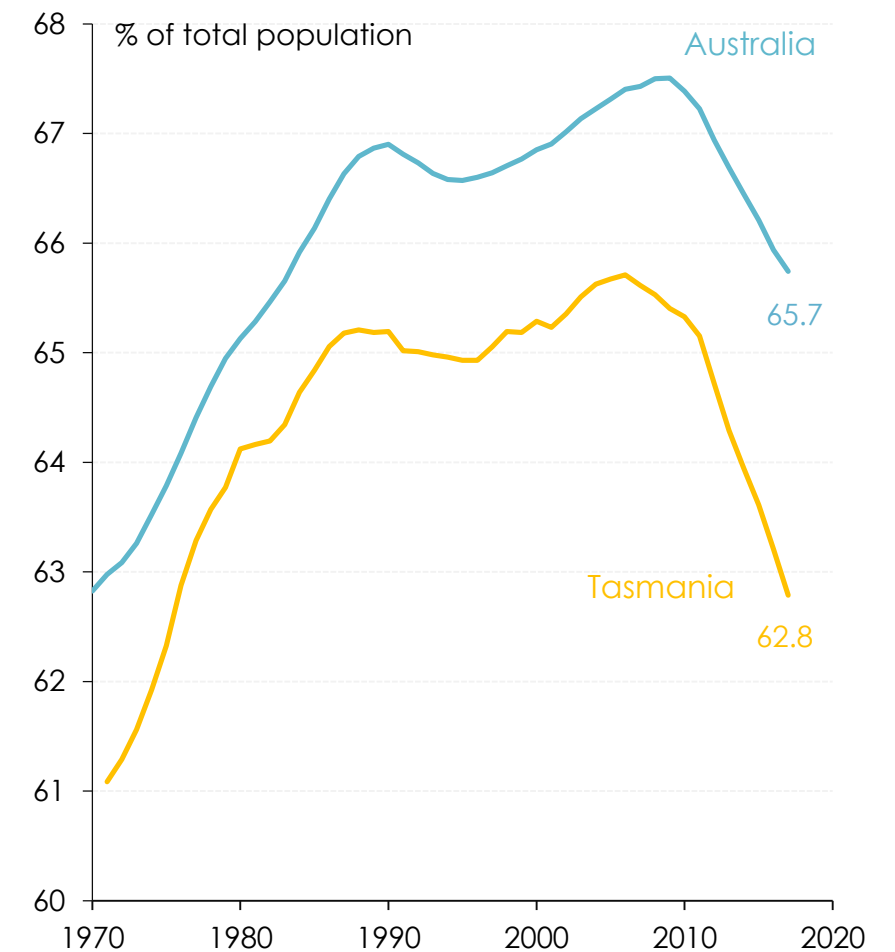
Median age



Proportion of population aged 65 and over



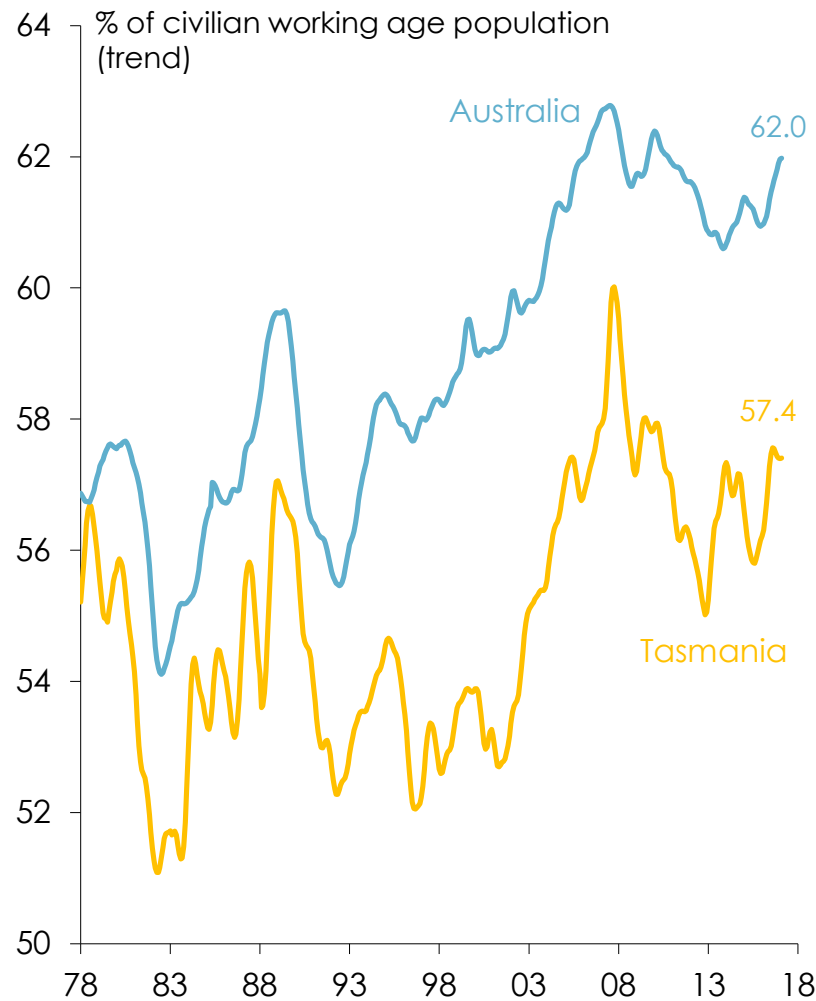
Proportion of population aged 15-64



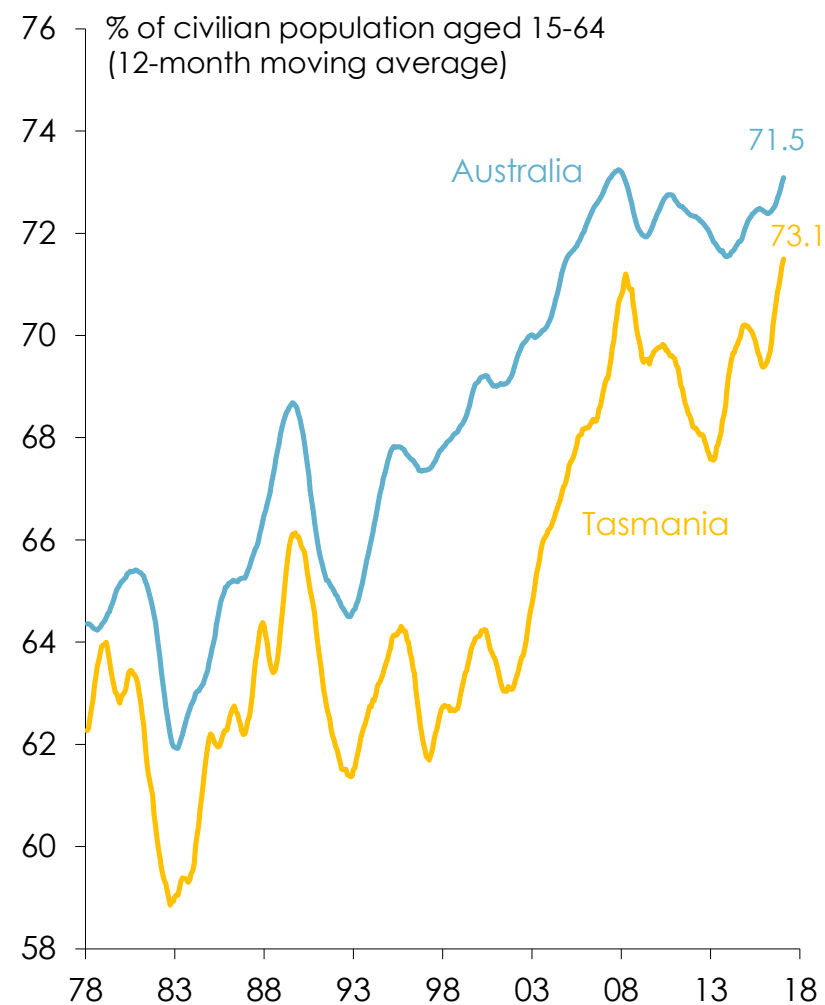
Sources: ABS, Australian Demographic Statistics (3101.0), June 2017.

More rapid ageing is a major reason for Tasmania's lower employment participation rate – and partly for the lower incidence of full-time jobs

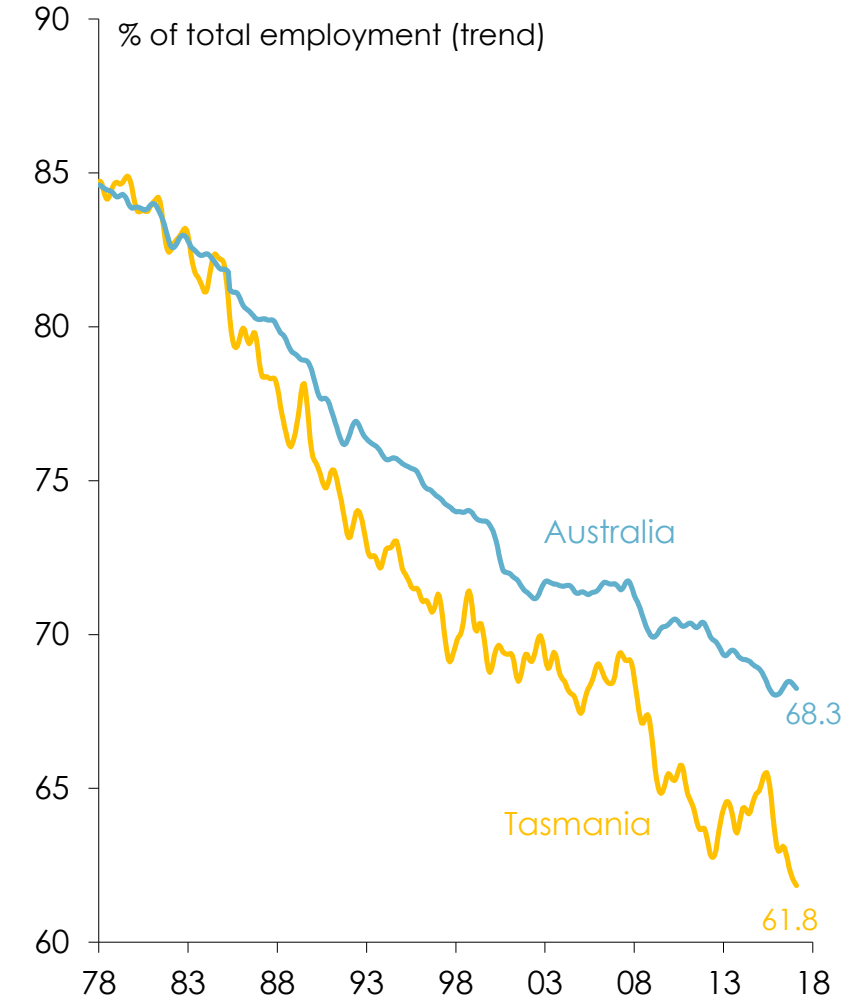
Employment-population ratios, people aged 15+



Employment-population ratios, people aged 15-64



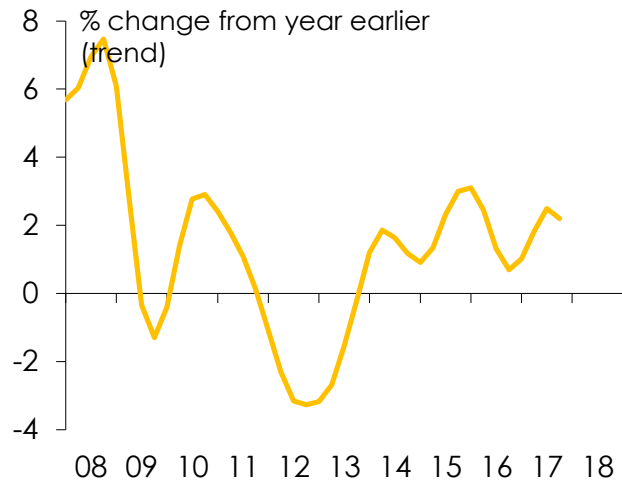
Full-time employment as a pc of total



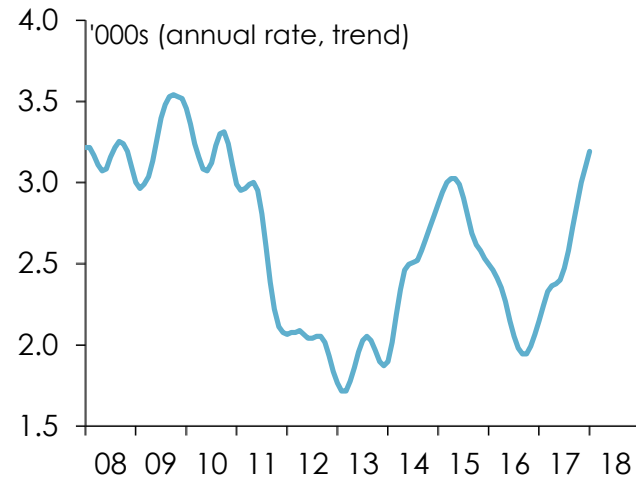
Sources: ABS, *The Labour Force* (6202.0), January 2018, and *The Labour Force, Detailed – Electronic Delivery* (6291.0.55.001), January 2018.

Tasmania's economic performance has improved considerably over the past few years, across multiple dimensions ...

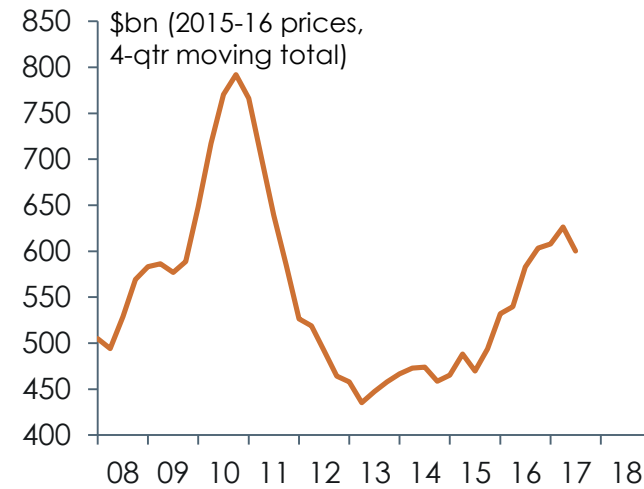
State final demand



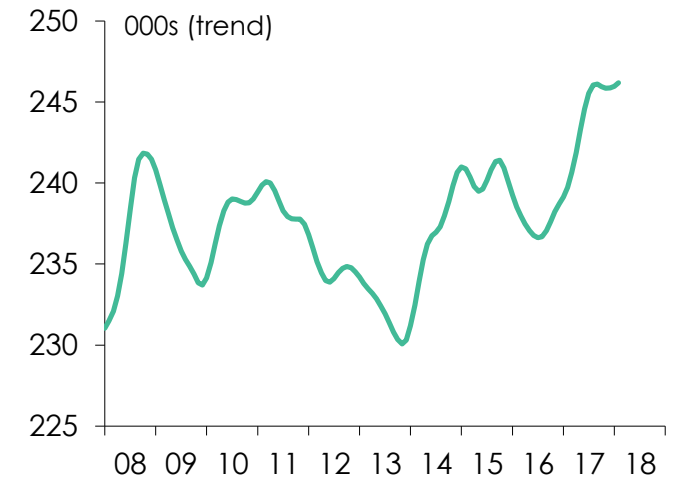
Dwelling approvals



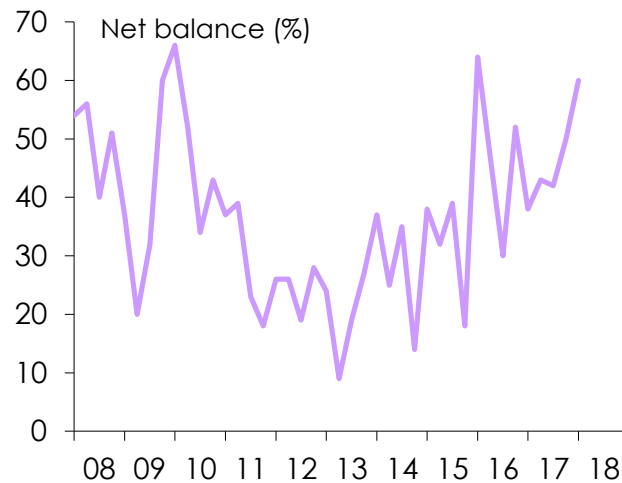
Non-residential building



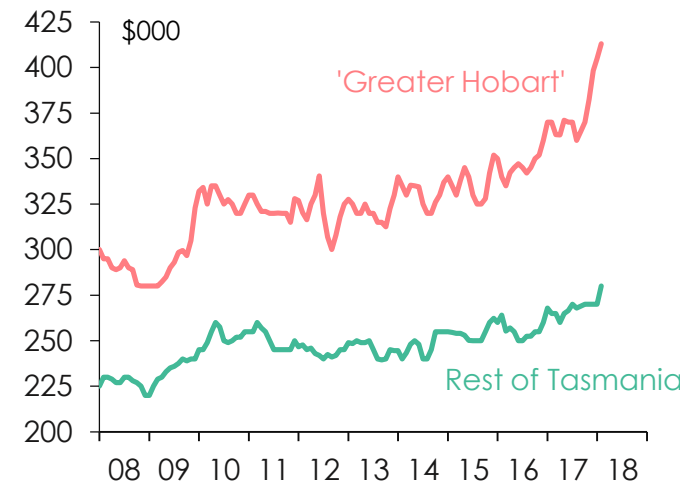
Employment



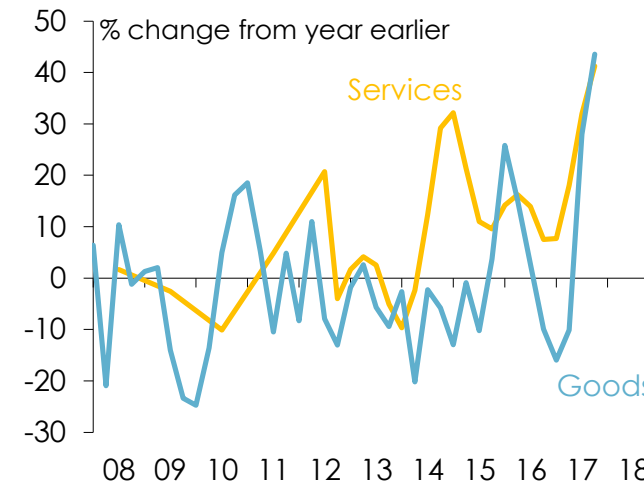
Business confidence



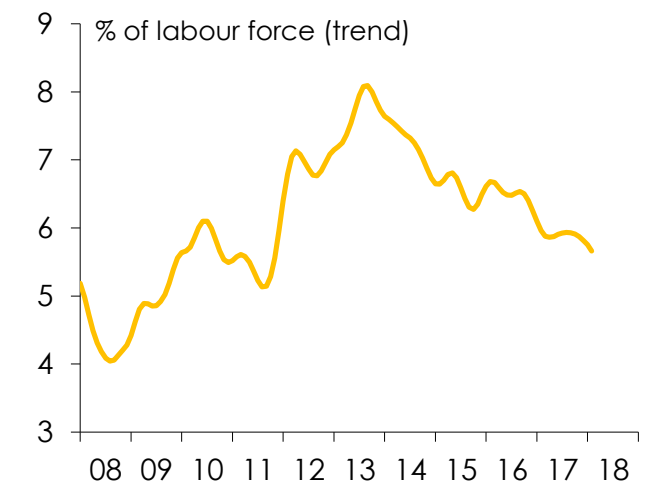
Residential property prices



Exports



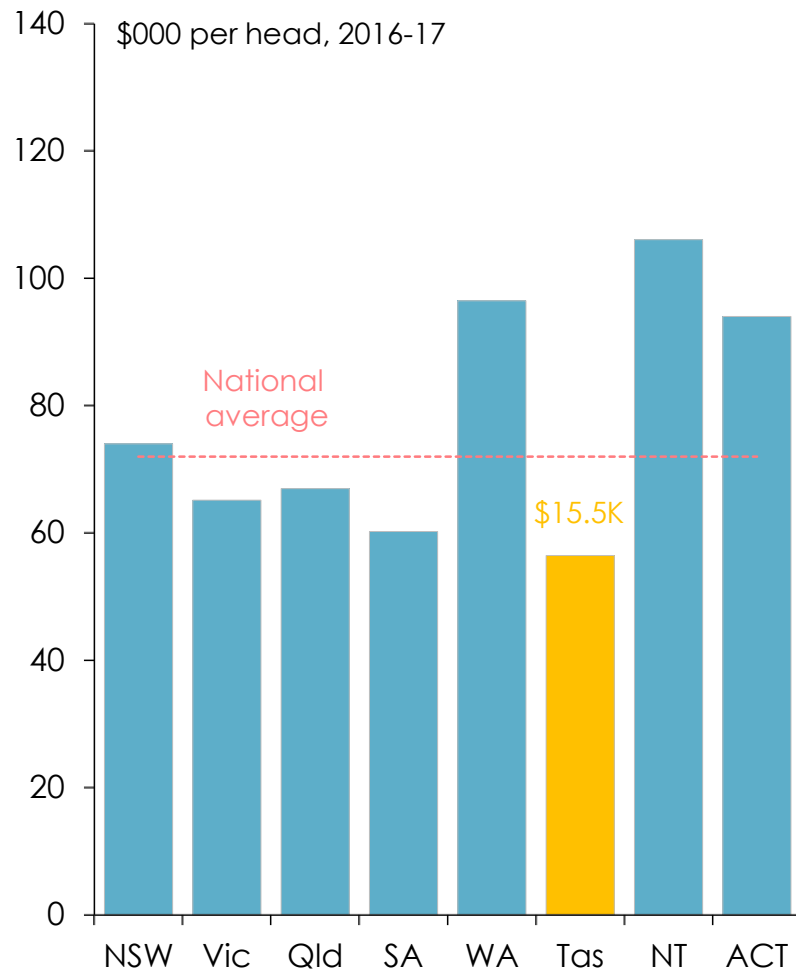
Unemployment



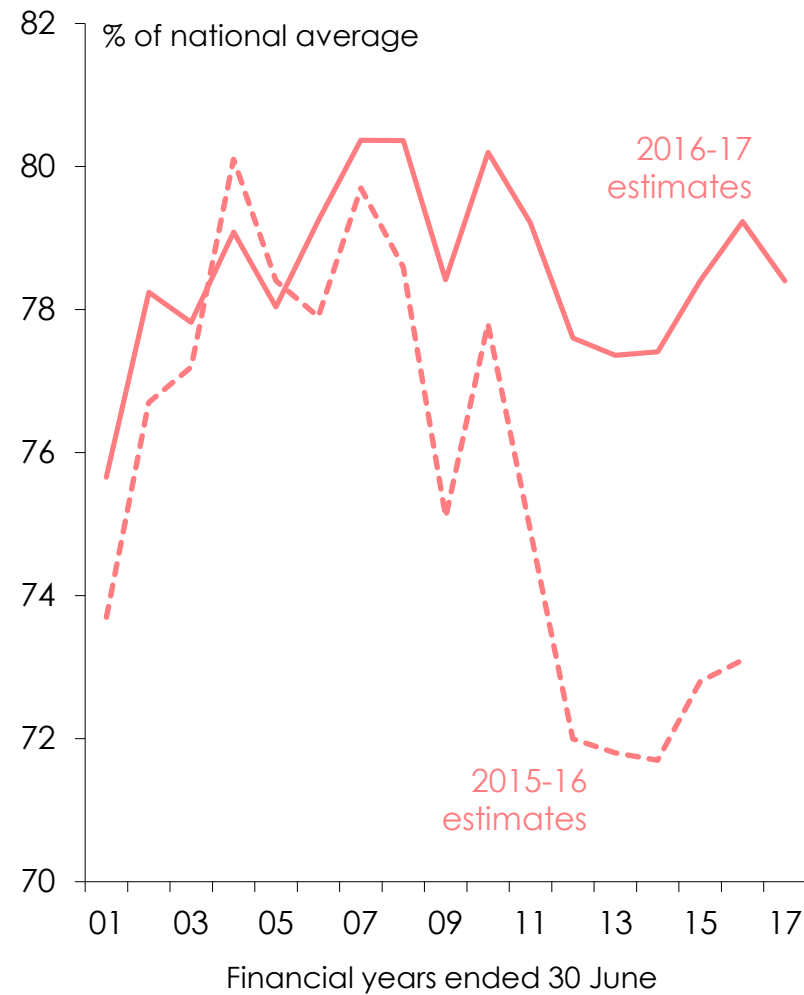
Sources: ABS Australian National Accounts – National Income, Expenditure & Product (5206.0); Sensis, Sensis Business Index; ABS, Building Approvals (8731.0); CoreLogic; ABS, Building Activity (8752.0); ABS, International Trade in Goods & Services (5368.0) and Balance of Payments & International Investment Position (5302.0); ABS, Labour Force (6202.0).

... yet, despite that, Tasmania is still the poorest state in Australia, by a margin which hasn't changed much – and isn't expected to

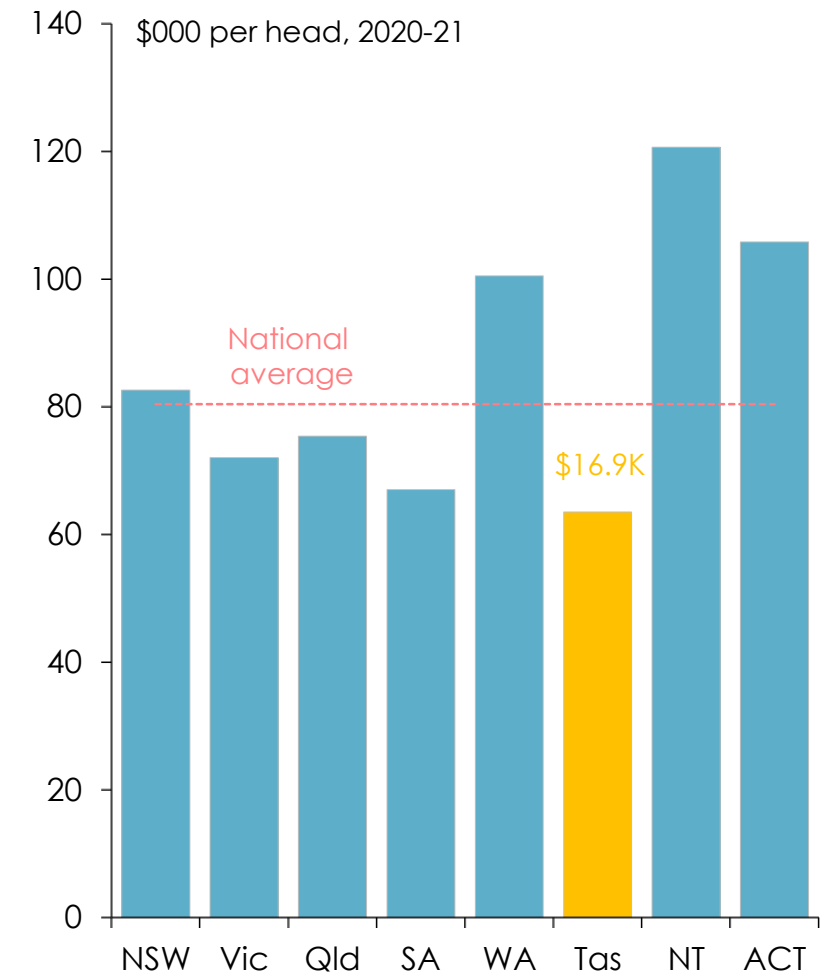
Gross state product per head, 2016-17



GSP per head, Tasmania & Australia, 2001-2017



Gross state product per head, 2020-21 forecasts



Source: ABS, State Accounts (5220.0), 2016-17 and 2015-16; Commonwealth, State and Territory Government Budget Papers, 2017-18.

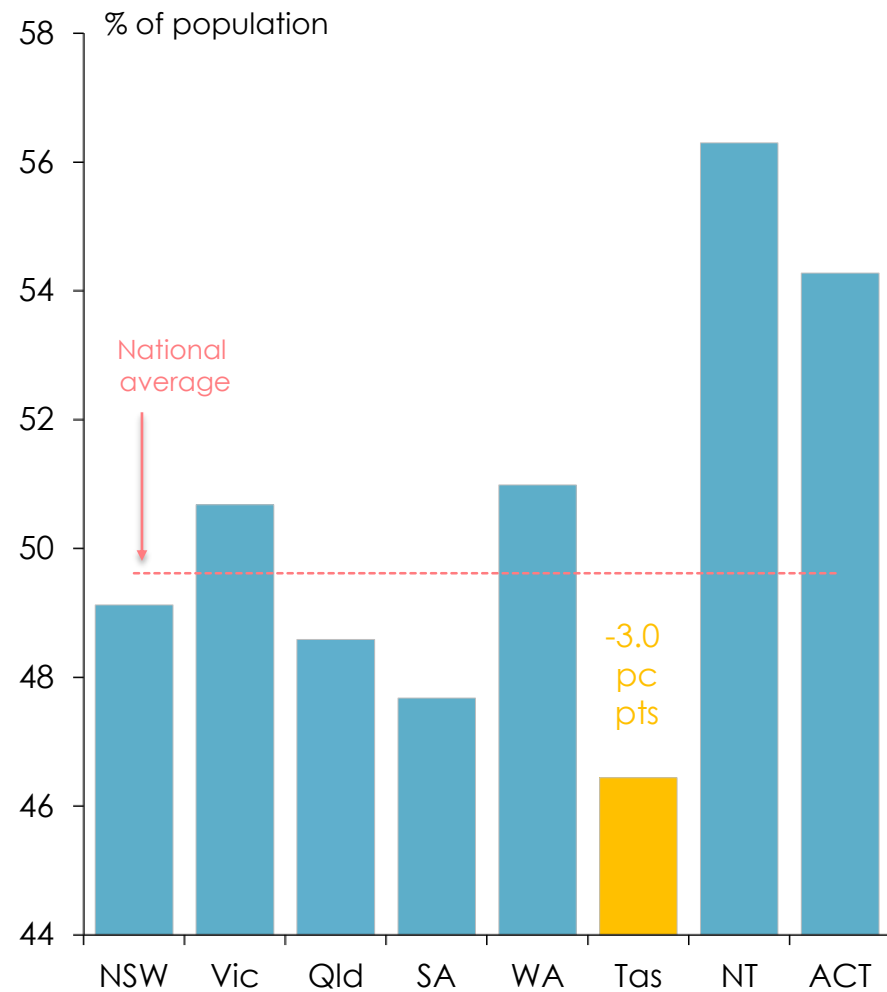
Why does this gap exist?

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

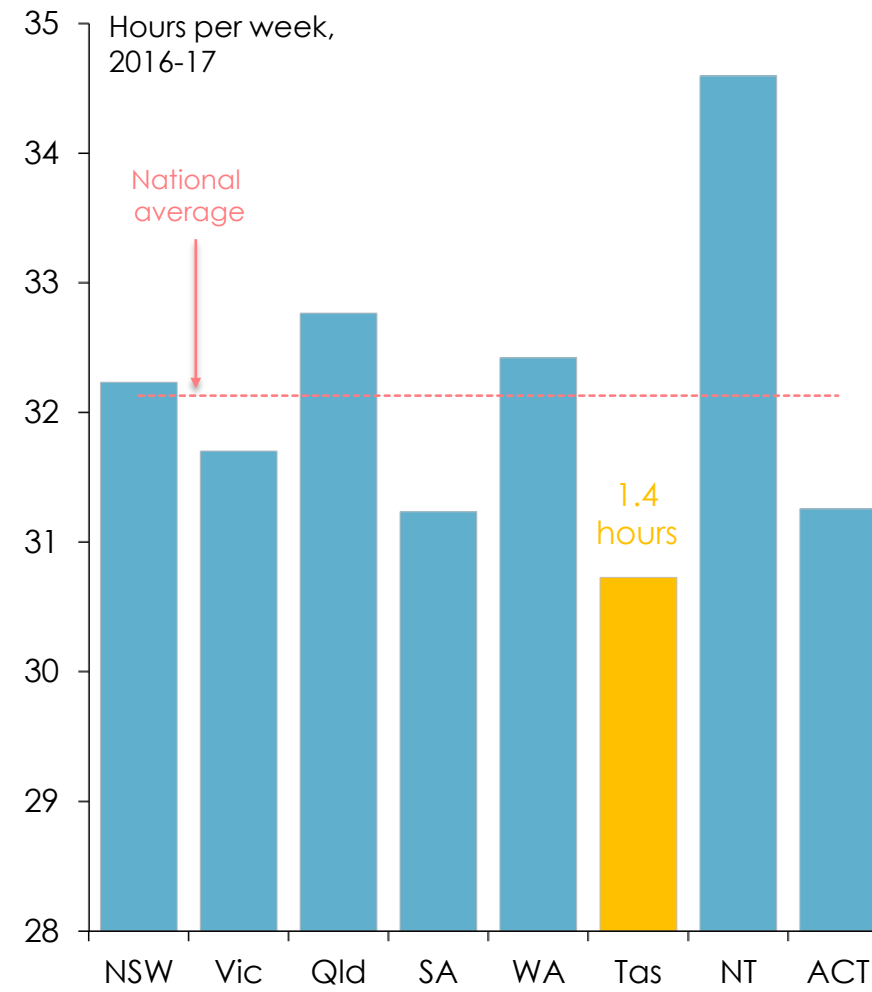
The diagram illustrates the decomposition of the ratio of gross state product to population into three components: the participation rate (employment/population), average hours worked (total hours worked/employment), and labour productivity (gross state product/total hours worked). The components are arranged in a sequence of multiplication, with the first two components being multiplied together to equal the participation rate, and then multiplied by the third component to equal the average hours worked, and finally multiplied by the labour productivity to equal the final result.

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

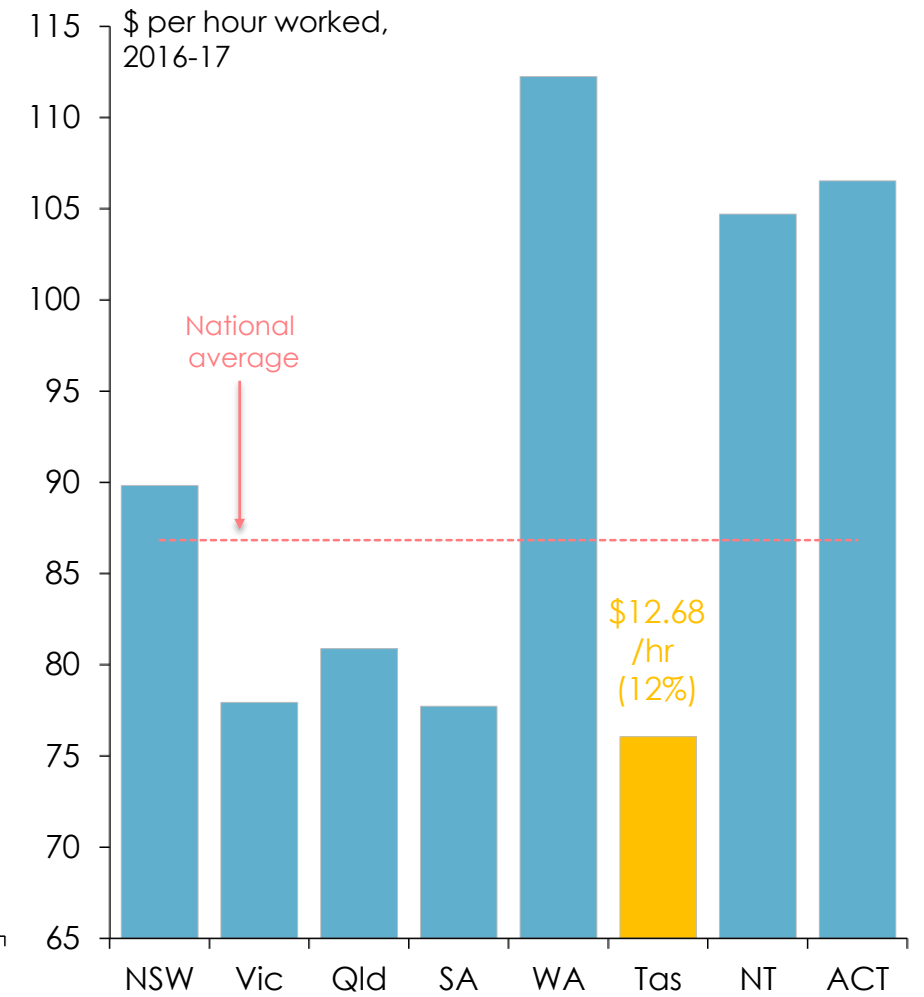
Employment-to-population ratio



Average weekly hours worked



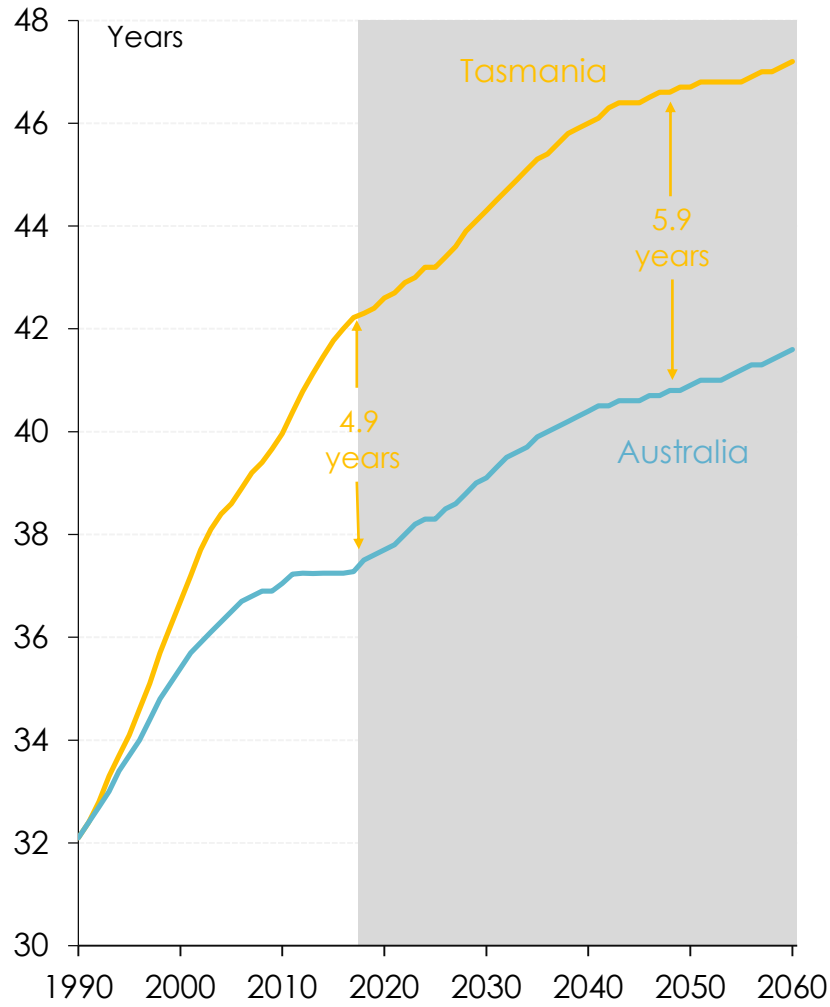
Output per hour worked (labour productivity)



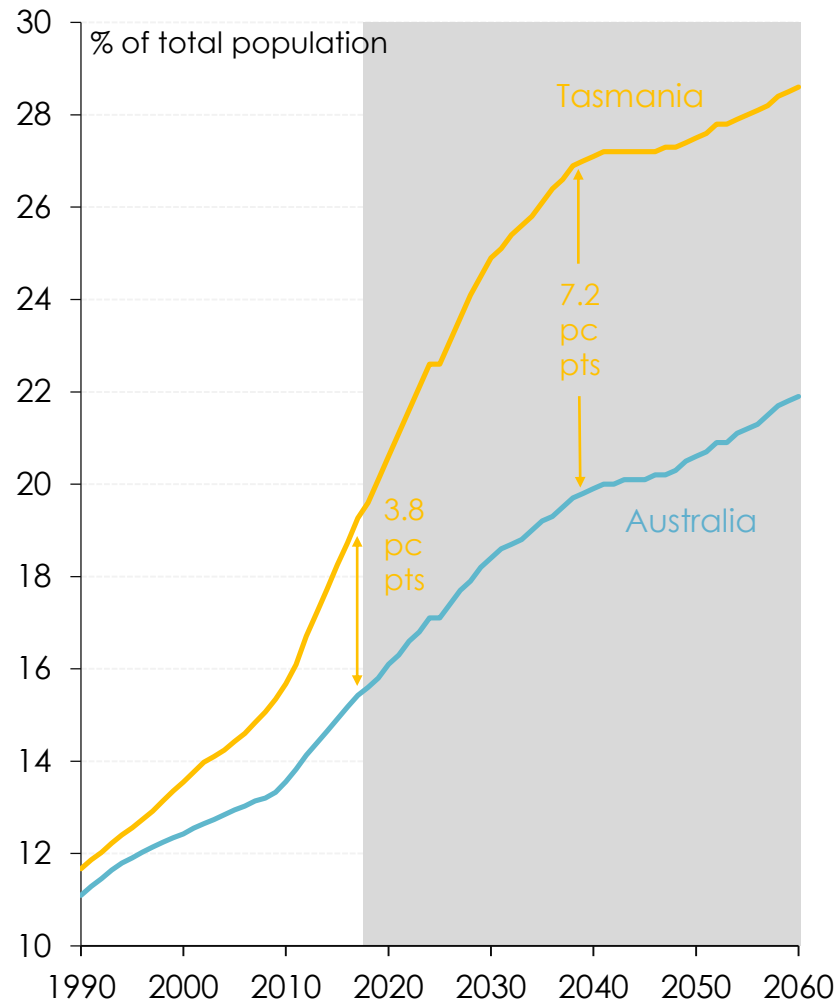
Source: ABS 5220.0 and 6201.0; Corinna Economic Advisory.

Tasmania's demographics are going to get a lot worse – from the perspective of participation in employment – over the next 40 years

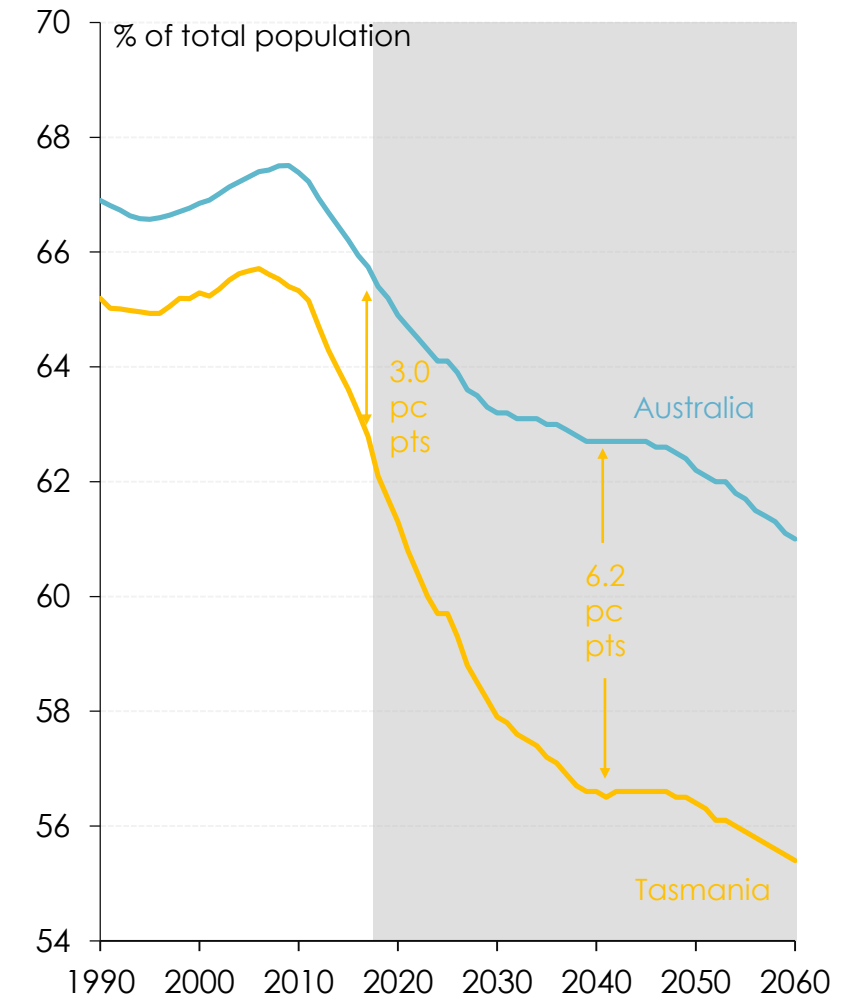
Median age



Proportion of population aged 65 and over



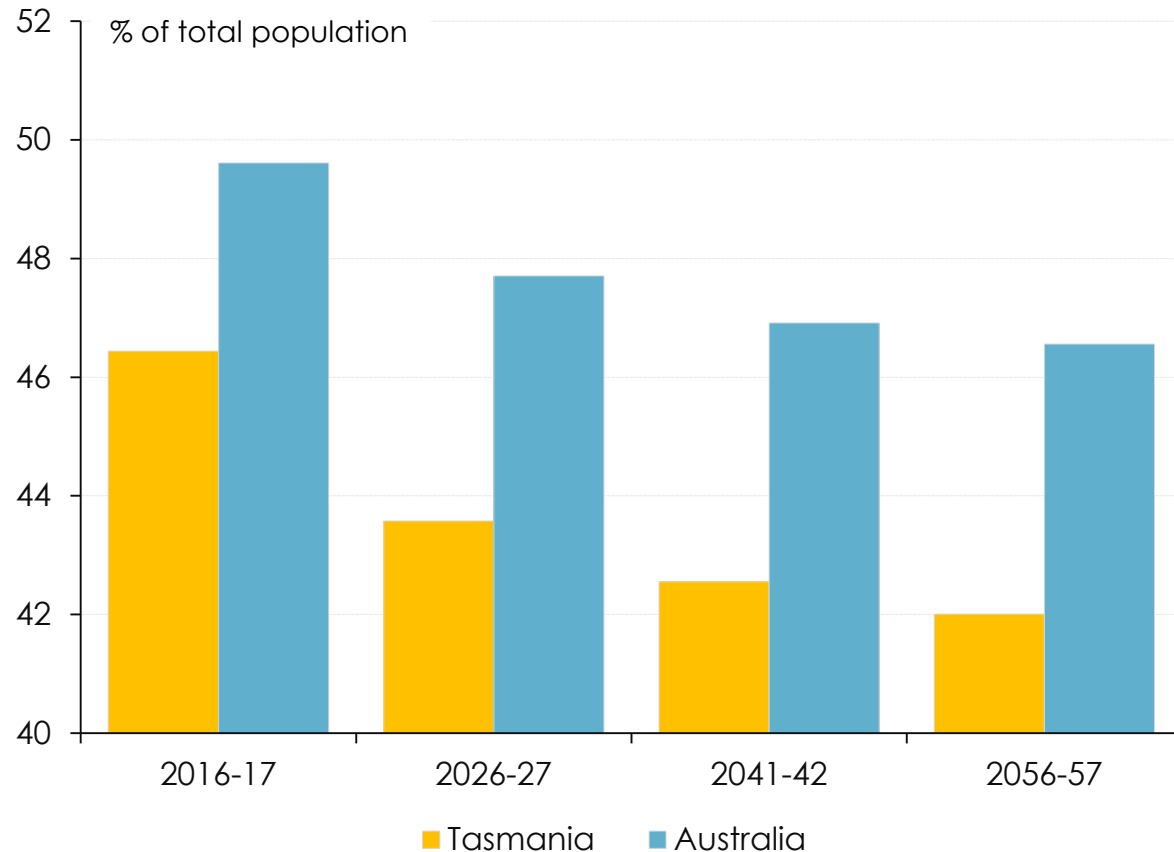
Proportion of population aged 15-64



Sources: ABS, Australian Demographic Statistics (3101.0), June 2017 and Population Projections, Australia, 2012 to 2101 (3222.0). Note these projections were published in November 2013, after the 2011 Census. Post 2016 Census projections have not yet been published.

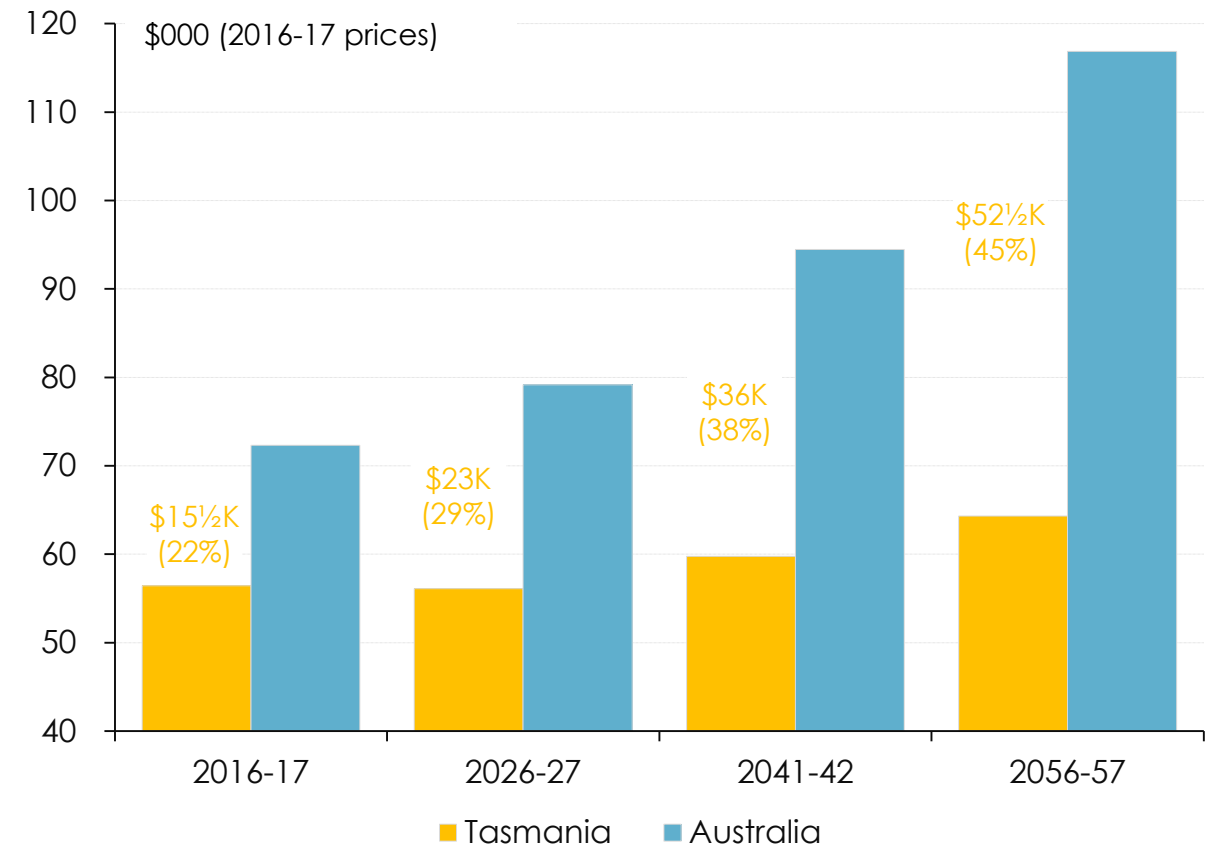
Without changes in employment participation, hours worked or productivity growth, Tasmania will fall even further behind the mainland

Employment rates, Tasmania and Australia, 2016-17 to 2056-57



Assumes no change in age-specific employment-to-population ratios

Gross state product per head, Tasmania and Australia, 2016-17 to 2056-57

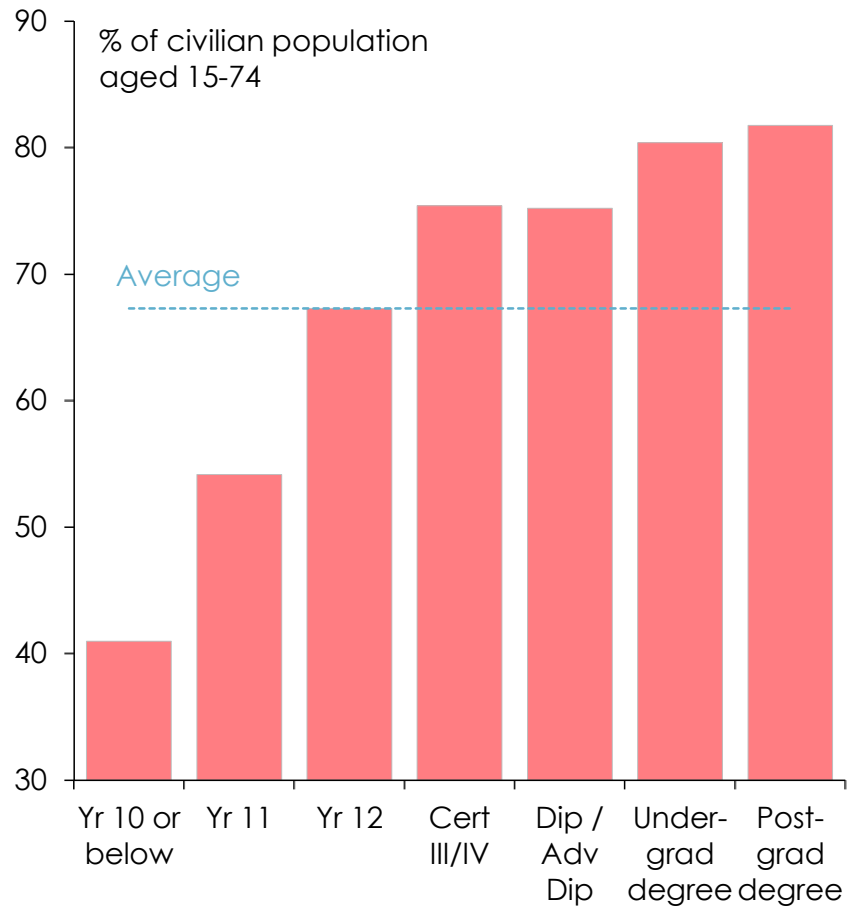


Assumes no change in hours worked from 2016-17 level or in labour productivity growth rates from 2011-12 through 2016-17 averages

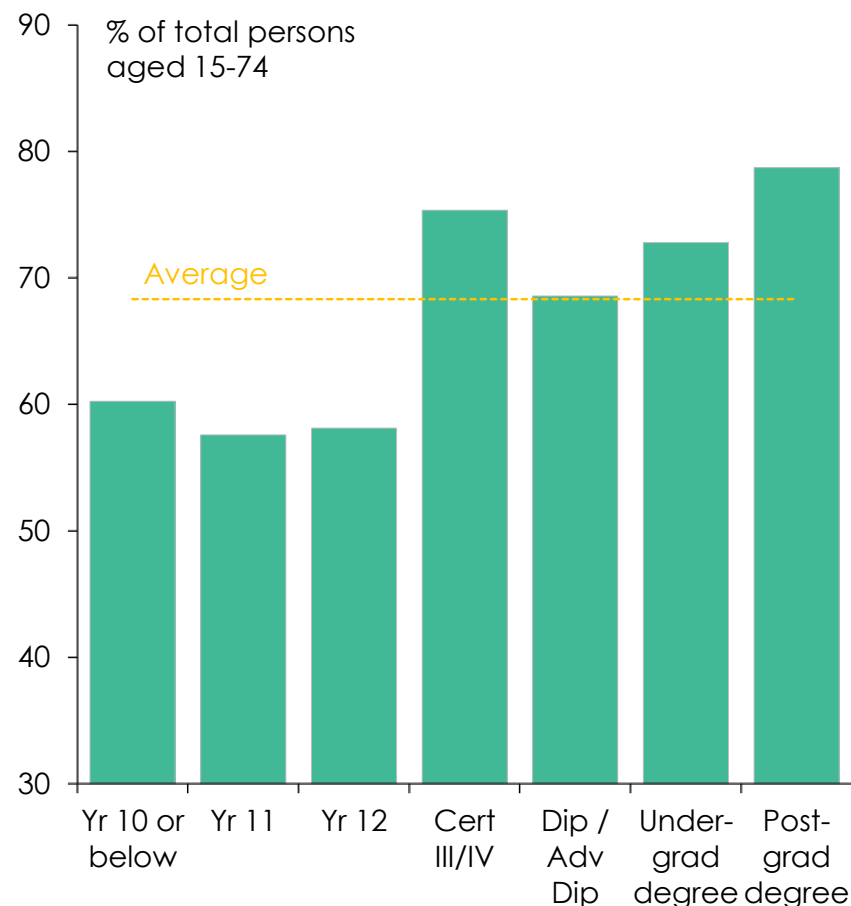
Sources: ABS, State Accounts (5220.0), 2016-17; Labour Force, Australia (6202.0), January 2018 and Population Projections, Australia, 2012 to 2101 (3222.0); Corinna Economic Advisory.

Education is the one thing state governments can influence, which affects employment participation, average hours and productivity

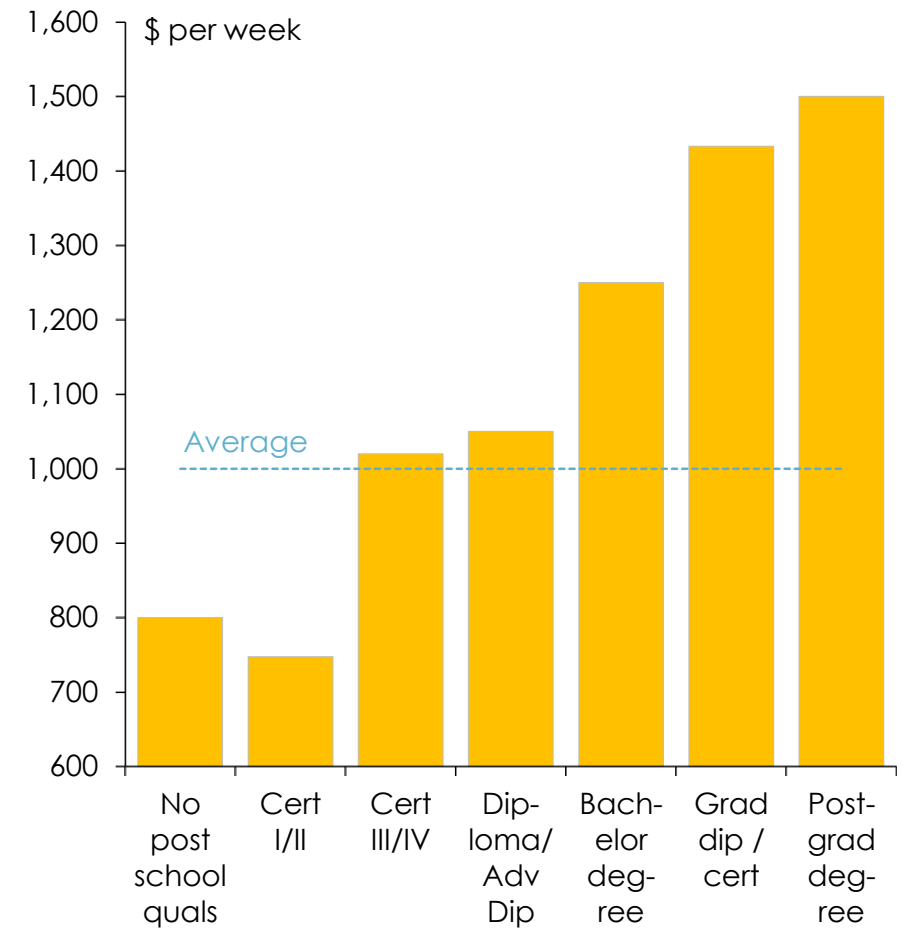
Employment-population rates by educational attainment, May 2017



Full-time employment as a pc of total, by educational attainment, May 2017



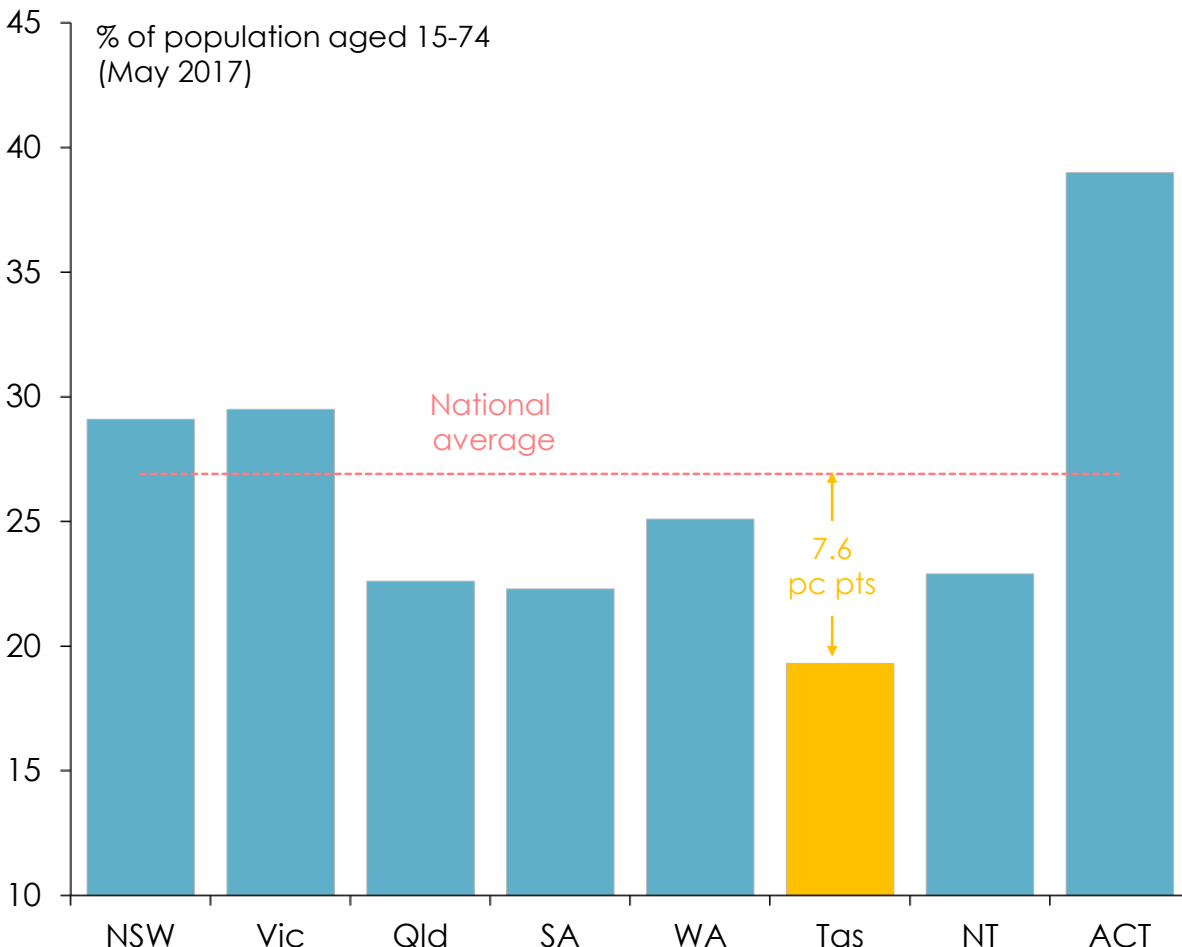
Median weekly earnings by educational attainment, August 2017



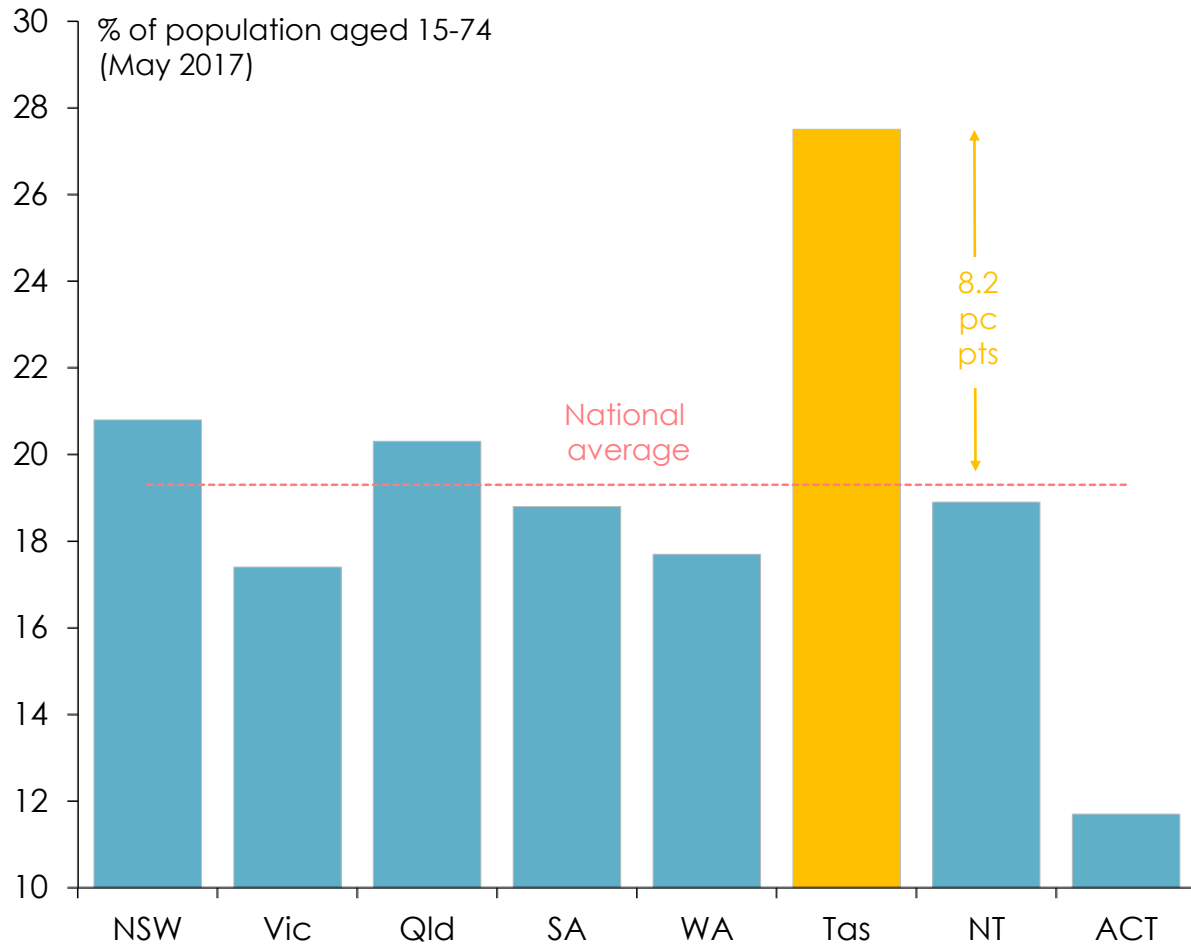
Sources: ABS, Education and Work (6227.0), May 2017; Characteristics of Employment (6333.0), August 2016.

Lifting Tasmania's bottom-of-the-pack educational attainment and participation rates is crucial to improving our economic performance

Population aged 15-74 with a bachelor's degree or higher



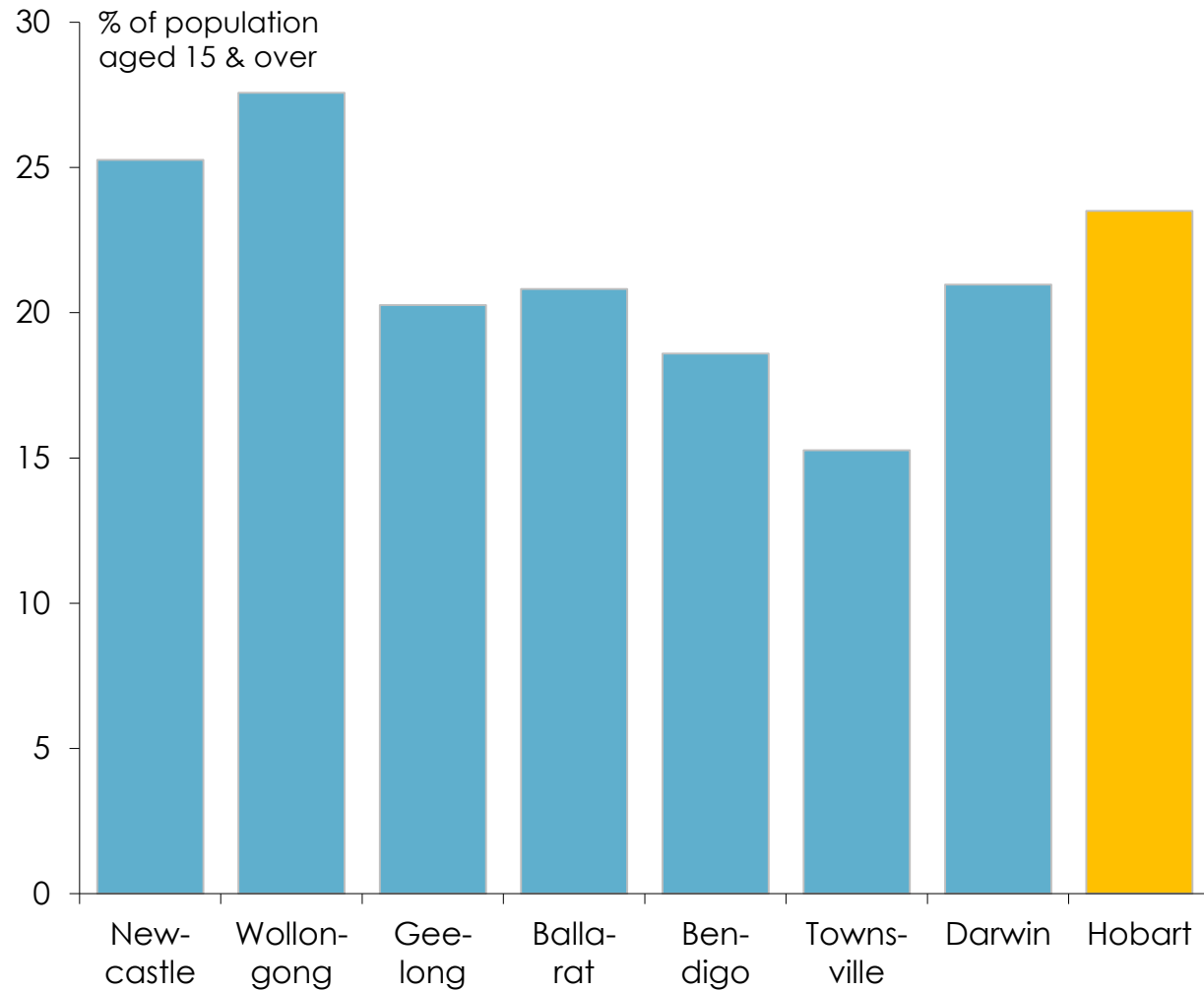
Population aged 15-74 with no qualification beyond Year 10 of high school



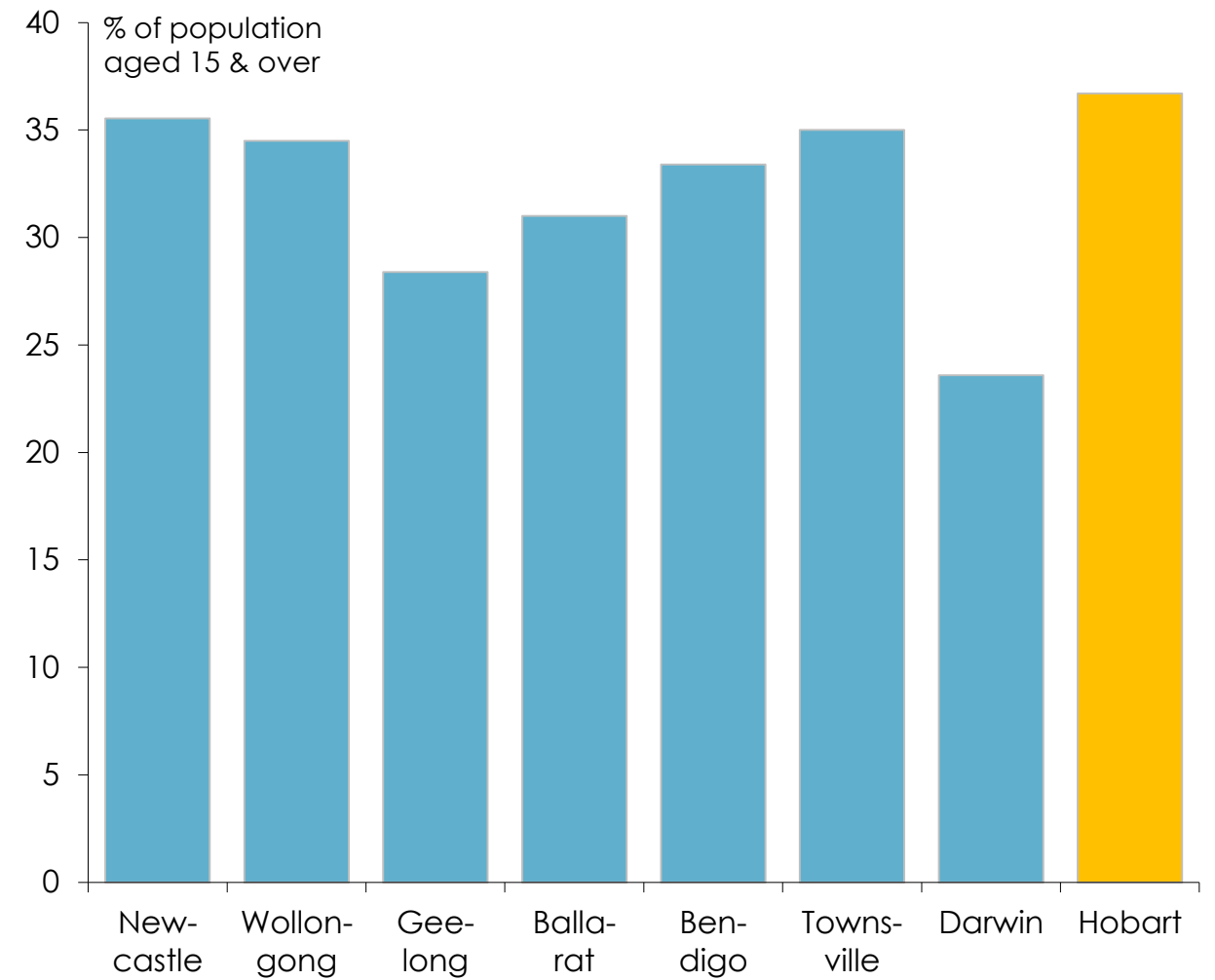
Source: ABS, Education and Work (6227.0), May 2017.

Tasmania's poor educational attainment rates aren't really the result of our lack of a major metropolitan centre ...

Population aged 15+ with a bachelor's degree or higher - 2016 Census



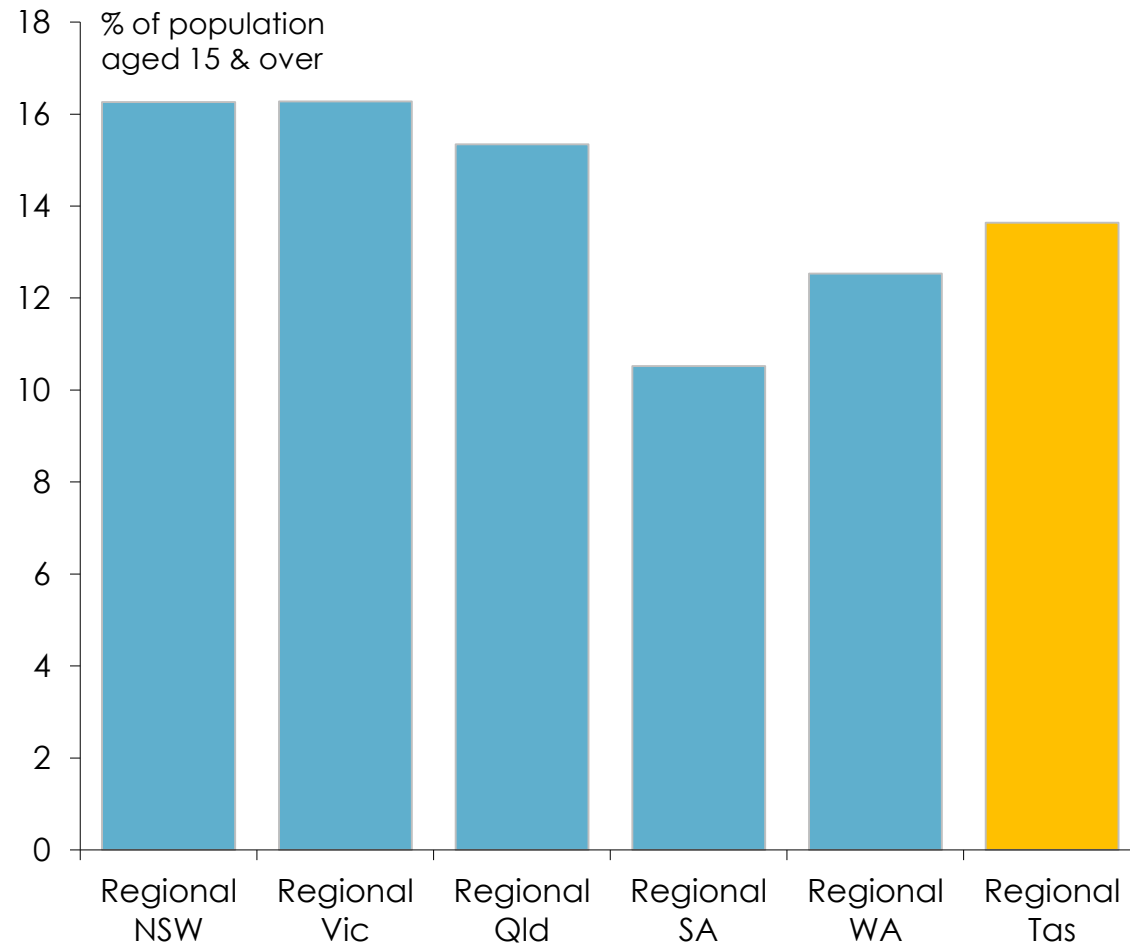
Population aged 15+ with no qualification beyond Year 10 of high school – 2016 Census



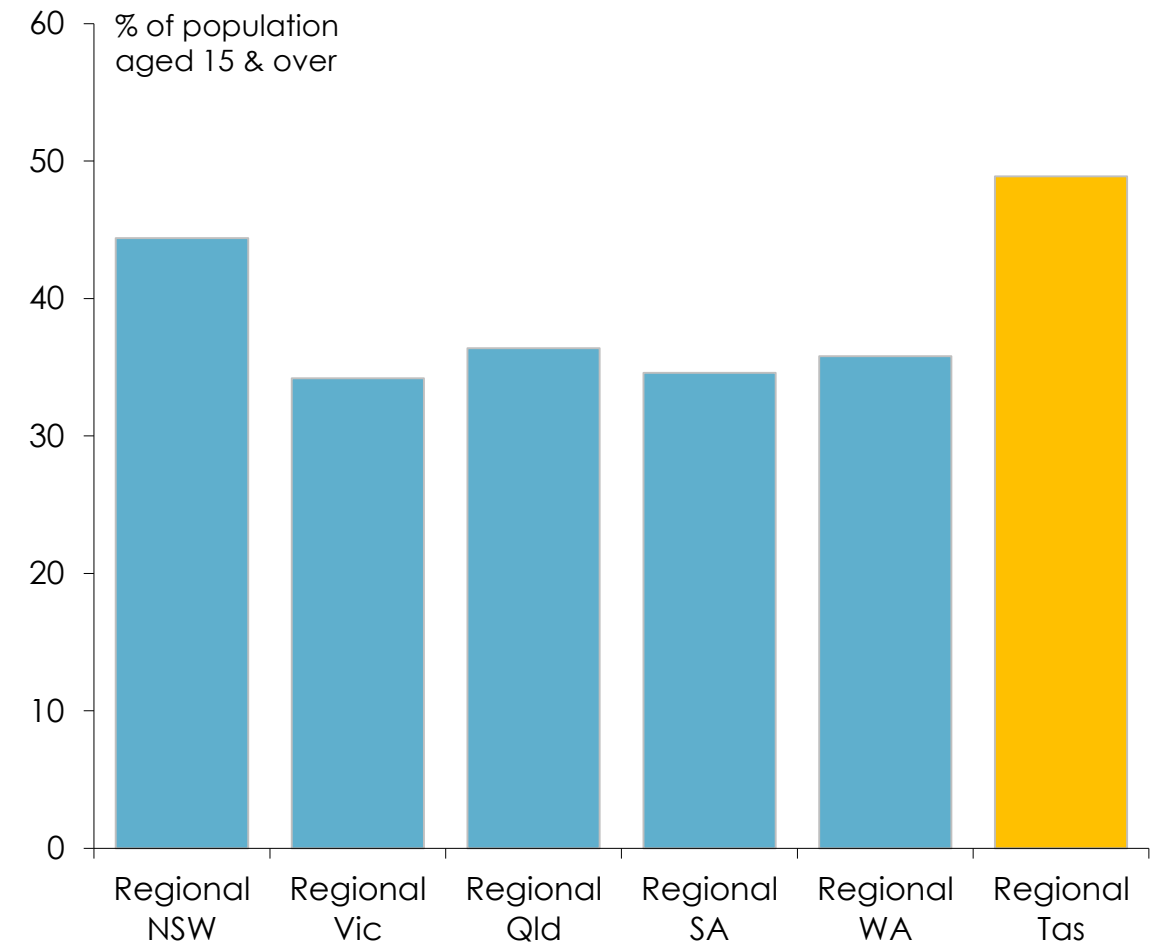
Source: ABS, 2016 Census General Community Profiles, October 2017; Corinna Economic Advisory.

... nor is it due to a larger share of Tasmania's population living outside the capital city than that of other states

Population aged 15+ with a bachelor's degree or higher - 2016 Census



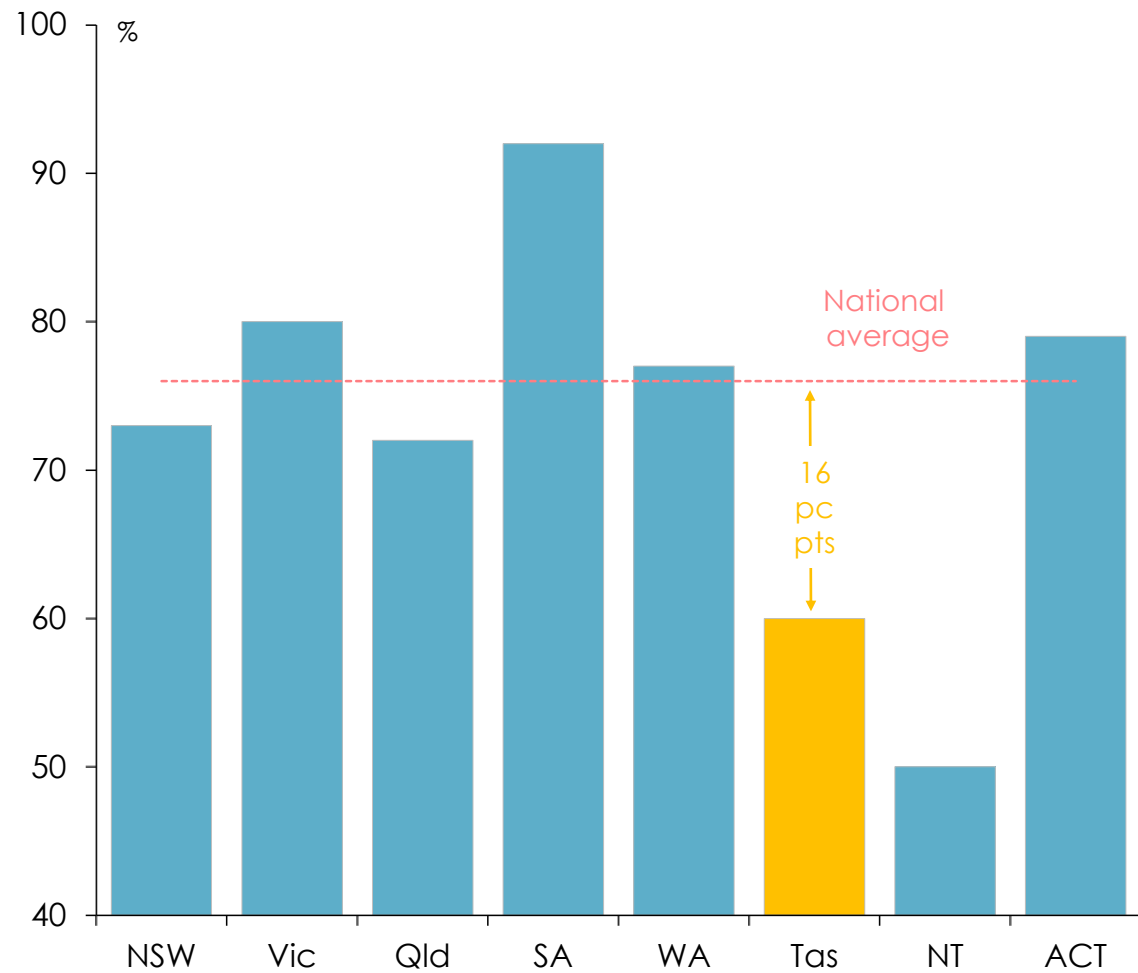
Population aged 15+ with no qualification beyond Year 10 of high school – 2016 Census



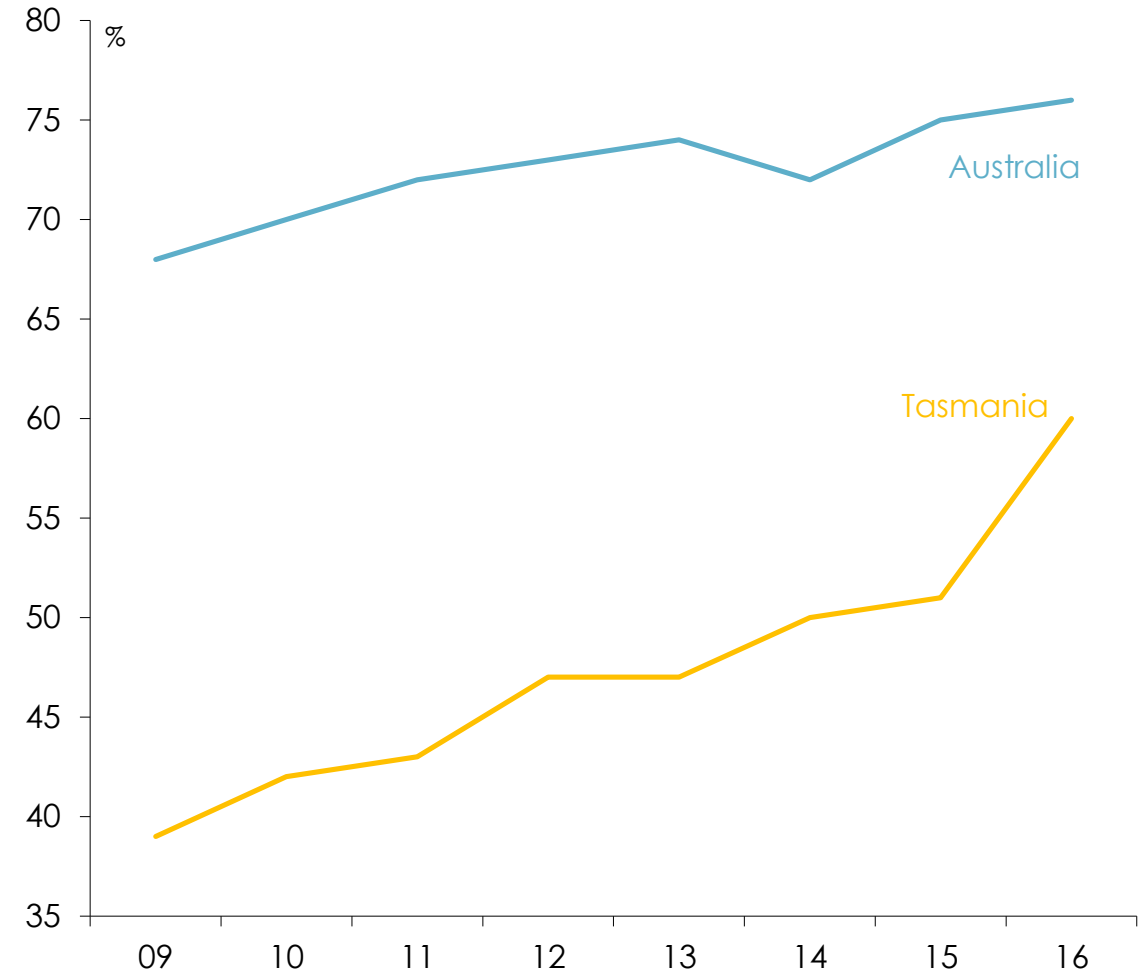
Source: ABS, 2016 Census General Community Profiles, October 2017; Corinna Economic Advisory.

Tasmania's Year 12 attainment rate has been rising but remains well below the national average and lower than any other state

Year 12 attainment rates, States and Territories, 2016



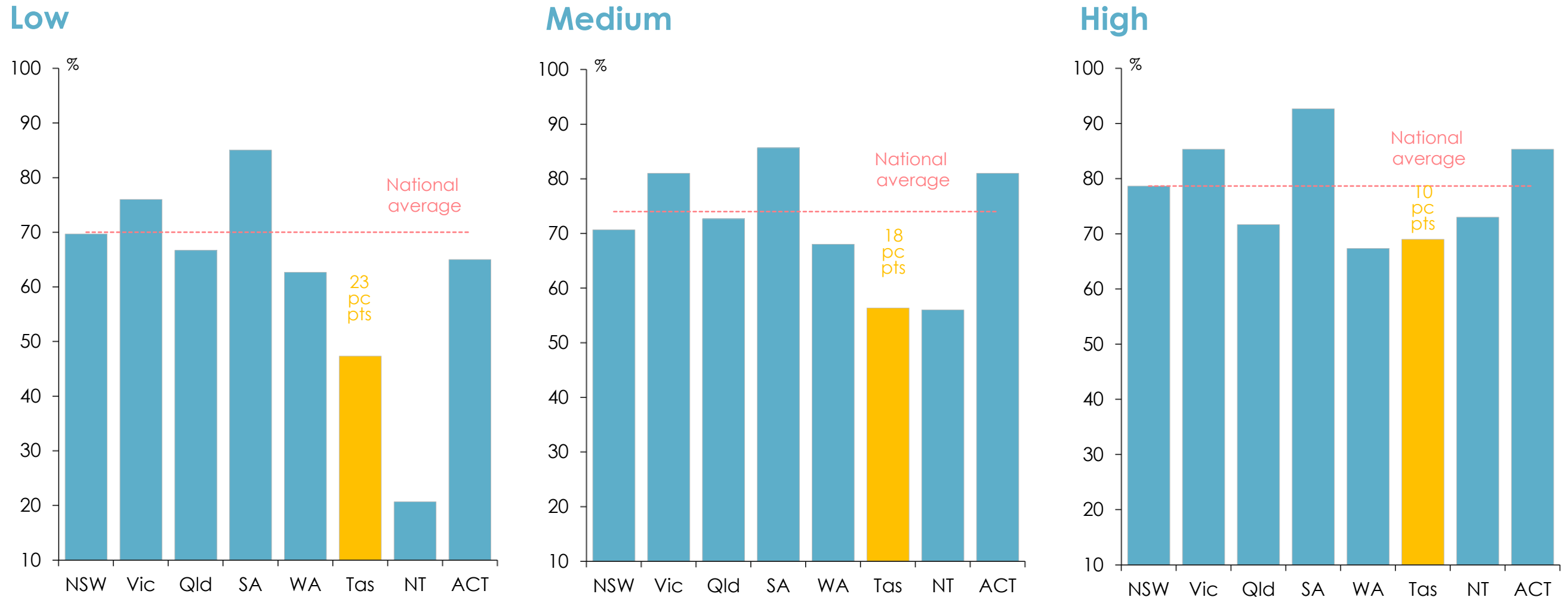
Year 12 attainment rates, Tasmania vs national average, 2009-2016



Source: Productivity Commission, *Report on Government Services*, 2018, Volume B, Chapter 4, Table 4A.55.

A student from a high SES background in Tasmania has been less likely to complete Year 12 than one from low SES background in other states

Year 12 attainment rates by students' socio-economic status, States and Territories, 2014-16

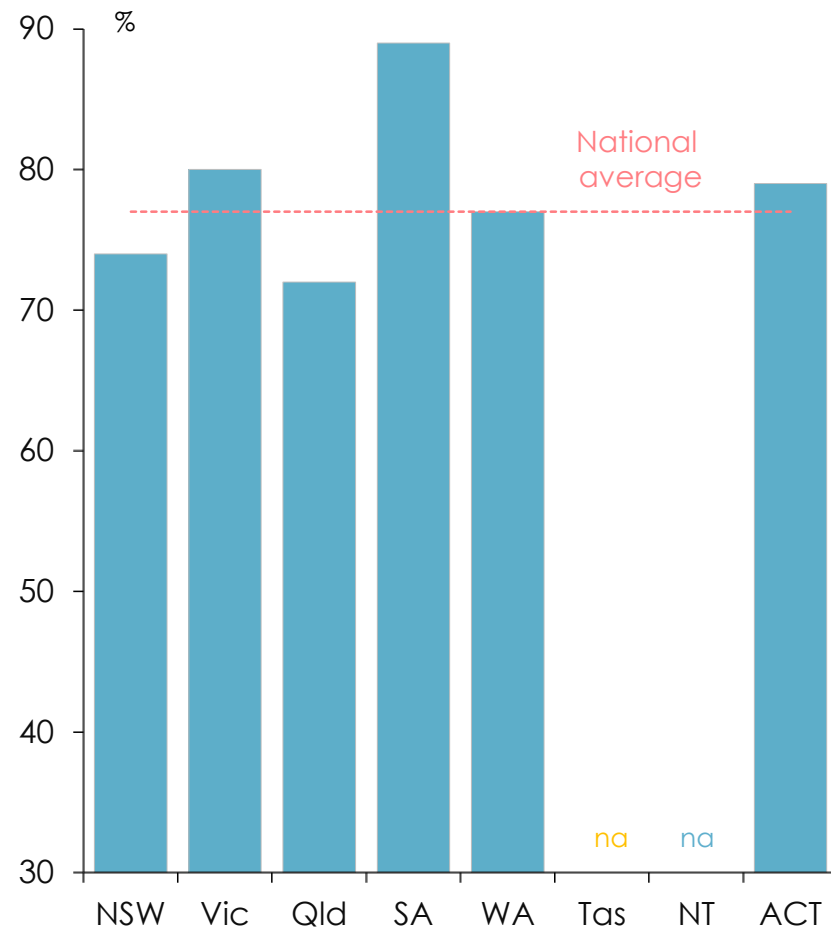


Source: Productivity Commission, *Report on Government Services*, 2018, Volume B, Chapter 4, Table 4A.55.

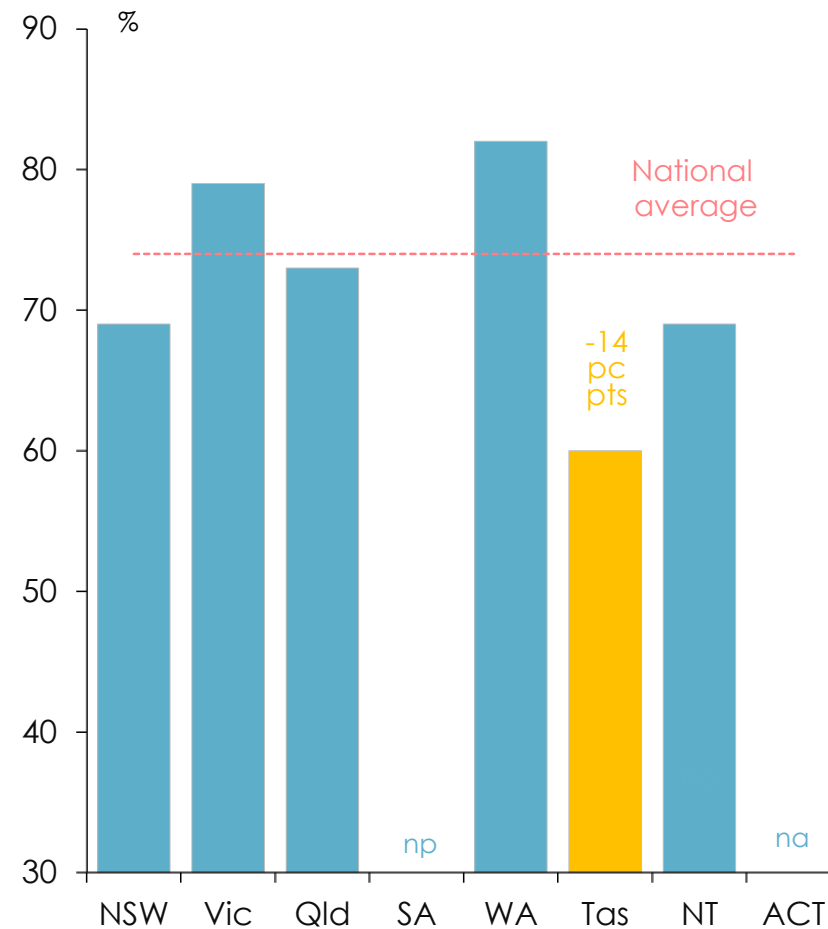
Students from Hobart are less likely to complete Year 12 than those from mainland provincial cities, let alone mainland capitals

Year 12 attainment rates by students' location, States and Territories, 2016

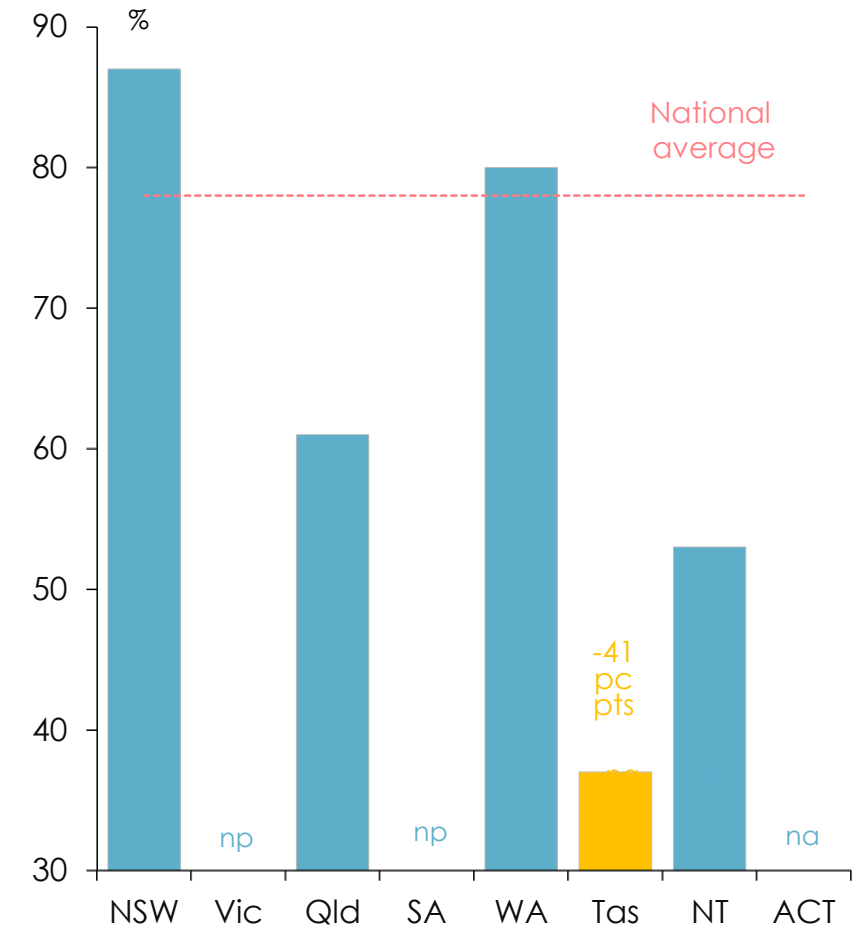
Major cities



Inner and outer regional areas



Remote areas

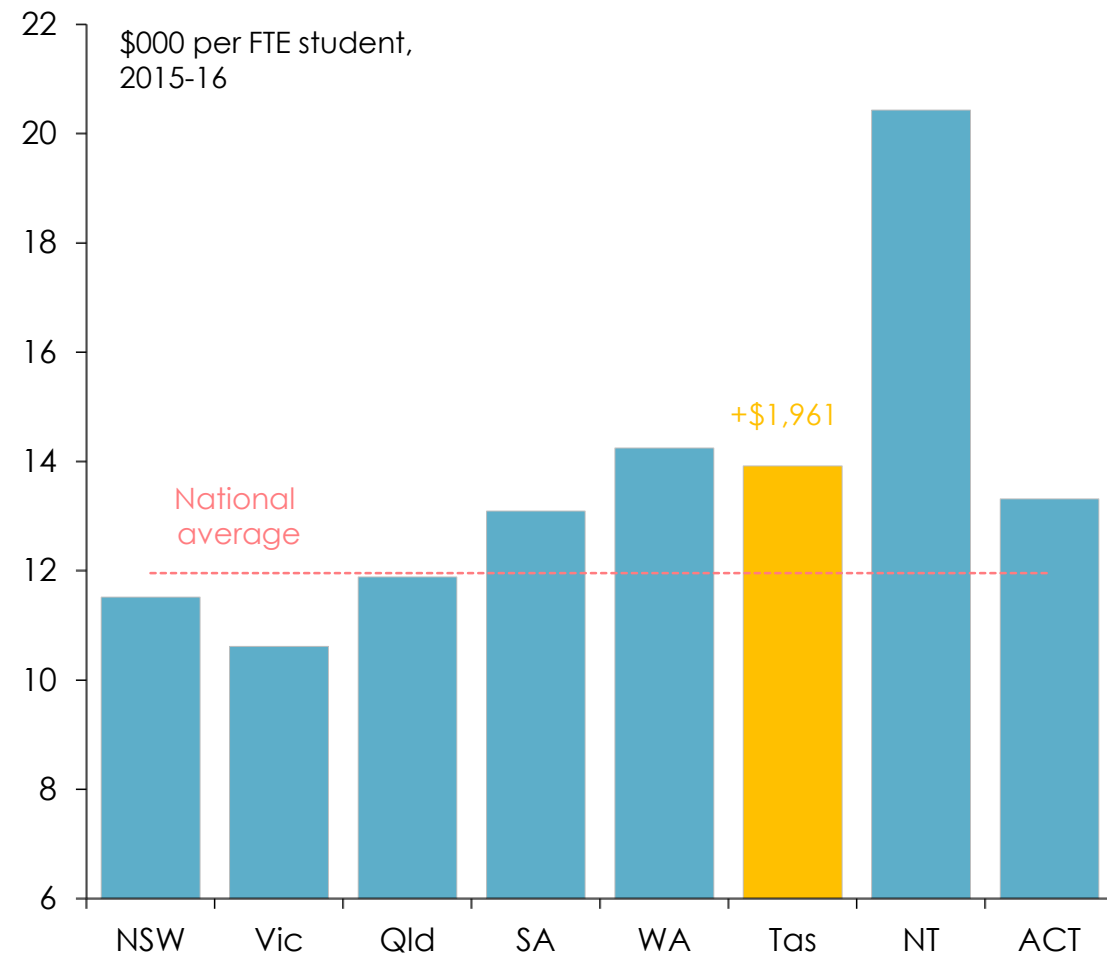


Note: 'na' means not applicable – Hobart and Darwin are included in 'inner and outer regional areas', not as 'major cities'; the ACT does not have any 'remote' areas. 'np' means 'not published' (usually due to small number of results).

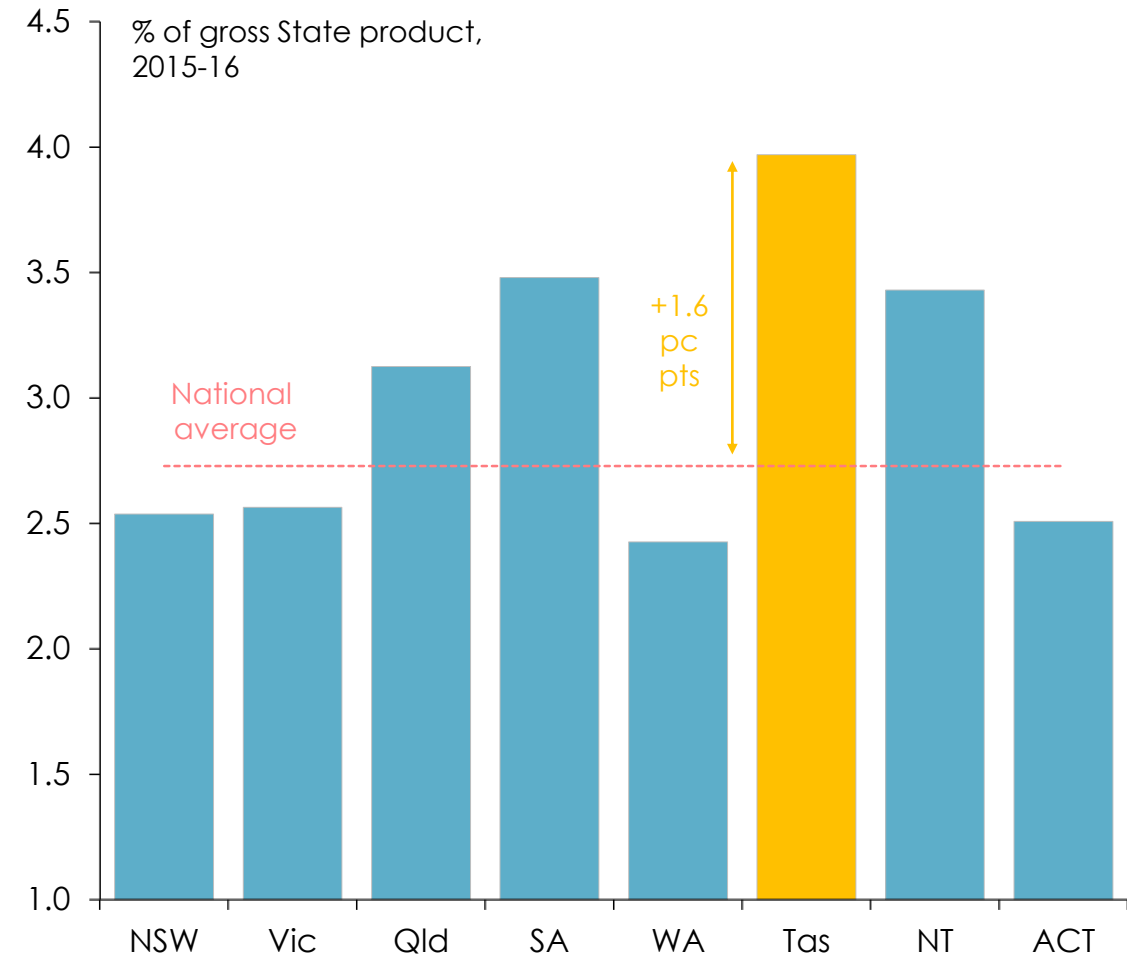
Source: Productivity Commission, *Report on Government Services*, 2018, Volume B, Chapter 4, Table 4A.56.

Tasmania's poor education outcomes aren't the result of insufficient spending on education

Government spending on school education per FTE student, 2015-16



Government spending on school education as a pc of GSP, 2015-16



Sources: ABS, Government Finance Statistics, Education (5518.0.55.001), 2015-16; Schools, Australia (4220.0), 2017; State Accounts (5220.0), 2016-17.

Tasmania's colleges may do a good job of teaching those students who attend them – but they do it at relatively high cost ...

Cost of graduates at Tasmanian colleges, 2012

COLLEGE	TOTAL NET RECURRENT ANNUAL INCOME	NUMBER OF STUDENTS ATTAINING TCE	NUMBER OF SCHOOL-BASED APPRENTICESHIPS AND TRAINEESHIPS	TOTAL NUMBER OF GRADUATES	COST PER GRADUATE
CLAREMONT	11,265,442	101	29	130	86,657
NEWSTEAD	10,913,243	133		133	82,054
HELLYER	10,895,427	143	30	173	62,979
DON	12,093,065	189	39	228	53,040
HOBART	13,725,077	234	27	261	52,587
ELIZABETH	11,689,991	218	30	248	47,137
ROSNEY	15,587,714	293	59	352	44,283
LAUNCESTON	15,721,865	430	59	489	32,151
TOTALS/AVERAGE	101,891,824	1,741	273	2,014	50,592

Cost of graduates at selected private and SA public schools, 2012

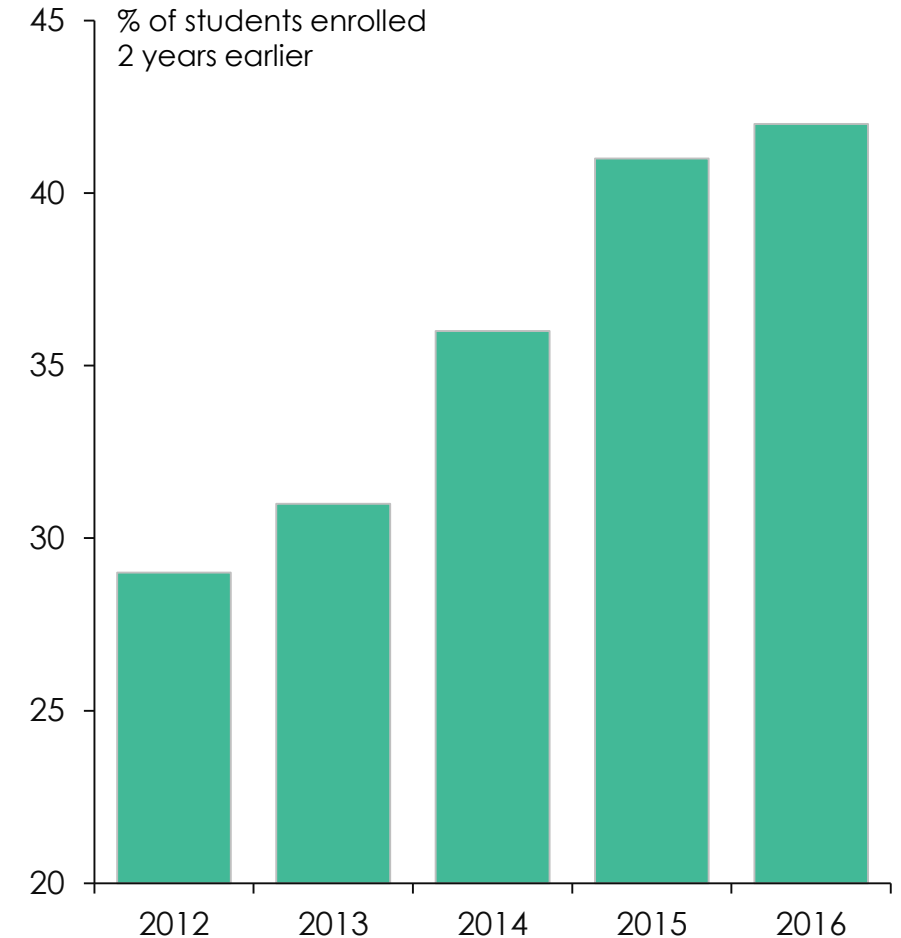
COLLEGE/ SCHOOL	TOTAL NET SENIOR SCHOOL RECURRENT ANNUAL INCOME (estimate)	NUMBER OF STUDENTS ATTAINING TCE/HSC/etc	NUMBER OF SCHOOL-BASED APPRENTICESHIPS AND TRAINEESHIPS	TOTAL NUMBER OF GRADUATES	COST PER SENIOR SECONDARY SCHOOL GRADUATE (estimate)
SCEGGS, NSW	4,233,766	111		111	38,142
CRANBROOK SCHOOL, NSW	5,916,503	133		133	44,485
FRIENDS SCHOOL	3,857,791	147	8	155	24,889
ST MICHAEL'S COLLEGIATE, TAS	1,973,943	69	5	74	26,675
PORT LINCOLN HIGH SCHOOL	4,397,183	75	1	76	57,858
MILLICENT HIGH SCHOOL	3,045,472	40	9	49	62,152
SALISBURY HIGH SCHOOL	5,085,334	116	11	127	40,042
FREMONT ELIZABETH HIGH	4,619,851	47	6	53	87,167
SEAVIEW HIGH SCHOOL	2,743,544	52	9	61	44,976
GLOSSOP HIGH SCHOOL	3,822,383	92	10	102	37,474
HENLEY HIGH SCHOOL	6,283,462	161	9	170	36,962
MARRYATVILLE HIGH SCHOOL	6,254,947	182		182	34,368
UNLEY HIGH SCHOOL	6,212,161	203		203	30,602
SALISBURY EAST HIGH SCHOOL	3,638,026	57	2	59	61,661
BRIGHTON SECONDARY SCHOOL	7,036,881	217	7	224	31,415
MODBURY HIGH SCHOOL	4,505,428	125		125	36,043
NORWOOD MORIALTA HIGH SCHOOL	7,208,772	227		227	31,757

Source: Eleanor Ramsay and Michael Rowan, *Tasmanian Colleges: Fit for the Purpose of Post-Compulsory Schooling? – Addendum*, August 2014 (available at <http://educationambassadors.org.au/>)

... and their existence creates barriers to some students going on to years 11 and 12 which simply don't exist in other states

- ❑ **Students attending Years 7 through 10 at government high schools in Tasmania don't see every day, as role models, older students doing (and completing) Years 11 and 12**
 - Instead what they've traditionally seen is students being 'celebrated' for leaving at Year 10 (though the language around this is now changing)
- ❑ **Students who do complete Year 10 at government high schools, and do so thanks to the work of teachers and support staff, have to break those bonds and start again if they go on to a college**
- ❑ **Although it's early days, the extension of Year 11 and 12 courses to high schools in rural and regional areas does seem to have lifted completion rates at those schools**
- ❑ **If Tasmania's college system is so good, why is it that no other jurisdiction has seen fit to copy it, even for their rural or remote areas?**
 - apart from the ACT, which is so different socially and economically from Tasmania that it might as well be Mars for all the relevance it has to this state

Year 12 completion rates at 'extension schools'

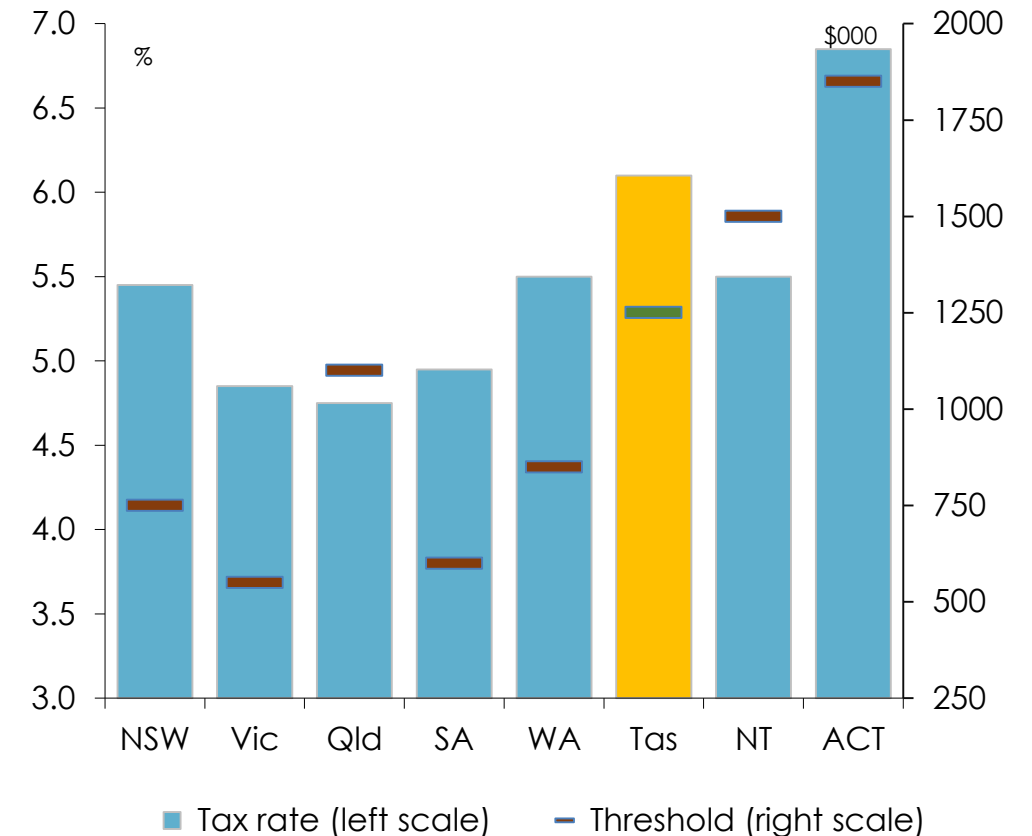


Source: Office of Tasmanian Assessment, Standards and Certification (TASC),

Tax reform would almost certainly help lift participation and productivity

- ❑ The Productivity Commission's recent report, *Shifting the Dial*, says 'tax reform must not be considered dead'
- ❑ While the Liberals have offered three different tax cuts during the current election campaign, neither they nor any other parties have mentioned 'tax reform'
- ❑ A prime case for reform is payroll tax – where Tasmania levies the highest rate, on the narrowest base, of any state – the polar opposite of good tax design
- ❑ Tasmania could have a payroll tax rate of less than 4% if the threshold were abolished entirely
 - there's no economic rationale for preferencing small businesses just because they're small
 - if there are to be any tax preferences they should be for new businesses, not small ones
- ❑ Every enquiry that's ever looked at property taxation recommends replacing stamp duties with a broader land tax – gradually, with transitional provisions and special provisions for 'asset-rich, income-poor' people
 - including *Shifting the Dial*

Payroll tax rates and thresholds, 2017-18

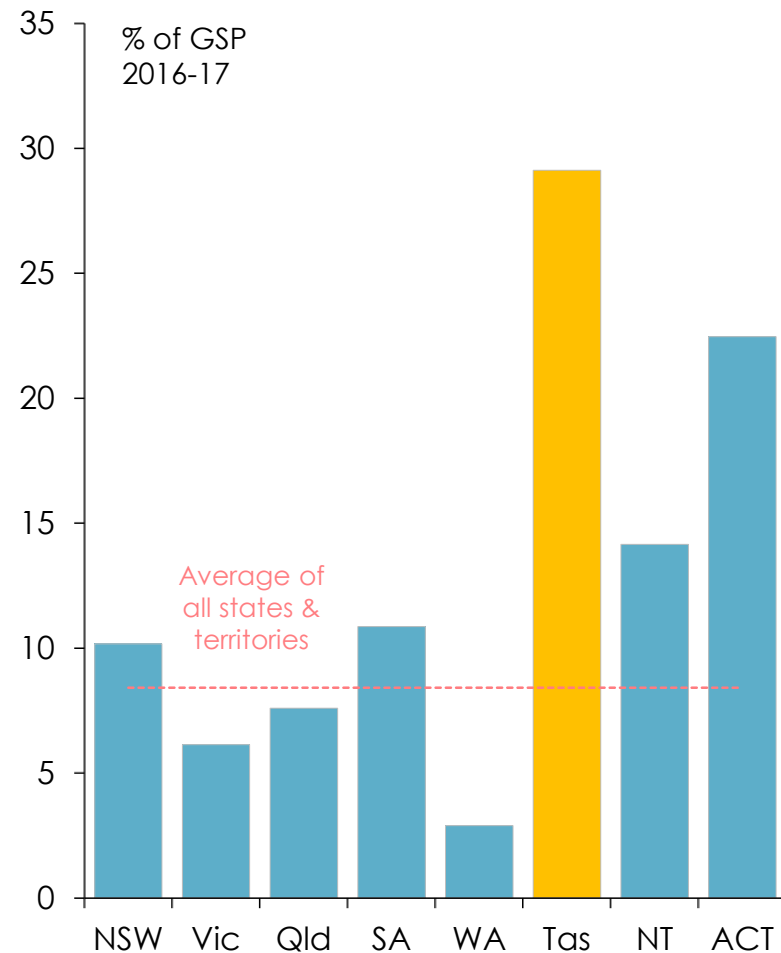


Note: Qld, WA & NT phase out tax free thresholds on larger payrolls. WA to impose higher marginal rate of 6.5% on large employers from 2018-19 through 2022-23. The Tasmanian Liberals have committed to introducing an intermediate rate of 4% for businesses with payrolls of \$1.25-2 mn if re-elected on 3rd March.

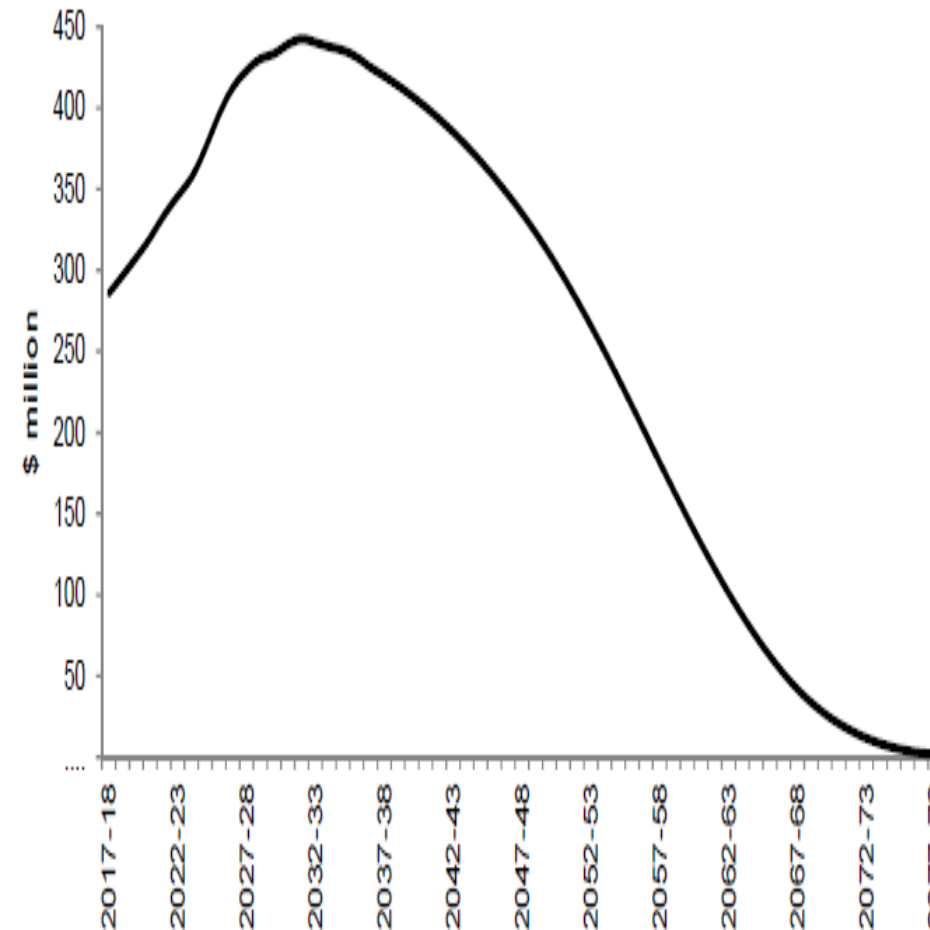
Source: NSW Treasury, *Interstate Comparison of State Taxes 2015-16*.

None of the parties has been willing to talk about Tasmania's unfunded super liability, and the constraints it imposes on the budget

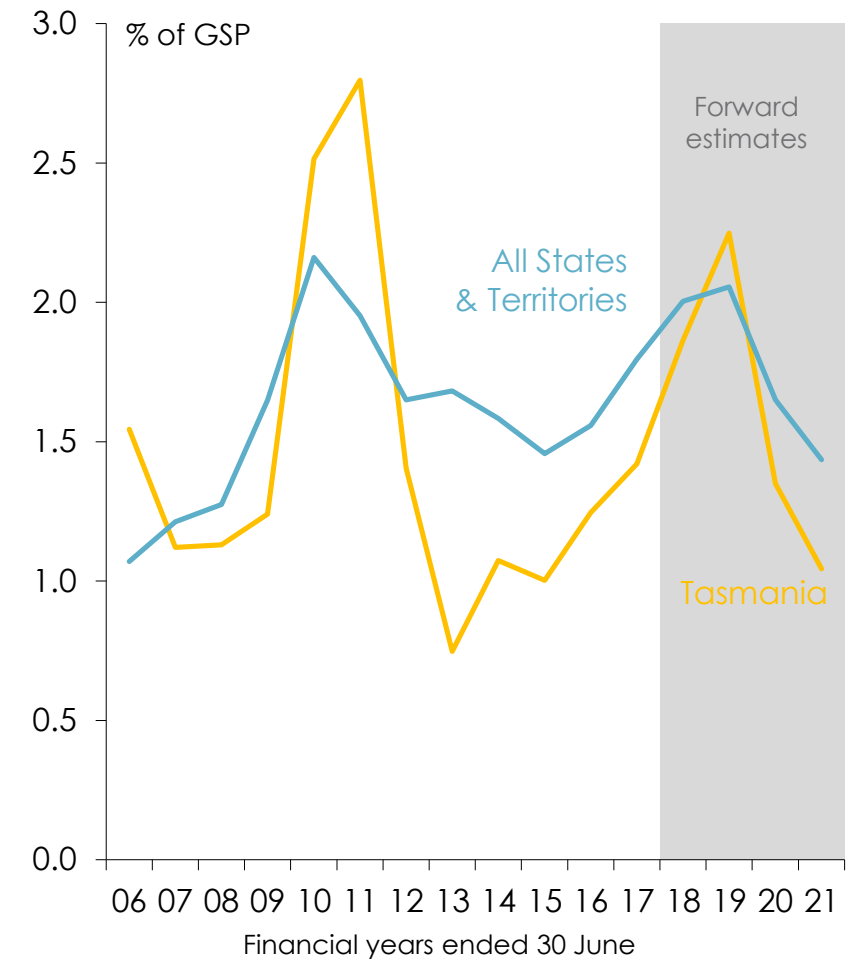
Unfunded superannuation liabilities, 30 June 2017



Cost of superannuation payments to State Budget



'General government' infrastructure investment



Sources: State and Territory Governments, 2017-18 Mid-Year Budget Updates or equivalent; ABS, *State Accounts* (5220.0), 2016-17; Tasmanian Government, 2017-18 Budget Paper No 1.

Summary and conclusions

- ❑ **Tasmania's economic performance has improved considerably over the past four years**
 - and while that partly reflects fortuitous external influences, the Hodgman Government is also entitled to claim some of the credit
- ❑ **However, despite this improved economic performance, Tasmania remains the poorest state in the nation, by a margin which hasn't changed much over the past four years – and isn't forecast to change much over the next four**
- ❑ **The underlying reality is that Tasmania's economy has to improve significantly, merely to counter the effect of powerful and inexorable demographic forces that have been detracting from the key drivers of per capita economic growth**
 - and these forces will intensify over the next three decades
- ❑ **Unless Tasmania can find ways of increasing its age-specific employment-population ratios, the proportion of jobs which are full-time and/or its labour productivity growth rate – or can reverse the long-standing age structure of interstate migration flows – then Tasmanians' material living standards will continue to decline relative to those of the rest of Australia**
 - and the risks that the rest of Australia will become more reluctant to ameliorate that decline through ongoing fiscal transfers will probably increase
- ❑ **The single most important thing that the next Tasmanian Government can do to improve Tasmania's long-term economic prospects is to improve the educational participation and attainment of Tasmania's population**
 - But other, bold and wide-ranging, reforms will also be required