The 2020 Tasmania Report

Prepared for the

Tasmanian Chamber of Commerce and Industry

by

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Message from the Chair of the TCCI

It is with great pleasure and pride that I introduce this sixth Tasmania Report to you.

The report which is an important annual milestone in analysing our progress as a community, is only possible due to the unique partnership that makes the funding of the report possible. The powerful concept, initiated by the TCCI in 2015, was that a report combining economic and social aspects of the entire Tasmanian community was essential to inform debate on strategic goals and policy implementation for every Tasmanian, TCCI together with TasCOSS, Tasplan Super, TPT Wealth, Telstra and media partner The Mercury combine in a partnership that provides key data and independent analysis to better inform all Tasmanians.

As engaged Tasmanians, we know the significance of accurate data in measuring and managing key objectives and we also know the benefits of positive relationships with stakeholders who join with us in striving to achieve a better Tasmania for all, and who recognise that prosperity and wellbeing are intrinsically linked at an individual and community level. The significance of economic indicators alone can cloud vision and judgement. The combination of social and economic indicators informs a fuller appreciation and prompts debate about the priorities that Tasmania must set.

Of course, the State Government plays a huge part in the achievement of community priorities as does the Australian Government and local government, health and education institutions, industry, businesses, community groups and individuals all of whom have a responsibility to look beyond self- interest and understand and act for the needs of Tasmania as a whole.

Tasmanians are the unhealthiest, oldest, worst educated, most under-employed and most dependent on government benefits in Australia. This is not sustainable and if it continues will condemn a large number of Tasmanians to unproductive lives with compromised opportunities for employment, personal fulfilment and community engagement. The flow on effects mean increasing health costs, more people who feel alienated from society, and who in turn, have no stake in developing communities.

Traditionally, business has not examined the qualitative indicators of Tasmania's success such as housing, education and health. The TCCI believes that the true measure of a successful Tasmania must include improved achievements in these areas as well as the quantitative indicators of employment, infrastructure development, levels of taxation and the costs of doing business in an island state with a small decentralised population, and limited transport options.

Entering 2020 Tasmania was enjoying its best economic performance in fifteen years with our performance relative to our mainland peers trending positively. However, March 2020 saw the Covid-19 pandemic arrive in Australia and the subsequent disruption due to strict border controls, physical distancing, limitations on gatherings and freedom of movement resulted in a shock to the Tasmanian community from an economic and social perspective.

While governments, businesses and communities have pulled together to mitigate the effects of the pandemic and we appear to be on a path to recovery, the return to normal is still some way off and patchy as international borders are mainly closed and restrictions on physical distancing and gatherings are likely to remain in place until an effective vaccine has been deployed and taken up by the community.

This year's edition will focus on the impact of the pandemic on our economy, as well as opportunities for recovery moving forward. Of interest will be understanding whether the recovery can be used as a catalyst to take bold steps to make changes that will make significant inroads into improving the long-term outcomes for the Tasmanian community.

From any crisis there is always opportunity for communities to learn and grow. For example, the pandemic has accelerated trends in the shift from physical to digital and remote work while supporting local businesses has become more prevalent. While these are opportunities where we can embed changes that will benefit society more broadly, care needs to be taken not to embed disadvantage. In particular, the shift to digital and remote work requires communities to have access to affordable and responsive telecommunications infrastructure and this is an area where some communities are inherently disadvantaged at present.

The TCCI envisages Tasmania as the most successful state in the Commonwealth. The measures of that success include prosperity but depend on education standards and good health and confidence in our institutions.

With the publication of the sixth Tasmania Report, the TCCI will continue to track Tasmania's progress towards the attainment of improved results in jobs, construction, exports, new businesses, housing, health status and educational achievement.

I commend the report to you all.

Paul Ranson
Chair, Tasmanian Chamber of Commerce and Industry (TCCI)

Foreword from the CEO of TasCOSS

Have you had a successful 2020?

You may find that a hard question to answer ... or perhaps not. 2020 has truly been a year like no other for each and every one of us. We have had to live differently, work differently and connect with each other differently. We have all had to realign the way our lives work and the way we interact with others, and I daresay many of us will now be defining success — and perhaps wellbeing — in a different way than we would have back at the start of the year when Covid-19 was merely a problem for those a 12 hour flight away.

Many of us, including our Premier, define the success of our state as including both the good health of our people and the good health of a strong economy. These two elements are inextricably linked in our minds in ways they may not have been before these past 12 months.

Our physical and mental safety and wellbeing were at the forefront of our state's and wider community response to the pandemic. And perhaps for the first time in decades, it was our collective wellbeing rather than the economy alone that drove our decision-making and was the yardstick by which to measure the effectiveness of our Covid-19 response.

That raises the question that changing times need us all to ask: how do we measure success?

Let's consider it from a personal perspective: how do you measure your own personal success? Is it the level of your bank account alone or do you consider other measures like how healthy you are, the quality of your relationships and whether you get to do things you enjoy in life? And now that we've started thinking about it: how do you measure success for your family? For your children?

Covid-19 has taught us many lessons. The obvious: wearing the same pair of pyjama bottoms for three weeks' straight probably isn't a good idea. And the nugget of truth amidst the oddness of it all: as a society we function better when we place our people at the centre of everything we do and work together with a common purpose.

The fabric of our society, and indeed our economy, is built on people — the volunteer bus drivers ferrying people to health appointments, those on the frontline distributing emergency relief hampers to people in need, our domestic violence services providing timely, wrap-around support to those fleeing abusive homes during lockdown. Our ever-dependable essential workers stepped up to provide support and assistance to Tasmanians. We couldn't have been in better hands.

It is our people which have seen us through this crisis. This network of services and support makes up our social infrastructure and is every bit as important as hard, physical infrastructure.

While there was undoubtedly suffering and hardship during Covid-19, I think we would all agree that the way the government, community service organisations, private business and the community as a whole banded together to reach out and support each other underpinned our state's success in the face of extreme disruption.

It is TasCOSS's view that we simply can't afford to go back to business as usual, where a fifth of Tasmanian children start Year 7 below the national standard for reading, where Tasmania has higher rates of obesity than any other state or territory, and where too many Tasmanians don't have the skills and qualifications needed to take up the jobs of the future.

In line with the times, we need to start measuring our success in terms of our people as well as the economy, just as I suspect you do for yourself and for your family.

Our response to the pandemic shows we are capable of doing this. So as we turn our minds and energy to rebuilding Tasmania, I urge you to think about ways we can keep the best of our crisis response — our collective action to care for those around us — and make it our new normal.

Adrienne Picone
Chief Executive Officer, Tasmanian Council of Social Service (TasCOSS)

Executive summary

Covid-19 has brought sickness to almost 68 million people around the world, and death to over 1½ million. The virus, and the measures deemed necessary by governments to contain its spread, have induced what for most countries around the world has been the most severe recession in decades, if not since the Great Depression.

Tasmania has done exceptionally well in managing the health risks posed by the virus, especially once allowance is made for the outbreak at the North-West Regional Hospital, which was subsequently traced to failings which occurred elsewhere in Australia. Tasmania's experience compares favourably not just with other parts of Australia, but with much of the rest of the world.

Prior to the onset of Covid-19, Tasmania's economy had been performing strongly, in most respects, both by comparison with its experience earlier in the decade, and with the performance of other states and territories. In particular, Tasmania recorded faster economic growth per capita than any other state or territory in the two years to 2018-19; its unemployment rate had dropped to below the national average by the March quarter of this year; and its residential property market had been the strongest in the nation.

Both as a consequence of these and other developments, and as a contributor to them, Tasmania's population growth rate had picked up, as fewer Tasmanians left to seek more favourable opportunities on the mainland, more people moved from the mainland to Tasmania, and Tasmania attracted its largest share of the national overseas migration intake in at least five decades.

Despite all these favourable developments, the Covid-19 recession appears to have hit Tasmania's economy more severely than that of any other state or territory, with the obvious exception of Victoria, with it's unique (in the Australian experience) 'second wave' of infections. In particular, Tasmanians have encountered greater difficulty in getting back to work after the job losses incurred during the early part of the recession, than people anywhere else in Australia other than Victoria.

This has not been for any want of effort by the Tasmanian Government. The Tasmanian Government has been more generous in the support it has provided to households and businesses in this state than any other state or territory government – which it was able to be because it entered the pandemic in a stronger financial position, in most respects, than other state and territory governments. Support from the Federal Government has also been of crucial importance in ameliorating the economic damage wrought by the pandemic, while local governments and community organizations have also played vital roles.

There are no grounds for concern over the magnitude of the budget deficits which the Tasmanian Government expects to incur over the next four years, or the debt which it will accumulate as a result.

The deficits are entirely in accordance with the advice given to governments by credible international agencies, and by Australia's own Reserve Bank. The debt can be readily serviced at current and prospective interest rates, and will in any event be smaller relative to the size of Tasmania's economy than that of any other state or territory except Western Australia.

If it needs to, the Tasmanian Government has scope to do more to support the economic recovery process.

The fact that Tasmania's economy was doing well going into the Covid-19 recession, and the State Government has provided and will continue to provide significant fiscal policy support, unfortunately does not guarantee that Tasmania will emerge from the recession ahead of, or more rapidly than, the rest of Australia.

Tasmania's experience during each of the last three recessions, over the past four decades, counsels strongly against such hopes. Tasmania's economy is too small, too narrowly-based, and too exposed to forces outside the control of the State Government, or individual Tasmanian businesses, to be at all confident that this piece of history will not repeat itself.

To be sure, the changes wrought by Covid-19, and Tasmania's success in managing them, have opened up new opportunities for Tasmania – in particular, as a 'safe' place for people to call home, and as a place from which new digital technologies, new ways of working or doing business, can be exploited.

But Covid-19 and the recession in its wake have also attenuated challenges and vulnerabilities which have confronted Tasmania for a very long time, and have brought new ones.

In particular, they have brought – or should bring – a renewed focus on the importance of remedying the flaws in Tasmania's education and health systems, which will be crucial to Tasmania's success or otherwise in attracting people from other parts of Australia, and the world, as well as retaining more of our own people.

The growing importance of digital access and skills, as a means of accessing education, social connections, essential services, employment and a growing range of goods, as well as 'doing business' – which has been dramatically accelerated during 2020 – underscores the urgency of addressing the 'digital divide', something which is especially pronounced both between Tasmania and the rest of Australia, and within Tasmania itself.

There are also other questions which are important for Tasmanians to consider.

Crucial though it has been to the improvement in Tasmania's economic performance over the past five years, have we now become 'too dependent' on tourism, given the challenges which that industry faces as a result of Covid-19?

Have we become ‘too reliant’ on China as an export market, given the rapid deterioration in the bilateral political relationship between Australia and China?

Are we ‘too comfortable’ with the extensive fiscal support Tasmania receives from the Federal Government – and if so, what are we prepared to do, including by way of reform to our state tax system, to reduce the risks we might face if that support were to be lessened?

The next State election is now at most only 15 months or so away. Ideally, between now and then, Tasmania’s political leaders – both those currently in government, and those who aspire to be – will seek to engage with Tasmanians on issues such as these, and others, with a view both to ascertaining what Tasmanians hope for, and what they are prepared to undertake in order to realize those hopes, and to persuading Tasmanians to give them an electoral mandate to implement the changes which will be necessary to address the challenges which Tasmania faces (both long-standing, and more recently as a result of Covid-19), and to make the most of the opportunities which now present themselves.

Tasmania didn’t really have that kind of engagement in the lead-up to the last State election in 2018. Having foregone that opportunity during more prosperous times, it is perhaps to be hoped that the onset of more difficult times will be seen as a reason to be bold and imaginative – as it has been in some other states – rather than an excuse to ‘hunker down’ and be timid.

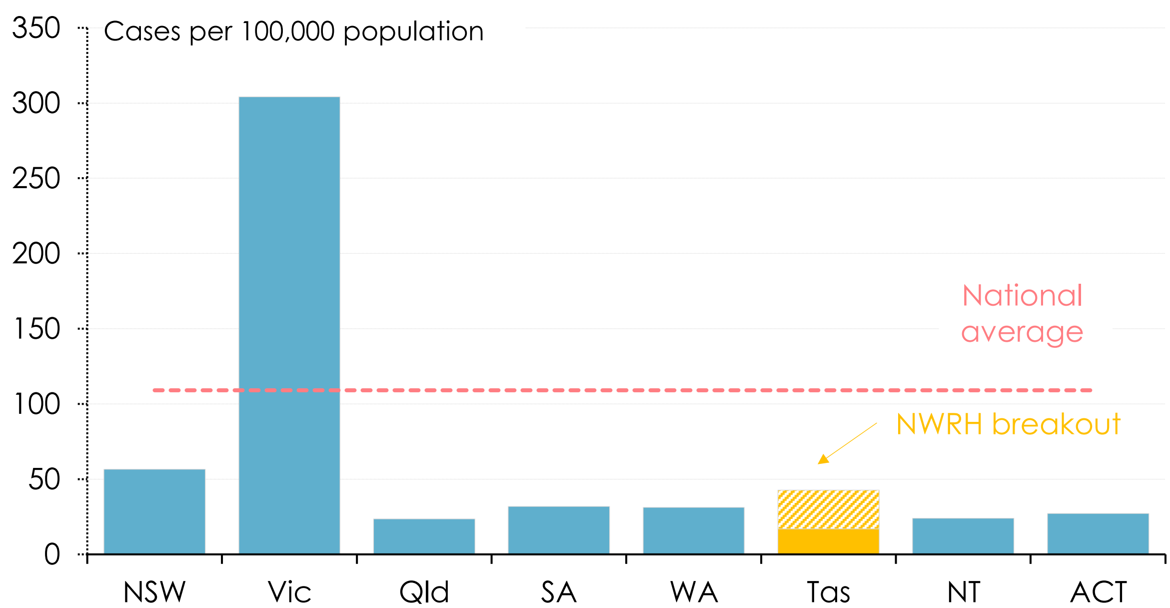
Chapter 1: Tasmania's experience of Covid-19

Covid-19 is far from being the most serious pandemic to have afflicted humanity – though it has thus far infected almost 68 million people world-wide and claimed the lives of over 1½ million people, those numbers are smaller both in absolute terms and as a percentage of the world's population than those attributable to HIV-AIDS, smallpox, the so-called 'Spanish flu' of 1918-20, and the three 'great plagues' of 541-2 (the 'Justinian' Plague), 1347-51 (the 'Black Death') and 1855-1960 (Public Health Online 2020). The H1N1 swine flu infected almost 61 million people between April 2009 and April 2010, but caused fewer than 12,500 deaths (Newman 2020).

However, people's reactions to the fear of catching the virus, and the actions which governments implemented in order to contain and prevent its spread, have between them prompted the most severe economic downturn, in almost every country in the world, since the Great Depression of the 1930s.

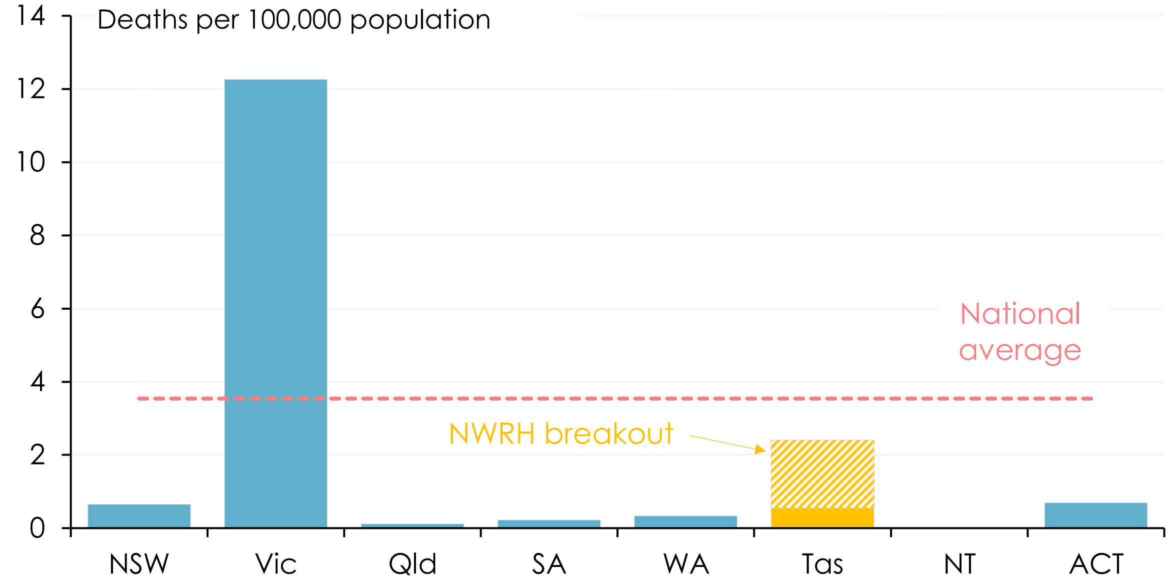
Tasmania's experience of covid-19 has been less severe than that of many other places around the world. Indeed, were it not for the outbreak at the North-West Regional Hospital – which accounted for 138 confirmed cases (60% of the total recorded in Tasmania) and 10 of the 13 deaths, and which was traced to two passengers who had originally arrived in Sydney aboard the *Ruby Princess* (Walker 2020: 253 and 266) – Tasmania's infection rate (confirmed cases per 100,000 population) would have been the lowest in Australia (Chart 1.1), and its fatality rate lower than New South Wales' (as well as Victoria's), and higher than that of other states by a margin which would have been consistent with Tasmania's older-than-average population (Chart 1.2).

Chart 1.1: Confirmed cases per 100,000 population: states and territories



Note: Data up to 7th December. *Sources:* Coronavirus (COVID-19) in Australia; ABS, National, state and territory population, March 2020;   Walker (2020).

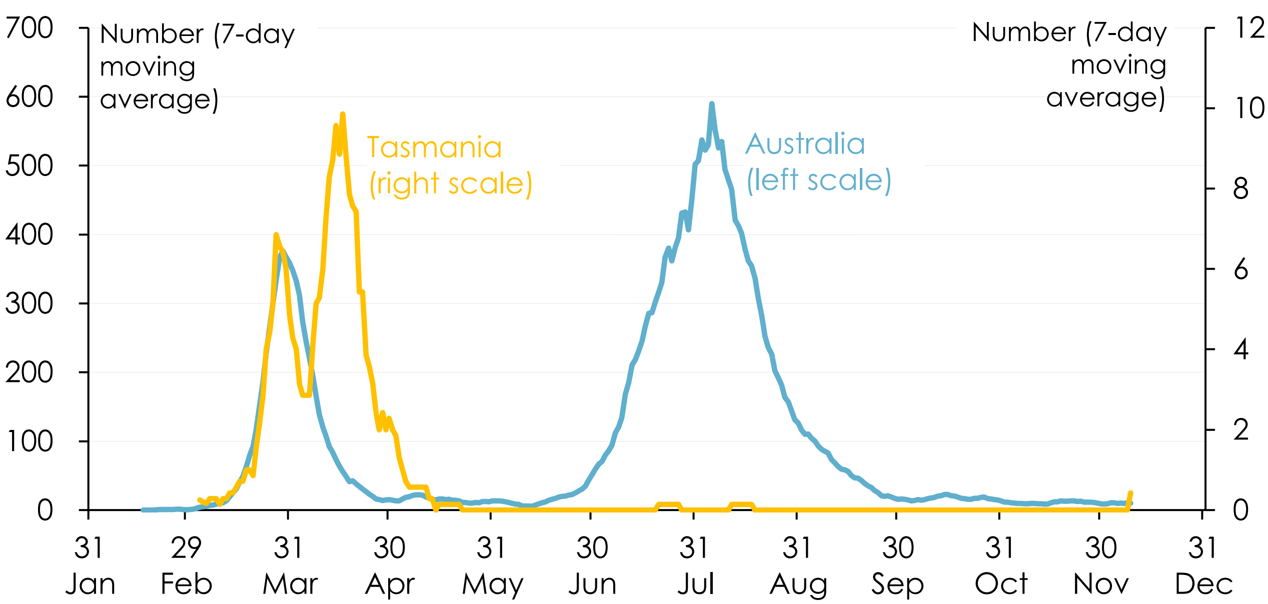
Chart 1.2: Covid-19 deaths per 100,000 population: states and territories



Note: Data up to 7th December. *Sources:* [Coronavirus (COVID-19) in Australia](); ABS, [National, state and territory population](), March 2020; Walker (2020).

Up to 8th December, Tasmania had had only two confirmed Covid-19 cases since 15th May, and none at all since 11th August – during which time Victoria has had over 5,000, New South Wales over 600, and the rest of Australia over 300 (Chart 1.3). And Tasmania has had no Covid-19 related deaths since 1st May, whereas Victoria has had 801, and the rest of Australia 12. (Three cases – all of whom had arrived on a flight bringing stranded Australians home from India - were reported on 9th December).

Chart 1.3: Daily new confirmed Covid-19 cases, Tasmania and Australia



Note: Data up to 9th December. *Source:* [Coronavirus (COVID-19) in Australia]().

Tasmania's success in containing the spread of the virus (after the NWRH outbreak was brought under control) is largely attributable to the public health measures instituted by the Tasmanian Government (including the closure of Tasmania's borders to interstate travel) and to the willingness of the Tasmanian people to comply with them (without the need to resort to the 'over-the-top', heavy-handed policing strategies employed in Victoria) – although ABS analysis suggests that Tasmania's restrictions during the September quarter were somewhat stricter than those of any other jurisdiction except New South Wales and, by a very large margin, Victoria (ABS 2020i).

Data on individual mobility compiled by Apple and Google also attests to Tasmania's restrictions having been a little more severe than those in other states and territories, on average, with the exception of Victoria (especially during its 'second wave') (Charts 1.4a and b). The Apple indicators clearly show mobility in Tasmania falling by more, and recovering more slowly and by less in total, than the Australian average, even though the latter was weighed down by Victoria during that state's 'second wage'. The Google indicators show mobility in Tasmania tracking more closely in line with the national average, and exceeding it between mid-July and mid-October: although it should be noted that during this period the corresponding measure for Victoria was consistently tracking 20-30 points below the national average, so that the indicator for Tasmania would have been below the corresponding average for Australia excluding Victoria, if it were possible to calculate one.

Chart 1.4a: Apple mobility indicators, Tasmania and Australia

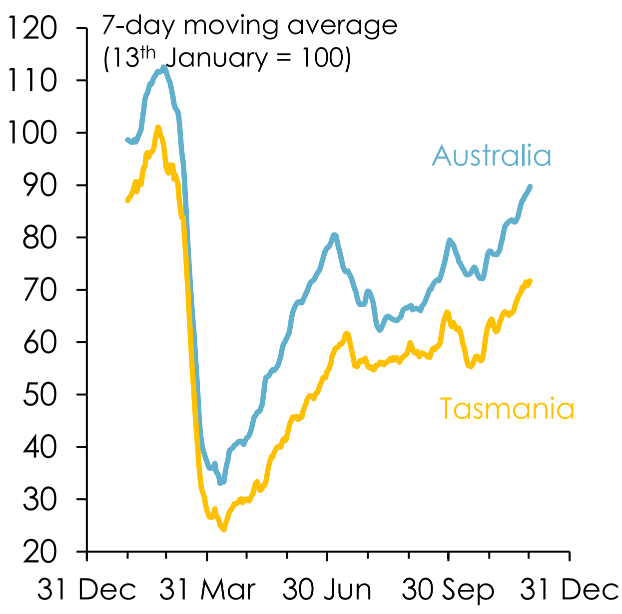
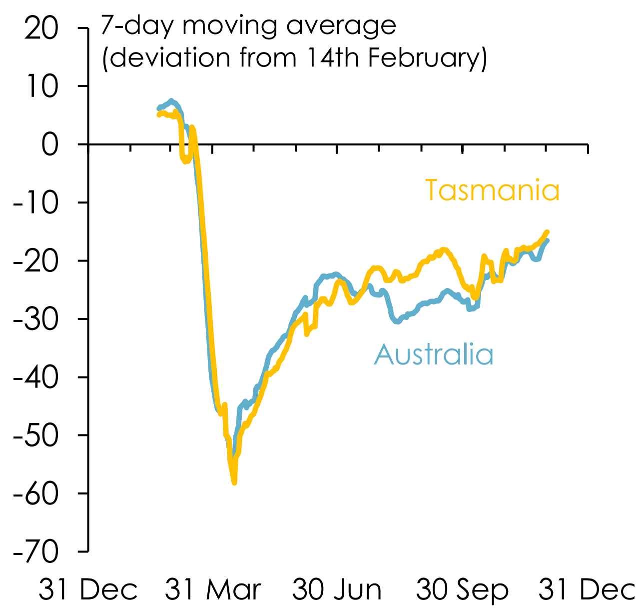


Chart 1.4b: Google mobility indicators, Tasmania and Australia



Note: The Apple mobility indicators are averages of the separately reported indexes for driving, transit and walking; the Google mobility indicators are averages of separately reported indexes for time in workplaces, time spent in transit, and time spent in retail or recreation. *Sources:* Apple, Mobility Trends Reports; Google, Covid-19 Community Mobility Reports.

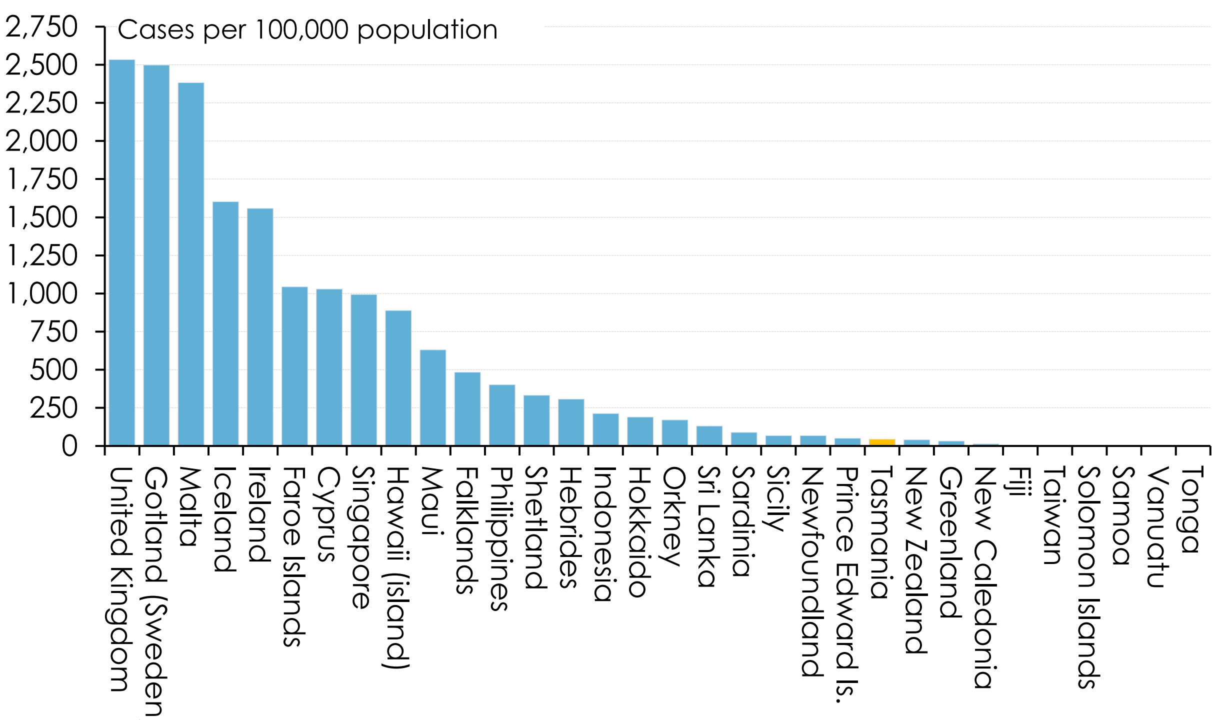
Tasmania's relatively good performance in managing the virus probably also owes something to our island status, which made measures such as border closures easier to implement than in jurisdictions which share sub-national or national land borders with their neighbours.

With some obvious exceptions – such as the UK and Ireland, or, closer to home, Indonesia and the Philippines – islands, whether independent nations or constituents of larger nations – have typically managed to achieve better outcomes (lower case numbers and fewer deaths as proportions of their populations) than other nations or states, provinces etc.

Tasmania's performance in managing the virus also compares well with that of most other islands – about the same as the two islands to whom we are perhaps most similar, Canada's Newfoundland and Prince Edward Island; rather better than the islands of the Mediterranean or the North Atlantic; but not as good as the islands of the South Pacific (Charts 1.5 and 1.6).

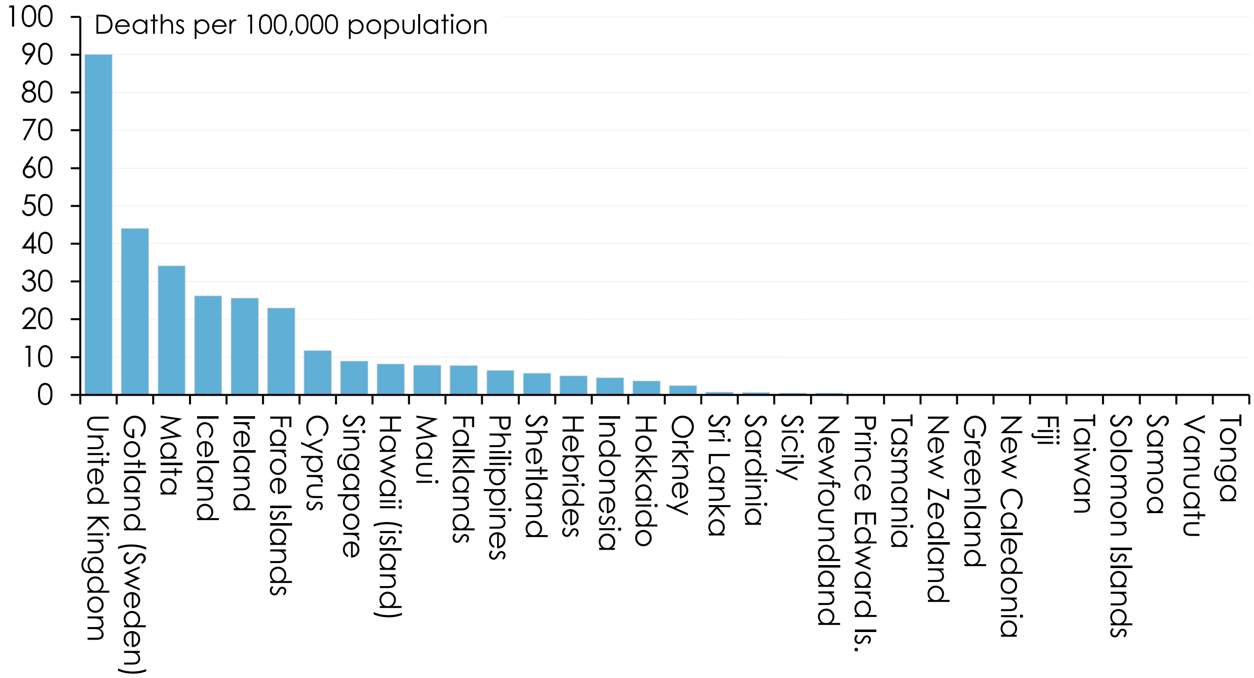
It's important to note that Tasmania's experience could have been much worse than it turned out to be, had the Tasmanian Government and Tasmanian people made different choices.

Chart 1.5: Confirmed Covid-19 cases per 100,000 – island nations, states and provinces



Note: Data up to 6th December 2020. *Sources:* Our World in Data; Johns Hopkins University Coronavirus Resource Center; Public Health Scotland; World Health Organization Western Pacific Region; Worldometer.

Chart 1.6: Covid-19 related deaths per 100,000 – island nations, states and provinces



Note: Data up to 6th December 2020. *Sources:* Our World in Data; Johns Hopkins University Coronavirus Resource Center; Public Health Scotland; World Health Organization Western Pacific Region; Worldometer.

Modelling undertaken at the University of Tasmania suggested, in the absence of actions of the sort that were actually taken, the number of infections could have peaked at over 125,000 (23% of Tasmania's population), with over 53,000 people requiring hospitalization and, of them, almost 21,000 requiring ICU treatment, and more than 5,900 deaths (University of Tasmania 2020: 10).

There really is *no trade-off* between measures aimed at containing the spread of the virus and 'the economy' (or, as it has sometimes been portrayed, between 'lives' and 'livelihoods').

If the virus starts spreading rapidly, a majority of the population will voluntary abstain from doing things that public health restrictions would otherwise legally constrain them from doing – as has been demonstrated in Sweden, where the government has chosen not to impose severe restrictions on the movement and gathering of people but people have nonetheless observed 'social distancing' behaviours voluntarily, and where epidemiological outcomes have been worse but economic outcomes no better than in neighbouring countries which have imposed more stringent restrictions (Edmond et al 2020).

It is also apparent from ABS surveys indicating that Australians will continue to avoid what they perceive to be 'risky' activities (such as catching public transport or planes, or attending large gatherings) even after they are allowed to do so, until a vaccine arrives (ABS 2020a).

The International Monetary Fund's most recent *World Economic Outlook* notes that "the importance of social distancing as a contributor to the downturn suggests that lifting lockdowns is unlikely to rapidly bring economic activity back to potential if health risks remain … economies will continue to operate below potential while health risks persist, even if lockdowns are lifted (IMF 2020: 66).

That's why keeping the virus at bay, until an effective vaccine becomes widely available, will be crucial to Tasmania's economic recovery – as it will be to economic recovery everywhere else in Australia, and around the world. It continues to be of vital importance that people comply with public health regulations – including any stricter ones which the Government may need to re-impose in the event of any renewed outbreaks.

It would also be helpful to maintaining public compliance with public health regulations if the Government were to make public, *all* of the public health advice on which the regulations and restrictions it imposes is based – so that the public can understand the reasons why they can't do various things, and to allay any suspicions that some restrictions might be based on other than public health advice.

There really is no reason why the public health advice to governments shouldn't be made publicly available, in full. It's not for governments to decide whether people might be 'scared' if they knew the 'worst case scenarios' that they (governments) have had to contemplate.

And, unlike the rationale for not making public the advice from security agencies on which counter-terrorism decisions are based (ie, that making such advice public would signal to would-be terrorists what security agencies know about them, and possibly how they came to know it), it's not as if coronaviruses are sitting around watching the regular media briefings by public health officers, and based on what they see and hear from them, adapting their plans as to which parts of the community to infect next accordingly.

On the contrary, knowing that the restrictions which governments have imposed are *solely* based on public health advice – rather than, as was the case with the night-time curfews imposed in Victoria during its 'second wave', being imposed in order to make it easier for the police to impose fines on people (Rooney and Rose 2020) – would help to ensure high rates of compliance.

Since there's no apparent reason to think the same thing has occurred in Tasmania, there should be no reason for the Government to fear any embarrassment that might accrue from making all of the health advice publicly available.

Likewise, where Tasmania maintains restrictions on certain activities which differ from those in other states or territories with similar health circumstances (such as Tasmania's so-called 'vertical drinking' ban), there should be an obligation on the Government to explain clearly the reasons for those differences.

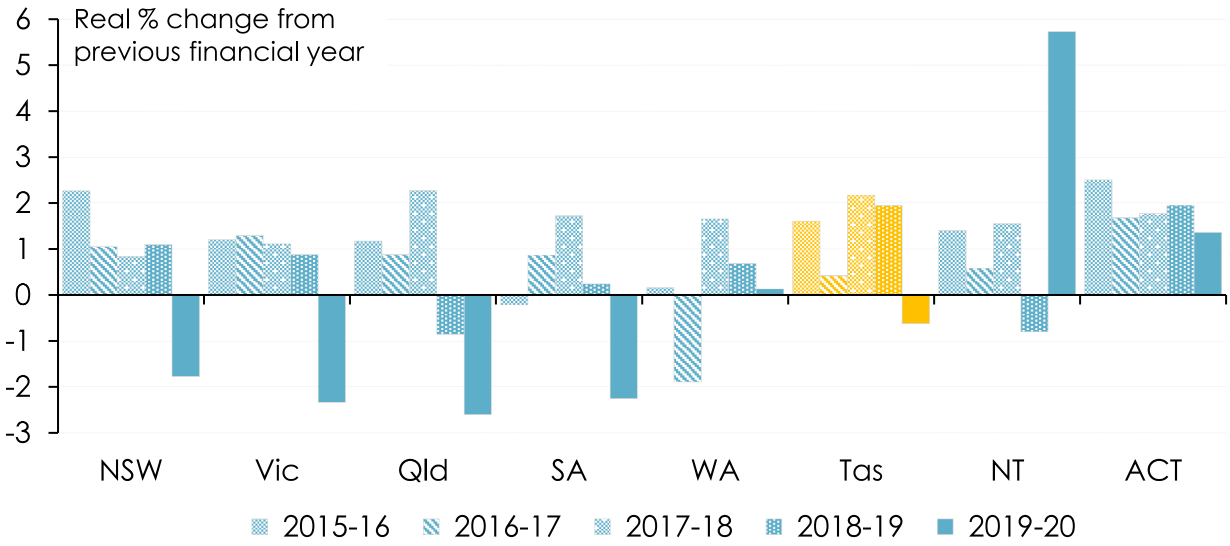
Chapter 2: Tasmania's economy before the onset of Covid-19

Tasmania's economy was travelling well, both by comparison with its own performance earlier in the decade and with the contemporaneous performance of other states and territories' economies, in the years immediately prior to the onset of the pandemic.

Over the two years to 2018-19, Tasmania's real gross state product grew at an average annual rate of 3.2%, the strongest multi-year performance since the years immediately before the global financial crisis, well above the national average for the same period of 2.5% per annum, and better than any other jurisdiction except Victoria and the ACT (Chart 2.1). *Per capita*, Tasmania's growth rate of 2.1% per annum over the two years to 2018-19 was the fastest of any state or territory, and more than double the national average of 0.9% per annum.

Measured real GSP growth in 2019-20 was adversely affected by the onset of the pandemic in the last 3½ months of the most recent financial year: but even so, Tasmania's growth rate of 0.3% was better than that of any other state except Western Australia, and compares with a contraction in the national economy of 0.2%.

Chart 2.1: Growth in real gross state product (GSP), states and territories



Note: The Northern Territory's growth rate in 2019-20 was inflated by a 40% increase in mining output, which was in turn largely attributable to the transition to full production of the Ichthys LNG plant. Excluding mining, the NT's real GSP declined by 4.2% in 2019-20. *Source:* ABS (2020f).

Other dimensions of economic performance also show Tasmania doing well in the period before the onset of Covid-19.

Over the three years to the March quarter of this year, employment in Tasmania grew at an average annual rate of 2.4%, only 0.1 pc point below the national average, and ahead of South Australia, Western Australia, the Northern Territory and the ACT (Chart 2.2) – although only 43% of that growth was in full-time employment, by far the lowest proportion of any state or territory.

Chart 2.2: Employment growth, March quarter 2017 to March quarter 2020, states and territories

Source: ABS (2020e).

Tasmania's unemployment rate fell by 0.5 percentage points over this period, only marginally less than the national average, and by March this year had fallen to 4.9%, the lowest it had been in 11 years, and lower than in any other jurisdiction except NSW and the ACT.

More importantly, this occurred in the context of a rising labour force participation rate – in other words, it wasn't due, either in whole or in part, to people 'dropping out' of the labour force – so that the proportion of Tasmania's working age population who were in work rose by 1.8 percentage points over the three years to the first quarter of 2020, more than in any other state or territory except NSW, and more than the national average of 1.5 percentage points (although it remained the lowest of any state or territory, and 4.2 percentage points below the national average).

Tasmania's relatively strong employment growth in the years leading up to the pandemic was in no small part a result of a generally buoyant business environment during this period, in turn generating high levels of business confidence.

On average over the three years to February 2020, 'business conditions', as measured by the National Australia Bank's well regarded monthly business survey, were adjudged more favourable in Tasmania than in any other state or territory, and considerably more favourably than the national average (Chart 2.3a).

As a result, 'business confidence' in Tasmania, though lower than in South Australia or Western Australia during this period, was higher than in any other state or territory and well above the national average (Chart 2.3b).

Chart 2.3a: 'Business conditions', 3 years to February 2020, states

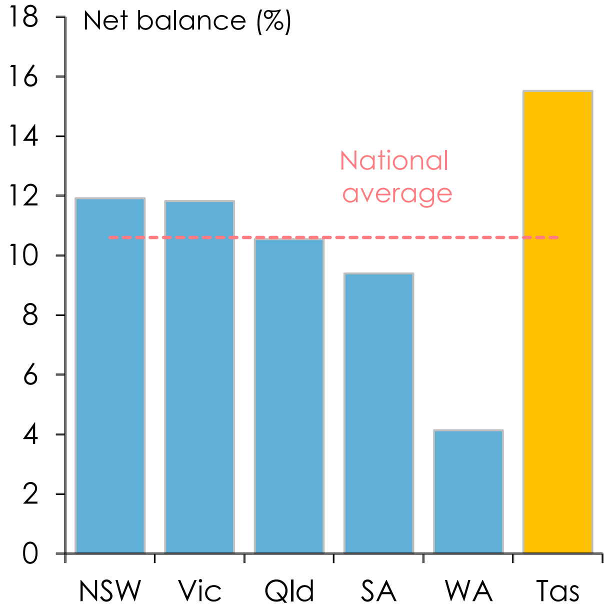
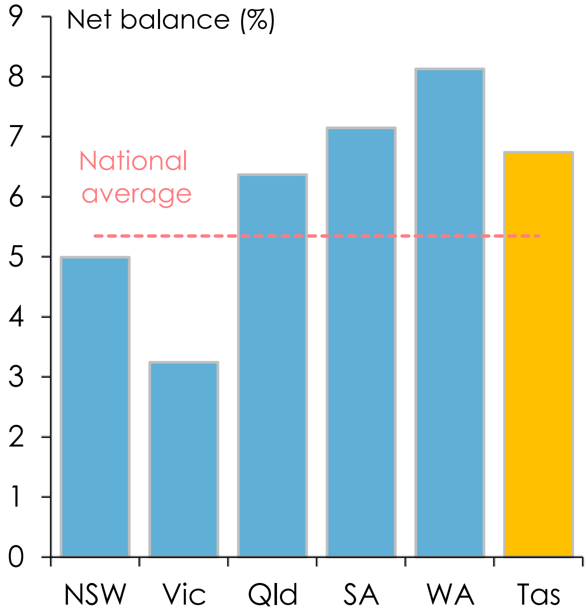


Chart 2.3b: 'Business confidence', 3 years to February 2020, states



Source: National Australia Bank (2020).

In similar vein, retail sales grew more strongly in Tasmania than in any other state or territory over the three years to the March quarter of this year (Chart 2.4a); while, in a declining market nationally, motor vehicle sales fell by less in Tasmania over the same period than in any other jurisdiction except the ACT (Chart 2.4b).

Chart 2.4a: Growth in retail sales, 3 years to March quarter 2020

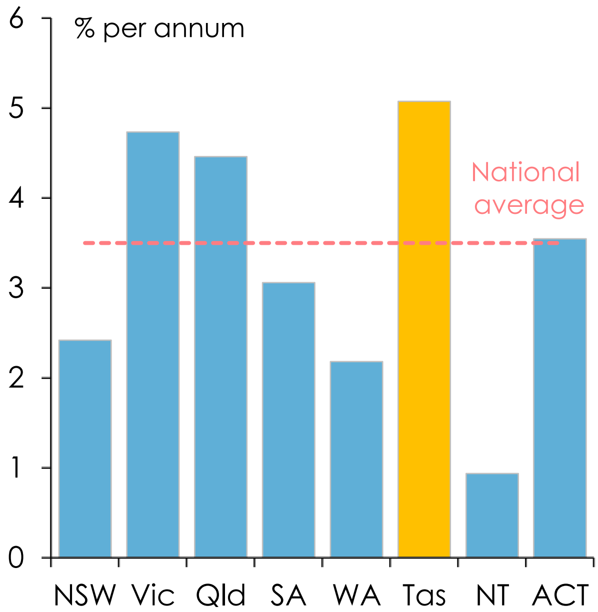
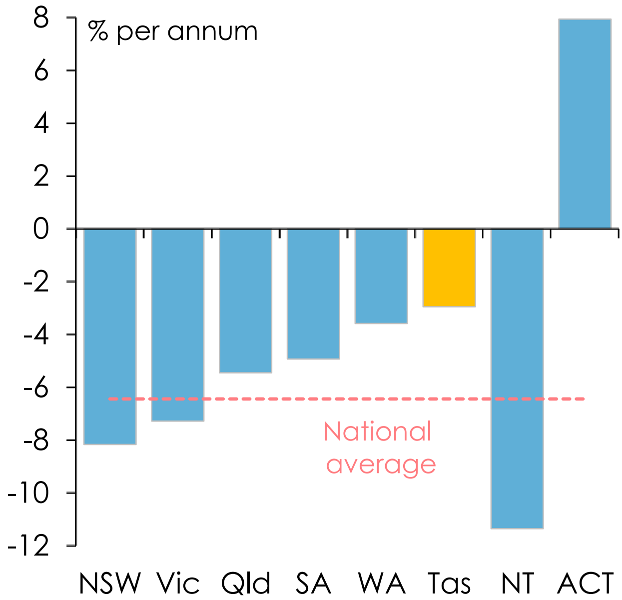


Chart 2.4b: Growth in motor vehicle sales, 3 years to March quarter 2020



Sources: ABS (2020l); Federal Chamber of Automotive Industries (2020).

Tasmania's construction sector had been doing particularly well prior to the onset of Covid-19. Dwelling commencements in the year ended March 2020 were 45% higher than they had been three years earlier: the only other jurisdictions where residential building commencements were higher in the year to March than they had been three years previously were South Australia and the ACT, and there by only 1% and 3%, respectively; the national total was down by 22% (Chart 2.5a). Reflecting that, the real value of housing work done in Tasmania during the year ended March was 33% higher than it had been in the three years to March 2017, whereas over the same period the value of residential building work done nationally declined by 8% (Chart 2.5b).

Chart 2.5a: Growth in residential building commencements, year ended March 2017 to year ended March 2020

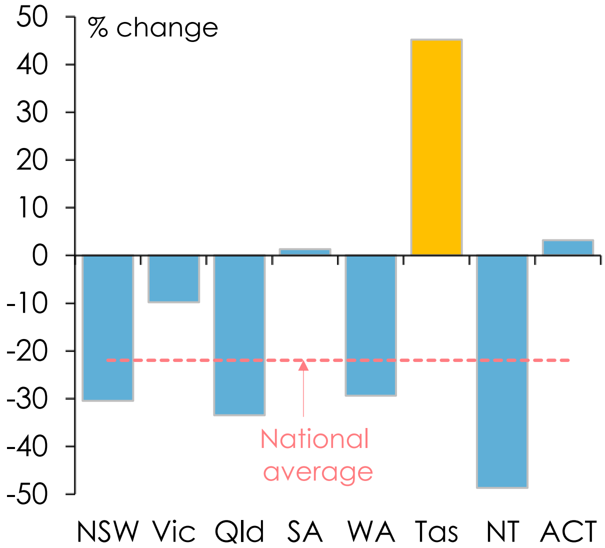
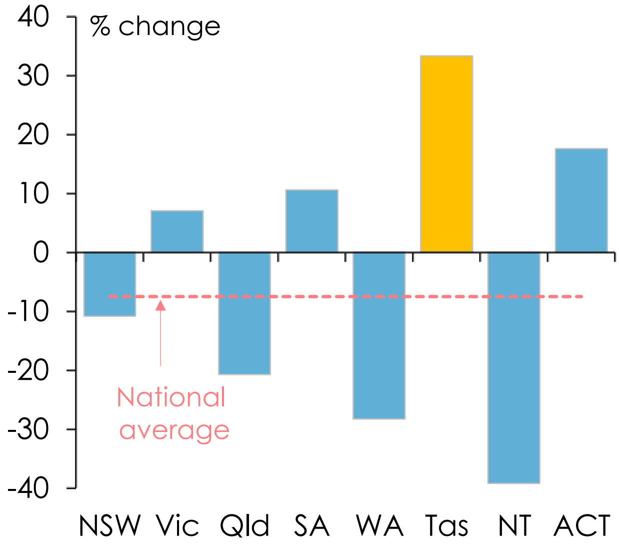


Chart 2.5b: Growth in real value of residential construction work, year ended March 2017 to year ended March 2020



Source: ABS (2020d).

The picture for commercial construction is more mixed. The volume of non-residential building work done in Tasmania in the year ended March 2020 was only 6% higher than three years previously, substantially less than the increases recorded in NSW, Victoria and SA, and well below the national average of 21% (Chart 2.6a). This largely reflects declines over this period in the value of shop and office construction, which had partly offset strong growth in construction of industrial premises (warehouses and factories), entertainment and recreational facilities, schools and hotels.

On the other hand, the volume of engineering construction work done in Tasmania in the year to March was 24% higher than it had been three years previously, a figure exceeded only in Victoria and (marginally) NSW, and compared with a decline in the national average of 3%, driven by large falls in the 'resources states' of WA, Queensland and the Northern Territory (Chart 2.6b). By far the biggest contributor to this growth has been private sector electricity generation and transmission (in particular wind farms), followed by public sector water storage and supply work.

Chart 2.6a: Growth in real value of non-residential work done, year ended March 2017vto year ended March 2020

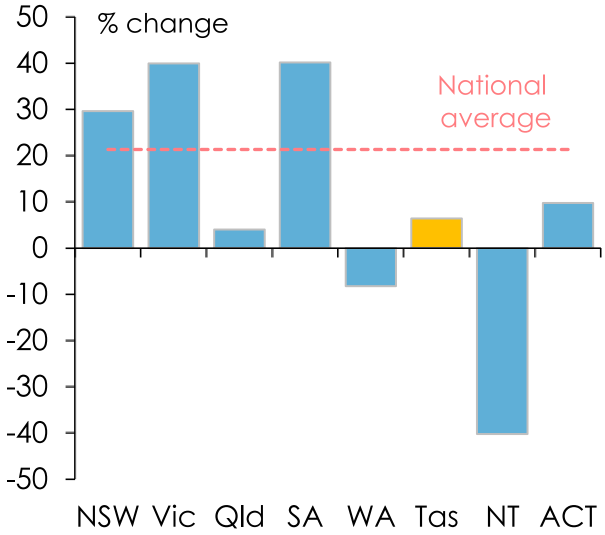
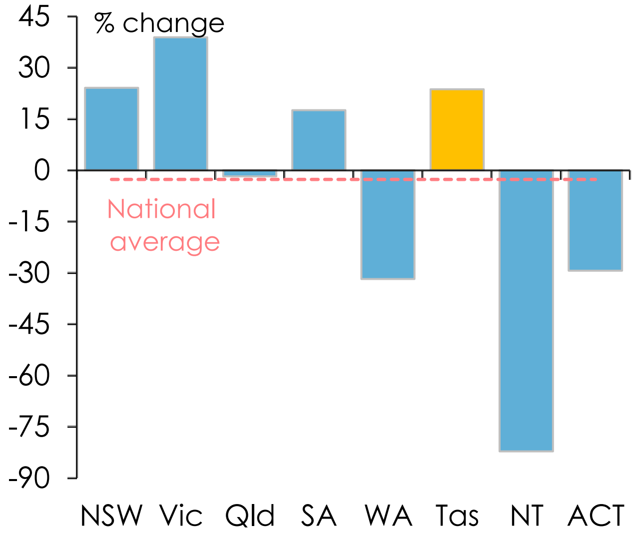


Chart 2.5b: Growth in real value of engineering construction work, year ended March 2017 to year ended March 2020



Source: ABS (2020d and b).

Tasmania's residential property market was the strongest-performing of any state or territory over the three years to March 2020 – both in Hobart (by comparison with other capital cities) and elsewhere in Tasmania (by comparison with non-metropolitan regions of other states and territories). In March, house prices in Hobart were higher, on average, than those in Adelaide or Perth, and only 5% less than in Brisbane – all three of which are much bigger cities than Hobart; while house prices in regional Tasmania were 10% and 28% higher than those in regional SA and WA, respectively.

Chart 2.7a: Change in capital city residential property prices, 3 years to March 2020

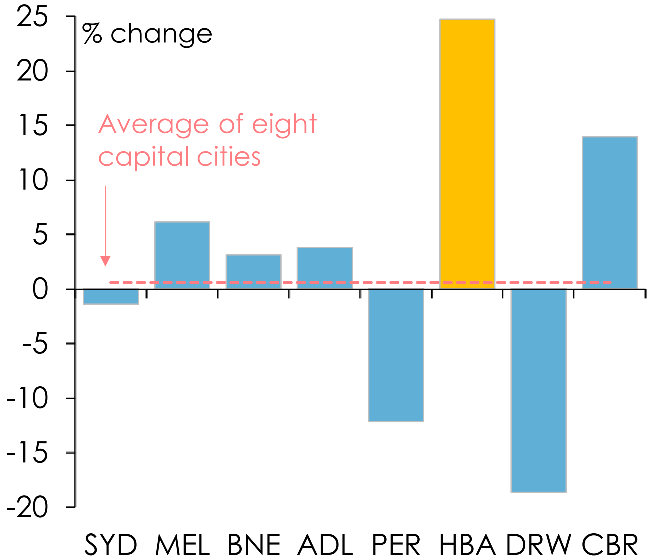
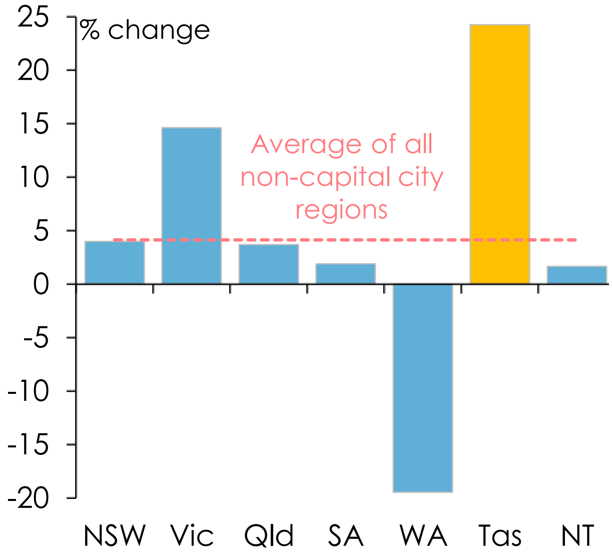


Chart 2.7b: Change in regional residential property prices, 3 years to March 2020



Note: percentage changes are in hedonic home value indices which adjusts for differences in the attributes of properties transacted from month to month. *Source:* CoreLogic (2020).

The volume of residential property transactions had held up better in Tasmania than anywhere else except the ACT, declining by 6.3% over the year to the 12 months ended March 2020, compared with a 14.6% decline nationally.

While the strength of the Tasmanian property market was a boon for home-owners and investors, there were downsides, both for would-be first-time buyers and for those unable to purchase their own home and instead having (or choosing) to rent.

The number of housing loans to first-home buyers in Tasmania rose by 24% between the 12 months ended March 2017 and the twelve months ended March 2020, well below the national average increase of 33%: and the share of total mortgage loans taken out by first-home buyers in Tasmania in the 12 months to March was, at 18.7%, lower than in any other state or territory except NSW and SA, and below the national average of 20% (ABS 2020h).

Residential rents rose by 21.5% in Hobart over the three years to March 2020, far and away the largest increase of any capital city and almost eight times the average of 2.7% for all capital cities (Chart 2.8a); while in regional Tasmania residential rents rose by 13.3% over the same period, more than in the regional areas of every other state – and for that matter more than in any other state or territory's capital city (Chart 2.8b). By March 2020, houses cost 30% more to rent in Hobart than in Perth, 25% more than in Adelaide, 16½% more than in Brisbane, and 12½% more than in Melbourne – cities with (respectively) nine, six, eleven and 22 times as many people as Hobart.

By 2019, Hobart had become the "least affordable capital city in Australia", allowing for differences in household incomes, and regional Tasmania "the least affordable of rest of state areas" for renters (SGS 2019: 42 and 44).

Chart 2.8a: Change in capital city residential rents, 3 years to March 2020

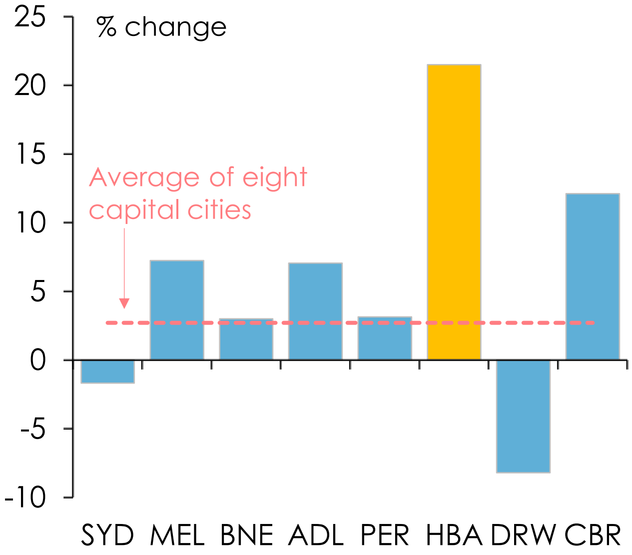
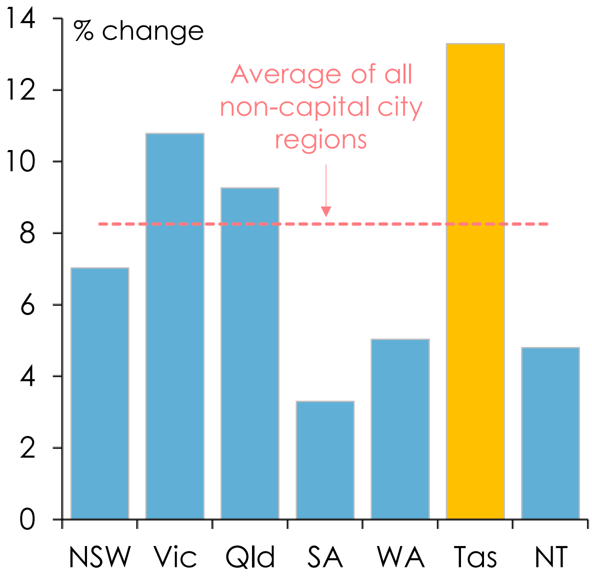


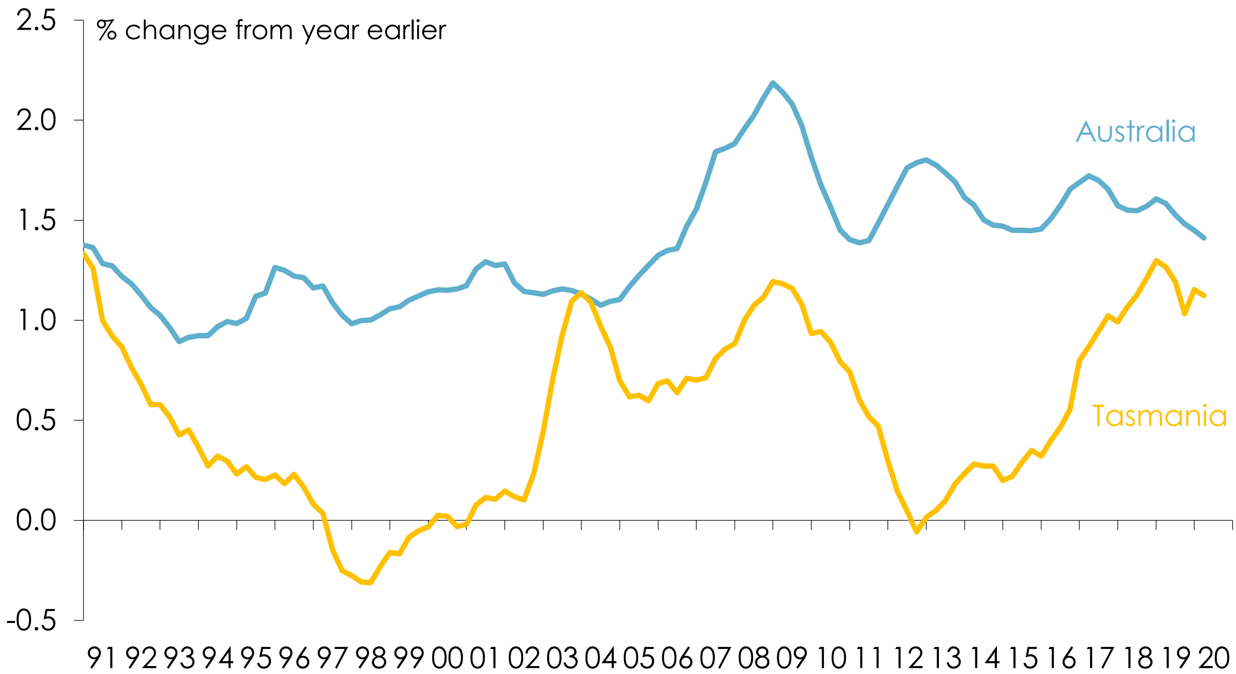
Chart 2.8b: Change in regional residential rents, 3 years to March 2020



Source: CoreLogic (2020).

As both a contributor to and a consequence of many of the developments discussed thus far in this chapter, Tasmania experience a significant acceleration in population growth in the years leading up to the onset of the pandemic. Over the two years to March 2020, Tasmania's population grew at an average annual rate of 1.2%, the fastest in almost thirty years (Chart 2.9).

Chart 2.9: Population growth, Tasmania and Australia, 1990-2020



Source: ABS (2020b).

The substantial pick-up in Tasmania's population growth rate reflects the turn-around in migration flows across Bass Strait, which began in 2015 and peaked in 2018; and a significant acceleration in overseas migration to Tasmania which began in 2016 and had yet to peak when Covid-19 struck at the end of the March quarter of this year (Chart 2.10a).

The turnaround in people movements across Bass Strait reflects both a modest decline in the number of Tasmanians moving to the mainland (from a peak of over 13,000, or over 2½% of the state's total population, in the year to June 2012, to an average of about 12,000 per annum, or about 2 ¼% of Tasmania's population, over the past three years), and a larger pick-up in the number of people moving from the mainland to Tasmania, from around 11,000 in the year ended June 2015 to over 14,000 in each of 2018 and 2019 (Chart 2.10b).

Of particular importance in this context was the change in the age profile of people movements between Tasmania and the mainland. While more than 5,000 Tasmanians in their 20s and 30s continued to leave Tasmania for the mainland every year between 2012 and 2019, the number of people in the same age range moving to Tasmania from the mainland increased from just over 4,500 in 2014 to over 5,900 in 2018 and 2019.

Chart 2.10a: Sources of growth in Tasmania's population

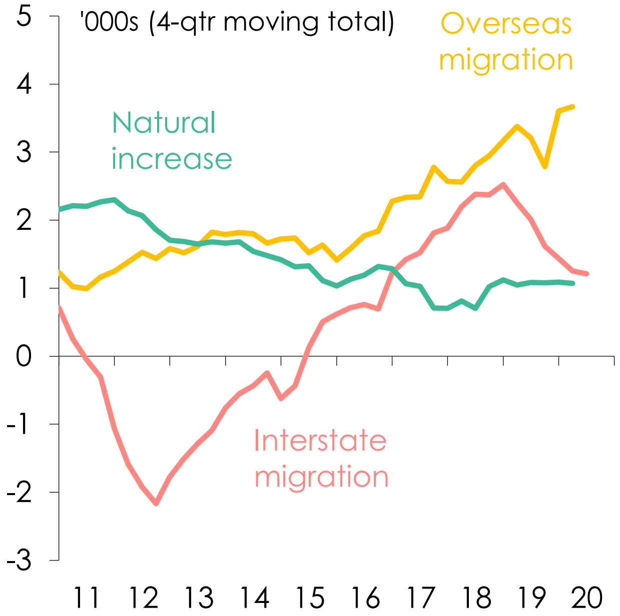
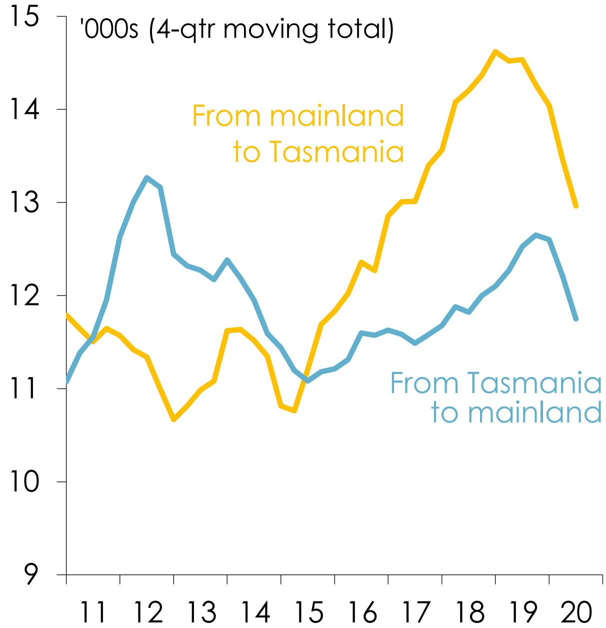


Chart 2.10b: People movements across Bass Strait



Source: ABS (2020b).

There was also a significant increase in the number of people in their 40s moving to Tasmania, from a low of 1,230 in 2015 to an average of 1,655 per annum in 2018 and 2019.

These can be seen as an expression of confidence on the part of people at the beginnings of their working lives, and in the prime of their careers, in the future of Tasmania.

The pick-up in overseas migration to Tasmania made an even more important contribution to the acceleration in Tasmania's population growth rate during the pre-Covid period. 3,165 overseas migrants settled in Tasmania in 2018, and another 3,600 in 2019, more than double the numbers in each year between 2010 and 2015, and the highest totals since at least 1971.

Unaffected by population trends, Tasmania's international exports also grew strongly during the period leading up to the onset of Covid-19. Overseas merchandise exports in the twelve months ended March 2020 were 39% higher than three years previously, a larger increase than for any other jurisdiction except for WA and the NT (whose exports were boosted by the commencement of production at the giant Ichthys LNG plant) (Chart 2.11a). Two thirds of that growth was attributable to exports to China, which more than doubled over this interval, as did exports to Korea, while exports to the US grew by more than 60%. On the other hand, exports to Taiwan, Tasmania's fourth most important overseas market, fell by nearly 17%, while exports to ASEAN countries (which until 2017-18 accounted for a larger share of Tasmania's merchandise exports than China) only grew by 12% over this period.

Chart 2.11a: Growth in overseas goods exports, three years to 12 months ended March 2020, states and territories

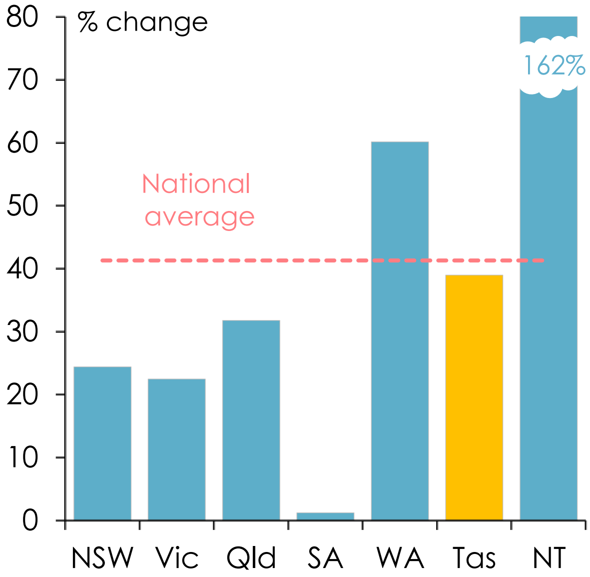
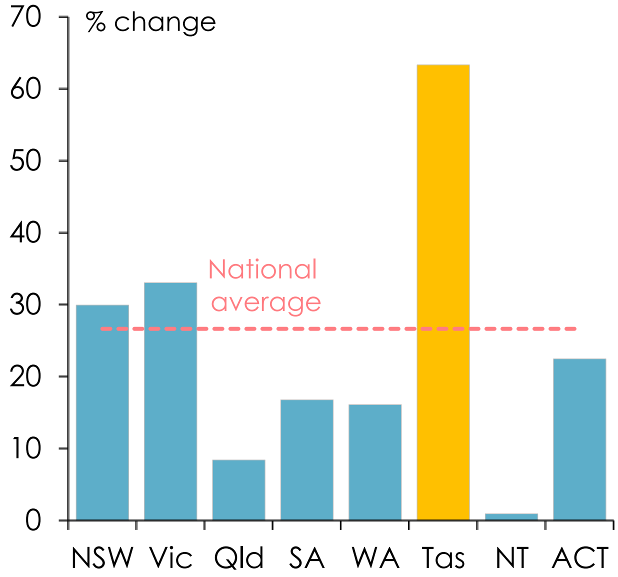


Chart 2.11b: Growth in overseas exports of services, year ended March 2017 to year ended March 2020, states and territories



Sources: ABS (2020k and 2020g).

It is also worth noting that most of this growth in merchandise exports occurred in the first two years of this period: Tasmania's merchandise exports in the 12 months ended March were actually almost 5% lower than they had been in the preceding 12 months, cf. growth in the national total of almost 10%.

Tasmania's international exports of services grew by 63% over the three years to the 12 months ended March 2020, by far the fastest of any state or territory, and nearly two-and-a-half times the national average growth rate over this period of 27% (Chart 2.11b).

A detailed breakdown of services exports at the state and territory level is only available on a financial or calendar year basis.

Over the three years to calendar 2019, Tasmania's exports of 'education-related travel services' increased by 148%, compared with the national average of 56%. This was, admittedly, from a very low base – from 1.1% of the national total in 2016 to 1.7% in 2019.

Tasmania's exports of 'other personal travel services' – spending by overseas visitors – rose by 24% over the three years to calendar 2019, more than treble the national average growth rate of 7%, and lifting Tasmania's share of the national total from 1.7% to 2.0%, a figure only just below our population share of 2.1%.

Again, however, it is important to note that growth in spending by overseas visitors in Tasmania peaked in 2018, and that it declined by 1.6% between calendar 2018 and calendar 2019 (ie, before the onset of the pandemic).

Chart 2.12a: Interstate and international visitors to Tasmania

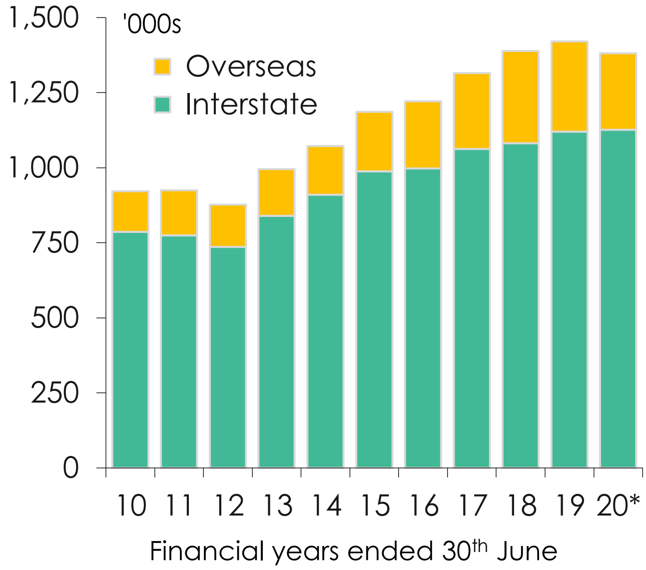
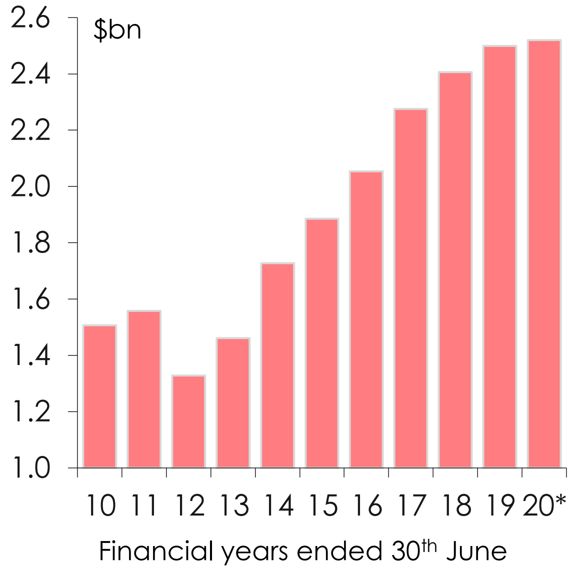


Chart 2.12b: Total spending by visitors to Tasmania



* Year ended March 2020. *Source:* Tourism Tasmania (2020).

This is confirmed by figures compiled by Tourism Tasmania. These show that after very strong growth between financial years 2012-13 through 2014-15, and again in 2016-17, the total number of visitors to Tasmania peaked at 1.32 million in 2018-19, and then declined by 0.9% in the twelve months ended March 2020 (Chart 2.12a). This reflected a 15.3% fall in the number of international visitors to Tasmania in this period compared with the twelve months ended June 2019, which more than offset a 0.6% increase in the (much larger) number of interstate visitors (which was however the smallest increase since 2011-12).

Consistent with these trends, the number of visitor nights spent in Tasmania, which had grown at an average annual rate of almost 8½% between 2012-13 and 2016-17, fell by 3.1% in the 12 months ended March 2020 by comparison with the 2018-19 financial year – and was actually lower than it had been in 2017-18. And total spending by visitors to Tasmania, which had grown at an average annual rate of 14½% over the four years to 2016-17, thereafter began growing at a steadily slower pace, increasing by only 0.8% between the 12 months ended June 2019 and the 12 months ended March 2020 (Chart 2.12b).

In other words, tourism – which had been a major driver of overall economic growth in Tasmania during the middle part of the past decade, increasing its (direct and indirect) share of Tasmania's gross state product from 4.4% in 2010-11 to 5.7% in 2016-17, and its share of total employment from 11.7% to 16.4% over the same period – had already appeared to have peaked before the onset of Covid-19, and the dramatic shock which it would then pose to this sector of Tasmania's economy, in particular.

In most other respects, however, Tasmania's economy was faring better than it had done at any time since the middle years of the first decade of this century, and better than most other states and territories, when Covid-19 arrived.

Chapter 3: Tasmania's economy during Covid-19

As noted in Chapter 1, Tasmania's experience of Covid-19 has, apart from the outbreak at the North-West General Hospital in April, been one of the least severe not only in Australia but across the world.

But that success has nonetheless come at a considerable economic cost. Tasmanian state final demand – the sum of spending by households, businesses and governments in Tasmania, which is sometimes used as a proxy for quarterly gross state product (given that GSP is only published on a financial year basis), even though state final demand excludes both interstate and international trade and thus typically accounts for only 85% of Tasmania's GSP – fell by 8.0% in the June quarter of 2020, more than in any other state or territory except NSW and Victoria and more than the national average of 7.5%. It then rebounded by 5.5%, less than in four of the other seven states and territories, and more than the national average of 4.5% only because the national average was dragged down by the further 1.0% decline in Victoria (without which the national average would have been up 6.4%, ie almost a percentage point more than in Tasmania).

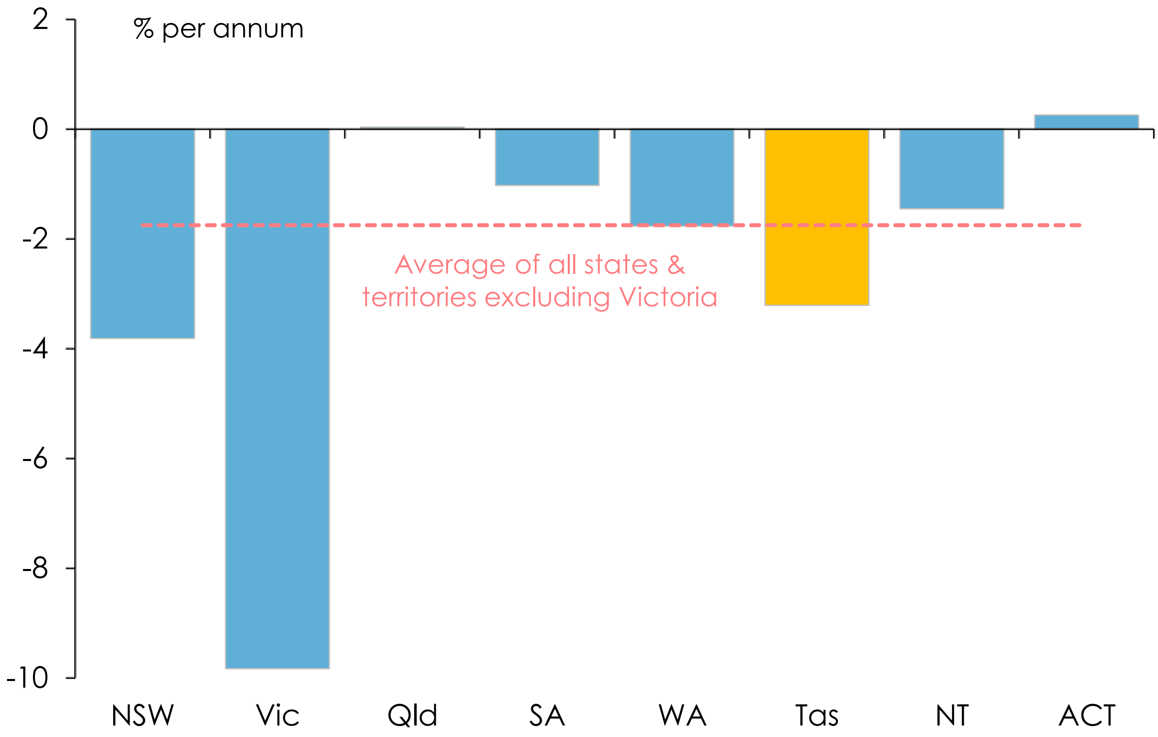
Over the June and September quarters combined, Tasmania's state final demand fell by 2.9%, more than any other state or territory except Victoria, where state final demand fell by 9.5%, dragging the average for all states and territories down by 3.4%. Excluding Victoria, state final demand declined by an average of 1.3% - less than half of the decline experienced in Tasmania.

Tasmania's state final demand had also contracted by 1.1% in the December quarter of 2019 (the only other state which experienced negative growth in state final demand in that quarter was Victoria). As such, and despite the rebound in the September quarter, Tasmanian state final demand was still 3.2% below its pre-recession peak (in the September quarter of last year) – a much smaller decline than in Victoria, where it was down by 9.8%, and a marginally smaller decline than in New South Wales, where it was down by 3.8% (from a pre-recession peak in the December quarter of 2019. But the decline in Tasmania was larger than for any of the other states and territories, and larger than the average for all states and territories other than Victoria of 1.8% (Chart 3.1).

Tasmania's labour market experience since the onset of Covid-19 has also been more severe than that of any other state or territory except Victoria and, by some measures, the Northern Territory.

According to the ABS monthly labour force survey, between March and May just over 19,100 Tasmanians lost their jobs, a decline in employment of 7.4%. Together with Victoria, which experienced a similar decline in employment, this was larger than for any other state or territory except Queensland, where employment fell by 8% during the first two months after the onset of the pandemic, and more than the national average of 6.7%. Between April and May, 12,100 Tasmanians either regained their old jobs or found new ones – representing 63% of the number who had lost them between March and May. This is a smaller proportion than in any other state or territory except Victoria and the Northern Territory, and less than the national average of 74% (Chart 3.2a).

Chart 3.1: Change in real state final demand from pre-Covid peak (in 2019) through September quarter 2020, states and territories



Note: 2019 'pre-Covid' peaks in state final demand were in the September quarter of 2019 in Victoria and Tasmania, and in the December quarter for other states and territories. State final demand actually peaked in South Australia in the December quarter of 2018, and the September quarter 2019 level of state final demand was 1.4% below that peak; state final demand in the Northern Territory actually peaked in the December quarter of 2012 (ie, almost eight years ago), and between then and the September quarter of 2020 fell by 28.2%. *Source:* ABS (2020e).

As a result, employment in Tasmania in October (the most recent month for which data from the labour force survey are available, at the time of writing) was 2.7% lower than in March – the largest net decline of any state or territory except the Northern Territory (down 5.0%) and Victoria (down 4.1%), and a considerably larger decline than the national average of 1.7% (Chart 3.2b).

More positively, almost 35% of the jobs regained or created in Tasmania since the low point for total employment in May have been full-time – more than in any other state or territory except for South Australia (42%) and the ACT (43%), and double the national average of 17%.

Thus, although total hours worked (which is arguably a better indicator of the demand for labour than the number of people employed) dropped by more in Tasmania between March and May than in any other state or territory (11.2% compared with the national average of 6.6%), more than 80% of that initial decline in hours worked has since been reversed, a larger proportion than any other state or territory except Queensland, and well above the national average of 63%.

Chart 3.2a: Proportion of jobs lost between March and May regained between June and October, states and territories

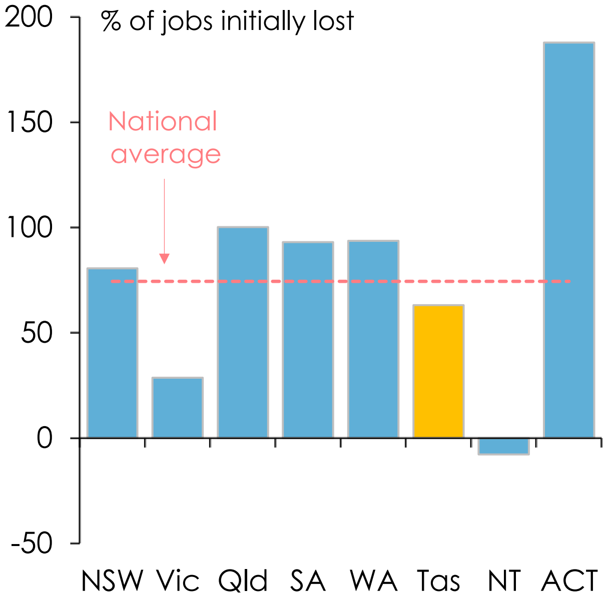
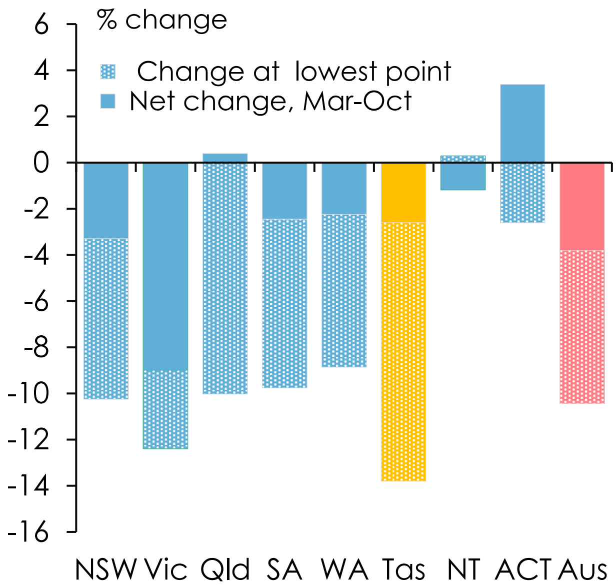


Chart 3.2b: Net change in employment between March and October, states and territories



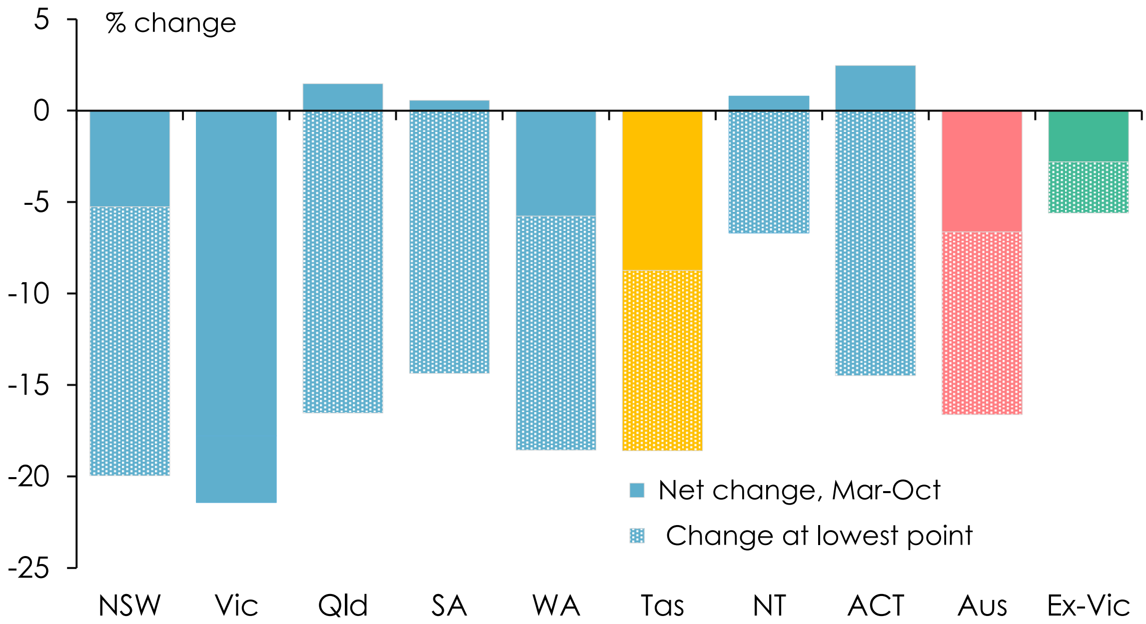
Note: The negative figure for the NT in Chart 3.2a reflects the fact that employment in the Territory has continued to decline since May. This is also the reason for the apparent absence of a 'lowest point' for the Territory in Chart 3.2b. *Source:* ABS (2020e).

Hence, total hours worked in Tasmania in October were 2.6% less than in March, compared with the national average of 3.8% fewer hours worked in October than in March. However, the national average was dragged down by a 9.0% decline in Victoria: excluding Victoria, hours worked were down a net 1.9% between March and October, a smaller decline than in Tasmania.

Young Tasmanians appear to have had a particularly difficult experience in regaining, or finding, employment during Covid-19. Between March and May, almost 7,300 young Tasmanians (aged 15-24) lost their jobs, a decline of 18.6%. This was exceeded only by NSW, where employment of young people fell by 20%, and greater than the national average decline of 16.6%. Since then, only about 3,900 (or 47%) of those young Tasmanians have regained their jobs or found other ones – a smaller percentage than in any other state or territory except Victoria, and well below the national average of 58% (or 83% excluding Victoria).

Thus, employment among young Tasmanians is, as of October, still 8.7% below its pre-pandemic level, the worst outcome for young people in any state or territory apart from Victoria, and compares poorly with the national average of 6.6% (or 2.8% excluding Victoria) (Chart 3.3). The situation has been particularly grim for young Tasmanians not attending full-time education, among whom employment in October was 12.2% below its pre-pandemic level (although the employment situation for people in this cohort was worse not just in Victoria but also NSW and WA – although in South Australia the net decline was only 0.3%).

Chart 3.3: Net change in employment of 15-24 year-olds between March and October, states and territories



Note: In Victoria, employment of 15-24 year-olds declined further between May and October. In Queensland, South Australia and the Northern Territory, employment of 15-24 year-olds was slightly higher in October than it had been in March. Source: ABS (2020e).

By contrast, employment of 15-24 year old Tasmanians who were in full-time education was down only 2.6% in October by comparison with the level in March – although together with Queensland and (inevitably) Victoria, Tasmania was the only state in which the number of young people in full-time education who also had a job hadn't regained its pre-pandemic level (the national figure was up 0.5%, or 7.3% excluding Victoria).

An alternative source of data on employment has been provided since the onset of Covid-19 by the weekly payroll jobs series published by the ABS using data derived from the Australian Taxation Office's Single Touch Payroll system, which is used by the vast majority of employers to make PAYG income tax deductions from their employees' wages and salaries. This data is conceptually different from that provided in the monthly labour force survey: it counts the number of jobs (rather than the number of people with jobs) and hence double-counts part-time workers with two or more jobs (who represent about 6% of the work force), and it doesn't count employers or the self-employed. Unlike the monthly labour force survey data, it isn't adjusted for normal seasonal variations (because it hasn't been running long enough to determine what 'normal seasonal variations' actually are).

The weekly payroll jobs data paints a similar picture of the employment situation in Tasmania since the onset of Covid-19, both in absolute terms and by comparison with the rest of Australia, to that depicted by the monthly labour force survey.

Chart 3.4a: Weekly payroll jobs index, Tasmania and Australia

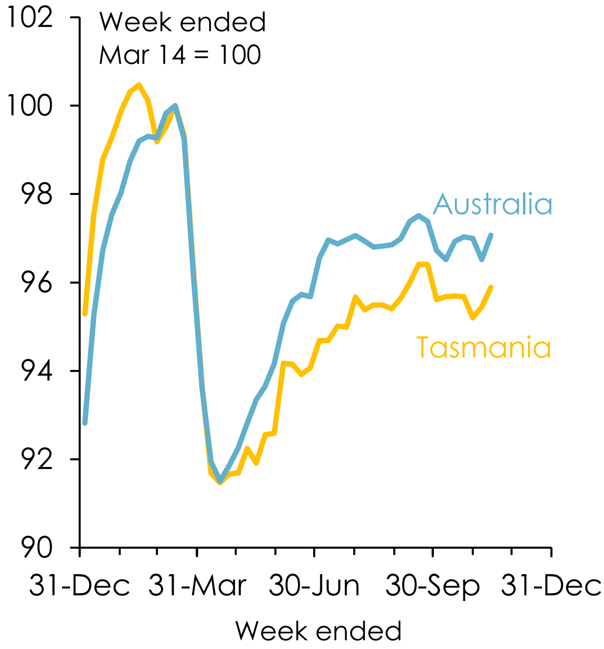
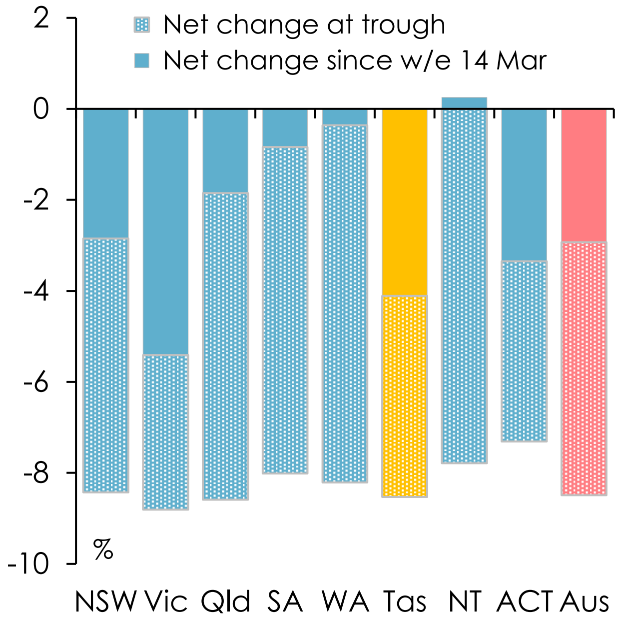


Chart 3.4b: Net change in payroll employment, mid-March to end-November



Source: ABS (2020m).

The number of payroll jobs in Tasmania initially fell by 8.5%, between mid-March and mid-April, in line with the national average: but since then, up to the end of November, payroll employment in Tasmania has recovered by only 4.8%, less than anywhere else except the ACT and Victoria, and less than the national average of 6.1% (Charts 3.4a and 3.4b).

The payroll jobs data indicate that, in Tasmania as elsewhere, women's jobs were initially much more adversely affected than men's, with the number of payroll jobs held by women falling by 10.7% over the first five weeks of the pandemic as against a 6.5% decline in the number of payroll jobs held by men (Chart 3.5a). Since then, however, female payroll employment in Tasmania has recovered by 7.8%, whereas male employment has risen by only 0.8% - so that, on net between mid-March and end-November, the number of payroll jobs held by men is down by 5.8% while the number held by women is down by 3.7% (Chart 3.5b). The corresponding national averages are 6.0% and 1.7% respectively: so, while the experience of Tasmanian men has been similar to their counterparts on the mainland, the experience of Tasmanian women has been noticeably worse (except for Victoria).

The different labour market experience of men and women during the pandemic partly reflects the fact that women are disproportionately employed in sectors which were subject to health restrictions (such as accommodation and food services, or arts and recreation). However, it also reflects the fact that the Federal Government's JobKeeper payment, initially set at $1,500 per fortnight, covered over 80% of women's average wages as against only 58% of men's (since Tasmanian women's average earnings are 28½% lower than men's), so it would have made financial sense for employers to bring back more women to work using JobKeeper than men.

Chart 3.5a: Payroll jobs index by gender, Tasmania

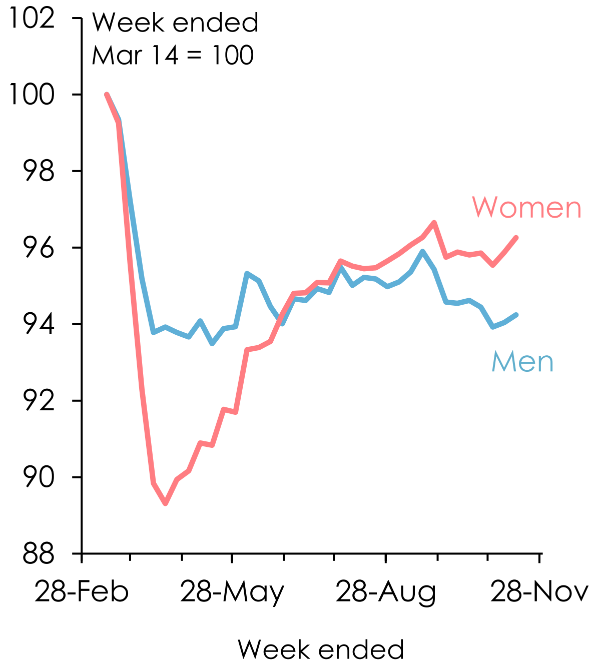
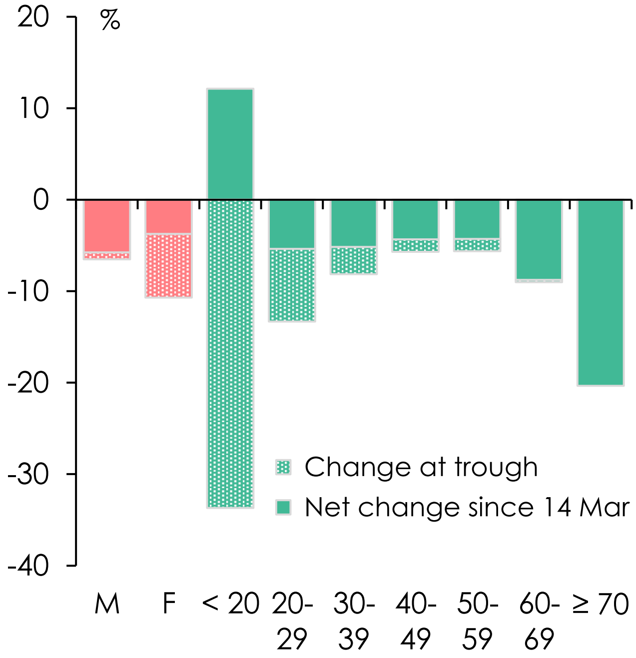


Chart 3.5b: Net change in payroll employment, by age & gender, Tasmania



Source: ABS (2020m).

Similar observations apply to the labour market experience of different age cohorts of Tasmanians, as indicated by the weekly payroll jobs series. In the initial stage of the pandemic, job losses were much greater among teenagers and young adults than among other age groups: but teenagers, in particular, have subsequently been much more successful in regaining jobs, or finding new ones, than any other age group. Indeed, by end-November the number of payroll jobs held by teenagers was 12% higher than it has been prior to the onset of the pandemic.

Proportionately, the largest job losses mid-March are now among those aged 70 or over (who account for less than 4% of total employment), for whom the number of payroll jobs has dropped by more than 20%. Among other age groups the net decline in payroll employment from mid-March to end-November ranges between 4.3% for people in their 40s and 50s, to 8.8% for people in their 60s (Chart 3.5b).

The important role played by JobKeeper in supporting women's and young people's return to work raises the risk that these groups could be more adversely affected by the stepping down in the level of payments under the scheme and/or by the scheduled termination of the scheme at the end of March 2021. However, the initial step-down in the level of JobKeeper payments, and the introduction of a new lower rate for employees who had been working part-time before the pandemic, at the end of September, does not appear to have had a disproportionate impact on women or young people.

It's also worth noting that Tasmanian businesses and not-for-profits have accounted for only 1.6-1.7% of organizations receiving JobKeeper payments, according to Treasury (2020) – less than Tasmania's 2.1% share of total employment.

Figures cited by Federal Treasurer Josh Frydenberg indicate that 54,000 Tasmanians were being supported by JobKeeper payments in the week ended 14th September (Crowe 2020). That represented 21.5% of the total number of employed people in Tasmania in September, according to the ABS monthly labour force survey – a smaller proportion than in any other state (though not the two territories), and well below the national average of 28.6% (or 26.7% excluding Victoria).

This probably reflects the fact that a larger proportion (17.8% in 2019-20) of Tasmania's workforce is employed in the public sector than of that of any other state (though not the two territories; the national average is 12.6%) – public sector entities not being eligible for JobKeeper payments.

However, it may also mean that aggregate employment in Tasmania could be less affected by the eventual termination of the JobKeeper program than in other states.

The weekly payroll jobs data also confirm that, in the initial stages of the pandemic, job losses were concentrated in the accommodation and food services, and arts and recreation services sectors, which were hardest hit by health restrictions. Employment in these sectors in Tasmania fell by more than 30% between mid-March and the latter part of April. These sectors also disproportionately employ women and young people. However, employment in these sectors also recovered more swiftly following the introduction of the Federal Government's JobKeeper program and then after restrictions were partially eased from early June onwards – although as of end-November, the numbers of payroll jobs in these two sectors were still 12% and 10%, respectively, below their pre-pandemic levels (Chart 3.6).

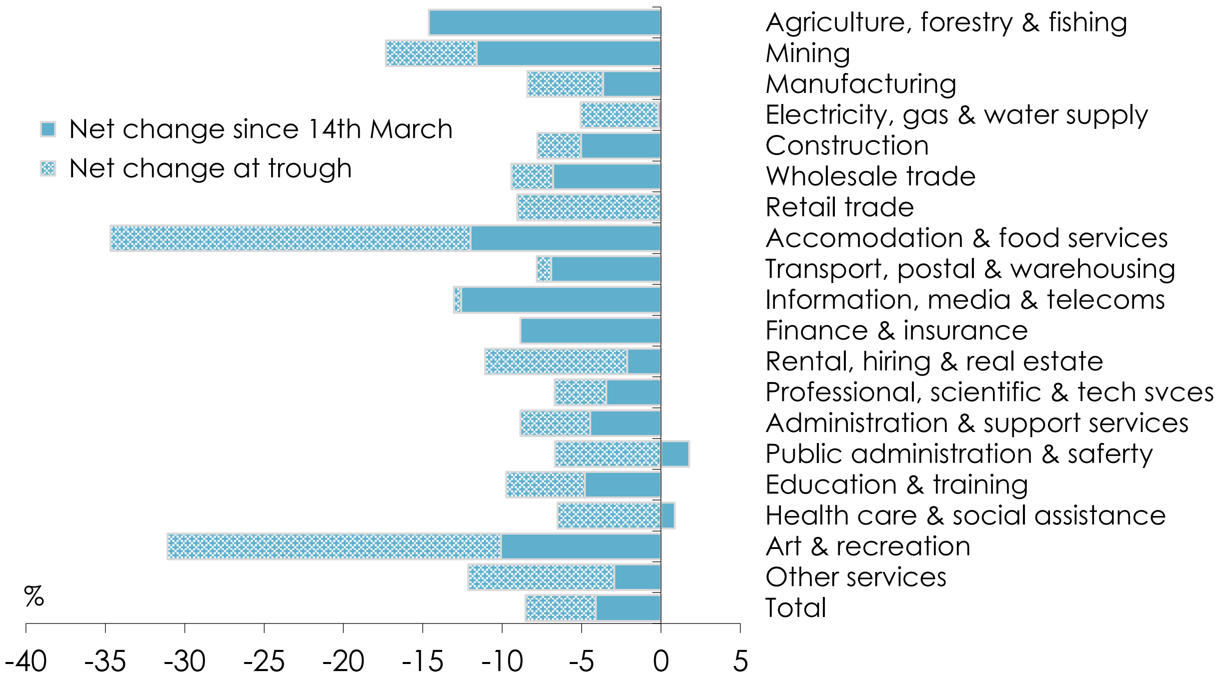
Proportionately, the largest loss of payroll jobs in Tasmania since mid-March has been in the agriculture, forestry and fishing sector, where payroll employment has fallen by 14.6% up to the end of November – compared with a decline of 6.5% in the number of payroll jobs in this sector nationally.

Some of this difference may be attributable to seasonal factors, since (as noted earlier) the weekly payroll series is not adjusted for normal seasonal variations, and the seasonal pattern of employment in Tasmanian agriculture is different from that on the mainland.

But since this sector accounts for a much larger share of total employment in Tasmania (6.5% in 2019-20) than in any other state or territory (the national average is 2.8%) the much larger decline in payroll employment in agriculture, forestry and fishing is probably a major reason for the larger net decline in total employment in Tasmania since the onset of the pandemic than in most other parts of Australia.

Other sectors experiencing relatively large net losses in employment in Tasmania since the onset of the pandemic include information, media and telecommunications services, down 12.6%; mining, down 11.6%; and finance and insurance, down 8.9%. These are, however, relatively small employers in Tasmania, accounting for just 4.3% of total employment in 2019-20, compared with 8.9% of total employment nationally.

Chart 3.6: Net change in payroll employment between mid-March and mid-November, by industry, Tasmania



Source: ABS (2020m).

The least affected sectors of the Tasmanian economy in terms of net job losses since mid-March have been, not surprisingly, health care and social assistance, and public administration and safety, where the number of payroll jobs has actually risen the onset of the pandemic by 0.9% and 1.8%, respectively. Perhaps more surprisingly, payroll employment in retail trade in Tasmania was, as of end-November, unchanged from pre-pandemic levels – despite having initially fallen by 9%.

One notable difference between Tasmania's labour market experience during the Covid-19 recession and previous recessions is that Tasmanians who have lost their jobs haven't dropped out and stayed out of the workforce, in the way that they typically have during previous recessions.

Although this was the initial reaction to the job losses which occurred during the first phase of the pandemic – Tasmania's labour force participation rate dropped by 3.7 percentage points between March and May – that decline has since been more than fully reversed, with those Tasmanians who did lose their jobs either recovering them, finding alternative ones, or continuing actively to look for work, so that by October, Tasmania's participation rate was 0.3 of a percentage point higher than in March.

By contrast, as of October, the national labour force participation rate was still 0.1 of a percentage point below its pre-pandemic level, largely as a result of the 1.4 percentage point decline in Victoria's participation rate (and with large movements in the NT's and ACT's participation rates offsetting each other (Chart 3.7a).

The downside of this is that Tasmania's measured unemployment rate has risen by 3.3 percentage points since March, more than in any other state or territory, to 8.2% in October, higher than in any other state or territory (Chart 3.7b).

Chart 3.7a: Changes in labour force participation rates, March-October 2020

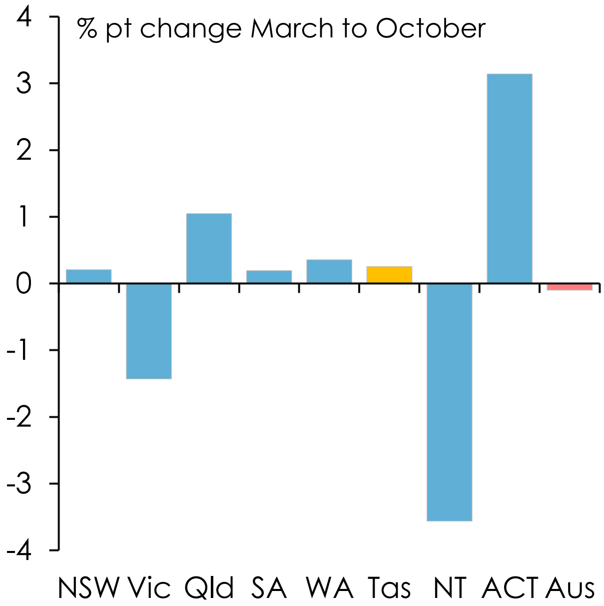
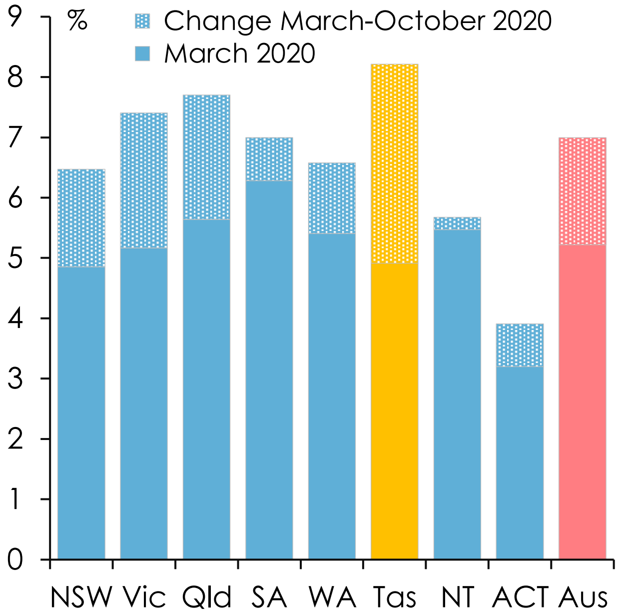


Chart 3.7b: Unemployment rates, March and October 2020



Source: ABS (2020e).

If all states' and territories' participation rates had remained unchanged at their March levels, then Tasmania's unemployment rate would have been 7.8% in October, still above the corresponding national average of 7.1%, but lower than in either Victoria (9.4%) or the Northern Territory (10.1%).

Business confidence didn't fall nearly as much in Tasmania as in the other states during the first phase of the pandemic – despite the fact that, as a result of the outbreak at the NWGH, Tasmania had more cases and deaths relative to the size of its population than any other state or territory until the onset of the 'second wave' in Victoria (Chart 3.8a). However, nor did business confidence rebound as strongly in Tasmania as it did in the other states – so that as of October, the latest month for which data were available at the time of writing, confidence among Tasmanian businesses was marginally further below its long-run average than in any other state except South Australia.

Confidence among Tasmanian consumers declined to the same extent as it did nationally during the first few weeks of the pandemic, and has since recovered almost – though not quite – as much as in other states. By November, consumer confidence in most other states was above its long-run average – with the exception of Western Australia, where the long-run average is inflated by the earlier mining boom: in Tasmania, however, consumer confidence in November was only back to its long-run average (Chart 3.8b).

Indicators of consumer spending present a middling picture of Tasmania's recovery from the earlier depths of the Covid-19 recession. In April, when restrictions across the whole of Australia were at their strictest, retail sales in Tasmania were 7.2% below their 2019 average level (remembering that retail sales had been inflated by 'panic buying' at the end of March) – a smaller decline than in either NSW or Victoria but larger than in the other states and territories.

Chart 3.8a: Business confidence during the Covid-19 recession

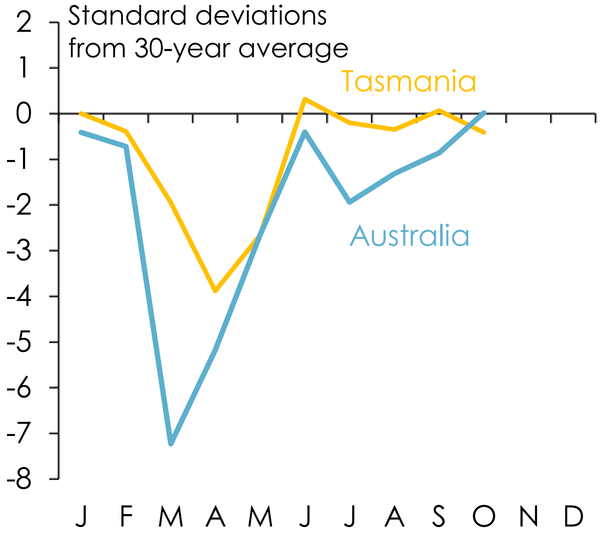
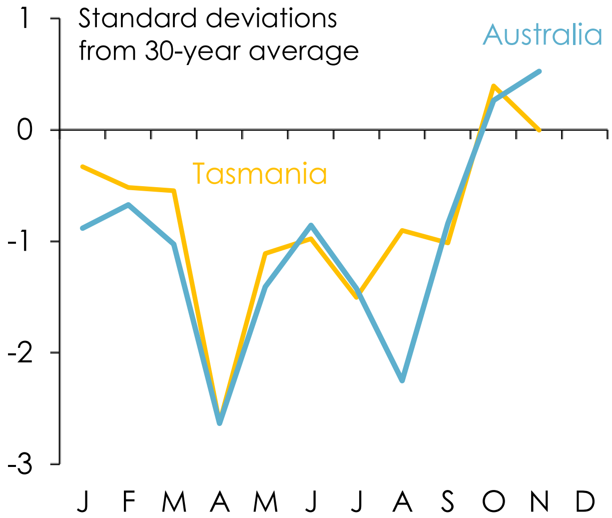


Chart 3.8b: Consumer confidence during the Covid-19 recession



Sources: National Australia Bank (2020); Westpac (2020).

From that level, retail sales in Tasmania rebounded through October by exactly the same margin, 22½%, as the average for the rest of Australia excluding Victoria – to be 13.7% above their 2019 average, slightly better than the ex-Victoria national average of 12.4% (Chart 3.9a).

New motor vehicle sales have been much weaker in Tasmania than in any other state or territory (apart from Victoria). Between March and May, vehicle sales fell by 29% in Tasmania, the largest decline of any jurisdiction, and nearly double the national average fall of 15% (Chart 3.9b).

Chart 3.9a: Retail sales during the Covid-19 recession

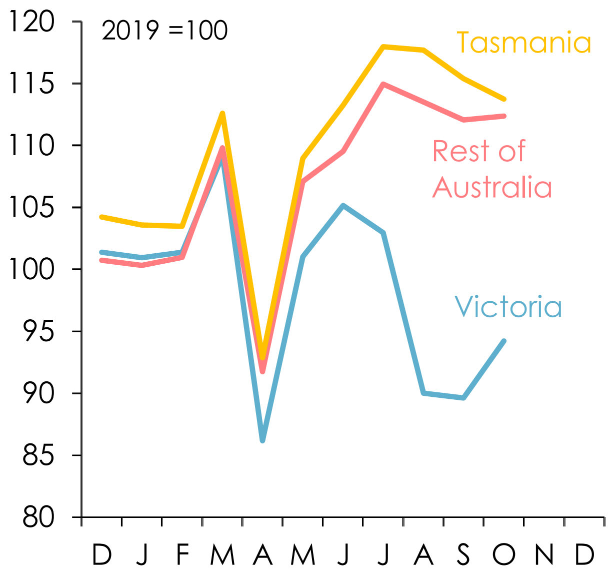
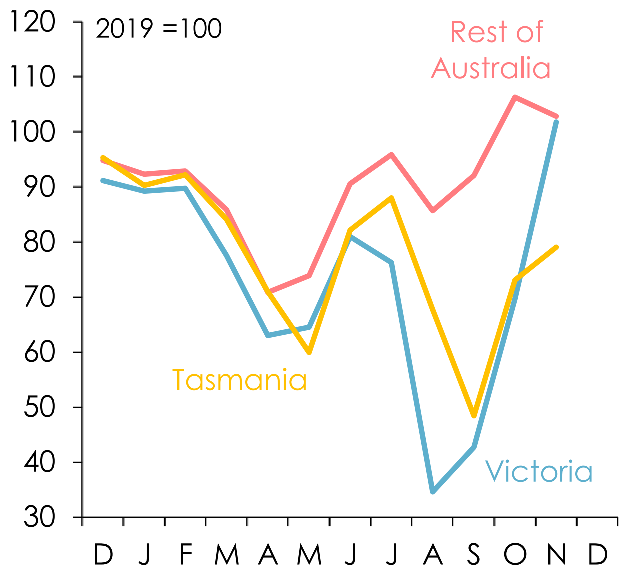


Chart 3.9b: New motor vehicle sales during the Covid-19 recession



Note: Original new motor vehicle sales data as published have been seasonally adjusted via Refinitiv Datastream. *Sources:* ABS (2020l); Federal Chamber of Automotive Industries (2020).

Spurred by Federal Government investment incentives (as well as dealer initiatives), sales recovered over the following three months, in Tasmania by 13% (marginally below the ex-Victoria national average of 16%), but then plunged to a record low in September.

Though they subsequently recovered, the level of new motor vehicle sales in Tasmania in November was nonetheless 21% below the 2019 average level: apart from South Australia, where November sales were 3¼% below their 2019 average, in every other state and territory (including Victoria) they were above their 2019 average.

The level of housing activity, and the residential property market more generally, have proven to be much more resilient in Tasmania than had been feared during the early stages of the pandemic – as has also been the case across other parts of Australia.

It had been widely anticipated that the combination of rising unemployment and high levels of mortgage debt would prompt an increased number of 'forced sales', which, in the absence of demand from recently-arrived migrants given the closure of Australia's international borders, could in turn lead to potentially large falls in property prices. At the same time, pervasive uncertainty about the outlook for property prices combined, again, with the absence of demand from migrants and the completion of projects under way when the pandemic began was widely expected to result in a plunge in new residential building activity.

Instead, a combination of the Federal Government's JobKeeper program and other supports for employers (which significantly reduced the loss of jobs), the Reserve Bank's reductions in interest rates and repeated assurances that interest rates would remain at record lows for at least three years, the mortgage repayment deferral arrangements offered by mortgage lenders (with the support of regulators), and substantial cash incentives from both the Federal and state governments for first home buyers, have prevented wide-spread 'forced sales', and underpinned demand – with the result that, with the exception of Melbourne (and to a much lesser extent Sydney), residential property prices haven't fallen at all, but instead have continued to rise.

First home buyers, in particular, appear to have sensed an opportunity to enter the market without facing the competition from investors and immigrants that had effectively squeezed them out for most of the preceding three decades.

This has been especially apparent in Tasmania.

Apart from a brief dip in March, property prices in Hobart have risen every month this year, and by November were 5.4% higher than in December 2019 – a larger increase than for any other capital city except for Canberra and Darwin (and in Darwin's case that was after a decline of almost 32% from a peak in May 2014) (Chart 3.10a). In other areas of Tasmania, property prices barely took a breath, rising by 9.6% between December last year and this November, compared with an average of 5.4% for regional Australia as a whole (Chart 3.10b).

Chart 3.10a: Capital city property prices during the Covid-19 recession

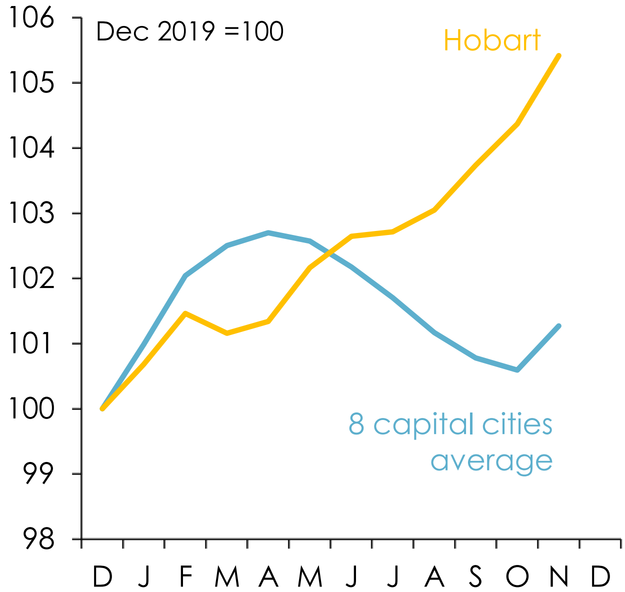
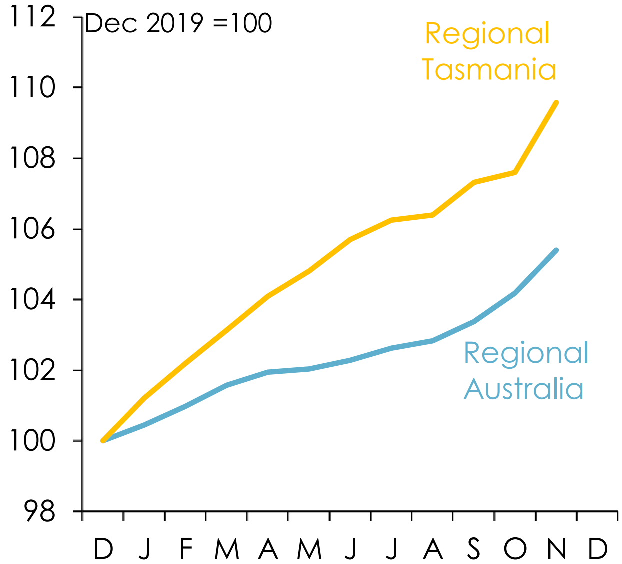


Chart 3.10b: Regional areas property prices during the Covid-19 recession



Note: 'Regional Tasmania' means areas outside Greater Hobart; 'Regional Australia' means the areas outside the greater metropolitan areas of each state. *Source:* CoreLogic (2020).

In contrast to the years immediately prior to the onset of Covid-19, as described in Chapter 2, the continued buoyancy of Tasmania's residential property markets *didn't* spill over into an ongoing escalation in rents. On the contrary, average rents in Hobart dropped by 3.4% between December last year and this November, compared with the all-capitals average of 0.3%; while in regional Tasmania rents rose by 3.0%, less than the average increase of 3.7% for regional Australia as a whole (Chart 3.11a).

Chart 3.11a: Capital city rents during the Covid-19 recession

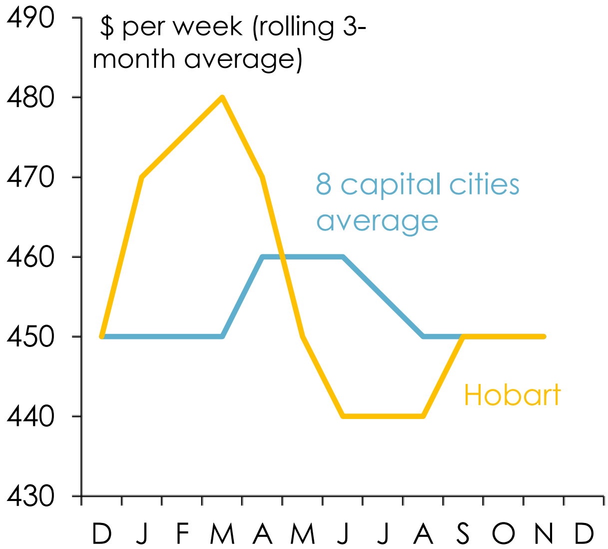
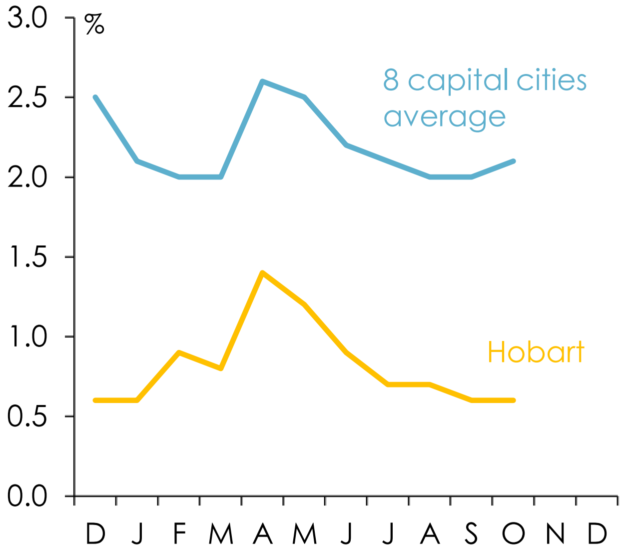


Chart 3.10b: Capital city vacancy rates during the Covid-19 recession



Sources: CoreLogic (2020); SQM Research (2020).

The decline in Hobart rents appears to be at least in part the reversion to longer-term rental of properties that had previously been converted to short-stay accommodation to tourists, following the closure of both Australia's and Tasmania's borders after the onset of Covid-19 (Buckle et al 2020: 39-40). Hobart's rental vacancy rate rose from 0.5% at the end of 2019 to a five-year high of 1.4% in April, although it has since come back down to 0.6% in October (Chart 3.11b).

Hobart continues to be the least affordable capital city for average income rental households, and the only capital city where median rents exceed 30% of average household incomes (SGS 2020). Similarly, regional Tasmania is the least affordable for renters of any "rest of state" in Australia.

After declining by almost 22% between February and May, mortgage lending to property purchasers in Tasmania rose by 65% over the following six months. Impressive as this looks, there were even bigger increases in Western Australia, Queensland and (from a very low base) the Northern Territory (Chart 3.12a).

Lending to first-time buyers in Tasmania has been especially strong, rising to 120% above its average 2019 level by October – a larger increase than in any other state or territory. In October, 29% of all housing finance commitments in Tasmania were to first home buyers, the highest percentage since 2009 (during the financial crisis) – although the share was even higher in Victoria, Queensland, Western Australia and the Northern Territory.

The return of first-home buyers to the housing market has helped to offset the negative impact of the absence of immigrants, who have constituted a significant part of the underlying demand for new housing over the past two decades. As a result, residential building approvals by local governments – a leading indicator of new housing construction activity – have held up better than initially expected over the past eight months. Residential building approvals in Tasmania have broadly kept up with the rest of Australia during this period (Chart 3.12b).

Chart 3.12a: Housing finance commitments during the Covid-19 recession

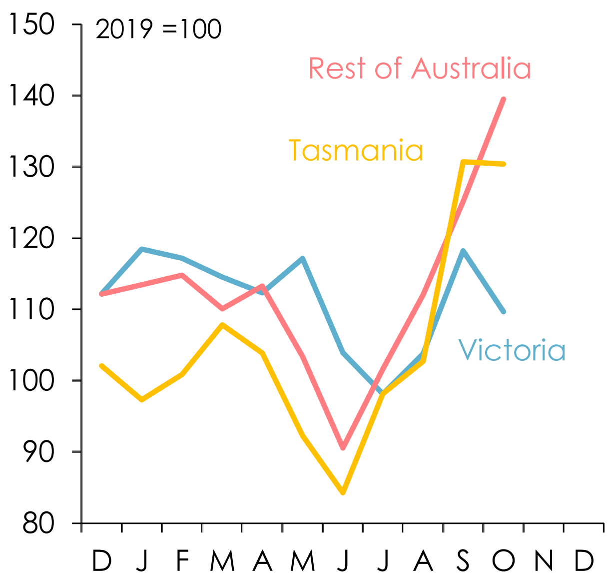
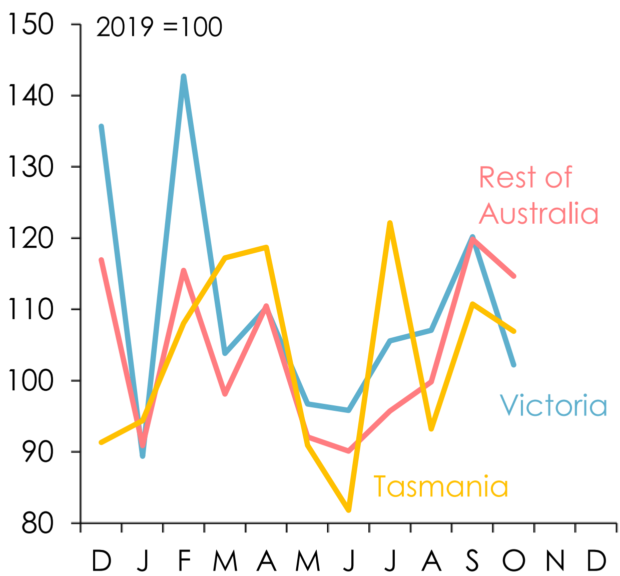


Chart 3.12b: Residential building approvals during the Covid-19 recession



Note: Housing finance commitments exclude re-financings. *Source:* ABS (2020j) and (2020n).

In summary, the analysis of this Chapter suggests that, notwithstanding the momentum which the Tasmanian economy was experiencing prior to the onset of Covid-19, the economic downturn has in most respects (and in particular with regard to employment) been more severe in Tasmania than it has been in the rest of Australia – with the obvious exception of Victoria – in part because of Tasmania's greater dependence on sectors which were more significantly impacted either by the pandemic or by government-imposed restrictions.

As the next Chapter shows, that is despite the fact that the Tasmanian Government has provided more support, relative to the size of Tasmania's economy, to households and businesses than the government of any other state or territory.

This underscores the unavoidable reality that a small, and narrowly-based, economy such as Tasmania's, is almost always more vulnerable to external shocks than a large, diversified one.

That's not to dispute that Tasmania's experience would have been worse had the State Government not been well-prepared to meet some of the challenges to which it has had to respond: in particular, because its financial position was in better shape than that of other states and territories (with the possible exception of New South Wales) on the eve of the pandemic.

But it should also serve to remind Tasmanians that the recovery path will not be an easy one – an issue which is explored at greater length in Chapter 5.

Chapter 4: The role of governments and community organizations

Governments have played an enormously important role in supporting individuals, households and businesses through the Covid-19 pandemic and the economic dislocation associated with it – in Tasmania no less than in any other part of Australia, or indeed throughout the world.

That's as it should be, given that the economic dislocation is in large part the result of directives by governments implemented, for the most part in accordance with public health advice, in order to contain the spread of the virus – although, as noted in Chapter 1, it's likely that people would have curtailed many of their normal activities anyway, even had governments not imposed the restrictions which they did.

There was almost a moral obligation on governments to offer support and assistance to individuals and businesses who had been obliged to 'make sacrifices' in the interests of the community as a whole – over and above the assistance which governments normally provide (through publicly-funded 'social safety nets' and in other ways) during recessions.

And governments across Australia – national, state and territory, and local – have certainly recognized, and acted upon, that obligation. The International Monetary Fund estimates that Australian governments have done more, by way of additional spending or revenue foregone (as a percentage of GDP), to support households and businesses during the pandemic than the governments of all but five other 'advanced' economies (IMF 2020a: 2).

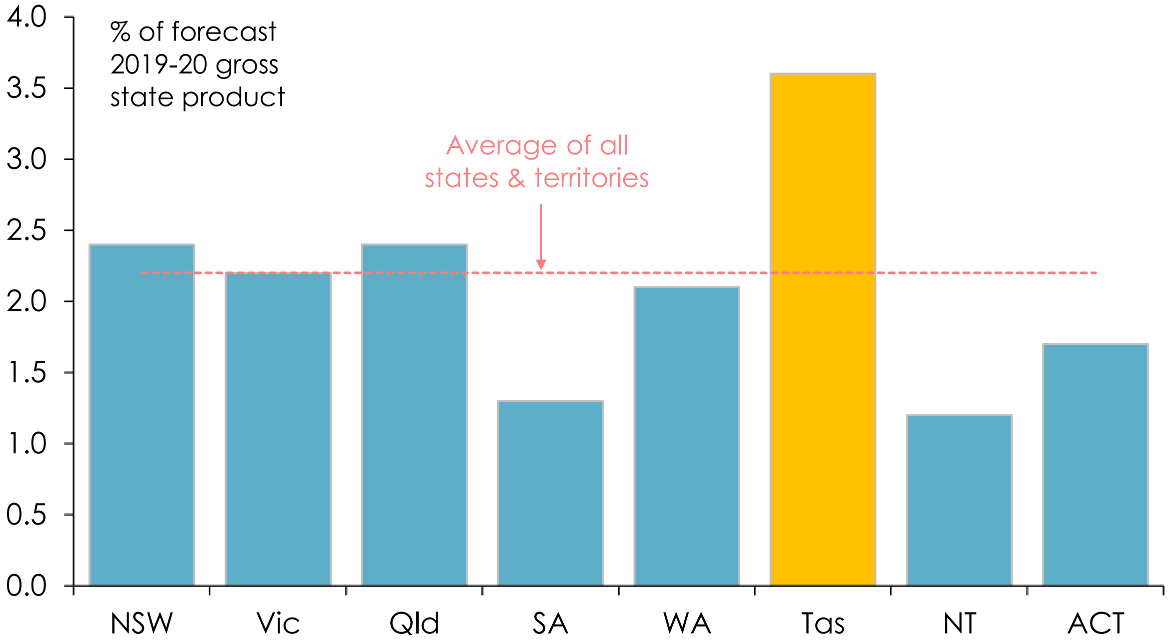
The support provided by the Federal Government to employment in Tasmania through JobKeeper has already been noted earlier in this Chapter. In total, the Federal Government's responses to Covid-19, combined with the 'automatic' impact of the economic downturn on its tax revenues, saw its budget deficit blow out to $94bn in the 2019-20 fiscal year, and to an expected $214bn in 2020-21 – equivalent to 11% of GDP, the largest such deficit since World War II – while its net debt is projected to increase from $491bn (24.8% of GDP) as at the end of June 2020 to $966bn (43.8% of GDP) by June 2024 (Australian Government 2020: 3-6).

The Tasmanian Government has provided more fiscal support, relative to the size of Tasmania's economy, to households, businesses and community organizations since the onset of Covid-19 than the government of any other state or territory (Chart 4.1).

In particular, the Tasmanian Government has been more generous in providing income support to people who 'fell through the cracks' in some of the criteria for Federal Government support programs – such as international students stranded in Australia when borders were closed, or casual employees who had been working insufficient hours during February this year to qualify for support through JobKeeper.

The Tasmanian Government's capacity to provide this support was facilitated by its relatively strong position, compared with that of other states and territories, prior to the onset of the pandemic.

Chart 4.1: State and territory Covid-19 support and response measures as a proportion of gross state product



Source: Australian Treasury (2020).

As a result of this support, and of the impact of the recession on some of its principal revenue sources (in particular, its share of GST revenues, state taxation revenues and GBE dividends), the State Government incurred a cash deficit in the 2019-20 fiscal year for the first time since 2012-13. In this year's State Budget the Government projected that its cash deficit would widen to $1.8bn in the current financial year – equivalent to about 5¾% of gross state product (much larger than in any year since at least the mid-1990s, and possibly since at least World War II) – and would remain in deficit through at least to the end of the current forward estimates period in 2023-24 (Chart 4.2a).

These large cash deficits have in turn resulted in the Tasmanian 'general government' sector becoming a net debtor for the first time since 2003-04, with net debt projected to increase to just over $4bn, or about 11½% of GSP, by June 2024 (Chart 4.2b).

This is, however, an entirely appropriate response on the part of the State Government. As the IMF - traditionally a bastion of 'fiscal orthodoxy' - has noted, "the massive fiscal support undertaken since the start of Covid-19 has saved lives and livelihoods" (IMF 2020b: 1). The IMF's advice to governments is that they "should ensure that lifelines are not withdrawn too quickly" and that "improvements in the ability of social protection systems to reach, target, and deliver benefits to vulnerable people should be preserved" (2020b: xii). And even after pandemic has been brought under control, with the arrival and wide distribution of vaccines, the IMF counsels that "governments will need to foster the recovery while addressing the legacies of the crisis—including elevated private and public debt levels, high unemployment, and rising inequality and poverty".

Chart 4.1a: Tasmanian 'general government' cash balance

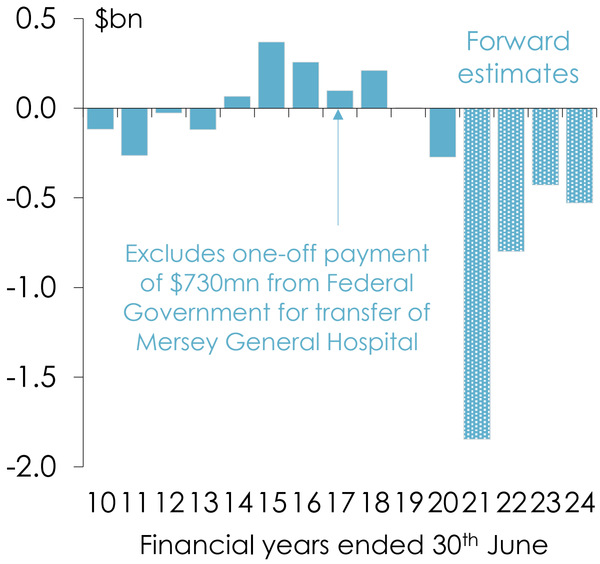
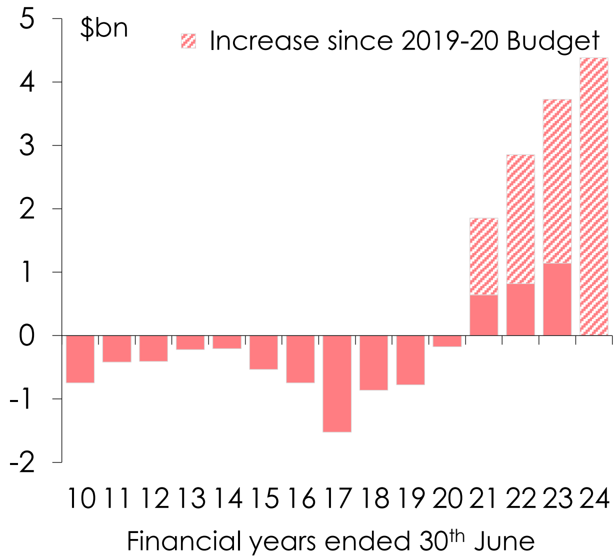


Chart 4.2b: Tasmanian 'general government' net debt



Note: 'General government' refers to departments and agencies funded wholly or largely through taxation revenue and grants, and excludes public enterprises. *Source:* Tasmanian Government (2020).

Similarly, the Organization for Economic Co-operation and Development (OECD) – which, like the IMF, has traditionally not been noted for its enthusiastic support of government activism – has most recently advised governments that "fiscal support needs to be maintained over the next few years", although "its size and nature should adapt to the changing situation". It cautions that "opting for a full and early expiry of special programmes in 2021 should be avoided, or offset with other targeted measures", and that "consolidation" (ie, seeking to return budgets to surplus and pay down debt) "could undermine growth excessively, and may not bring fiscal savings" (2020: 45).

While this sort of advice is primarily directed towards national governments, the Governor of the Reserve Bank has specifically noted that "states and territories can borrow at record low [interest] rates and have an important role to play in the national fiscal response" (Lowe 2020).

There is, in particular, no need for alarm at the level of debt which the Tasmanian Government is expecting to incur over the next 3½ years. Because interest rates on government debt are at record lows – and the Reserve Bank has pledged to keep them there for at least three years – the Government will be spending less on interest as a proportion of its total revenue this financial year and for at least the next three years than it did in the early years of this century or during the 1990s (Chart 4.3a).

Moreover, the level of debt which the Tasmanian Government is expecting to incur over the next 3½ years – including that of its government-owned enterprises - will nonetheless be lower, relative to the size of the state's economy, than for any other state or territory except New South Wales and Western Australia (Chart 4.3b).

Chart 4.3a: Tasmanian 'general government' interest expense as a proportion of total revenue

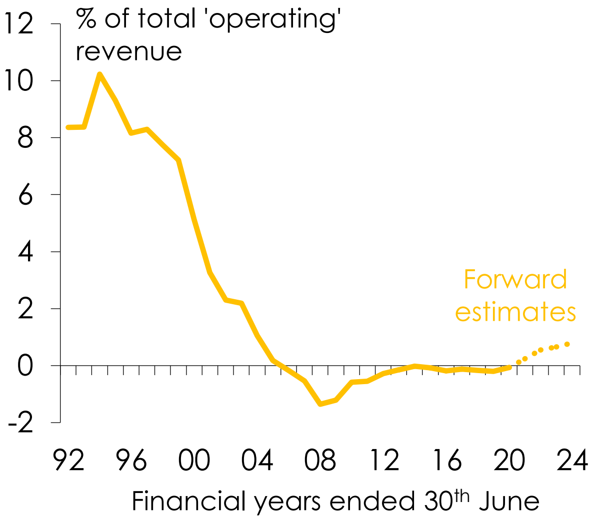
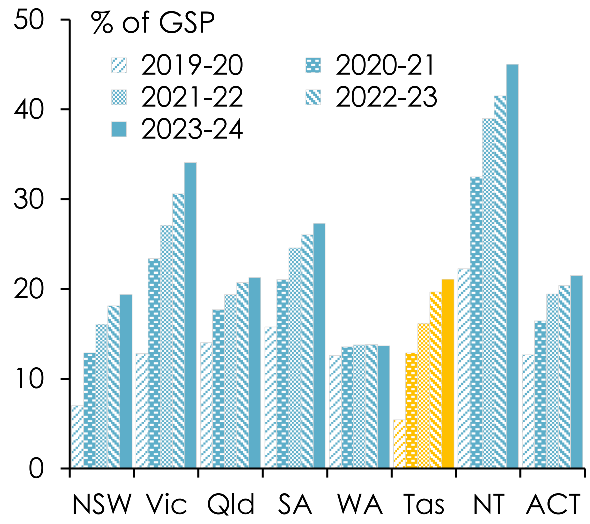


Chart 4.3b: Total non-financial public sector net debt as a proportion of GSP, states and territories, June 2020 and June 2024



Note: 'General government' refers to departments and agencies funded wholly or largely through taxation revenue and grants, and excludes public enterprises. The 'non-financial public sector' includes public non-financial corporations (such as Hydro Tasmania and Aurora) but excludes public financial corporations (such as TasCorp and the MAIB). Estimates of Tasmania's GSP for 2022-23 and 2023-24 are derived by assuming it grows at the same rate as forecast by the Australian Treasury for nominal GDP. *Sources:* Tasmanian Government (2020 and previous); other state and territory 2020-21 Budget Papers and the ACT's Pre-Election Budget Update.

As has been emphasized at length in previous editions of the *Tasmania Report*, in addition to its (relatively low) net debt, the Tasmanian state public sector carries a much larger unfunded superannuation liability than any other state or territory – which is the main reason why Tasmania has a lower credit rating than its otherwise favourable credit metrics would appear to warrant.

However, that liability does not need to be 'rolled over' at regular intervals in the way that debt must be, and the annual servicing costs associated with it are unaffected by fluctuations in interest rates (although movements in the long-term bond yield used to determine the 'present value' of future liabilities have an outsized influence on its actuarially assessed value which appears on the Government's balance sheet each year).

If it were not for the size of that liability – which, precisely because it is 'unfunded', means that the Government will divert 4.6% of its cash revenues to paying pensions and lump sums to retired public sector employees and their surviving partners in 2020-21, a proportion which will peak at 4.9% in 2028-29 before gradually declining over the ensuing five decades (Tasmanian Government 2020: 130) – the Government would be able to borrow even more in order to fund productive infrastructure investment, or facilitate productivity- and resilience-enhancing state tax reform, without risking its credit rating.

But the only way that this liability can be reduced (other than by running budget surpluses, which would not be appropriate in current circumstances) is through major asset sales – something for which there appears to be zero political appetite, now or in the foreseeable future.

Almost all of the deterioration in the Government's financial position over the past twelve months has been the result of conscious 'policy decisions' (ie, to reduce revenues or, more commonly, to increase spending), rather than 'parameter variations' (the result of changes in economic or other assumptions used to construct forward estimates of revenue or expenses).

In particular, state taxation revenues have been surprisingly impervious to the onset of recession. And while the Tasmanian Government, like other state and territory governments, has been adversely affected by downward revisions to estimates of revenue from the GST, in Tasmania's case that's been partly offset by an increase in Tasmania's share of the GST pool, and (particularly) by increases in other grants from the Commonwealth.

Nearly all of the Government's 'policy decisions' were on the spending side of the budget – and of those, more than one-third ($834mn over the four years to 2023-24) constituted its Covid-19 'Response and Recovery' Plan (Chart 4.4a). A further $590 million (one-quarter of the total) represented additional funding for the Tasmanian Health Service, while the decision to abandon previously required 'efficiency dividends' (a very wise decision: 'efficiency dividends are a very lazy way of reducing expenditure) added $400mn to projected deficits.

Perhaps surprisingly, given the rhetorical emphasis which the Government has placed on infrastructure spending as a key element of its economic recovery agenda, 'capital expenditure policy decisions' taken between the 2019-20 and 2020-21 Budgets amounted to only $140mn over the four years to 2023-24 – equivalent to 3.9% of the spend previously budgeted.

Chart 4.4a: 'Bottom line' impact of 2020-21 Budget 'policy decisions'

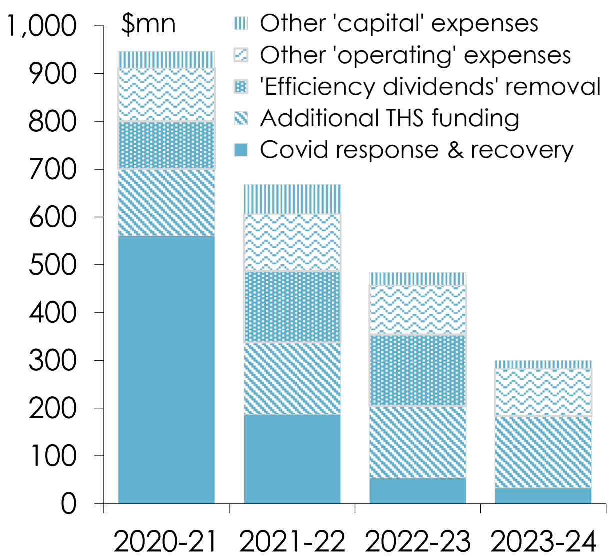
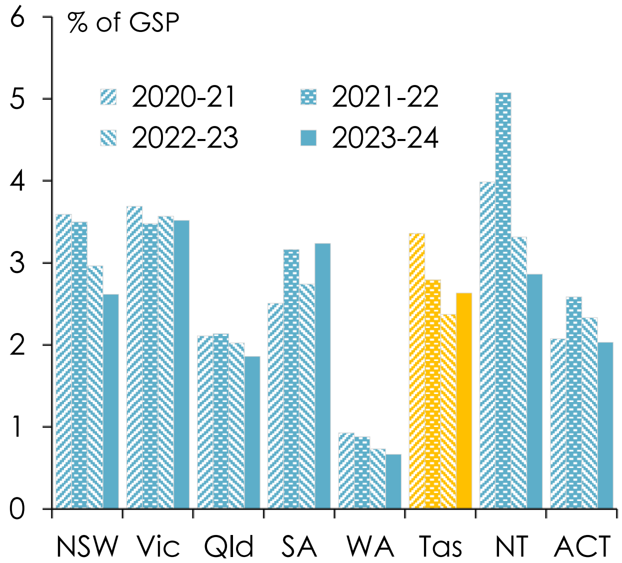


Chart 4.4b: Projected 'general government' capital expenses, states and territories



Note: 'Bottom line' refers to the fiscal balance (the accrual accounting equivalent of the cash balance). 'General government' comprises departments and agencies funded primarily by taxation revenue or grants. Estimates of GSP for Tasmania in 2022-23 and 2023-24 derived as for Chart 4.3b.
Sources: Tasmanian Government (2020); other state and territory 2020-21 Budget Papers and the ACT's Pre-Election Budget Update.

That may reflect judgements about the capacity to deliver on an even larger infrastructure investment program than was already in train. Tasmanian 'general government' capital expenditures ('purchases of new fixed assets') are forecast to represent almost 3½% of gross state product in 2020-21 – compared with an average of 1½% of GSP over the past two decades, and well above the previous peak of 3% of GSP in 2010-11.

Over the four years to 2023-24, Tasmanian 'general government' capital expenditures are projected to represent an average of about 2¾% of GSP. This is in line with the average for all states and territories – less than NSW and especially Victoria, but larger than Queensland and especially WA (Chart 4.4b).

While well-targeted infrastructure investments deliver lasting economic and/or social benefits, and can have large 'multiplier' effects on economic activity and employment, it does have some limitations in that regard.

In particular, 85% of the jobs in 'heavy engineering and civil construction' are held by men – more even than in mining (where men account for 83% of total employment). Given that the Covid-19 recession has had a much greater impact on women's employment than previous recessions (because of its much greater impact on services sectors, where the majority of women are employed), and that women's employment could be at greater risk from the termination of JobKeeper at the end of March next year, the Government may need to consider other ways of more directly creating jobs for women.

Local governments have also played an important role in Tasmania's response to Covid-19.

Most Councils have extended rate relief to property-owners experiencing financial difficulties, and curbed increases in rates; many have waived interest and penalties for late payments, and reduced or waived rents and fees for the use of council-owned facilities by community organizations. Many Councils have also provided additional grants to community groups and not-for-profits, and in some cases to small businesses, to assist with difficulties arising from Covid-19 (LGAT 2020).

These measures are likely to have imposed additional strain on many Councils' finances.

As the Interim Report of the Premier's Economic and Social Recovery Advisory Council noted in July, "local government has an important role to play in the recovery journey", and "a partnership approach will be required with the State Government to avoid duplication and the development of competing measures" (PESRAC 2020: 39).

Community organizations have also played a critical role in assisting individuals and families to cope with the economic and social consequences of Covid-19.

Tasmanian community organizations employ more than 10,000 workers and the services of tens of thousands of volunteers to support the needs of around 120,000 Tasmanians (around 22% of Tasmania's population) who live in vulnerable circumstances (TasCOSS 2020: 2)

Like governments, community organizations have experienced significant increases in demand for the services which they provide – including in many cases from people who have hitherto not had any need of those services – whilst having to overcome increased difficulty in providing them (as a result of health restrictions), diminished access to volunteers (again as a result of health restrictions), and reduced income from donations and from social enterprises.

Community organizations have often been called upon to 'fill the gaps' in government programs, for people who have found themselves ineligible for government assistance programs, or who lack the resources to make full use of them – for example because they lack access to the internet, or have insufficient digital skills and capabilities.

Like most businesses, community organizations have had to develop new methods of delivering services whilst also finding ways of reducing costs in response to diminished revenues.

Many community organizations anticipate that demand for their services will remain elevated even as the pandemic is brought under control through the widespread distribution of vaccines, and as economic recovery proceeds – especially if government support mechanisms are wound down abruptly or prematurely, and as result of the longer-term consequences of the changes wrought by the pandemic for some people's employment prospects and income-generating potential.

The Interim Report of the Premier's Economic and Social Recovery Advisory Council was rather vague on the role of community organizations in the recovery phase from Covid-19, confining itself to recommending a "quick review" of "how additional funding for mental health, family violence and emergency food relief has been used and outcomes delivered", and that "monitoring and rapid contingency planning" should be undertaken to ascertain "if further additional funding is needed" in these areas (PESRAC 2020: 63).

Given the probable lasting impact of the Covid-19 on the growth rate of wages and other incomes, and hence on revenues from donations and other philanthropic activity, it seems likely that community organizations will need a greater commitment from governments to longer-term funding – if not necessarily to higher levels of funding – in order to meet on-going demands for their services in the post-Covid world.

Chapter 5: The Tasmanian economy in the post-Covid world

Chapter 2 showed that Tasmania's economy had been performing strongly in the two-three years immediately prior to the onset of the pandemic in March, by comparison both with its own earlier experience and with the performance of other states' and territories' economies during the same period.

However, as set out in Chapter 3, this relatively strong pre-pandemic performance was not sufficient to prevent Tasmania's economy from experiencing a more severe downturn, in most respects, than the rest of Australia (the obvious exception of Victoria, with its 'second wave', aside) – despite the fact that, as shown in Chapter 4, the Tasmanian Government provided more extensive support to households and businesses than the government of any other state or territory, relative to the size of Tasmania's economy.

It should therefore come as no surprise that this Chapter questions the assumption that Tasmania will emerge from the Covid-19 recession more rapidly than the rest of Australia, taken as a whole.

While it would undoubtedly be nice to think that this would be the case – and optimism is always easier to 'sell' and to defend than pessimism – history counsels caution when embracing such claims.

Tasmania has experienced three recessions over the past four decades – in the early 1980s, in the early 1990s, and from just after the onset of the global financial crisis in 2008 through until after the collapse of the forestry industry a few years later. The first two of these recessions co-incided with nation-wide, indeed global, recessions: the third Tasmania experienced largely on its own, even though some of its causes were global in origin.

As this author has written previously (Eslake 2008: 2-3), the widely-used 'definition' of a recession as two or more consecutive quarters of 'negative growth' in real GDP is misleading and inaccurate.

By way of illustration, had the bushfires in Victoria, New South Wales and South Australia in late December 2019 and early January this year not occurred, Australia's real GDP would probably not have contracted (as it did by 0.3%) in the March quarter 2020.

We would then have had a single quarter of negative growth in the June quarter, followed by a return to positive growth in the September quarter. And so, even though the 7.0% decline in real GDP was the largest ever recorded, sufficient to cause real GDP for 2020 as a whole to shrink by more than in any calendar year since the 1930s even if growth in the December quarter turns out to be similar to the 3.3% recorded in the September quarter, by this definition Australia would not have had a 'recession'.

As a teenager might say, "yeah, right".

In any event, measures of real gross product are not available for states and territories on a quarterly basis.

A better way of identifying and delineating recessions – and one which makes far more sense to people who are not economists or statisticians – can be gained by examining indicators for the labour market, in particular employment and unemployment.

Chart 5.1 does this for Tasmania and for mainland Australia, for the three recessionary periods in the last 40 years described above. In each case, employment is indexed to its peak prior to the onset of recession, while the unemployment rate is expressed in its usual form as a percentage of the civilian labour force.

Tasmania went into the recession of the early 1980s in unambiguously worse shape than the mainland: this recession took a heavy toll of manufacturing industry, on which Tasmania was then significantly more reliant than Australia as a whole. Tasmania's economy was also adversely affected by the lengthy dispute over the proposed construction of the Gordon-below-Franklin dam.

In contrast, Tasmania went into the recession of the early 1990s, and the recession which followed the onset of the global financial crisis in 2008, with employment growing more rapidly than it was on the mainland. Although Tasmania's unemployment rate was higher than that of the mainland ahead of the early 1990s recession, the gap between Tasmania's unemployment rate and the mainland's had been narrowing over the 18 months prior to the onset of that recession. And Tasmania's unemployment rate was actually lower than the mainland's on the eve of the global financial crisis, and for more than twelve months afterwards.

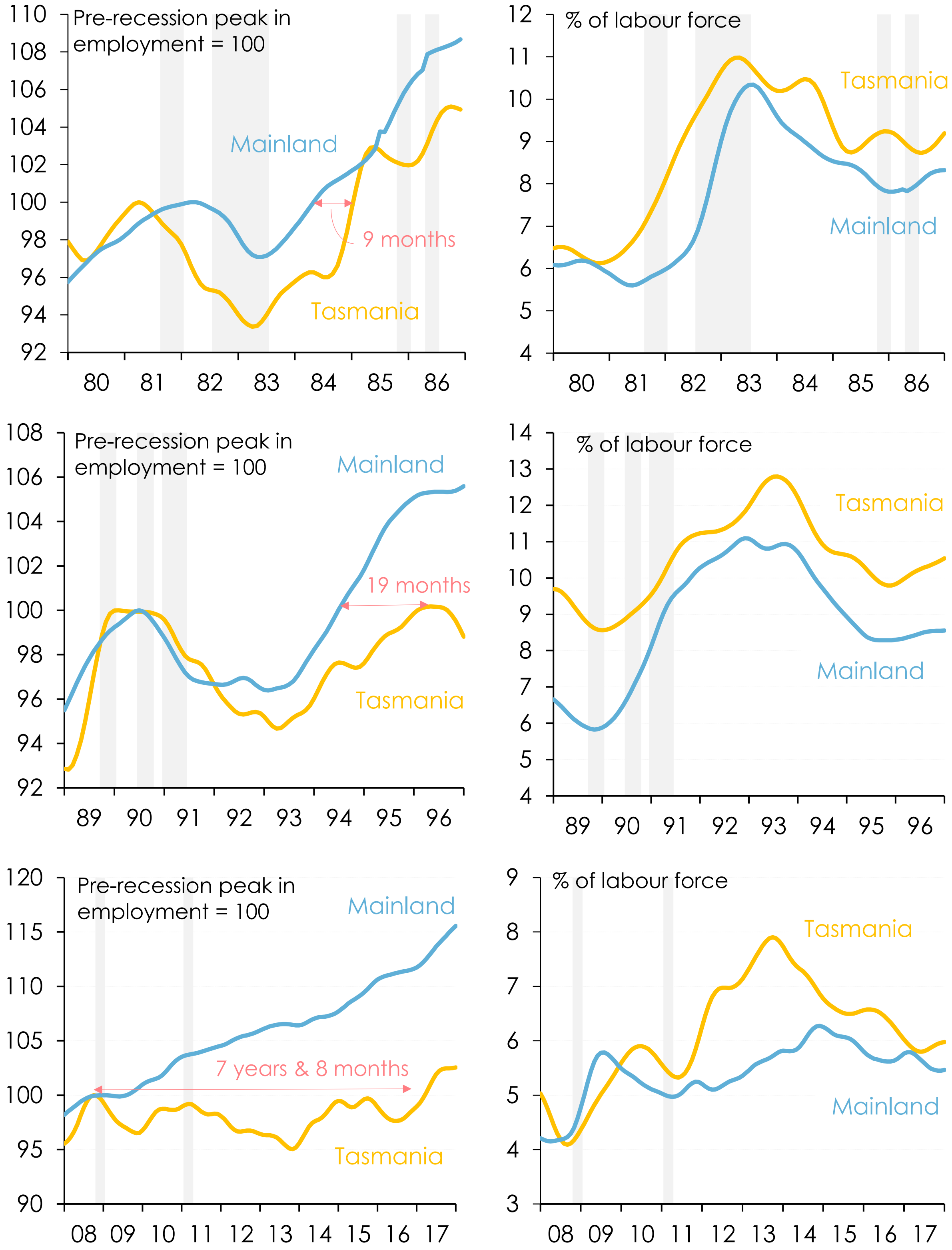
However, during *all three recessions*, the unemployment rate rose by more, to a higher level, and took longer to come down to its pre-recession level in Tasmania than it did on the mainland; and employment fell by more, and took longer to regain its pre-recession peak level, in Tasmania than it did on the mainland. In particular, it took *seven years and eight months* longer for the level of employment in Tasmania to regain its previous peak after the global financial crisis than was the case on the mainland.

In other words, the history of the last three recessions suggests that whether Tasmania's economy was doing better or worse than the rest of Australia's beforehand has no bearing on how well Tasmania economy has fared during or after the recession.

And there is absolutely no compelling reason to think that things will be any different this time around.

The fundamental problem is that Tasmania's economy is *much more narrowly-based* than the mainland's. Five sectors – agriculture, forestry and fishing; retail trade; accommodation and food services; public administration and defence; and health care and social assistance – accounted for 38% of Tasmania's gross product and 48% of Tasmania's employment in 2019-20, as against 22% of gross product and 36% of employment for Australia as a whole.

Chart 5.1: Employment and unemployment during recessions, Tasmania and mainland Australia



Note: Employment (in right hand charts) and unemployment (left hand charts) are both expressed in trend terms. Shaded intervals denote quarters of negative growth in Australian real GDP. Pink arrows denote the interval between when mainland employment returns to its pre-recession peak, and when Tasmanian employment returns to its pre-recession peak. *Source:* ABS (2020e and i).

And while the relative importance of these five sectors has changed over time, both in Tasmania and nationally, Tasmania's disproportionate dependence on them, as a whole, hasn't (Charts 5.2a and b). Indeed, Tasmania's dependence on these five sectors as generators of 'value added' and creators of jobs has *increased* over the past three decades – whereas at the national level these five sectors are no larger (in aggregate) as a share of economic activity or employment than they were thirty years ago.

The less diversified structure of Tasmania's economy compared with that of most of the larger mainland states', and Australia's as a whole, is largely a function of Tasmania's relatively small population and its 'factor endowments'.

Tasmania's population is simply too small – and in particular Tasmania does not have the large metropolitan area typically required – to support a large number of jobs in sectors such as financial services; professional, scientific and technical services; or administration and support services sectors – which in 2019-20 accounted for 17.6% of all employment nationally but only 10.4% in Tasmania. And Tasmania does not have the endowment of mineral or energy resources for the mining sector to provide over 11% of gross product which it does for Australia as a whole, compared with just under 4% in Tasmania (Tasmania does have significant renewable energy resources but they are inherently capital-intensive).

Tasmania *does* have a significant comparative advantage in agriculture – as evidenced by the fact that labour productivity (output per hour worked) in Tasmanian agriculture is almost double the national average (it is one of only five sectors in which Tasmanian labour productivity is above the national average, and by a much bigger margin than any of the other four) – and that median Tasmanian agricultural land values are more than double the national average (Rural Bank 2020).

Chart 5.2a: 'Five sectors' as a share of GDP/GSP, Tasmania and Australia

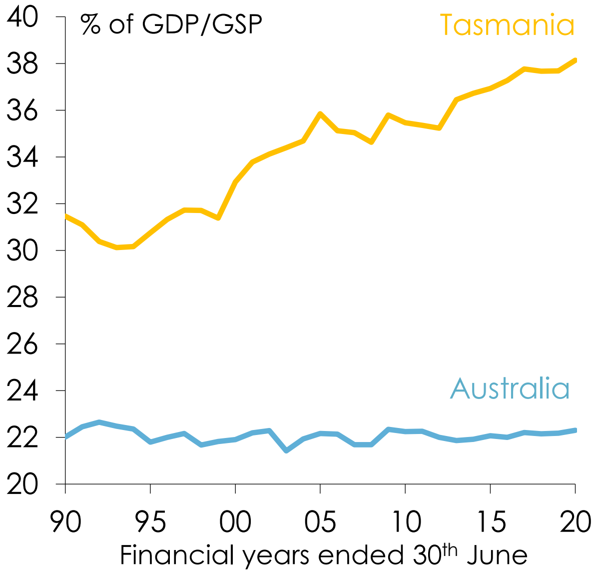
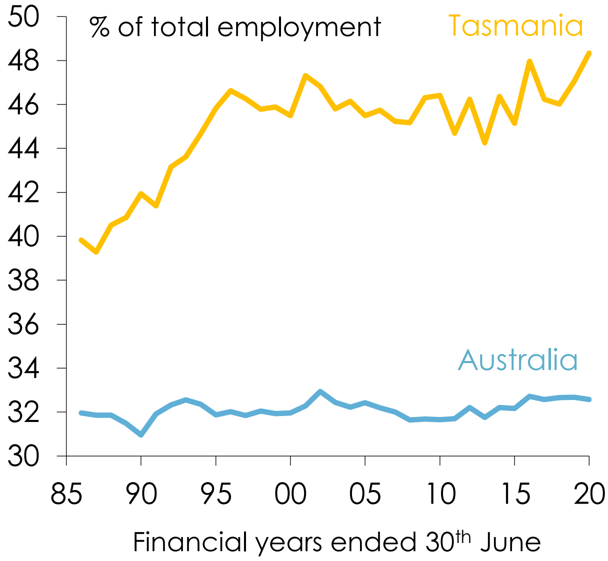


Chart 5.2b: 'Five sectors' as a share of total employment, Tasmania and Australia



Note: The 'five sectors' are agriculture, forestry and fishing; retail trade; accommodation and food services; public administration and safety; and health care and social assistance. *Sources:* ABS (2020f and e).

But Tasmania's agricultural sector is particularly vulnerable to the recent and on-going deterioration in Australia's political and trading relationship with China, as discussed in more detail in Chapter 6.

Similarly, Tasmania's tourism industry – which, spread across a number of sectors which are either part of it or contribute to it – accounts directly or indirectly for 11% of Tasmania's GSP and 17½% of Tasmania's employment, compared with 6½% and 8%, respectively, for Australia as a whole – will be adversely affected by the extended closure of Australia's borders to international visitors, and by the likely reluctance even after the re-opening of international borders of as many people to travel long distances. And it will be facing heightened competition from every other state and territory for domestic tourists.

Retailing – which accounts for almost 10% of all jobs in Tasmania compared with 7% nationally – is facing profound challenges from the impact of Covid-19, which has accelerated the trend towards online shopping, with potentially adverse consequences for smaller retailers and for employment in the retail sector. And, especially in Tasmania, retailing is exposed to tourism.

And while the health and social assistance sector is likely to continue to grow – especially in Tasmania, given our older and more rapidly-ageing population – its growth will almost certainly be subject to funding constraints when governments (and in particular the Federal Government) eventually decide that they need to take active steps to reduce their budget deficits and curtail the rise in public debt.

From a different perspective, Tasmania's persistently under-performing school education system also imposes a drag on Tasmania's capacity to thrive in the post-Covid economy. The proportion of Tasmanians aged 15-74 who have a bachelor's degree or higher is still more than 6 percentage points below the national average (although it is now marginally higher than the proportion of South Australians) (Chart 5.3a); while the proportion of Tasmanians who have no qualifications beyond Year 10 of high school is still by far the highest of any state or territory, and almost 9 percentage points above the national average (Chart 5.3b).

Almost all of the growth in employment nationally over the past decade has been in occupations calling for skills commensurate with a bachelor's degree or higher, or an advanced diploma/diploma (Denny 2020: 6). Tasmanians are thus, in general, less well-placed than other Australians to succeed in post-Covid labour markets that place an even greater premium on the possession of relevant skills.

As previous *Tasmania Reports* have argued at length, one of the reasons for Tasmania's persistently low levels of educational attainment is our substantially below-average retention rates of students from Year 10 to Year 12, which is in turn a product of the separation which Tasmania's public school system – uniquely in Australia apart from the ACT – has between Years 7 through 10 and the senior secondary years.

This separation has long acted as a barrier, especially for students from disadvantaged backgrounds or from families where parents have had limited educational experiences, to the pursuit of a complete secondary education which is typically taken for granted in the rest of Australia.

Chart 5.3a: Proportion of 15-74 year-olds with bachelor's degree or higher

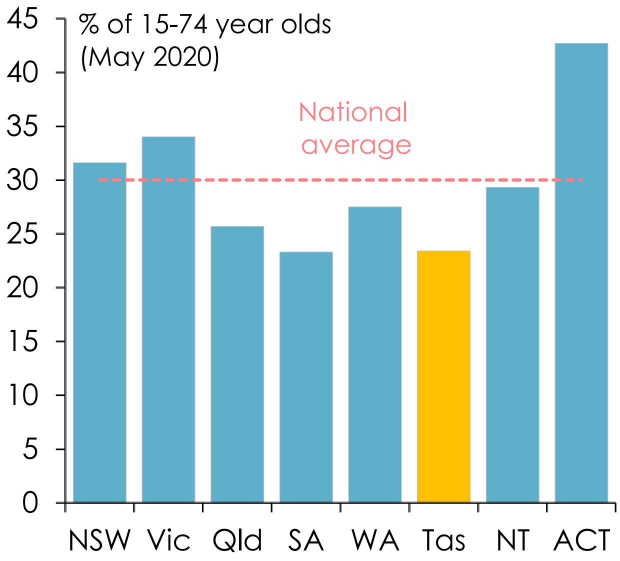
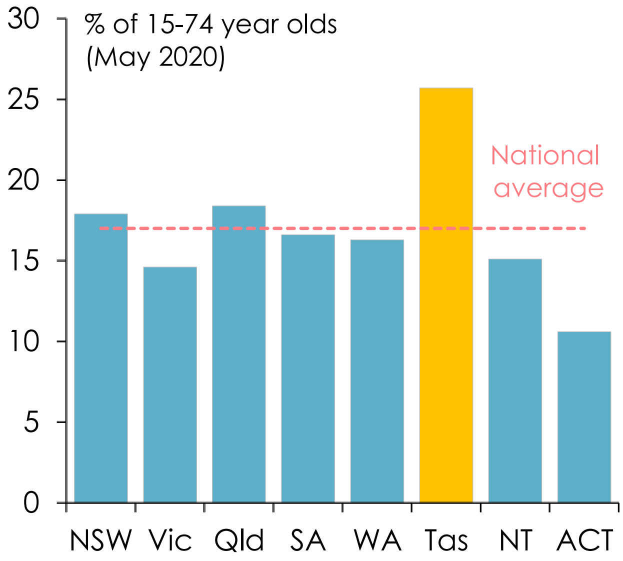


Chart 5.3b: Proportion of 15-74 year-olds with no qualifications beyond Year 10



Source: ABS (2020o).

And if the purported offsetting advantages which Tasmania's college system are as profound as its advocates continually assert, one cannot but wonder why no other state has seen fit to emulate it.

The present Government's policy of providing Year 11 and 12 classes at public high schools has been a very important step in the right direction – and it is starting to yield dividends. Tasmania's retention rate from Year 10 to Year 12 has risen from 64.1% to 74.3% over the past decade, to be 7.7 percentage points below the national average in 2019, compared with a margin of 13.1 percentage points in 2014 (ABS 2020p).

However, although Tasmania's Year 12 attainment rate (the proportion of the potential Year 12 population who meet the requirements of a Year 12 certificate) improved significantly – by 18 percentage points between 2010 and 2016, since then they appear to have stalled at around 60%, almost 20 percentage points below the national average (which has continued to rise over the past three years) (Productivity Commission 2020).

But there are also significant failings in other parts of Tasmania's school education system.

In 2019, one in five Tasmanian grade 7 students started the year at or below the National Minimum Standard for reading – statistically significantly lower than for any other state except for South Australia and Western Australia, where the results are similar. The proportion of Tasmanian grade 7 students who were at or above the National Minimum Standard for reading has declined over the past decade (Tasmanian 100% Literacy Alliance 2020: 2). In similar vein, a recent report from the Mitchell Institute finds that Tasmanians fare worse than the national average in all but seven of 23 indicators for all four stages of learning and development, and rank seventh or eighth (out of eight) in 12 of those: while of five 'lifelong learning indicators', Tasmania ranks last or second-last in all but one (Lamb et al 2020).

There is also an evident need to enhance the digital skills of both young and older Tasmanians, as a means to access education, a key workplace or professional skill, a means to access services, and a pathway to social connections. According to the Australian Digital Divide Index compiled for Telstra, Tasmania is the "least digitally included" of all of Australia's states and territories, apart from the Northern Territory (Chart 5.4a), notwithstanding the rapid take-up of digital services after the completion of the rollout of the NBN in Tasmania in 2017-18 (Chart 5.4b).

Chart 5.4a: Digital Inclusion index, states and territories, 2020

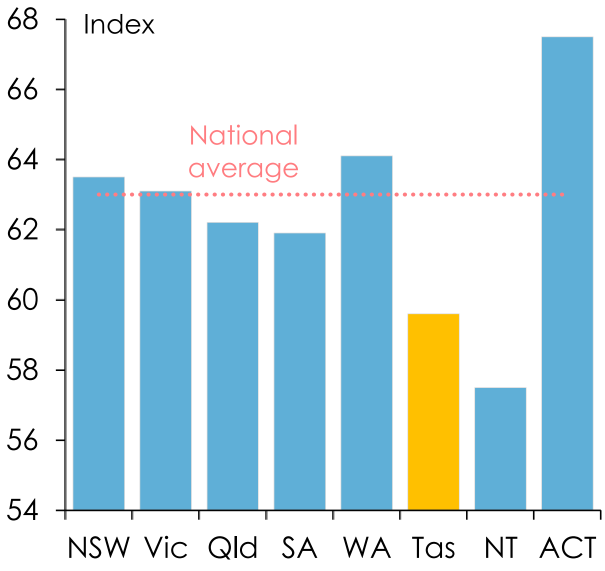
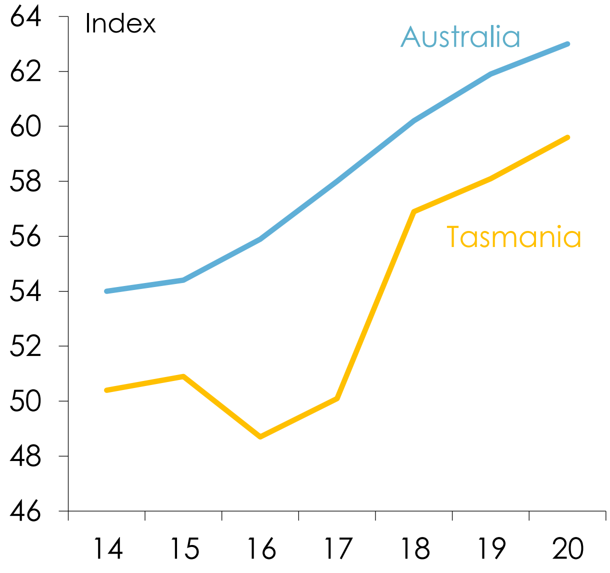


Chart 5.4b: Digital Inclusion index, Tasmania and Australia, 2014-2020



Source: Thomas, Barraket, Wilson et al (2020).

Tasmanians' access to the internet is not significantly below that of people living in other states and territories – with the conspicuous exception of the North West and West Coast regions where internet access is lower than in any Australian region except for the Eyre Peninsula of South Australia.

Rather, Tasmania's relatively low ranking reflects its low scores on the affordability and ability components of the index. In particular, Tasmania has the lowest score of any state or territory on the 'attitudes' dimension of the 'digital ability' index (which measures notions of control, enthusiasm, learning and confidence), and the second lowest score (after the Northern Territory) on the 'basic skills' dimension (which measures the capacity to use mobile phones, online banking and shopping, and to access community services or information).

In some ways Tasmania's low ranking on this index is unsurprising, given that Tasmania has an above-average proportion of people aged 65 or over, an above-average proportion of people who have not completed secondary school, an above-average proportion of households in the lowest income quintile – all of which are markers, nationally, for low rates of digital inclusion. But it is also notable – and disturbing – that the gap in 'digital inclusiveness' between high- and low-income Tasmanian households is wider than in any other state or territory except NSW, and has widened over the past six years, as it has done in every other state and territory except NSW and Queensland (and by a lot more than in either of those states).

There are, to be sure, aspects of the post-Covid world in which Tasmania does have advantages.

Tasmania's success in managing the virus, and its island status, should make it a more attractive destination for Australians considering re-locating to other parts of the country – and, when Australia's international borders re-open, for people from other parts of the world.

In particular, Tasmania may be able to capitalize on the damage Victoria has done to itself as a 'preferred destination' for interstate and overseas migrants, through its mis-handling of the 'first wave' of Covid-19, which was a major factor in it experiencing, uniquely in Australia, such a devastating 'second wave'. Tasmania appears well-placed to entice Victorians to consider moving to the other side of Bass Strait, and to attract migrants from other states and territories who might previously have contemplated moving to Victoria.

Tasmania may be more attractive to people currently living in large capital cities and who are engaged in jobs or occupations which are now, as a result of the Covid-19 experience, more readily accepted – by both employers and employees – as suitable for 'working from home', either in toto or at least for a significant part of the working week.

Tasmania is probably at some disadvantage relative to mainland regional centres which are, say, 1-3 hours' travelling time from a capital city CBD, for employees who may need to spend a day (or part thereof) a week at 'head office', given that undertaking that journey by road or rail isn't an option from a Tasmanian location – but where the requirements to be physically present at an employer's premises are less demanding, Tasmania could be well-placed.

Tasmania may also become increasingly attractive as a destination for people seeking to escape the effects of climate change on warmer locations (Duckett, Mackey and Stobart 2020: 20-28) – even though climate change is also affecting temperatures, and (even more importantly) rainfall patterns in Tasmania as well.

However, Tasmania is likely to be less successful than it could otherwise be in attracting migrants from other parts of Australia and other parts of the world for as long as its education and health systems are perceived to be inferior to those in other parts of Australia, or the world.

Families with children will be less likely, all else being equal, to choose Tasmania as a place to live if they have reason to be concerned – as they do – that their children will be less likely to obtain an education of the same quality as they could in other parts of Australia.

Those families, and arguably even more so people contemplating moving to Tasmania as a retirement destination, will be less likely to do so if they fear – as well they might – that they will be less able to access appropriate hospital or other health care, within an acceptable time-frame, than in other places which they may also be considering.

Tasmania's hospital system is inefficient: it employs about 20% more staff per patient days than the national average, in part because it has a significantly higher proportion of very small hospitals (with 10 beds or fewer) than any other state or territory.

But this above-average level of staffing per patient has not resulted in better treatment for Tasmanians: on the contrary, the Launceston General Hospital and the Royal Hobart Hospital have the longest, and third-longest, respectively, emergency department waiting times of any of the 294 public hospitals in Australia, while Tasmanian public hospitals have the highest rate of 'adverse events' in Australia (Goddard 2020: 3-6).

The principal reason for these failings appears to be a shortage of beds: it has been estimated that Tasmania has at least 200, and perhaps as many as 300, fewer public hospital beds than required to provide services equivalent to those available in the rest of Australia (Jones 2019: 1-14; Goddard 2020: 2).

These considerations simply underscore the importance which ought to attach – but which to date hasn't – to improving Tasmania's school education and health systems in the interests of those who already live here.

Chapter 6: Unresolved questions

The principal propositions of this Report so far have been that, although Tasmania's economy was performing well heading into the onset of the Covid-19 recession, and has done exceptionally well in containing the spread of the virus, its experience during the Covid-19 recession has been more severe, in most respects, than the rest of Australia (Victoria aside); Tasmania's experience in recessions over the past four decades gives no support to the proposition that it can emerge from the current recession more quickly or more strongly than the rest of Australia; and that although there are some aspects of the post-Covid 'new normal' that could work to Tasmania's advantage, the Covid experience has attenuated some of Tasmania's long-standing disadvantages, and will also confront Tasmania with some additional headwinds.

This chapter poses some questions to which there are no immediate or incontrovertible answers, but which would appear to be important to any attempt to craft a sustainable recovery from the current recession – and which are therefore worthy of broader discussion in the run-down to the next state election due by March 2022.

It's perhaps important to emphasize that the questions raised in this chapter don't purport to be the only ones worth asking – even in the economic sphere, let alone others. Rather, they are questions which seem to emerge from some of the analysis of the preceding chapters.

Has Tasmania become 'too dependent' on tourism?

As noted in Chapter 2, tourism had been one of the principal contributors to the improvement in Tasmania's economic performance over the five years prior to the onset of the pandemic – although there had also been signs that the 'tourism boom' may have peaked towards the end of that period.

According to the State Tourism Satellite Account compiled by Tourism Research Australia (2020), tourism accounted (directly and indirectly) for 21% of the growth in Tasmania's gross state product over the five years to 2018-19, and for (an extraordinary) 71% of the increase in total employment over this period – compared with 8½% of the increase in Australia's GDP and 16¼% of the increase in total Australian employment over the same period.

As a result, by 2018-19, tourism accounted (directly and indirectly) for 11.1% of Tasmania's gross state product and 17.4% of Tasmanian employment – in each case a larger proportion than for any other state or territory, and well above the corresponding national averages of 6.4% and 8.1%, respectively (Charts 6.1a and b).

In this context it might almost seem churlish to ask, "have we had too much of a Good Thing?"

However, there are two reasons why such a question is worth asking.

Chart 6.1a: Tourism shares of GSP and employment, states and territories, 2018-19

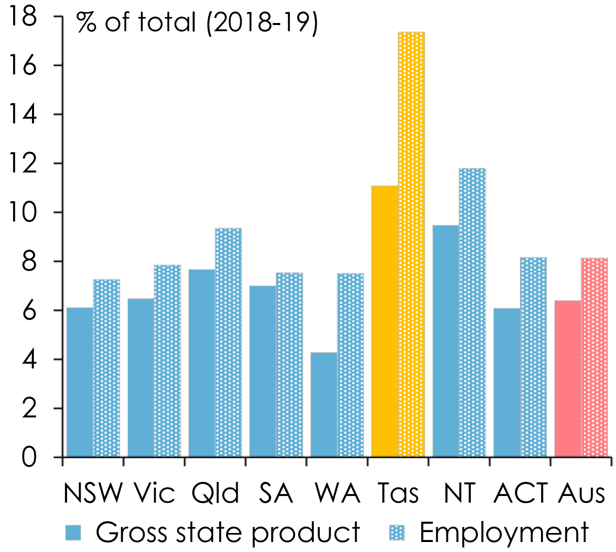


Chart 2.3b: Tourism shares of Tasmanian gross state product and employment

Source: Tourism Research Australia (2020).

The first is that, as is evident from Chart 2.3b, tourism accounts for a much larger share of employment in Tasmania than it does of gross state product (or 'value added').

That means that it is a *low productivity* industry. As a very crude measure, the Tourism Satellite Accounts imply that gross value added per person employed in the Tasmanian tourism industry was $83,338 in 2018-19 – 36% below the corresponding figure for all Tasmanian industries. Moreover, value added per person employed in Tasmanian tourism is significantly lower than in any other state or territory's tourism industry, and 31% below the national average for tourism-related industries. And labour productivity (thus measured) in Tasmanian tourism has grown at a much slower rate – averaging 0.8% per annum – over the past decade than in any other state or territory, and well below the national tourism industry average of 1.3% per annum.

These differences almost certainly reflect the facts that, not only is a larger proportion of jobs in tourism-related activities part-time (52% in Tasmania compared with 38% of all Tasmanian jobs in 2018-19, and with 48% of tourism-related jobs nationally), but also that Tasmanian tourism is subject to greater seasonal fluctuations than in most other parts of Australia (with the possible exceptions of Far North Queensland and the Northern Territory, and Snowy Mountains ski resorts).

Moreover, because tourism accounts for a much larger share of economic activity and employment in Tasmania than in any other state or territory, it detracts considerably more from overall labour productivity in Tasmania than it does in the rest of Australia – and that's before taking account of the fact that labour productivity in Tasmanian tourism is significantly lower than in tourism on the mainland.

The second reason for asking whether Tasmania may have become “too reliant” on tourism arises of course from the lasting impact which Covid-19 is likely to have on travel, particularly long-distance international travel (ABS 2020q; Bourko, Geerts and Wang 2020). This couldn’t have been anticipated before the onset of Covid-19: but nor can it now be ignored.

Tasmanian tourism is less reliant on international visitors than other states and territories (with the exception of South Australia, which is about the same): around 20% of directly-generated tourism gross value added in Tasmania is attributable to international visitors, compared with the national average of 30% (and 34½% in both New South Wales and Victoria).

Nonetheless, the absence of any international visitors until Australia’s borders are re-opened will have a noticeable impact on Tasmania’s tourism industry, and hence on the Tasmanian economy more broadly, particularly given that international visitors to Tasmania on average spend 11% more than interstate visitors.

And although it is possible that Australians will be willing to substitute domestic holidays for overseas ones, there is also likely to be some lingering impact of Covid-19, and the perceived risks of being either trapped interstate or having to self-isolate on return to their home state, on Australians’ willingness even to travel interstate.

None of the above is intended to suggest that the Tasmanian Government should be downgrading the role of tourism in its economic development strategies, or reducing its support for tourism marketing activities. Indeed, precisely because most mainland states and territories are more dependent on international visitors, they will likely be competing more vigorously for domestic tourists than ever before: and Tasmania will need to match those efforts.

But, clearly, it is unrealistic to expect that tourism can deliver the ‘growth dividend’ for the Tasmanian economy that it had done during the years immediately prior to the onset of Covid-19, or that it had been expected to before Covid-19 struck.

Has Tasmania become ‘too dependent’ on China?

While the popular impression may be that Australia’s burgeoning trade with China over the past three decades has been dominated by minerals and energy exports – in which Tasmania has had little role to play – China has become no less important an export market for Tasmania than for other parts of Australia.

Indeed, in the 2019-20 financial year, fully 40% of Tasmania’s international merchandise exports went to China – a higher proportion than for any other state or territory except Western Australia (Chart 6.2a). China’s share of Tasmania’s overseas merchandise exports has quintupled since the global financial crisis (Chart 6.2b).

As with tourism, the success which Tasmanian businesses have attained in penetrating China’s markets has been of significant benefit to Tasmania’s economy – so it may at first blush seem churlish to question whether there might be some downside to it.

Chart 6.2a: Merchandise exports to China as a pc of total, states & territories, 2019-20

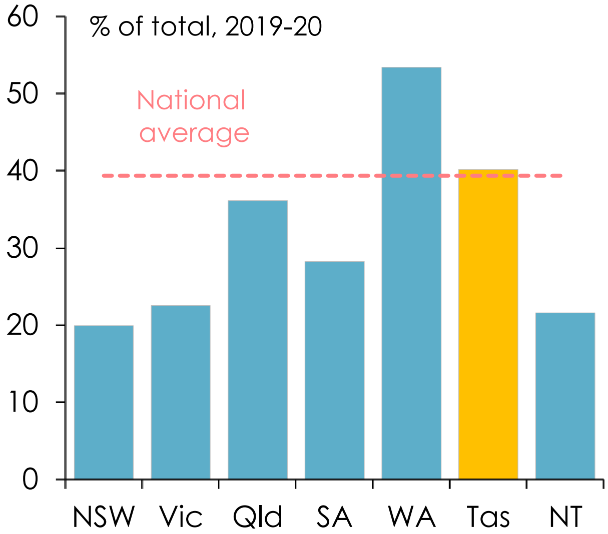
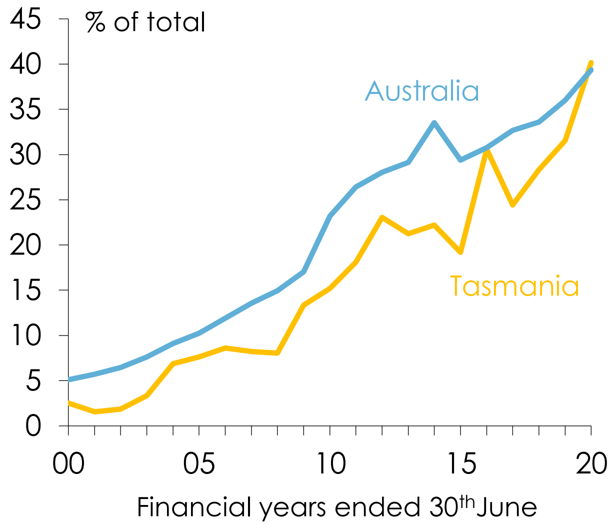


Chart 6.3b: Merchandise exports to China as a pc of total, Tasmania and Australia



Source: ABS (2020k).

But with the bilateral relationship between Australia and China having deteriorated so dramatically over the past three years – and especially during the latter part of 2020 – Tasmania's growing dependence on China as an export market has, all of a sudden, turned into a potential point of vulnerability.

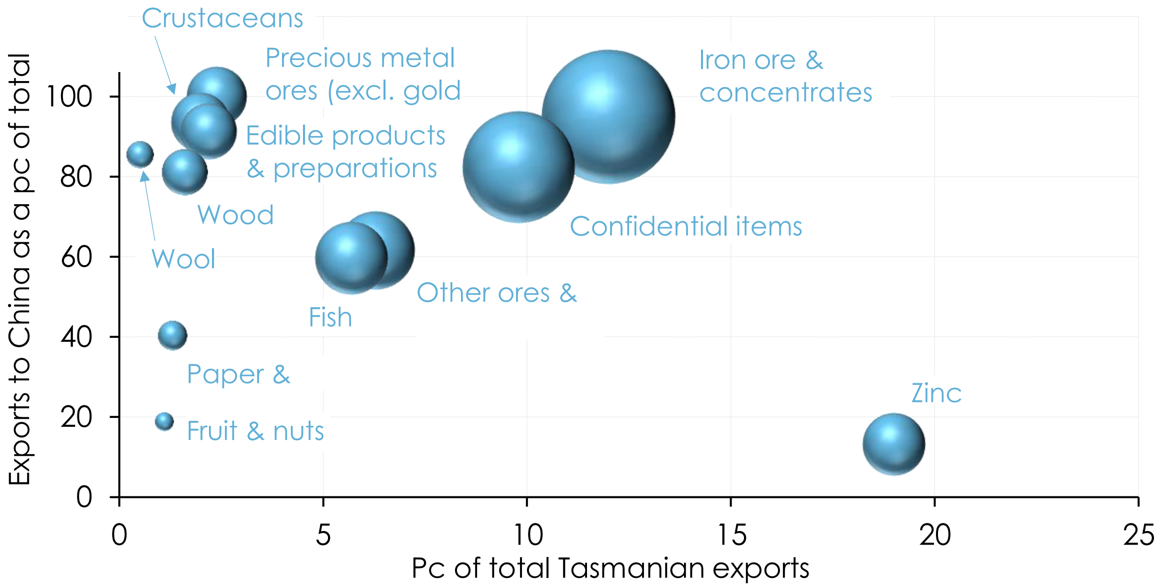
For the time being, China has no significant alternative source for the iron ore which it currently imports from Australia (which in turn represents about 56% of Australia's total merchandise exports to China) – no other country has the capacity to replace even a small part of it; and unlike many of the other products which China has recently targeted, it cannot really go without in the absence of alternative sources of supply.

Iron ore and concentrates represented 28½% of Tasmania's merchandise exports to China in 2019-20 (and China in turn accounted for 95% of Tasmania's total exports of iron ore and concentrates): they are presumably 'safe' from Chinese trade sanctions directed against Australia, at least for the time being.

But almost everything else which Australia, and Tasmania, exports to China is at risk from China's current 'trade war' against Australia. Of Tasmania's 24 other most important exports (which accounted for 83% of Tasmania's total merchandise exports in 2019-20), China was the destination for 34%.

The Tasmanian exports most dependent on China are shown in Chart 6.4: the most vulnerable to Chinese trade sanctions would appear to be precious metal and other non-ferrous ores and concentrates, seafood, other edible products and preparations, wood products, wool, and paper and paperboard. Some 82% of Tasmania's 'confidential' merchandise exports also went to China in 2019-20 (and these represented 8% of Tasmania's total merchandise exports) but it is obviously not possible to identify what these products are.

Chart 6.4: Major Tasmanian exports to China, 2019-20



Note: The size of the bubbles indicates the value of exports in 2019-20. *Source:* Department of Foreign Affairs and Trade (2020).

Tasmania's services exports to China may also be adversely affected by the deterioration in the bilateral relationship with China, if not reversed by the time Australia's international borders are re-opened.

China accounted for 15% of international visitors to Tasmania in 2019 (the same proportion as for Australia as a whole), about the same as the United States (which accounts for a much larger share of international visitors to Tasmania than for Australia as a whole). China also accounted for 34½% of all international student enrolments in Tasmania in 2019 (a larger share than for any other state or territory except South Australia and the ACT, and about seven percentage points above the national average), including 46% of international students at the University of Tasmania (Department of Education, Skills and Employment 2019). Both Chinese tourists and students could be dissuaded, or prevented, from coming to Australia, and to Tasmania, by Chinese Government 'warnings' of the 'dangers' they allegedly face in this country, or by outright prohibitions on travel to Australia.

Clearly, there is a need for Tasmanian businesses, and educational institutions, to reduce their vulnerability to arbitrary and capricious actions on the part of the Chinese Government by diversifying their markets – something which is, needless to say, easier said than done, and would in many cases be difficult to accomplish, especially in a short space of time, without assistance from both the Federal and Tasmanian Governments – although UTas has been pursuing a strategy of reducing dependence on international students generally and Chinese students in particular since 2019.

But there ought to be opportunities for Tasmanian exporters in ASEAN countries, in India (to some extent), in the UK (especially if, post-Brexit, the UK is serious about reaching a free-trade agreement with Australia), and perhaps with the European Union, which need to be more determinedly pursued, with the assistance of government agencies.

What are the risks associated with our dependence on revenue from the GST?

The Tasmanian Government derives a larger proportion of its revenues from its share of the GST than any other state or territory, except the Northern Territory (Chart 6.5). That reflects the Commonwealth Grants Commission's recurring conclusion that its 'fiscal capacity' – its ability to raise revenue from its own resources, its need to provide public goods and services to its citizens, and the cost of providing those services – is significantly less than that of other state and territory governments, again with the exception of the Northern Territory.

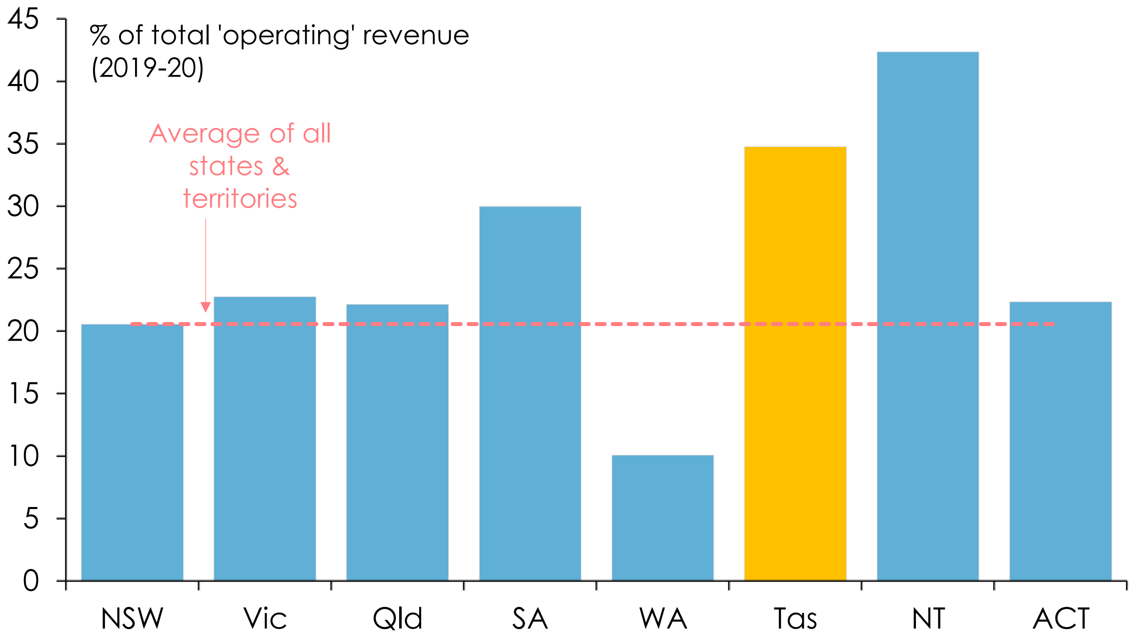
That conclusion in turn reflects long-standing factors such as Tasmania's older-than-average population, above-average incidence of disability and disease, below-average wages and salaries, below-average residential land values, comparative dearth of mineral resources, small scale and more decentralized population.

Many of these factors are beyond the control of the Tasmanian Government – although, as successive editions of the *Tasmania Report* have argued, some of them could be ameliorated over the longer term by if the Government were willing to undertake appropriate reforms, for example to Tasmania's education system.

Many Tasmanians may think that there is much to be said for a system which allows Tasmania to spend similar amounts, per head of population, on public services, as other states and territories, without having to impose similar burdens of state taxation as other states and territories. Certainly, successive Tasmanian Governments have had, as an explicit fiscal strategy objective, raising less revenue from local sources than they could have done, had they applied the average level of 'revenue-raising effort' to the Tasmanian revenue base (Tasmanian Government 2020: 36).

Comforting though this may be, it leaves Tasmania exposed to two risks.

Chart 6.5: GST revenue as a proportion of total revenue, states & territories, 2019-20



Sources: Australian Government (2020b); Tasmanian Government (2020); and other State and Territory Government 2020-21 Budget Papers.

First, the amount of revenue raised by the GST and available to be divided among the states and territories is completely beyond the control of the Tasmanian (or any other state or territory) Government, and instead depends on national growth in consumer spending, and the proportion of that spending which is on items subject to the GST.

The Federal Parliamentary Budget Office has recently identified a number of long-term structural trends in consumer spending which, it concludes, mean that revenue from "the GST is likely to continue to grow at a slower rate than GDP" (PBO 2020: 32). Tasmania will inevitably be more adversely affected by this trend than any other jurisdiction except the Northern Territory.

Second, there is no guarantee that the methodology long used by the Commonwealth Grants Commission to determine the shares of GST revenue which each state and territory should receive each year, from which Tasmania has long been a major beneficiary, will remain unchanged.

Indeed, the Grants Commission's methodology has come under sustained attack in recent years from Western Australia – which for much of the post-war period was also a beneficiary of 'horizontal fiscal equalization', but which, once its share of GST revenues began to fall sharply as a result of the torrents of mineral royalty revenues accruing to it from the 'resources boom', joined with NSW and Victoria to demand changes to the system, which would benefit it at the expense of Tasmania (among others).

Because Western Australia is considerably more influential than Tasmania in determining the outcome of federal elections, Western Australia's assault on the system of 'horizontal fiscal equalization' has carried substantial weight with the Federal Government – as a result of which, and following a report by the Productivity Commission, the Federal Government ordered changes to the framework within which the Grants Commission conducts its annual reviews of GST revenue-sharing relativities (Morrison 2018), which will be phased in from 2021-22.

Among other things, these changes require the Grants Commission to recommend GST revenue sharing relativities which raise the 'fiscal capacity' of the fiscally weaker states to the stronger of NSW or Victoria, rather than to that of the strongest state – which at the height of the mining boom had been Western Australia – and provide that no state's share of GST revenues can fall below 75% of what it would obtain under an equal-per-capita distribution.

When imposing these changes, the Federal Government provided a guarantee that no state or territory would be worse off (in dollar terms) than it would have been had the changes not been made – but this guarantee expires in 2026-27, as a result of which, as noted in this year's State Budget Papers, "there is a risk to Tasmania's share of GST revenue from 2027-28" (Tasmanian Government 2020: 17).

The obvious way to reduce Tasmania's vulnerability to shortfalls in revenue from the GST is to strengthen Tasmania's fiscal capacity, so that it is less dependent on revenue from this source. That's, equally obviously, an aspiration that can only be achieved over the long term.

There are, broadly speaking, two avenues through which that objective might be attained.

One is by pursuing sustained improvements in Tasmania's economic performance, so that Tasmania's existing revenue-raising mechanisms – principally, state taxes and revenue from government business enterprises – generate more revenue without requiring explicit changes to those mechanisms.

Such improvements would of course also bring in their wake many other benefits both to government finances and, more importantly, to the broader Tasmanian community.

But, as history (both ancient and recent) demonstrates, that's easier said than done.

A second avenue is to pursue reforms to Tasmania's state taxation system, with a view to enhancing both its efficiency and its fairness or equity – so that for any given level of economic performance, the system generates more revenue whilst imposing less of a burden on the economy than the existing system.

The present author has recently written at length on this subject (Eslake 2020), and that discussion is not repeated here.

However, it is worth noting that one of the three proposals canvassed in that paper – namely, replacing stamp duty on the transfer of land with a more broadly-based land tax – has been taken up by the New South Wales Government in its most recent Budget.

As the NSW Treasurer said in his 2020-21 Budget Speech, "for state governments, the reform with the greatest potential to unlock prosperity is tax" (Perrotet 2020: 11).

The NSW Treasurer characterizes his proposal as "the most important state economic reform of the last half century", one which he claims would "generate 75,000 new jobs and add an extra $3,300 of income for every household in NSW".

An equivalent estimate for Tasmania from similar reforms would be about 4,650 new jobs and an extra $3,000 of income for every household.

The New South Wales Government clearly does not regard the challenges posed by Covid-19 and its economic consequences as a reason to cavil at undertaking major reforms.

On the contrary, the NSW Treasurer argues that "the challenges we face will demand every ounce of effort, ingenuity and imagination our State can muster", and that the Government of which he is a part has "an obligation to future generations: to leave our State and our nation better than we found it" (Perrotet 2020:12).

Would that a similar spirit was abroad in Tasmania.

If not in feast, then perhaps in famine?

Earlier this year the TCCI and TasCOSS – who have been the principal backers of the *Tasmania Report* since its inception five years ago – joined with a wide range of other Tasmanian peak bodies in committing to a Shared Statement of Intention for engaging with Tasmanians in recovery and rebuilding (Stephenson 2020).

In that Statement, the eleven participating peak bodies committed to six principles:

- prioritizing resilience;
- inclusive participation;
- community-led change;
- place-based solutions;
- diversity and co-operation; and
- transparency in decision-making.

These provide a sound basis for charting a course to the post-Covid 'new normal', whatever that may turn out to be.

Implicit in those principles is a sense that it is possible to shape that 'new normal', rather than passively accepting whatever fate, fortune and powerful external forces may ordain or dictate.

Covid-19 and the ensuing recession have accelerated some trends that were already in train – in particular towards increased digitization of a wide range of activities - and appear likely to attenuate some long-standing problems – in particular, inequalities in access to education and training, secure employment, housing, health care, information and communications technology, as well as in income and wealth.

But the crises of 2020 have also created opportunities to address these and other economic and social challenges.

In particular, they have resulted in a new appreciation of the potential for governments, employers and employees, community groups and individuals to 'get things done' by putting aside partisan differences and working together towards shared goals. They have resulted in a substantial and, in all likelihood, sustained widening in the scope for concerted action in pursuit of common objectives, and a substantial and sustained reduction in the cost of borrowing money in order to finance both short- and longer-term investments.

Three years ago, this report concluded by noting that Tasmania had "made some genuine and tangible progress" and that there was, as a result, a "greater sense of optimism about what might be possible" (Eslake 2017: 99). It pleaded with those seeking to shape Tasmania's future to be "imaginative and bold, rather than cautious or timid". That plea fell, for the most part, on deaf ears.

One can only hope that what was considered neither feasible nor desirable during a period of plenty might instead be both desirable and feasible in much more challenging circumstances.

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Important notice