

PRODUCTIVITY, PROSPERITY AND TASMANIAN LIVING STANDARDS

Talk to a luncheon hosted by the Tasmanian Liberals

Matson's Function and Conference Centre
Launceston

26th February 2007

by

Saul Eslake

Chief Economist

Australia & New Zealand Banking Group Ltd

It's a pleasure to be invited to speak at a function organized by the Tasmanian Division of the Liberal Party – something I haven't done in nearly 25 years.

The last occasion on which I did so was in August 1982. As some of you with long memories may recall, I was President of the Tasmanian Young Liberals in 1978-79, and the first Tasmanian to serve as Federal President of the Young Liberals in 1981¹. During that and the following year, I took a different view of the then proposed Gordon-below-Franklin Dam from that espoused by the Tasmanian Parliamentary Liberal Party. My views on that proposal, as I made abundantly clear at the time, were grounded as much in my doubts about the economic merits of the dam as they were in concerns about its environmental consequences.

In doing so I was following a path well trodden by a large number of Tasmanian Liberals in the Federal Parliament, including Senators Reginald Wright, Peter Rae, Mike Townley, Shirley Walters and John Watson, and Michael Hodgman, Bruce Goodluck and Max Burr, all of whom had enjoyed strong support from the organizational wing of the Tasmanian Liberal Party when they 'crossed the floor' to vote against legislation proposed by the Menzies, Gorton or Fraser Governments, or publicly campaigned for the 'No' case in referenda proposed by Liberal Governments.

In my case, however, I was for my sins described by the then Liberal Leader and Premier as an 'amateur ...' (I won't repeat the word he used here, but it rhymes with 'thick')². I was referred to at a meeting of the Denison Electorate Committee as a 'traitor to Tasmania' who ought not to be allowed to re-enter the State if I left it again (as I had done temporarily between 1979 and 1981). And when at the August 1982 State Council of the Liberal Party I sought election as Vice-President for Franklin, I was defeated by someone who just four months earlier had ran against endorsed Liberal candidates in the State election of that year.

Oddly enough, one of the principal organizers of the effort to prevent my election to that position was a long-serving State MP on three of whose campaigns I had personally worked, but who had been over-looked for the Shadow Ministry when Robin Gray became Liberal Leader in November 1981 and again for Cabinet when the Liberal Party won Government in May 1982; whilst one of those who did vote for me was a Minister in that Government.

Bruce Goodluck, on two of whose campaigns I had worked, and who had developed a national reputation as an outspoken rebel similar to that now enjoyed by Barnaby Joyce, publicly railed at how the Young Liberals had been 'taken over' by 'dangerous radicals' like me. Bruce Goodluck of course subsequently ran (successfully) against endorsed Liberal candidates in a State election.

Some years later, a newly-elected State President of the Tasmanian Young Liberals (whose name now somehow eludes me) was interviewed by the Hobart *Mercury* and claimed that in the late 1970s and early 1980s the Young Liberals had been infiltrated by 'left-wing radicals' who not only opposed the construction of dams but 'openly advocated the smoking of marijuana'.

¹ For the record, I haven't been a member of any political party since 1993, and since then have voted for both major political parties at different Federal and State elections.

² *The Mercury's* Wayne Crawford was similarly discreet when he reported Robin Gray's description of me in his regular column on Saturday 28th August 1982.

Since my views on all of the issues which put me so offside with the Tasmanian Liberal Party 25 years ago haven't changed one iota, I am thus going beyond the normal platitudes uttered on occasions such as these when I say that it gives me great pleasure to be here.

So let me now turn to talk about the Tasmanian economy, its recent performance and its prospects for the future.

Tasmania has long been Australia's 'poor relation' when it comes to economic performance. Sir Bede Callaghan's 1977 *Inquiry into the Structure of Industry and the Employment Situation in Tasmania* saw Tasmania's on-going relative economic decline as "the continuation of a long-term trend which stretches back prior to Federation". He said that Tasmania was "heading towards another Newfoundland or Ireland"³.

30 years later, in view of the remarkable transformation in Ireland's fortunes which has seen its per capita income rise from 17% below Britain's to 36% above its big brother's, from the 30th highest in the world to the 4th, one can but wish that Callaghan's prediction had proved accurate.

Ireland's experience demonstrates that it is possible to rise above the circumstances that Tasmania has long experienced.

And in fact Tasmania has been improving its position relative to that of the rest of Australia in recent years.

From the beginning of the 1980s to the end of the 1990s, Tasmania's per capita GSP grew by just 1.0% per annum – barely more than half the national average. As a result, Tasmania's per capita GSP declined from just under 89% of the national average to 69% of the national average.

By contrast, over the past five years, Tasmania's real per capita gross State product (GSP) has risen at an average annual rate of 3.0% per annum. This is the strongest performance over any five-year period since at least the early 1980s. It is exceeded only by Western Australia, and matches that of Queensland. It exceeds the national average by 1 pc point. The five years to 2005-06 is the only five-year interval since that ended 1988-89 over which Tasmania's per capita economic growth rate has exceeded the national average (and then it was by only 0.3 pc pts pa).

As a result, Tasmania's per capita GSP has risen from 69% of the national average to just under 75%.

The turnaround in household disposable income has been even more dramatic. Over the course of the 1980s and 1990s, Tasmanians' average per capita household disposable income fell from 90% of the national average to less than 76%. Over the past five years, it has risen from 76% to 85½% of the national average.

Clearly, things have been 'going right' for Tasmania to a much greater extent during the past five years than during the previous twenty.

³ B.B. Callaghan, *Inquiry into the Structure of Industry and the Employment Situation in Tasmania*, AGPS, Canberra, 1977, pp. 102-103

Needless to say, fifteen years of more or less continuous economic growth in the national economy has been of no small assistance in supporting improved economic outcomes in a peripheral region such as Tasmania.

Tasmania also benefited significantly from the national boom in house prices, which – especially between 2002 and 2005 – prompted a reversal in the traditional exodus of population across Bass Strait as mainlanders arbitrated the resulting difference between mainland and Tasmanian property prices.

However the Commonwealth Government's direct contribution to the improvement in Tasmania's fortunes over the past five years has been relatively modest. Spending by the Commonwealth Government and its agencies (including Telstra) has contributed 0.6 pc points per annum to the growth rate of the Tasmanian economy over the five years to 2005-06, 0.17 pc points per annum more than for that of all States and Territories, on average. But Tasmania's share of total Commonwealth Government payments to State and Territory Governments has fallen by just under half of one percentage point since peaking in 1999-2000.

Instead, a good deal of the improvement in Tasmania's economic performance has come from the State's own efforts. In particular, Tasmania has benefited from vastly better management of its public finances in recent years than was the case during the 1980s.

Tasmania has paid off all of the 'general government' net debt accumulated during that disastrous decade. And it has done so whilst being the only State or Territory Government in not to have raised the rate of any existing State taxes, or introduced any new ones since the introduction of the GST. As a result, Tasmania has gone from having the most severe regime of State taxes and charges (relative to the State's capacity to raise revenues) of any State or Territory in the late 1980s and early 1990s, to since 2002-03 having the second-lightest State tax burden after Queensland⁴.

To be sure, Tasmania still has a relatively higher level of public enterprise debt than any other State or Territory (in part as a result of the more capital-intensive nature of its electricity-generating businesses and its unwillingness to privatize them); and its unfunded superannuation liability is significantly higher (relative to the size of the Tasmanian economy) than that of any other State or Territory. And the poor performance of the New South Wales economy in recent years illustrates that there is such a thing as excessive zeal in reducing public debt.

But the improvement in Tasmania's public finances, especially under David Crean's stewardship, has contributed materially to the better business climate in this State in recent years.

Following these five years of very good performance, more recently Tasmania's economy does appear to have slowed quite significantly:

- real State final demand (the sum of household, business and government spending in Tasmania) declined in each of the first three quarters of 2006 (December quarter figures will be released on Wednesday week, 7th March);

⁴ As calculated by the Commonwealth Grants Commission in its annual updates on State relativities.

- employment has declined by just under 1,500 (in trend terms), or by 0.7%, since June, during which period job numbers have continued to grow in every other State and Territory (by an average of 1.4%).

I hesitate to apply the term 'technical recession' to this slowdown in the Tasmanian economy (although others have done so).

That's because State final demand excludes international and interstate trade (which account for close to half of Tasmania's output); because consecutive quarterly declines in State final demand have occurred previously during periods which could not by any means be characterized as 'recessions' (most recently the December quarter of 2002 and the March quarter of 2003); and because during this period Tasmania's unemployment rate has fallen by ½ pc point in trend terms (albeit solely because of a 1 pc point decline in the participation rate).

To some extent, the slowdown in the Tasmanian economy reflects factors common to other States, particularly those not benefiting from the 'resources boom':

- consumer spending has been everywhere adversely affected by rising interest rates and (until recently) rising petrol prices;
- housing activity has likewise been impacted by rising interest rates and deteriorating housing affordability; and
- sectors such as manufacturing and agriculture (which together account for a larger share of economic activity in Tasmania than any other State) have been adversely impacted by the strong A\$ induced by high resource commodity prices, and in the case of agriculture also by drought and frosts.

However there are also some Tasmania-specific factors driving the slowing in the State's economy during 2006.

Net immigration to Tasmania from the mainland has slowed to an average of just one person a week during 2005-06, down from a peak of over 50 per week in 2003-04, at the height of the local housing boom which owed much to the belated 'discovery' of Tasmania's (then) relatively cheap accommodation while prices in mainland capital cities seemed destined for the stratosphere.

Tasmania's population growth rate has thus slowed to less than 0.7% per annum, from a peak of 1.2% pa in 2003. Inevitably this has had a dampening impact on economic activity.

In addition, business investment in Tasmanian has slowed markedly in Tasmania over the past year or so. From a peak in the December quarter of last year, private business fixed investment has dropped by a quarter, in trend terms, over the first three quarters of 2006: the level of spending on plant and equipment has dropped by nearly 30% in trend terms over this period, while private non-residential construction spending has fallen by more than 16%.

Given the inherently 'lumpy' nature of many business investment expenditures, greater fluctuations in the level of business investment in a small State like Tasmania than in larger, more diversified economies are to some extent inevitable. And if the Gunns Pulp Mill goes ahead then these numbers will once again rise sharply.

However it is a little disappointing that there has not been any discernible increase in investment in other areas of the Tasmanian economy, notwithstanding the foreshadowing of a number of projects in (for example) tourism.

Earlier this month the Mid-Year Review of the 2006-07 Tasmanian Budget revised down Treasury's forecast for growth in 'underlying State economic activity' in the current financial year from 3½% to 2¾%, while the forecast for employment growth was slashed from 2¾% to just ¾%.

Although these forecasts are much more realistic than those contained in the Budget, they are still on the high side of what seems plausible.

Making intentionally generous assumptions about the likely contribution to State economic growth of interstate and international trade, State final demand would need to grow by about 3¼%, on average, in 2006-07 for real gross State product growth to reach 2¾%.

Yet such has been the slowdown in State final demand growth during 2006 that it would need to rebound by an average of more than 3% per quarter in the final three quarters of 2006-07 (and thus be around 9% higher, in real terms, in the June quarter of this year than in the corresponding quarter of 2006) in order to produce this result⁵.

Similarly, achievement of the revised employment forecast will require net new job creation averaging about 700 per month between February and June, a significant turnaround from the net job losses averaging 166 per month over the first seven months of 2006-07.

For nearly a decade now, I have been emphasizing that an essential ingredient in any long-term strategy to improve Tasmania's economic performance – and the living standards of Tasmanians – is to lift Tasmania's historically very poor productivity performance.

That is not because lifting the level of goods and services per hour worked (the formal definition of 'productivity') is an end in itself, but rather – as Harvard's Professor Michael Porter put it in *The Competitive Advantage of Nations*,

"High productivity not only supports high levels of income but allows citizens the option of choosing more leisure instead of working longer hours ... It also creates the national income that is taxed to pay for public services which again boosts the standard of living ... The capacity to be highly productive also allows a nation's firms to meet stringent social standards which improve the standard of living, such as in health and safety, equal opportunity and environmental impact"⁶.

Substitute 'state' for 'nation' and this applies to Tasmania as much as it does to any country. It's therefore particularly encouraging that, over the past five years, the growth rate of labour productivity in Tasmania has averaged 2.2% per annum, faster than anywhere else in the nation except Western Australia, and more than half a percentage point above the national average.

⁵ For further details of these calculations see my commentary on the 2006-07 Tasmanian Mid-Year Budget Review, available at http://www.anz.com/Business/info_centre/economic_commentary/Mid-YearBudgetReview2006-07.pdf.

⁶ Michael Porter, *The Competitive Advantage of Nations*, The Free Press, New York, 1991, p. 6.

However the level of Tasmanian productivity remains lower than in any other State or Territory, and more than 14% below the national average.

This is important in a sense which is not widely understood in Tasmania. Conventional measures of Tasmanian labour costs, such as average weekly earnings or employee compensation (as published in the annual State accounts) per hour worked (as reported in the labour force surveys) are consistently lower than in any other State or Territory, and typically between 10 and 15% below the national average. This is widely perceived as a source of 'comparative advantage' for Tasmania⁷.

Yet when one takes into account that Tasmanian productivity is some 14% below the national average, this supposed source of 'comparative advantage' disappears entirely.

While the average Tasmanian worker earned \$99.15 per hour in 2005-06, as against a national average of \$114.70 per hour, he or she produced 'only' \$196.47 of goods and services per hour, compared with the national average of \$229.80. Thus, from the employer's perspective, each Tasmanian worker 'cost' \$50.47 per \$100 worth of goods and services produced, slightly *above* the national average of \$49.90 per \$100 worth of goods and services produced.

From an employer's perspective, in other words, Tasmania does not have a 'comparative advantage' in labour costs at all. Rather, Tasmanian labour costs, measured this way, are the third highest in Australia, after the ACT and New South Wales.

Moreover, this measure of unit labour costs has increased at an average annual rate of 4.8% over the past five years, a good deal faster than in any other State and well above the national average of 2.9%. In other words, although Tasmanian productivity growth has been improving over the past five years, average earnings have been growing even more rapidly. This is clearly unsustainable. It may even be one reason why employment has stopped growing this financial year, and has instead started to decline.

It is thus essential that government and business sustain a focus on strategies to maintain an above-average rate of growth in productivity in Tasmania over the medium term.

It will take an extended period of above-average productivity growth even to lift Tasmania back to (say) 90-92% of the national average, where Queensland and South Australia sit.

Given the very close association between relative productivity levels and relative per capita household disposable income this would probably lift Tasmanian living standards from around 86% of the national average to around 90-92%, or by around \$1800-2200 per head.

The well-known American economist Paul Krugman (now at Princeton University) summarizes what needs to be done in order to lift productivity thus:

⁷ See, for example, Tasmanian Department of Treasury and Finance, *The Competition Index 2005*, Hobart, September 2005, p. 4. In recent years the *Competition Index* has acknowledged the points made in the next few paragraphs.

“There are three main things that an economy can do to raise the productivity of its workers. It can raise the quantity and quality of its business capital; it can improve the public capital that supports the private economy; and it can improve the quality of its work force, what is sometimes called human capital”⁸.

Tasmania saw a significant increase in the level of business investment over the first five years of this decade; in 2004-05 and 2005-06 the share of business investment in Tasmania’s GSP was (on average) less than 1 pc point below that on the mainland, compared with a gap of more than 2 pc points (on average) during the 1990s.

Of course the sharp decline in business investment over the past three quarters raises the risk that Tasmania’s good productivity performance in recent years might go into reverse.

Levels of business investment are influenced by a myriad of factors, many of them beyond the control of a State government.

The level of State taxes is a factor, albeit I think more at the margin. It’s not essential to have the lowest State taxes in the country especially if that isn’t a sustainable position (as I think Queensland is now beginning to discover), although it’s certainly not helpful to have the highest either.

It’s probably more important to have adequate, reliable and competitively-priced infrastructure; a well-educated and trained and well-motivated work force; and a facilitative, supportive, ‘can do’ approach on the part of relevant State authorities.

There’s now a large body of theoretical and empirical research demonstrating that - as an OECD survey of this research published in 2002 put it –

“competition has pervasive and long-lasting effects on economic performance by affecting economic actors’ incentive structure, by encouraging their innovative activities, and by selecting more efficient ones from less efficient ones over time’; and that ‘the link between product market competition and productivity growth is positive and robust”⁹.

Tasmania has had a good record in implementing pro-competitive reforms (at least while the National Competition Council was making annual assessments of States’ and Territories’ performance in that area).

Nonetheless it’s disturbing to see from time to time evidence that parts of the Tasmanian business community “don’t get” the importance of competition as a driver of productivity and growth, but, on the contrary, continue to think that one of the roles of government is to protect them from competition.

We saw this during the debate over extensions to shop trading hours when many in the Tasmanian business community and, astonishingly, the Liberal Party, opposed this reform when it was proposed by the Bacon Government. And we’ve seen it again in the opposition by businesses to proposed ‘big box’ retail developments at Launceston and Hobart Airports.

⁸ Paul Krugman, *Peddling Prosperity*, Norton, New York, 1994, p. 125.

⁹ Sanghoon Ahn, “Competition, Innovation and Productivity Growth: A Review of Theory and Evidence”, OECD Economics Department Working Paper No. 317, Paris, 2002, pp. 5-6.

It's somewhat ironic that a Labor Treasurer finds it necessary to remind business figures that the role of government is to promote competition, not to stifle it; though I applaud Michael Aird for doing so!

Another area in which Tasmanian business is lagging is in regard to *innovation*. The Statistics Bureau defines 'innovation' pretty broadly to include 'any new or significantly improved goods or services, or operational or managerial processes':

- only 17% of Tasmanian businesses introduced any new or significantly improved goods or services in 2004 or 2005, fewer than in any other State (though higher than in either of the Territories), compared with a national average of 19.4%;
- only 19.5% of Tasmanian businesses introduced any new or significantly improved operational or managerial processes in 2004 or 2005, a smaller proportion than anywhere else in Australia, and well below the national average of 24.9%;
- the proportion of Tasmanian businesses innovating in either of these two ways was 30.1%, lower than anywhere else except the ACT, and compared with a national average of 33.5%.

And lest it be thought that the low level of innovation by Tasmanian business is in some way due to the comparative dearth of large businesses in this State, the ABS figures show that Tasmanian businesses of all sizes rank below their corresponding national averages in regard to innovation.

The other important driver of productivity growth is investment in '*human capital*' – broadly speaking, the skills and aptitudes of the work force. Education contributes to increased productivity and economic growth in several ways:

- by increasing the skills and abilities of individual workers
- by raising the flexibility of workplace teams
- by allowing for more rapid utilization and transmission of new skills and production technologies; and
- by fostering the creation of knowledge, ideas and technological innovation.

It is thus highly likely that one of the reasons for Tasmania's persistently low level of productivity is that Tasmanians have, in general, lower levels of educational attainment than residents of any other State:

- in 2006, only 47.1% of Tasmanians aged 15-64 had post-school qualifications, the lowest of any State or Territory and compared with a national average of 52.4%;
- only 16.0% of Tasmanians aged 15-64 had a bachelor's degree or higher, cf. 20.6% of all Australians;
- conversely, 43.9% of Tasmanians aged 15-64 had not completed Year 12, the highest of any State or Territory and compared with a national average of 33.5%.

Although I'm not aware of any statistics which prove this, it's likely that Tasmania's figures are more affected by interstate migration than those for other States.

But even before they migrate to other States, Tasmanians generally have lower levels of education than their peers in other parts of Australia.

Until this decade, a much smaller proportion of Tasmanian children went on to upper secondary education than in most other parts of Australia, and an even smaller proportion went on to acquire tertiary qualifications (and an above-average proportion of those who did probably migrated to the mainland). There was a significant improvement in the retention rate from Year 10 to Year 12 in Tasmania since the mid-1990s and the early years of this decade.

However since 2003 and especially in 2005 the retention rate to Year 12 in Tasmania has slipped back sharply. In 2005 Tasmania once again had the lowest Year 12 retention rate of any State or Territory (for the first time since 1997).

To some extent this may be a side-effect of the improvement in job prospects in Tasmania over the past couple of years. But even if this is true it is an unsatisfactory explanation.

Tasmania is not the only place where employment prospects have improved: for example the unemployment rate in WA is now down to 3% yet WA's Year 12 retention rate has increased to 72.2%. And Tasmanian teenagers are short-changing themselves if they leave school at Year 10 just because for the moment they find the prospect of finding a job have improved.

Not only do Tasmanian children receive less education than their counterparts on the mainland, but there is some evidence that the quality of the education which they receive is lower than that received by their mainland peers.

Although the measurement of the quality of education is fraught with difficulties (not the least of those being the lack of enthusiasm on the part of some of those involved in education about any attempt to measure it), such objective assessments of the performance of students at various levels across Australia suggest that:

- a higher proportion of students fail to reach the lowest level of attainment in reading literacy, mathematical literacy and problem-solving ability, and are thus 'likely to be seriously disadvantaged in life beyond school', in Tasmania than in any other State¹⁰; and
- Tasmanian children do as well as children from other States (on average) in maths and science at year 4 but by year 8 their performance is lower than that of their peers from any other part of the country except the Northern Territory¹¹.

Encouragingly, there now seems to be a broad consensus among the political parties in Tasmania about the need to improve both the quantity and quality of education received by Tasmanian children. Since becoming Minister for Education, David Bartlett has demonstrated a clear understanding of the importance of education as a driver of productivity growth and of what needs to be done to improve Tasmania's 'human capital' over the longer term. He is also hitting exactly the right mark when he emphasizes the need to see year 10 'as an entry point to further learning, not an end point'.

¹⁰ Australian Council for Educational Research, *PISA in Brief from Australia's Perspective*, 2004, www.acer.edu.au/research/PISA/documents/PISA_Brief_screen.pdf .

¹¹ Australian Council for Educational Research, *Trends in International Mathematics and Science Study 2002-03*, www.acer.edu.au/research/TIMSS/TIMMS_02_03.htm

I hope that Mr Bartlett can achieve greater success in persuading his Cabinet colleagues to devote more resources to funding his ambitions. Education spending will rise by only 2¾% this financial year, according to this year's Budget – less than the inflation rate, and significantly less than the increases in spending on health or 'public order and safety'. I don't begrudge the significant increase in spending on health in the current budget as there are clearly problems in the health system which need to be addressed (and which the Government promised to address during last year's election campaign); but I find it hard to accept that 'public order and safety' should command a higher priority than education in terms of claims on budgetary resources.

Another area of the Budget which could do with some additional funding is the Arts. Tasmania spends less per head of population on the arts than any other State or Territory except Queensland¹². And although the present Government has been generous in its funding of arts infrastructure and festivals, the real value of grants to individual artists and arts companies and organizations through the Tasmanian Arts Advisory Board¹³ has fallen by 20% over the past decade. Yet it's works and performances that people got see, not buildings and venues.

George Mason University's Richard Florida suggests that a vibrant arts scene is one of the things which acts as a 'magnet' for what he calls the 'creative classes' who are increasingly the drivers of differences in regional economic performance; while, by contrast, government support for professional sports conspicuously doesn't¹⁴. Yet, as he notes:

"States and regions across [the United States] continue to pour countless billions into sports stadiums, convention centres, tourism-and-entertainment centres and other projects of dubious economic value. The payback would be far greater if these regions channelled only a fraction of such funds into creative capital, for example, by supporting new biotechnology and software research or by investing in the arts and cultural creativity broadly"¹⁵.

Although Florida's research was focussed on the United States, the message of it is also applicable to Australia and to Tasmania.

Also of particular relevance to Tasmania is Florida's conclusion that a region doesn't have to have a large population in order to be attractive to creative talent¹⁶.

In his more recent book Richard Florida asserts that "students are the canaries of the global competition for talent, and the countries that succeed in attracting them gain advantages on multiple fronts"¹⁷. Again there is a message for Tasmania about the potential gains not only from extending the educational opportunities available to young Tasmanians, but also to attracting students from other parts of Australia and beyond.

¹² Australian Bureau of Statistics, *Cultural Funding by Government 2004-05* (catalogue no. 4183.0).

¹³ Of which I have been Chairman since January 2006.

¹⁴ Richard Florida, *The Rise of the Creative Class*, Basic Books, New York 2002, pp. 224-226 and 303.

¹⁵ Florida, p. 320.

¹⁶ Florida, p. 236-8.

¹⁷ Richard Florida, *The Flight of the Creative Class*, Harper Collins, New York, 2005, p. 147.

If Tasmania is to succeed in sustaining the improvement in productivity and in economic performance that has been apparent over the past five years – rather than reverting to the entrenched patterns of previous decades – then Tasmanians need to be on guard against slipping into the modes of thinking about economic development which were the hallmark of that earlier era.

That is why I continue to assert that Tasmania's economic future cannot possibly lie predominantly in the volume production of essentially unprocessed commodities competing essentially on the basis of price – because Tasmania cannot (in general) compete on the basis of price with producers with better access to larger and cheaper resources of labour and capital; better access to markets as a result of geographical proximity or membership of preferential trading blocs; who operate in countries where taxes, or environmental or health and safety standards, are lower; or where governments are willing (for whatever reasons) to impose higher prices on consumers or higher taxes in order to fund subsidies to producers of such commodities.

The experiences over the past couple of years of Tasmanian vegetable growers and small timber-gatherers ought to have amply demonstrated the truth of this assertion; and these producers and the communities who depend on them have been ill-served by their leaders and by politicians who have tried to kid them otherwise.

Let me emphasize that I am *not* saying that the production of commodities has no future in Tasmania, or that all existing commodity production activities should be consciously phased down.

Where it is possible to produce commodities in Tasmania at prices which enable good wages to be paid, high environmental standards to be upheld, and good profits to be earned – as for example at the Henty gold or Aveybury nickel mines on the West Coast – then that is very much to be welcomed.

But such operations are based on the extraction of finite resources whose prices are determined in global markets which are subject to highly cyclical fluctuations. And Tasmania is unlikely ever to have enough of them, on sufficient scale, to base an entire economy on them, as can (say) Western Australia.

Tasmania should not be staking its economic future on its ability to attract one or two mega-projects, in what would be a mistaken belief that success in doing so can provide secure jobs and rising incomes for the majority of Tasmanians or a stable source of revenues for the State government.

Rather, Tasmania's future – if it is to be one in which Tasmanians are to enjoy relatively high standards of living (as measured not only by their incomes, but by the quality of the environment in which they live, and by the opportunities available to enjoy the non-material and hard-to-measure things which make life worth living) – instead depends on Tasmania's ability to produce *and market* goods *and services* embodying a relatively *high intellectual content* and for which buyers are willing to pay a *premium* price.

This is not pie-in-the-sky stuff.

There are Tasmanian producers – in the “four w's” – wool, wine, wasabi and wagyu beef - as well as in cheese, onion and salmon – and that's only in the agricultural sector – whose success attests to the practical truth of this assertion.

They (and other Tasmanian success stories such as InCat) have shown that it is possible for Tasmanian producers to establish a brand identity and to convince some of the world's most discerning buyers to pay high prices for their products, and thereby overcome the disadvantages associated with small scale and great distance from markets.

The common ingredient in all of the success stories – and the missing ingredient in all of the failures – is *intellectual or creative input* of some form or another: product improvements, enhanced variety, customisation, design, branding and marketing, with a view to creating something *out of the ordinary* which can be sold at a relatively high price, rather than merely a cheaper version of something which can be obtained from many sources.

Therein lies a platform from which political parties can craft policies aimed at lifting Tasmania's productivity and thereby allowing Tasmanians to aspire for the same goals which motivate other Australians, and indeed people everywhere.