

Tasmania – *Quo Vadis?*

**Presentation to the
University of the Third Age (U3A) Hobart's
20th Anniversary**

**University of Tasmania
7th April 2010**

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The Grattan Institute**

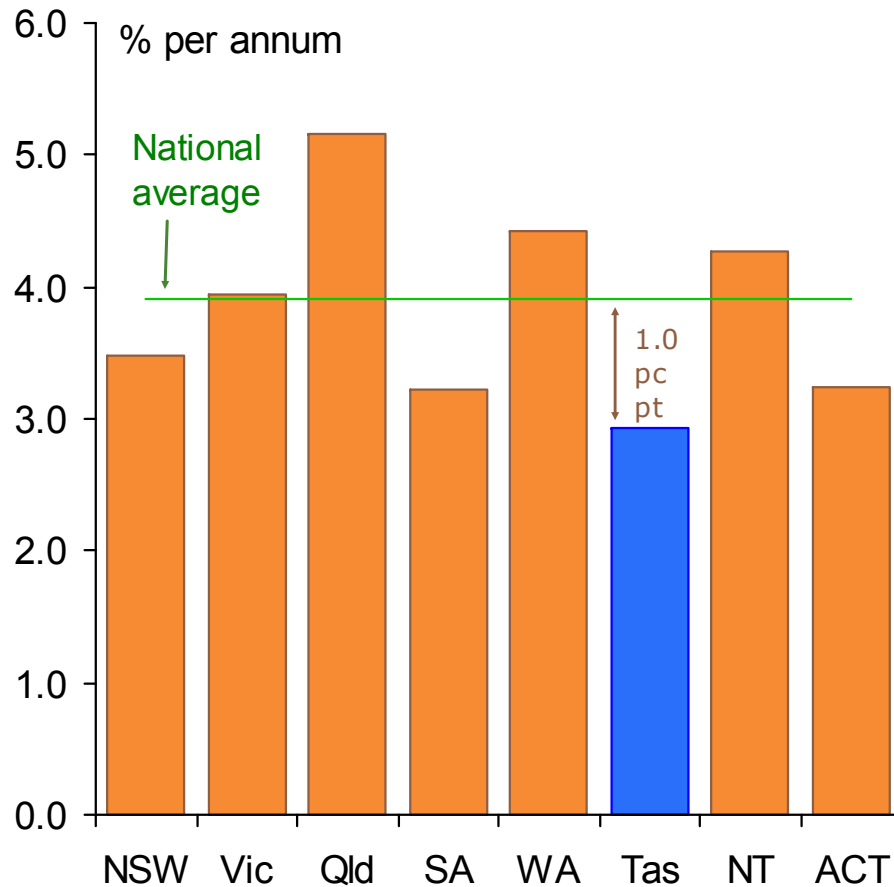
Six reflections on the outcome of last month's State election

- **It's unlikely that Tasmanians consciously chose minority government**
 - rather, minority government is the likely result (under Hare-Clark) when no party is able to command more than 40% of the State-wide vote
- **Minority government may now be the rule rather than the exception in Tasmania**
 - unless one of the major parties is able to capture a large share of the other's 'core' vote (as happened in 1991, 2002 and 2006)
- **Minority government is by no means unique to Tasmania**
 - every mainland State except WA has had one term of minority government since 1995
- **Minority government does not necessarily mean bad or ineffectual government**
 - some of Tasmania's worst, or least effectual, governments have had large majorities
 - while Tasmania's two minority governments were by no means the State's worst
- **The election outcome could be interpreted as a plea for 'better governance'**
 - and the understandings required to make minority government work in practice could potentially result in more effective 'checks and balances' on executive power
- **The election outcome provides further evidence that the 1998 decision to reduce the size of Parliament was mistaken**
 - it hasn't achieved the (unstated) goal of preventing a 'hung Parliament'
 - but it has shrunk the 'talent pool' from which Cabinets and shadow ministries are drawn
 - and left both sides without an effective backbench

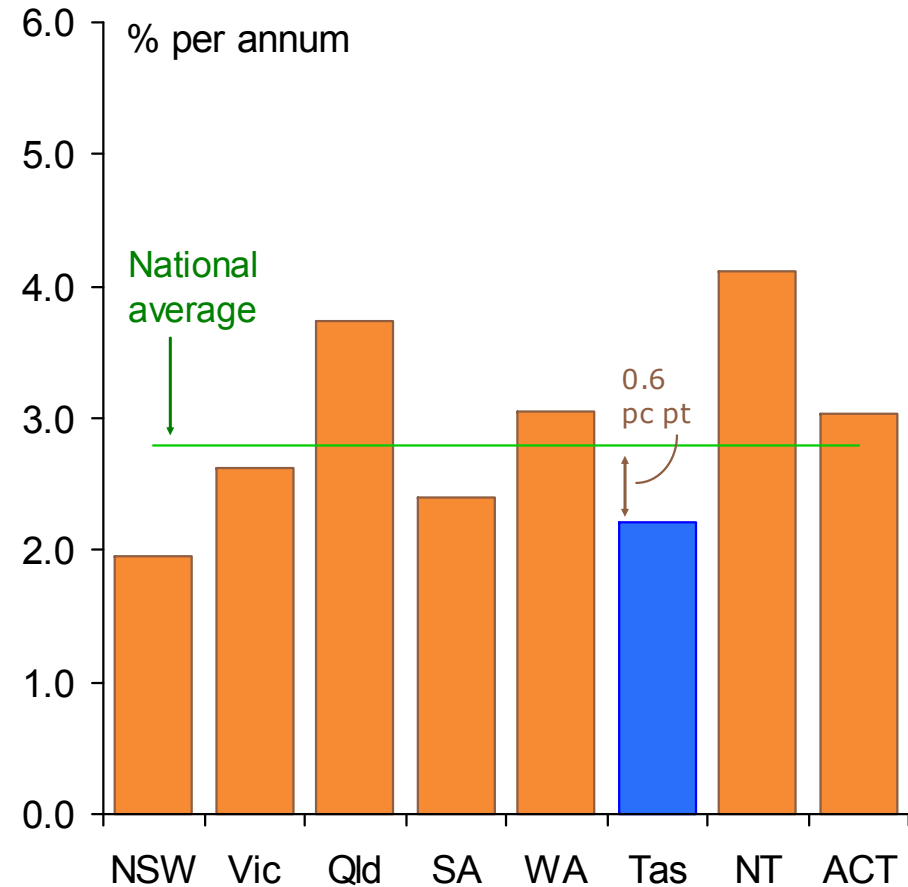
Tasmania's overall economic performance was stronger (relative to the mainland) over the past decade than during the 1990s ...

Growth in real gross State product (GSP)

Ten years to 1999-2000



Nine years to 2008-09

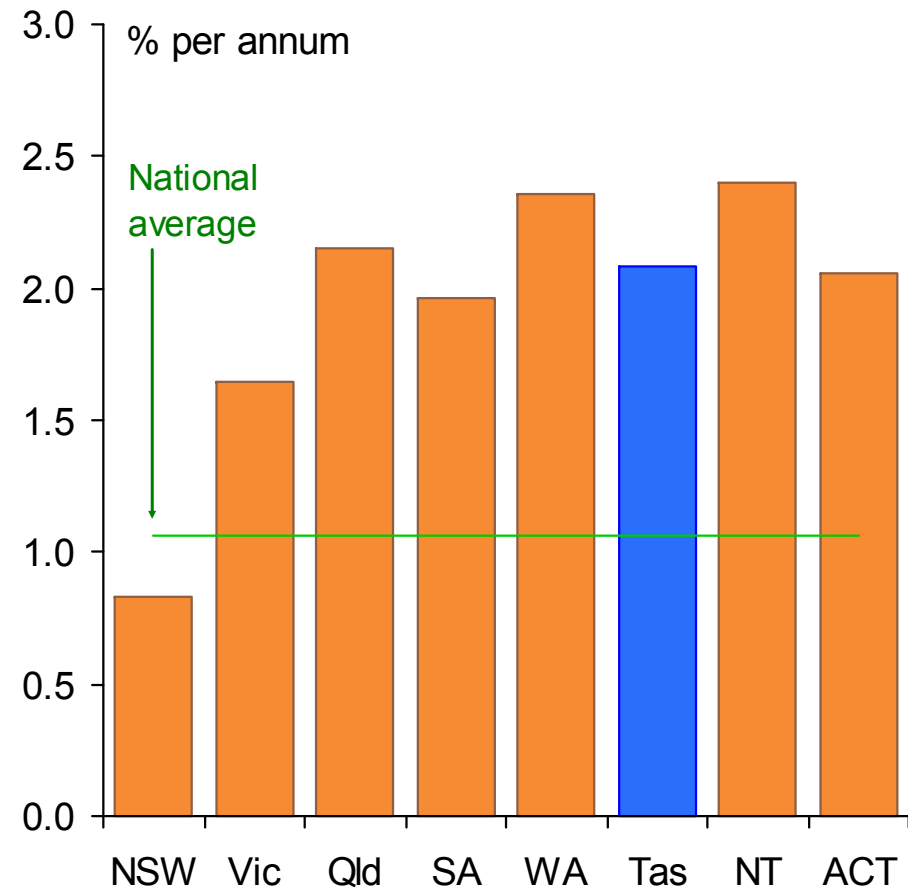
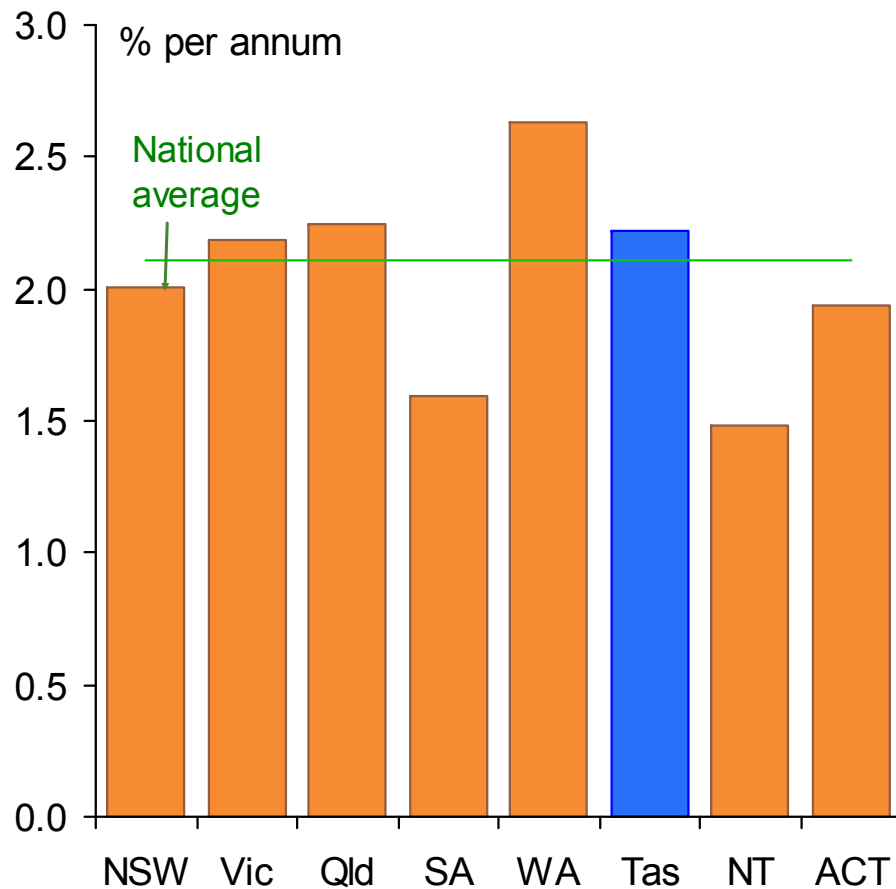


... especially after making allowance for differences in population growth rates

Growth in real gross State product (GSP) per head of population

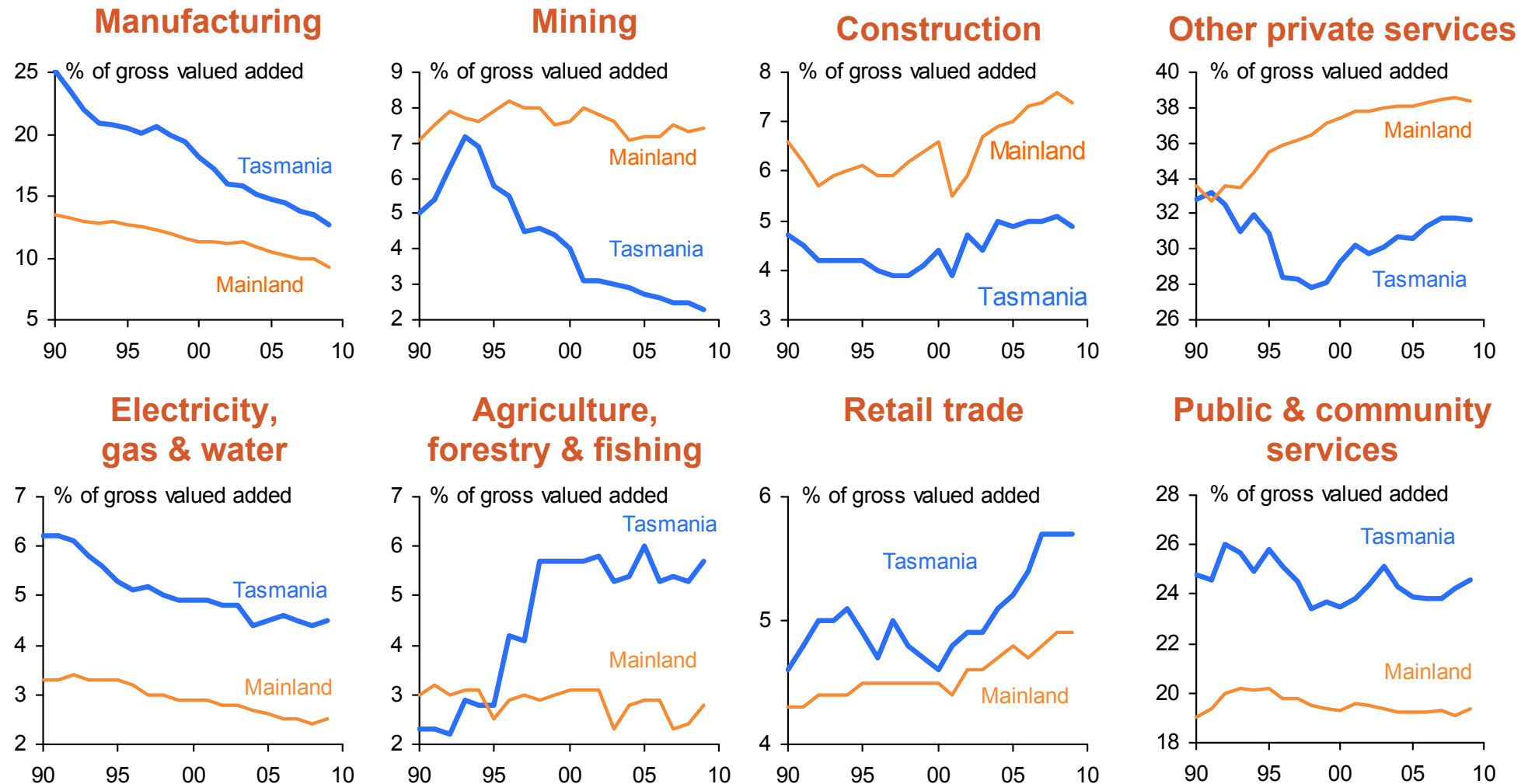
Ten years to 1999-2000

Nine years to 2008-09



Tasmania's economy has experienced a lot of structural change, though not always in the same direction as the mainland

Shares of gross value added, 1989-90 to 2008-09

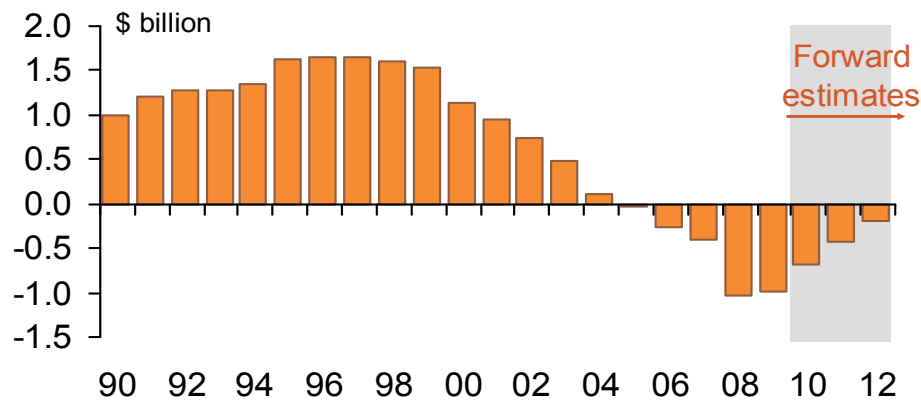


Source: ABS State Accounts (5220.0) 2008-09. 'Other private services' includes wholesaling, hospitality, transport & warehousing, IT media & telecoms, finance & insurance, rental & real estate, and professional & technical services. 'Public & community services' includes administration & support, public administration & defence, education & training, health care & social assistance, and art & recreation services.

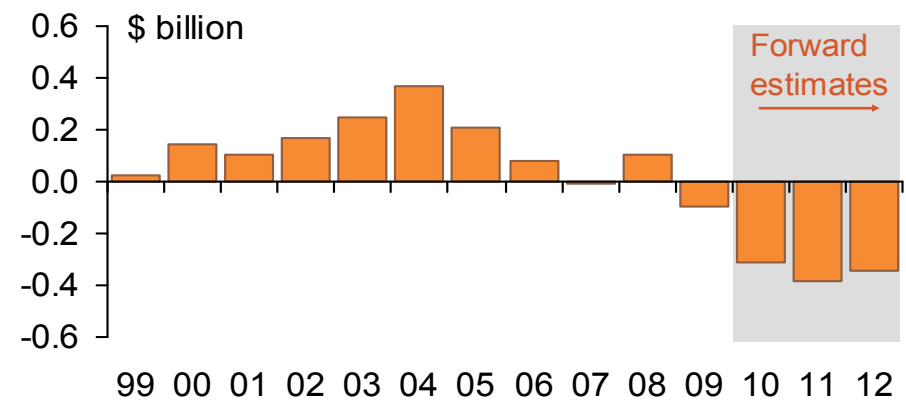
Tasmania's public finances are in much better shape – even with the deficits incurred since the onset of the financial crisis

Tasmanian State government finances

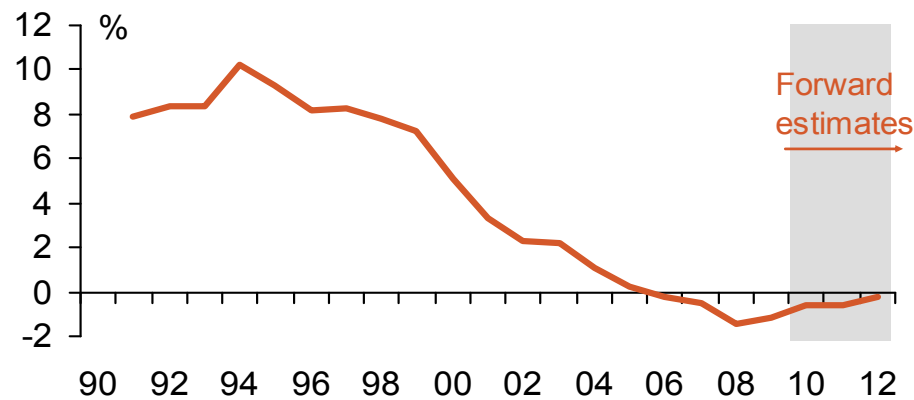
'General government' net debt



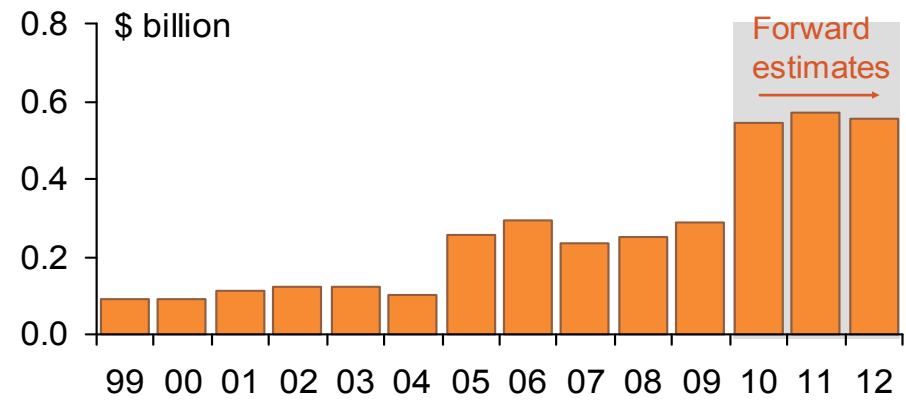
'General government' fiscal balance



Net interest expense as a p.c. of revenues



'General government' capital expenditures



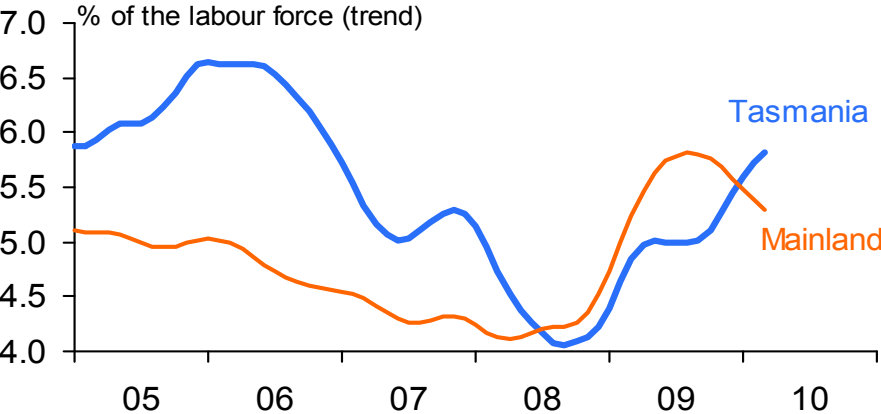
Note: Data are for financial years ended 30 June. Data on the 'fiscal balance' (the accrual-based measure of the budget bottom line) is not available for years before 1998-99. Forward estimates are from the February 2010 *Mid-Year Review* of the 2009-10 Budget estimates.

Source: Tasmanian State Budget Papers and 2009-10 *Mid-Year Review*.

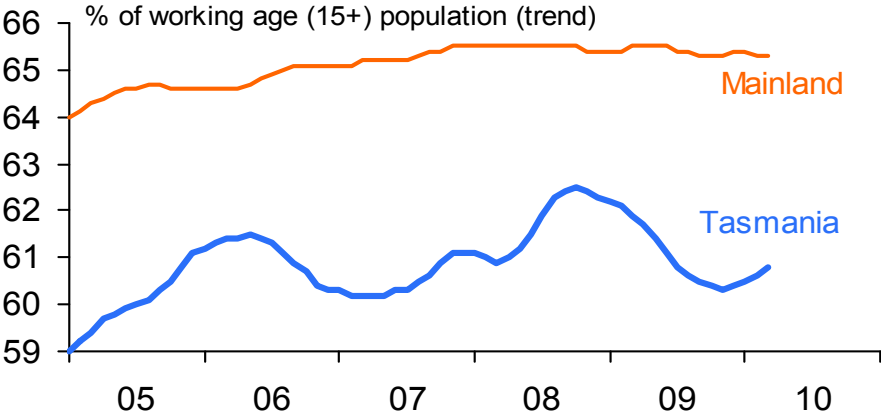
The global financial crisis demonstrated that (despite many changes over the past two decades) Tasmania's economy remains fragile

Labour market indicators – Tasmania vs mainland

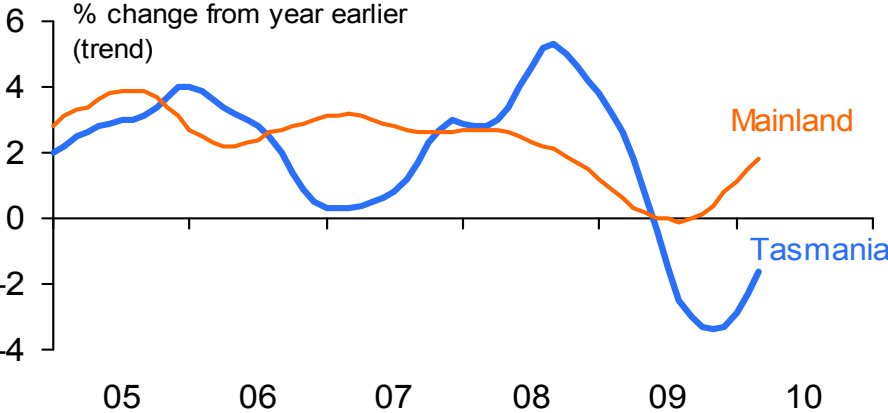
Unemployment rate



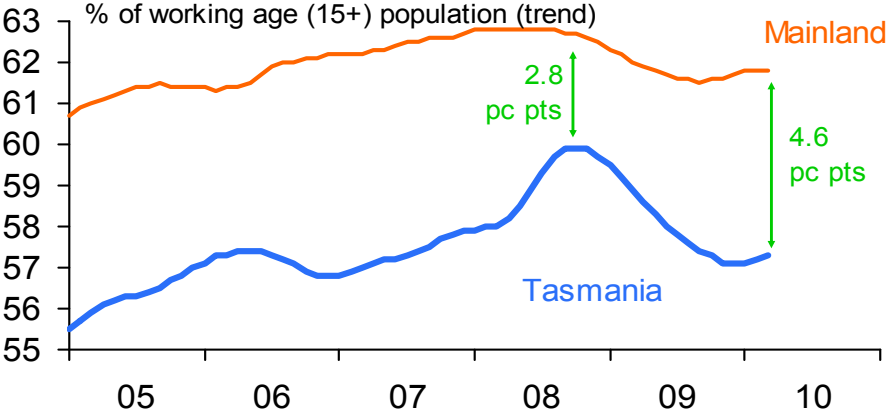
Labour force participation rate



Employment



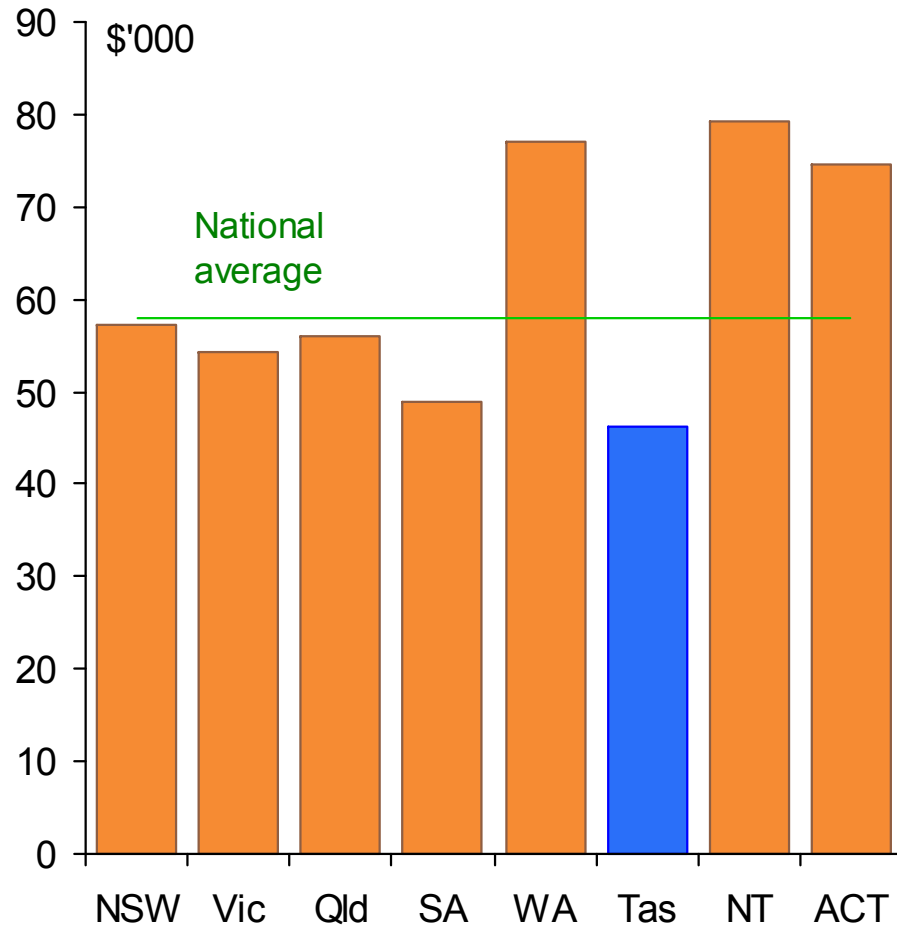
Labour force participation rate



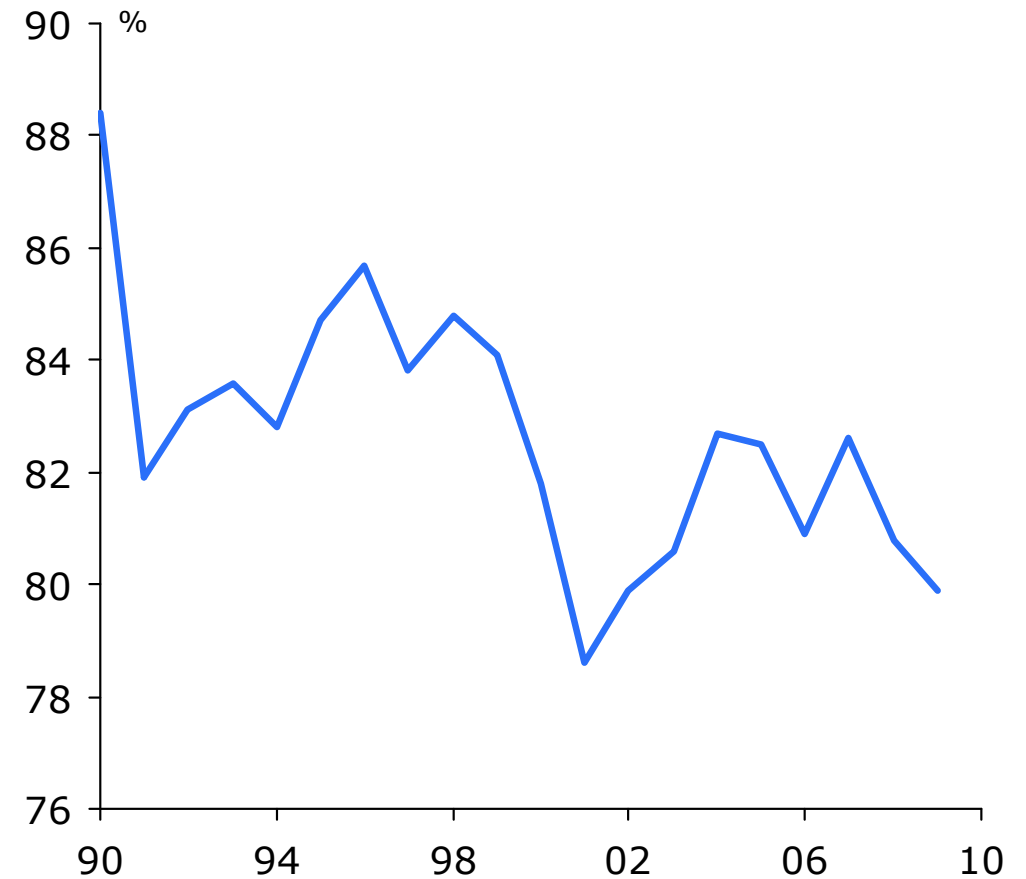
Sources: ABS; Grattan Institute.

Tasmania remains Australia's poorest State – and by almost as wide a margin as at any time in the past two decades

Gross State product (GSP) per capita, 2008-09



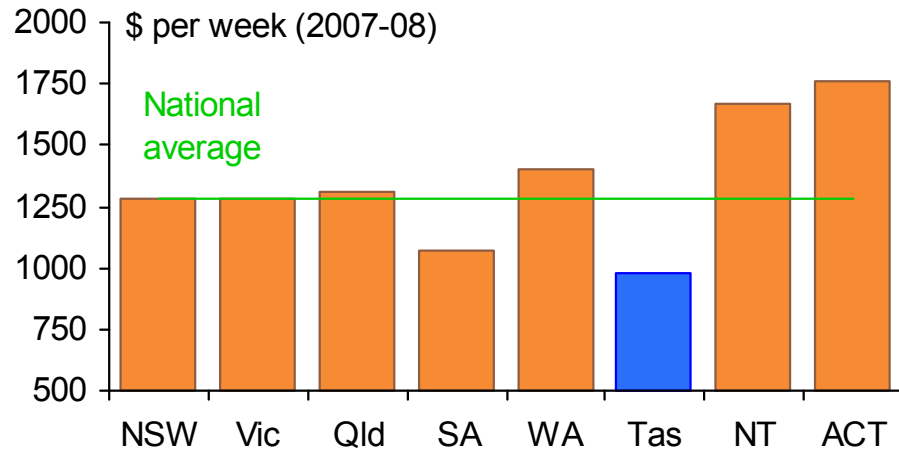
Tasmanian GSP per capita as a p.c. of Australian average



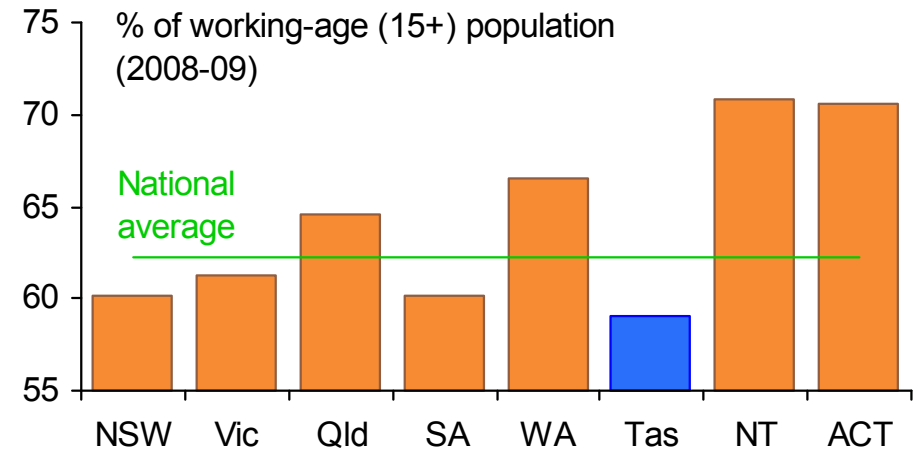
Source: ABS State Accounts (5220.0) 2008-09.

Tasmanians are in most respects less well off than people in other States and Territories

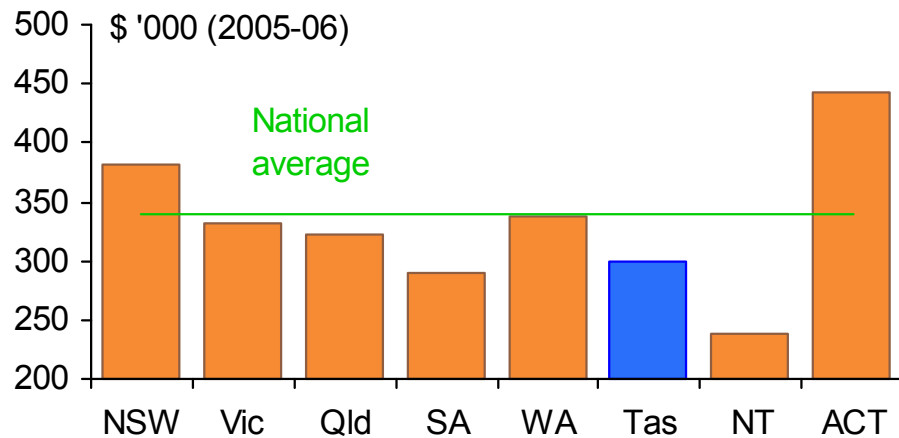
Median gross household income



Access to employment



Median household net worth



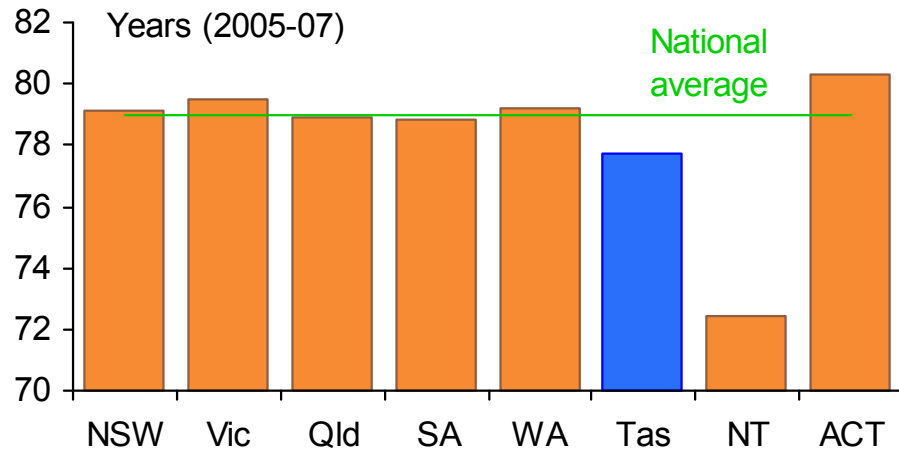
Long-term unemployment



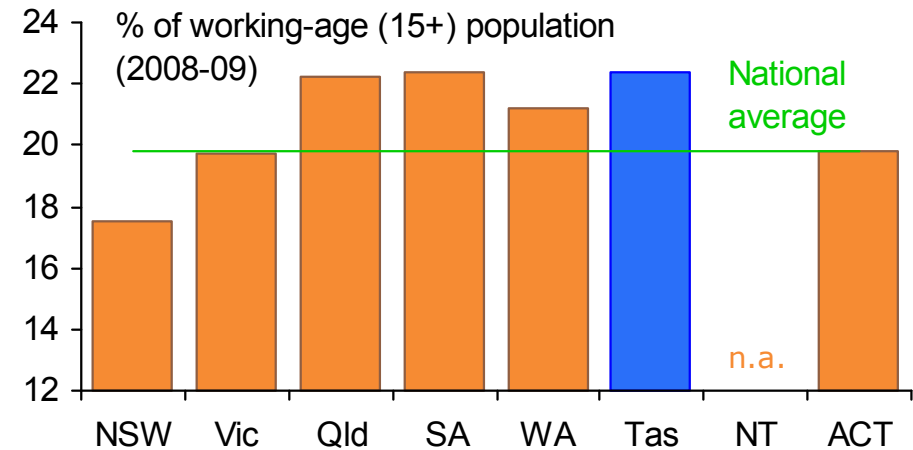
Source: ABS, Household Income and Income Distribution (6523.0); The Labour Force (6202.0); and Australian Social Trends (4102.0).

Tasmanians experience shorter and in some respects less full lives than people in other States and Territories

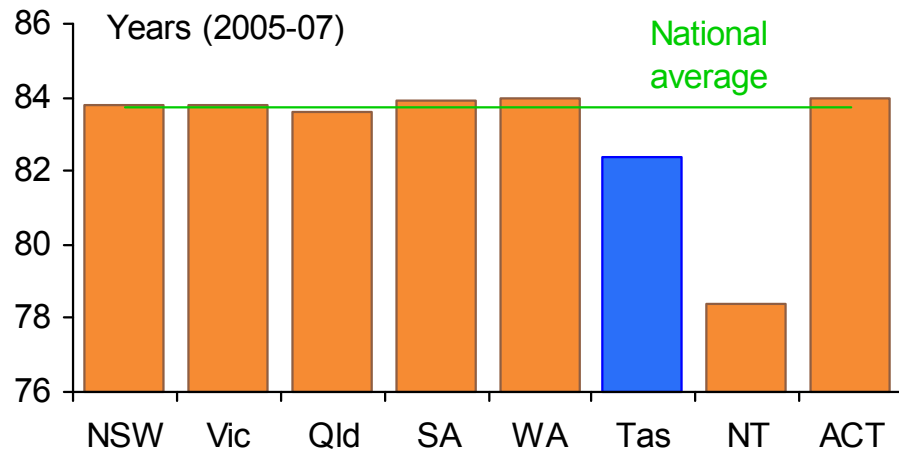
Life expectancy: men



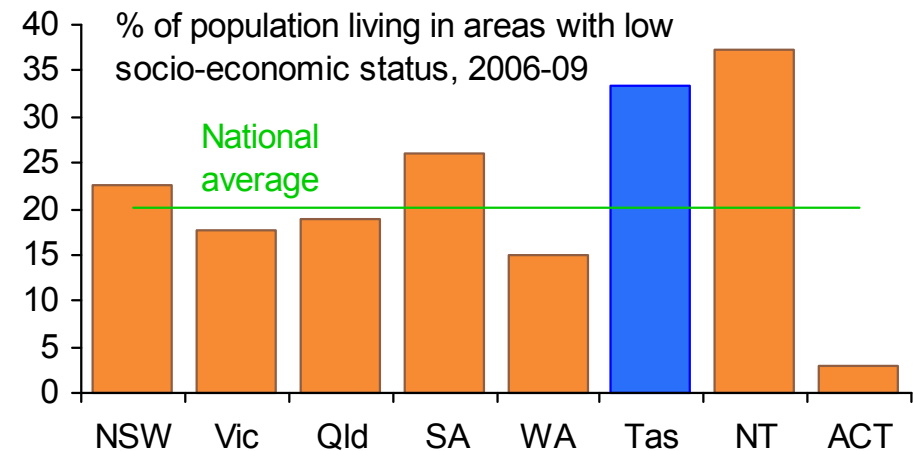
Persons with a disability



Life expectancy: women

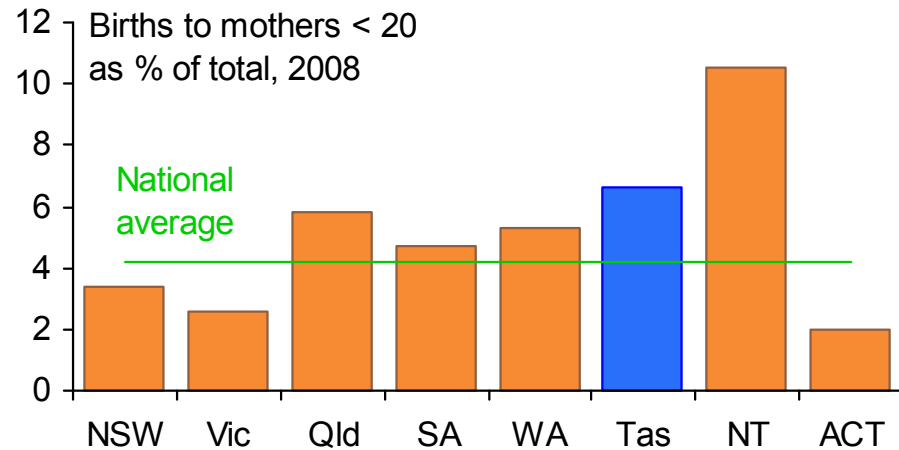


Persons of low socio-economic status

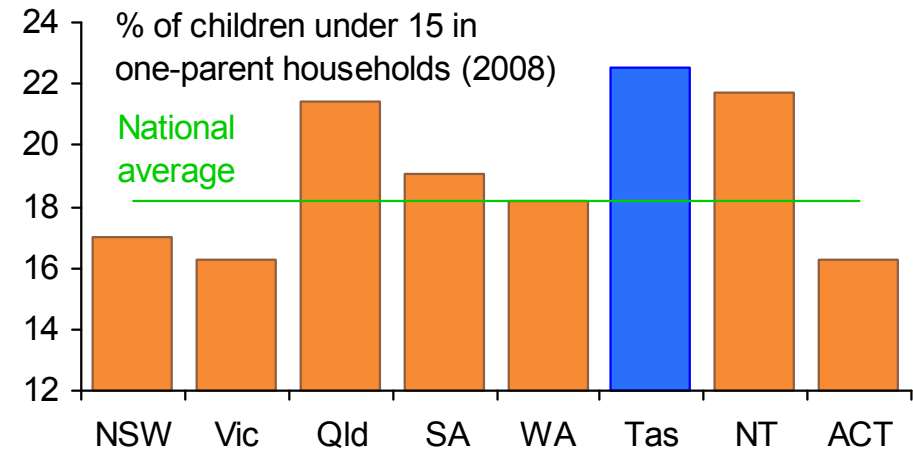


Relatively more children grow up in disadvantageous circumstances in Tasmania than in other States

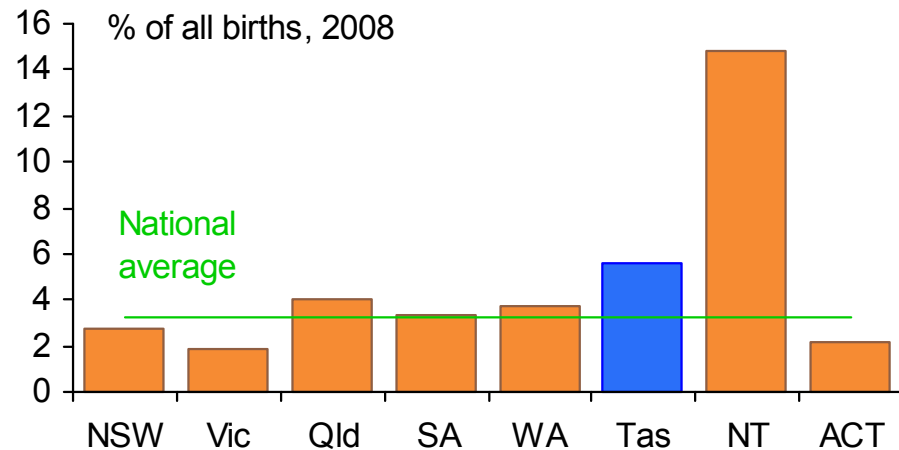
Teenage mothers



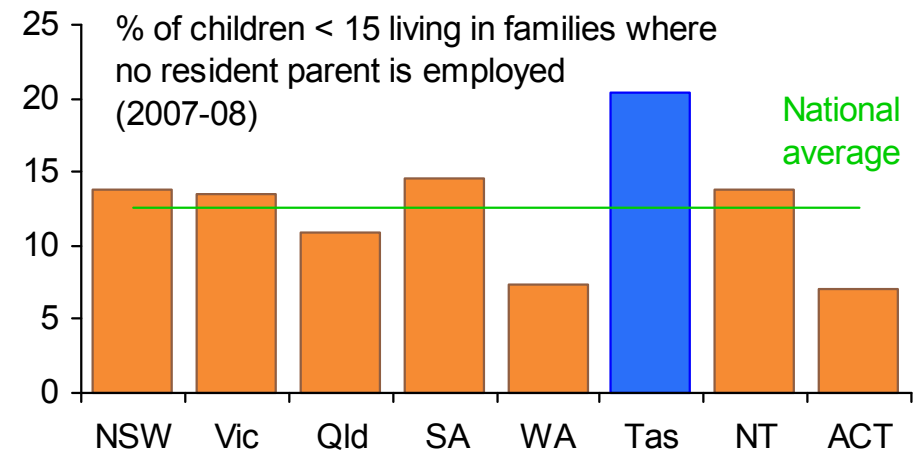
Children in single-parent families



No acknowledged father



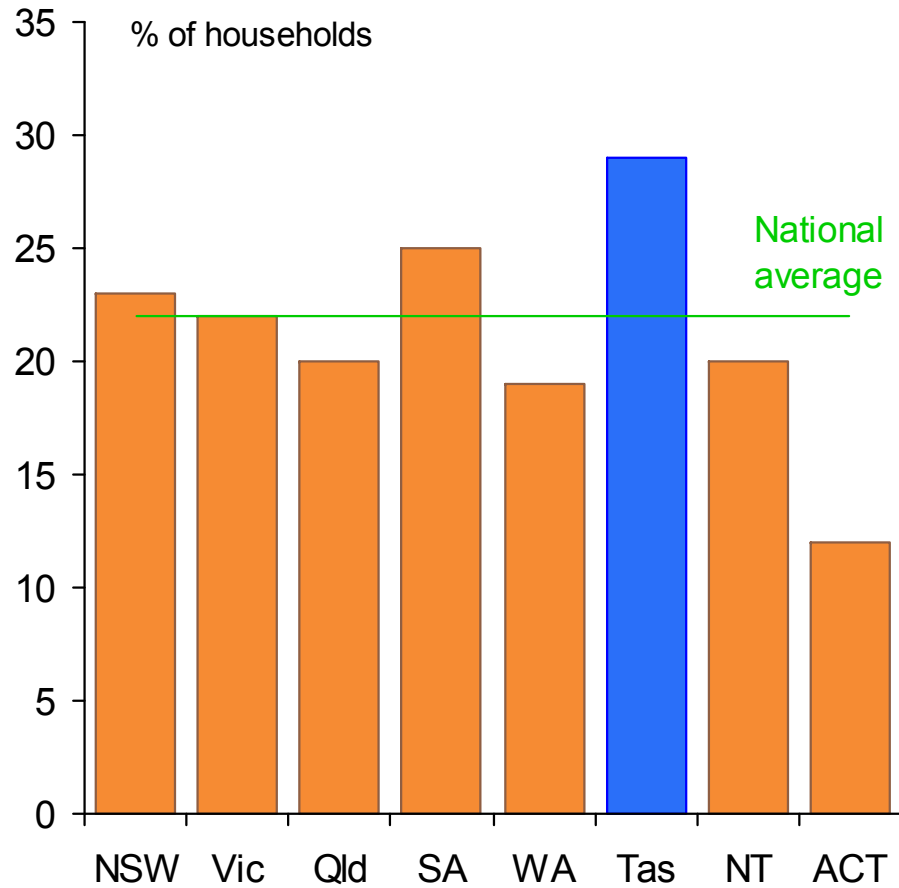
Children living in jobless households



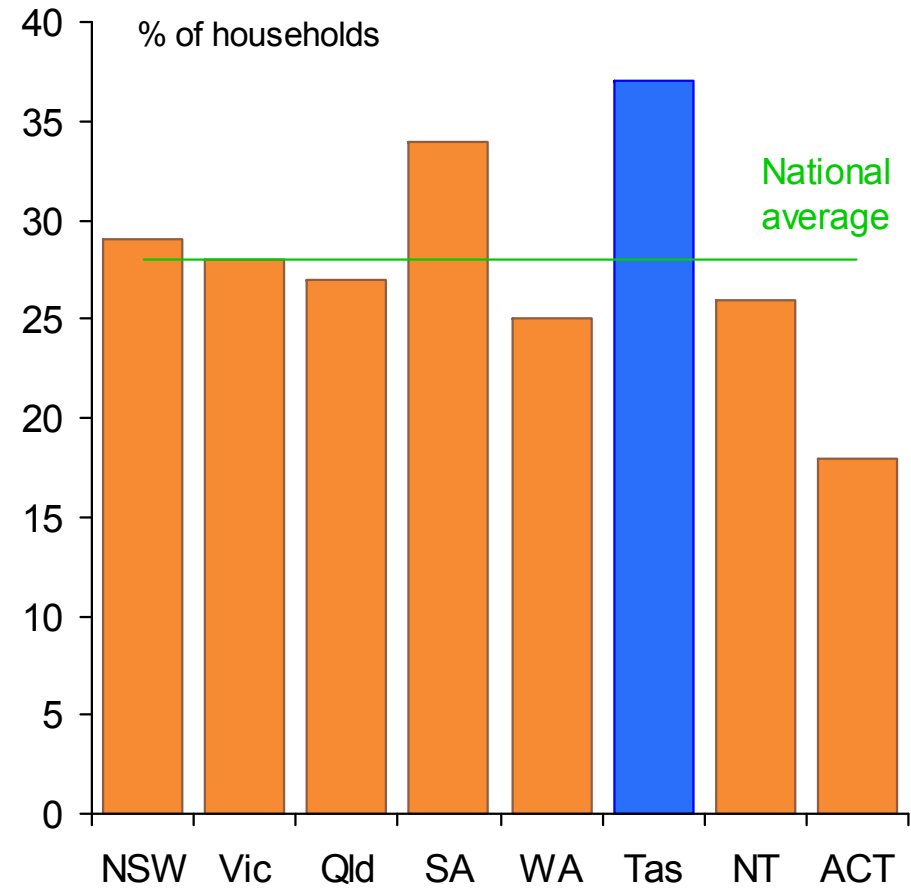
Source: ABS Social Trends (4102.0).

Tasmanian households are less connected to the digital world than households elsewhere in Australia

Households without access to a computer at home, 2008-09



Households without access to the internet at home, 2008-09



Source: ABS, Household Use of Information Technology (8146.0) 2008-09.

The three P's of economic performance ...

$$\begin{array}{rcl}
 \text{GDP} & = & \text{Population} \\
 & & \times \frac{\text{Labour force}}{\text{Population}} \quad \text{(labour force participation rate)} \\
 & & \times \frac{\text{Employment}}{\text{Labour force}} \quad \text{(1 - unemployment rate)} \\
 & & \times \frac{\text{Hours worked}}{\text{Employment}} \quad \text{(average hours worked)} \\
 & & \times \frac{\text{GDP}}{\text{Hours worked}} \quad \text{(labour productivity)}
 \end{array}$$

... can also be used to explain differences in gross product per head of population

$$\begin{aligned}
 \text{GDP/head} = & \frac{\text{Labour force}}{\text{Population}} && \text{(labour force participation rate)} \\
 & \times \frac{\text{Employment}}{\text{Labour force}} && \text{(1 - unemployment rate)} \\
 & \times \frac{\text{Hours worked}}{\text{Employment}} && \text{(average hours worked)} \\
 & \times \frac{\text{GDP}}{\text{Hours worked}} && \text{(labour productivity)}
 \end{aligned}$$

Tasmania's low per capita GSP reflects below-average labour force participation, below-average hours worked and below-average productivity

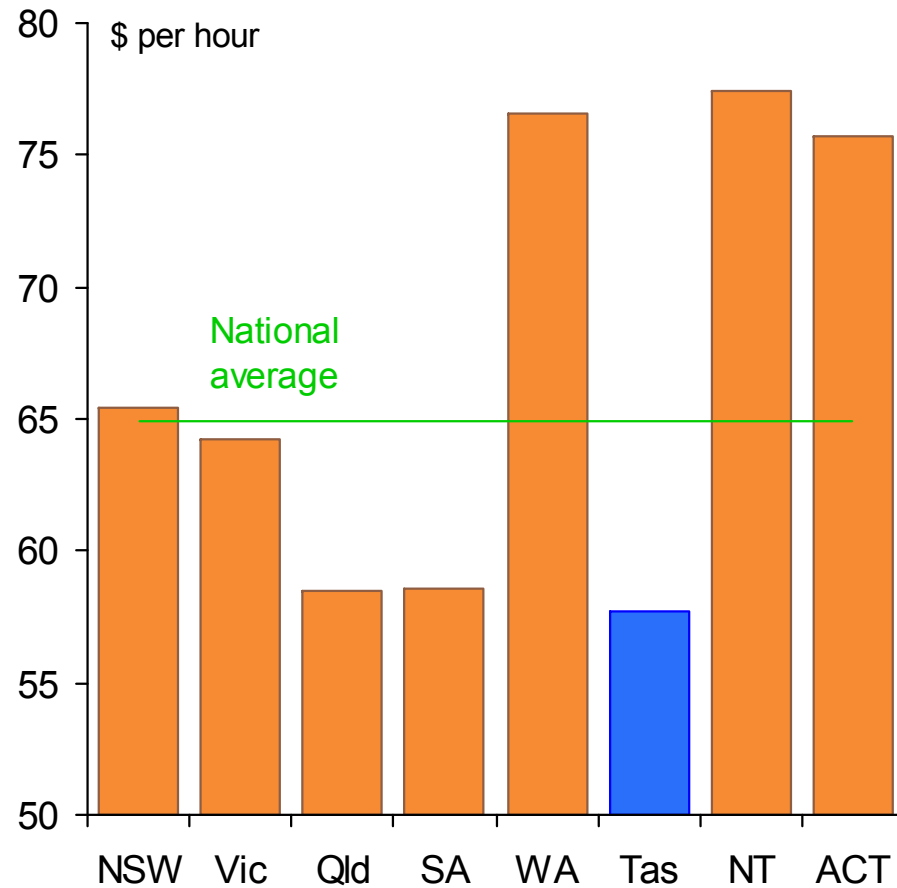
Sources of difference between per State or Territory GSP per capita and the national average, 2008-09



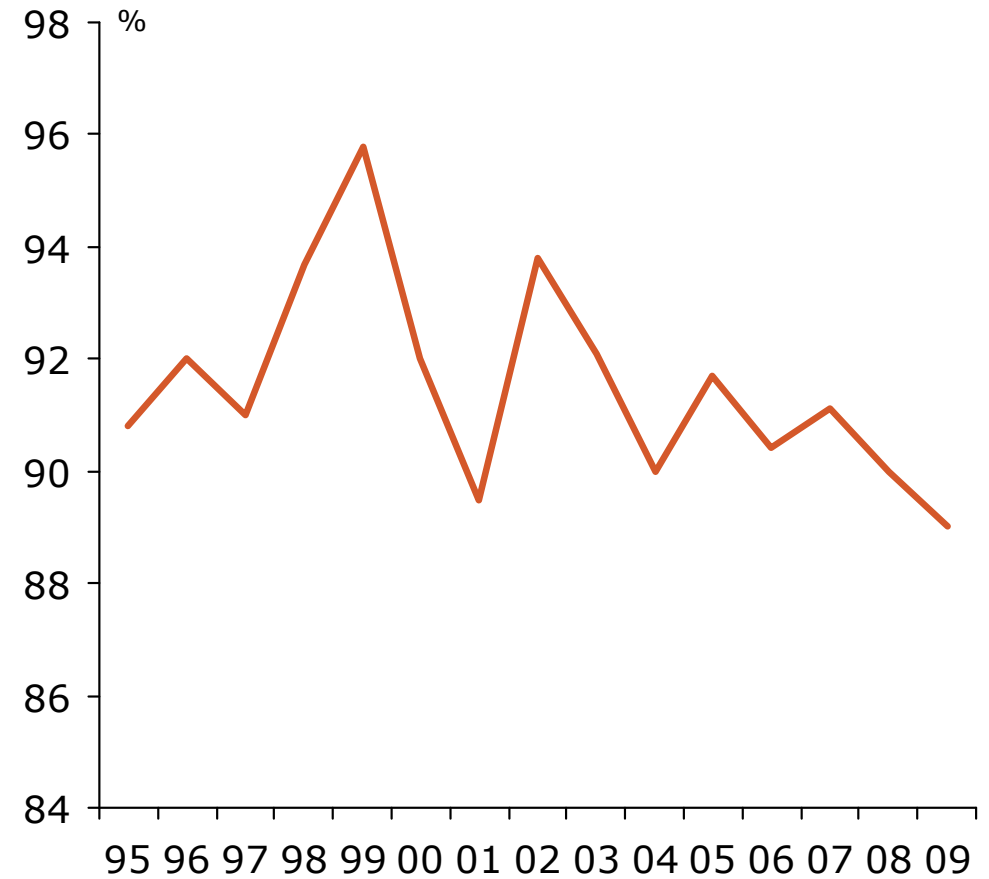
Source: ABS State Accounts (5220.0) 2008-09,

Tasmania's most fundamental economic problem is its persistently low level of productivity

Labour productivity (gross product per hour worked), 2008-09



Tasmanian labour productivity as a pc of Australian average



Source: ABS State Accounts (5220.0) 2008-09; and *The Labour Force, Australia, Detailed, Quarterly* (6291.0.55.003); and Grattan Institute calculations.

Productivity matters ...

“Productivity isn’t everything – but in the long run it’s almost everything”

– **Paul Krugman, *The Age of Diminished Expectations* (1992)**

“Productivity is the prime determinant in the long run of a nation’s standard of living, for it is the root cause of per capita national income

High productivity not only supports high levels of income but allows citizens the option of choosing more leisure instead of working longer hours.

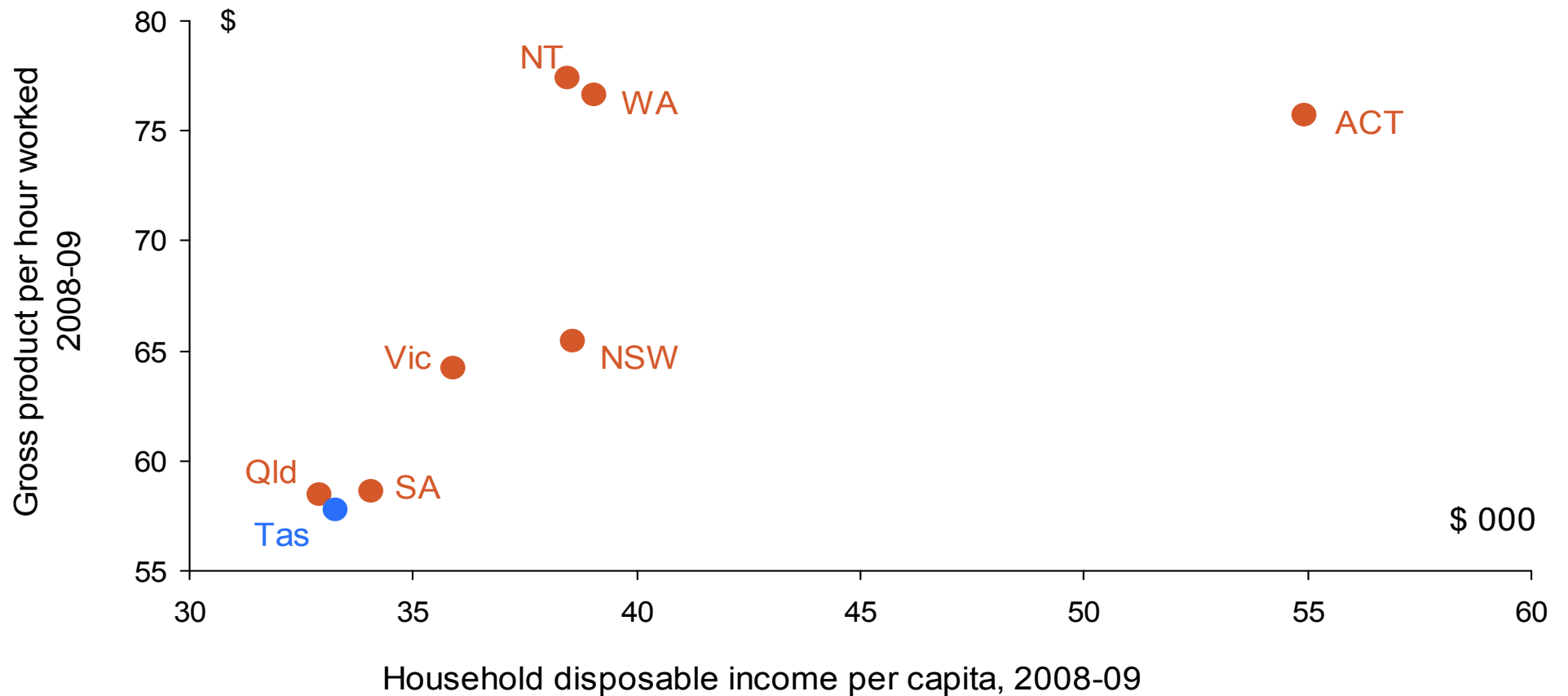
It also creates the national income that is taxed to pay for public services which again boosts the standard of living

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”

– **Michael E. Porter, *The Competitive Advantage of Nations* (1991)**

There's a strong correlation between productivity and per capita incomes

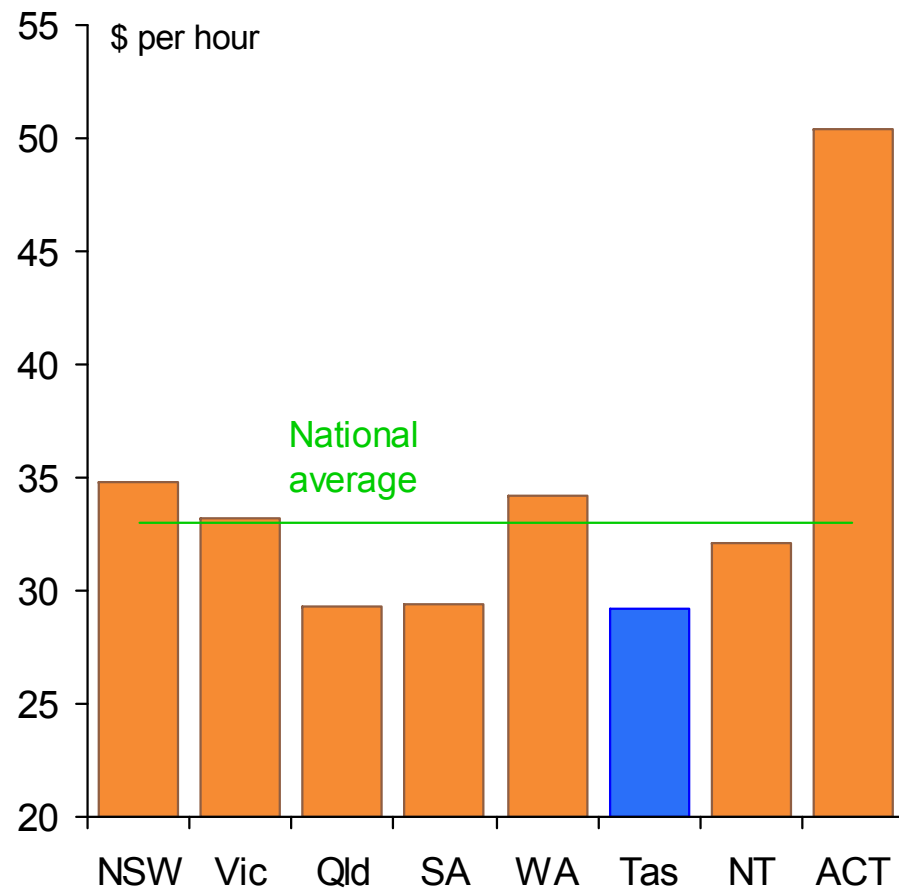
Labour productivity and per capita income, 2008-09



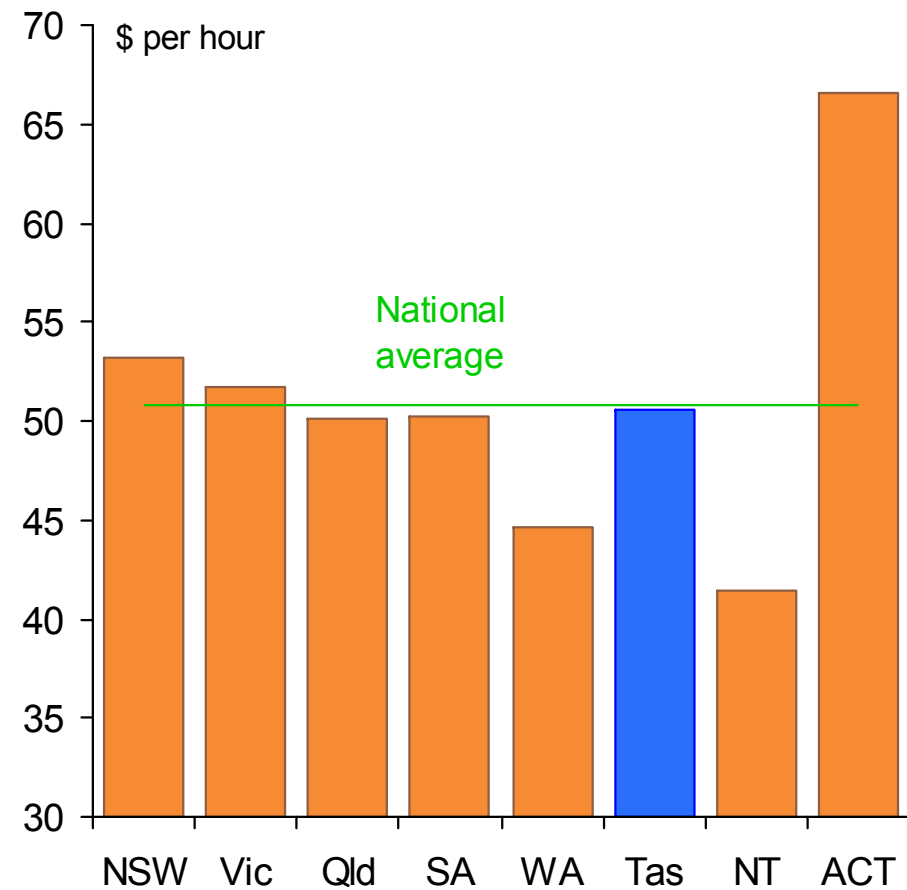
Source: ABS State Accounts (5220.0) 2008-09; and *The Labour Force, Australia, Detailed, Quarterly* (6291.0.55.003).

Tasmania's low level of productivity means that relatively low labour costs are not the 'comparative advantage' that they might seem

Labour costs per hour worked
2008-09

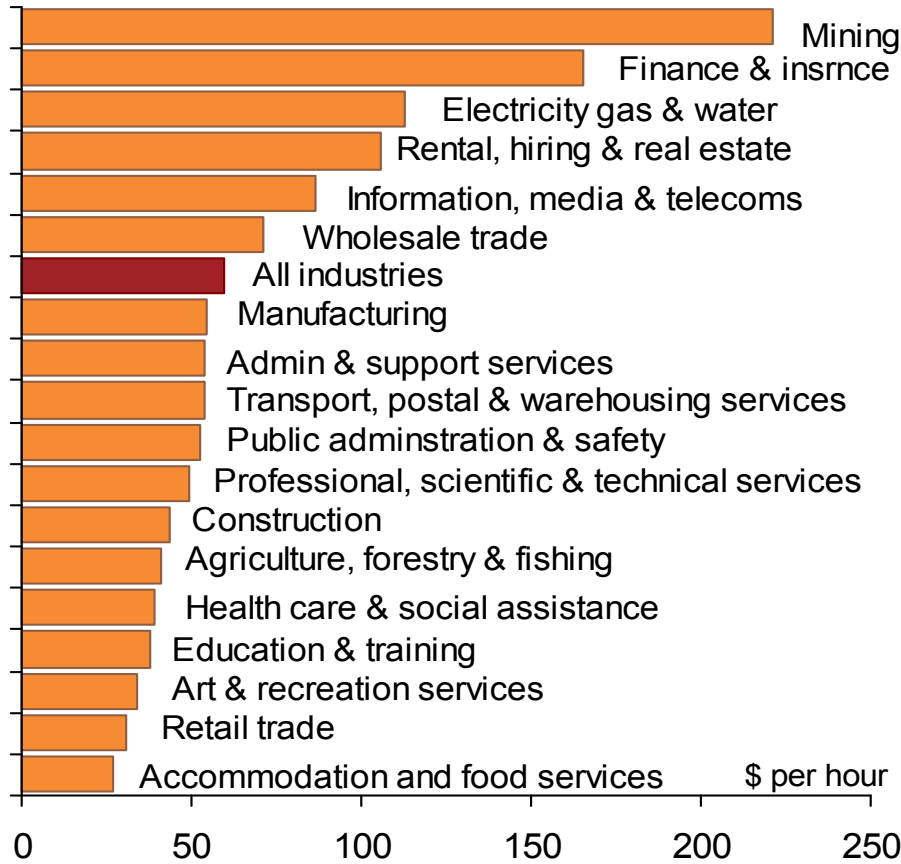


Labour costs per \$100 of goods & services produced

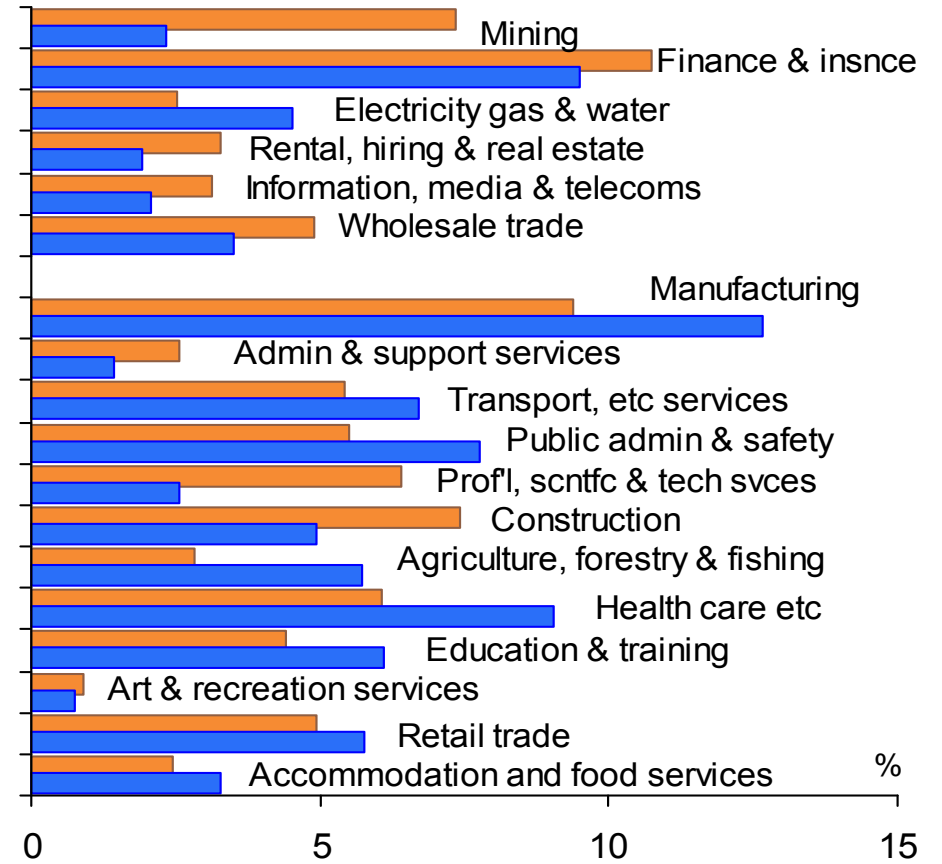


Tasmania's low level of productivity partly reflects a below-average representation of high-productivity industries (and vice-versa) ...

**Labour productivity by industry
- Australia, 2008-09**



Share of gross value added by industry, 2008-09



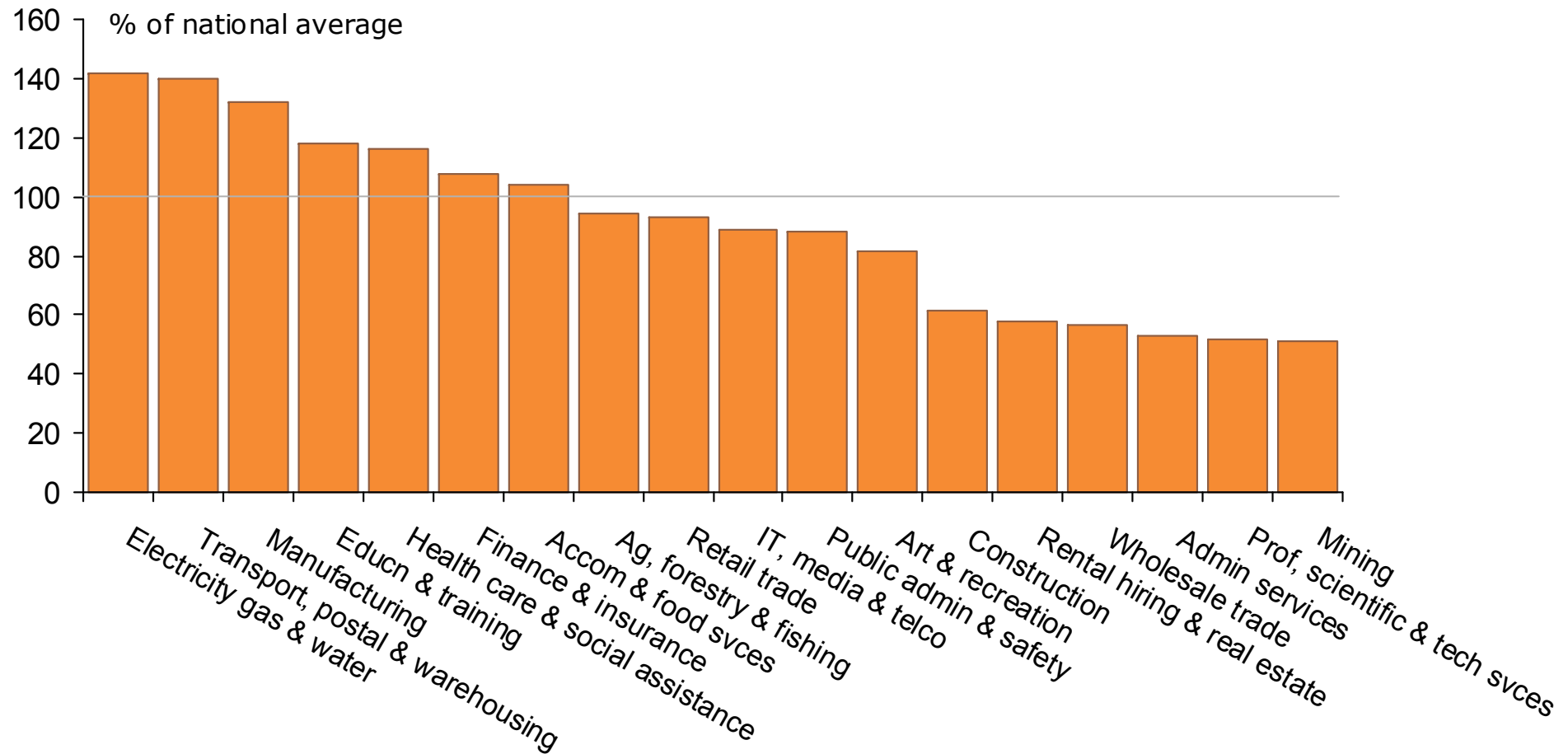
Australia

■ Australia
 ■ Tasmania

Sources: ABS : Australian System of National Accounts (5204.0) and State Accounts (5220.0), and Grattan Institute calculations..

... and partly reflects below-average productivity in a majority of Tasmania's industries

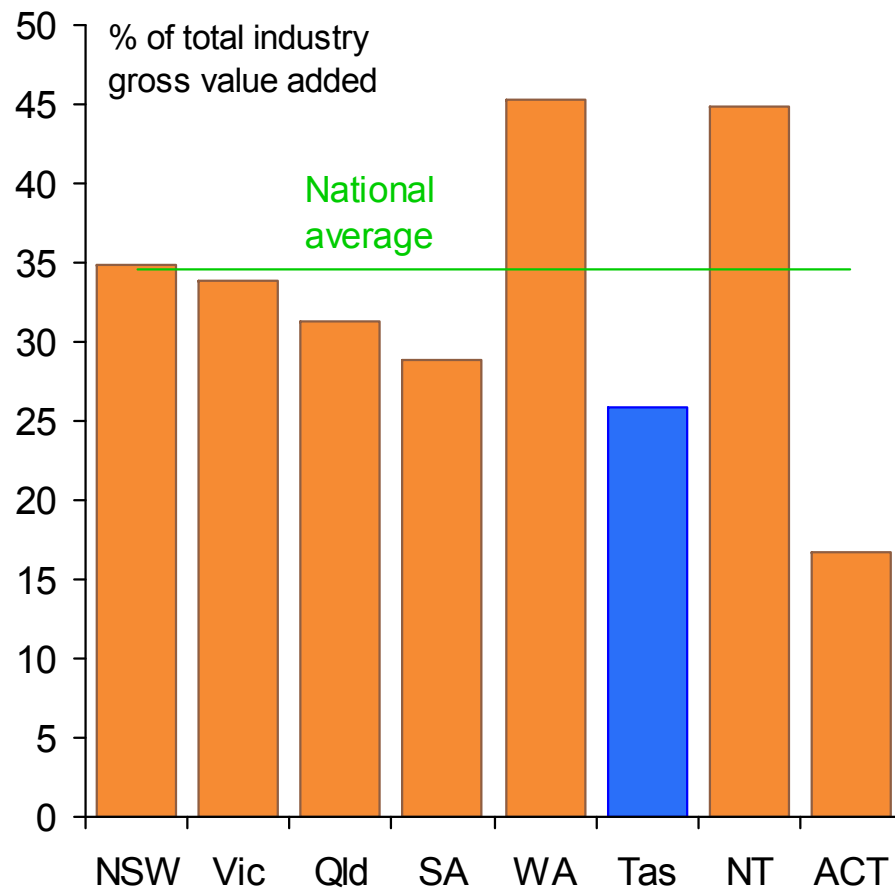
Tasmanian labour productivity by industry as a proportion of national industry average, 2008-09



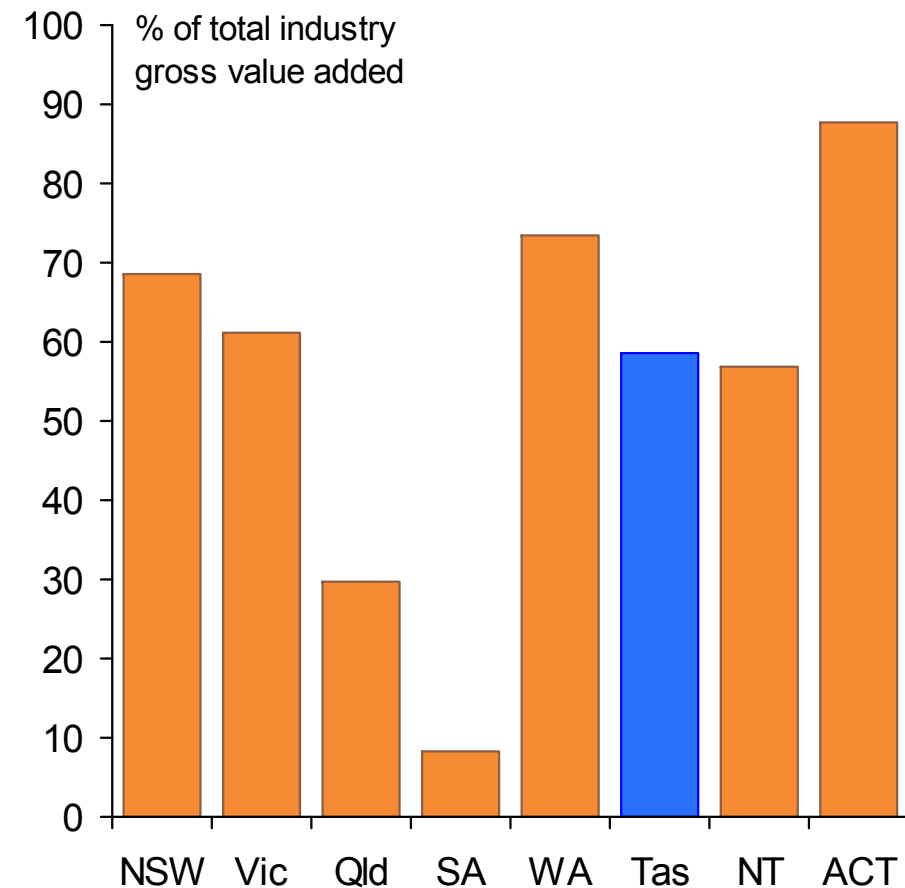
Sources: ABS : Australian System of National Accounts (5204.0) and State Accounts (5220.0), and Grattan Institute calculations.

Productivity isn't sufficiently above average in enough Tasmanian industries to offset the low share of high-productivity sectors

Proportion of total gross value added derived from 'high productivity' industries



Proportion of total gross value added derived from industries where productivity exceeds the national average for that industry



Sources: ABS State Accounts (5220.0) 2008-09; and *The Labour Force, Australia, Detailed, Quarterly* (6291.0.55.003); and Grattan Institute calculations. 'High productivity' industries are mining, finance & insurance, electricity gas & water, rental hiring & real estate services, information media & telecommunications services, and wholesale trade.

Productivity growth comes from three major sources

- **Investment in physical and ‘intangible’ capital**
 - plant and equipment, buildings and structures
 - software, intellectual property
- **Investment in ‘human’ capital**
 - skills and education of the workforce
 - formal (institution-based) and on-the-job learning
- **Innovation**
 - new products
 - new ways of producing existing products
 - new ways of organizing and managing existing processes

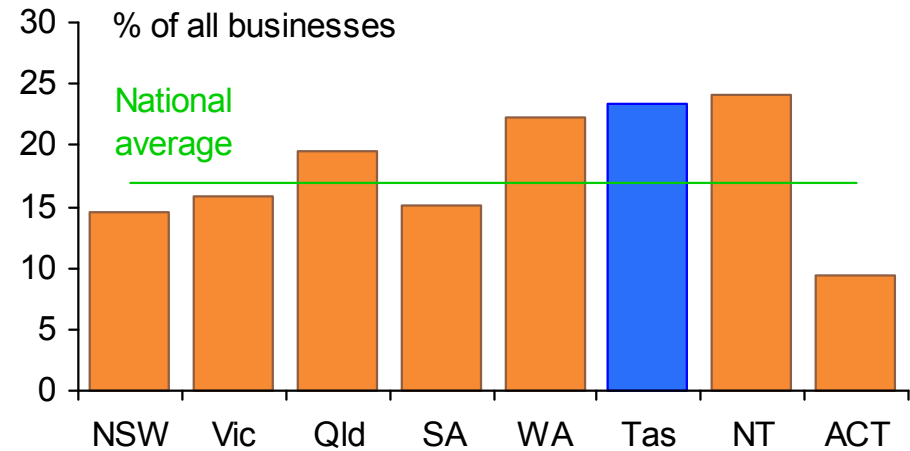
Tasmanian businesses appear to have been more willing to engage in innovation than businesses in most other States and Territories

Business innovation, by State and Territory – 2008-09

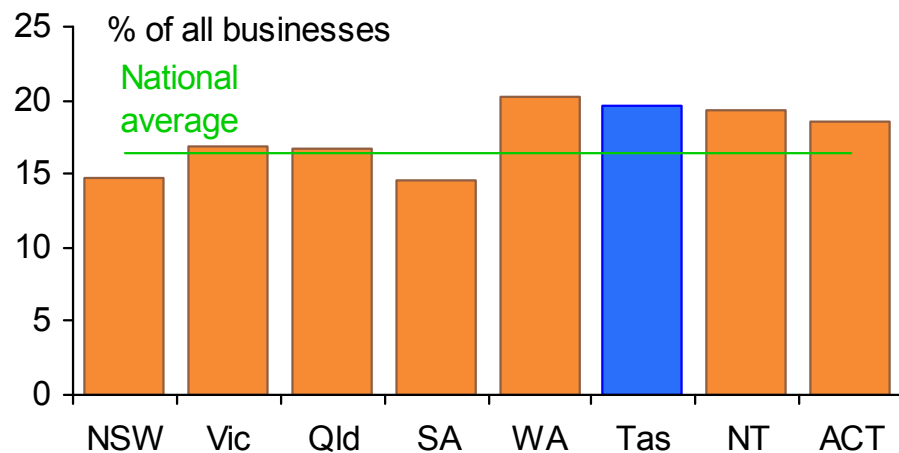
New goods or services



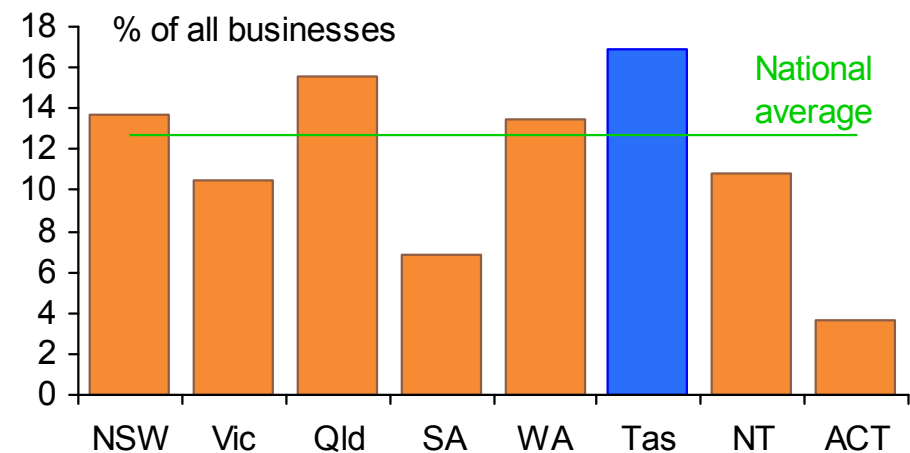
New operational processes



New organizational or managerial processes



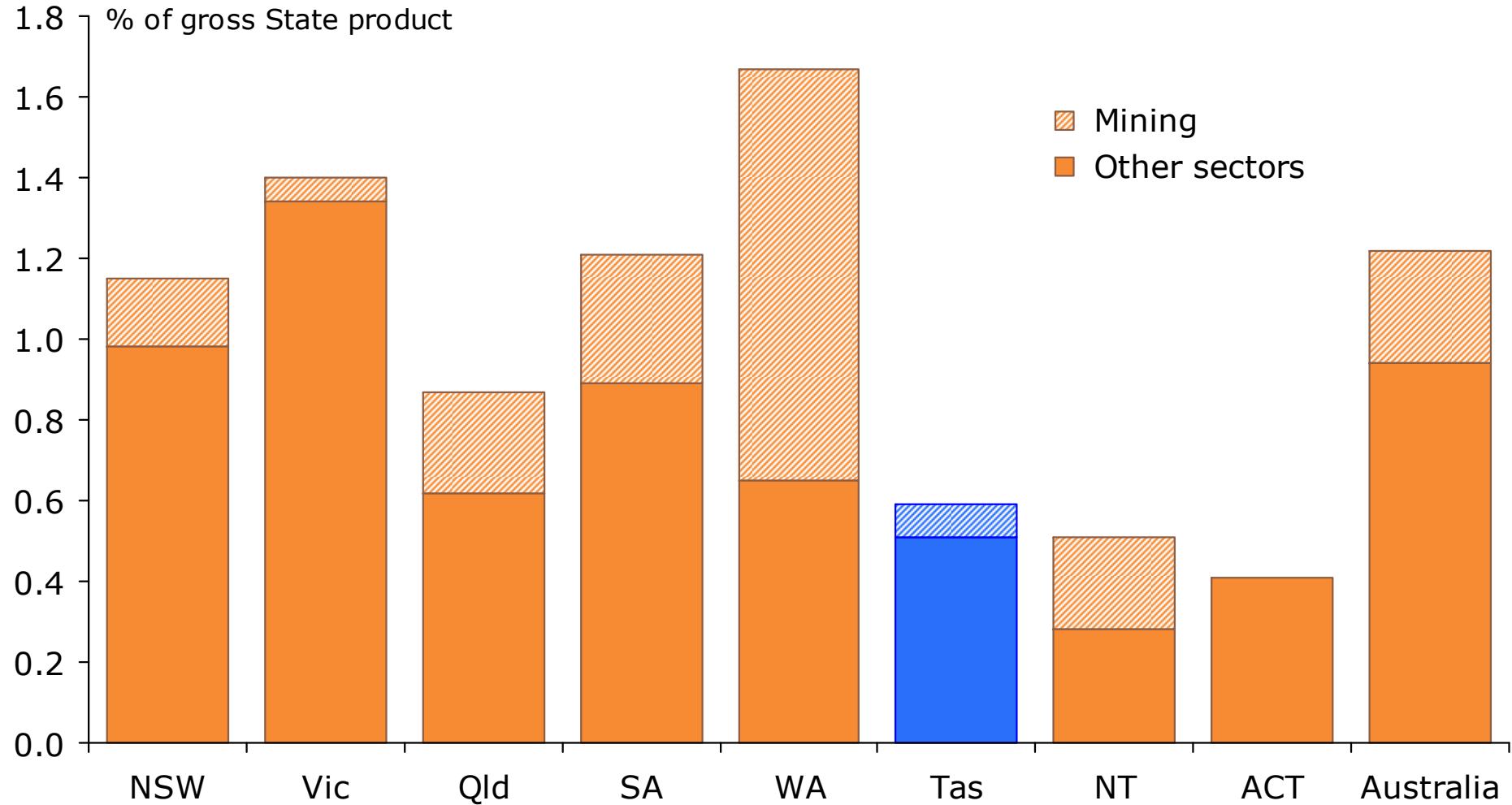
New marketing methods



Source: ABS, *Innovation in Australian Business* (8158.0) 2006-07.

... although Tasmanian business spending on R&D is well below the national average

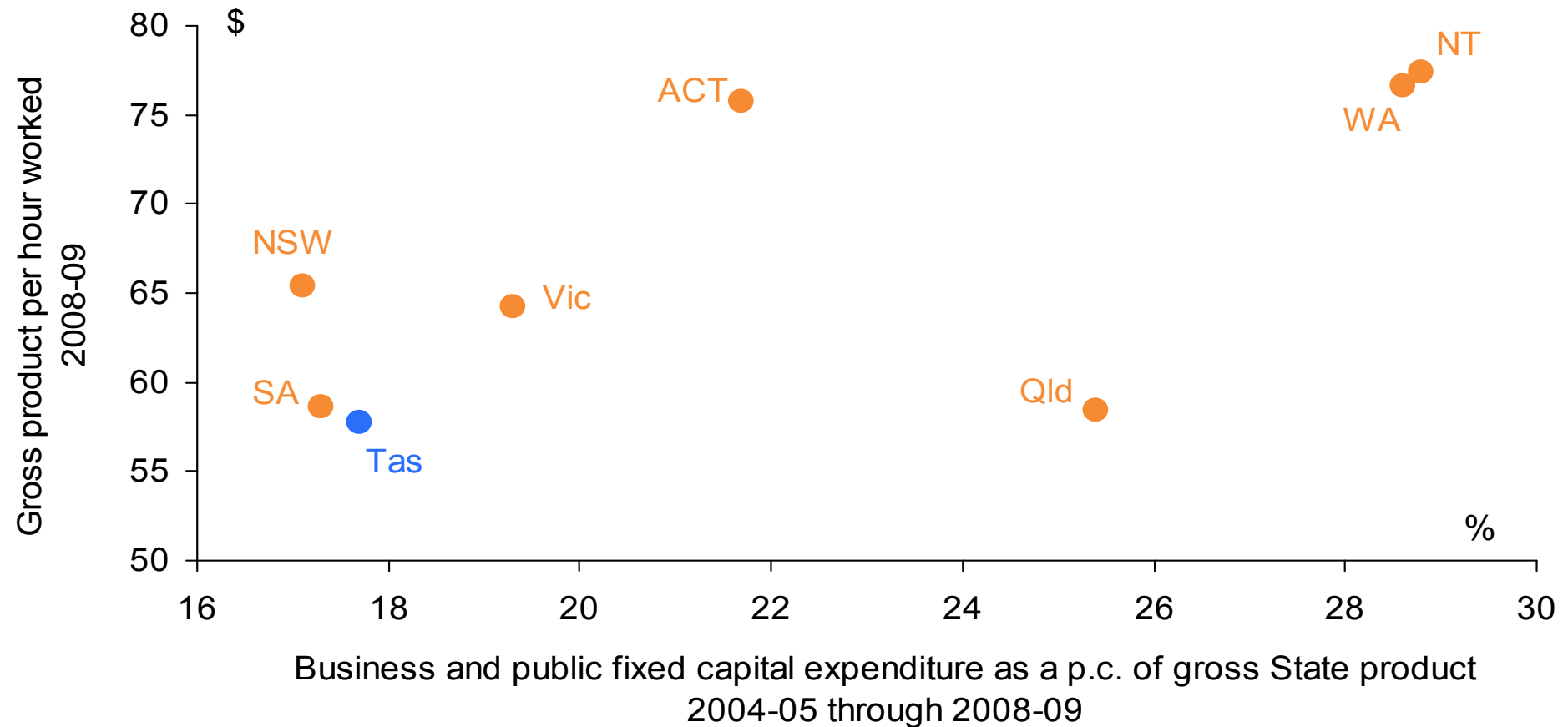
Business spending on R&D, by State and Territory – 2007-08



Sources: ABS, *Research and Experimental Development* (catalogue no. 8104.0), 2007-08, Grattan Institute.

Relatively high levels of fixed capital investment tend to be associated, over time, with high levels of labour productivity

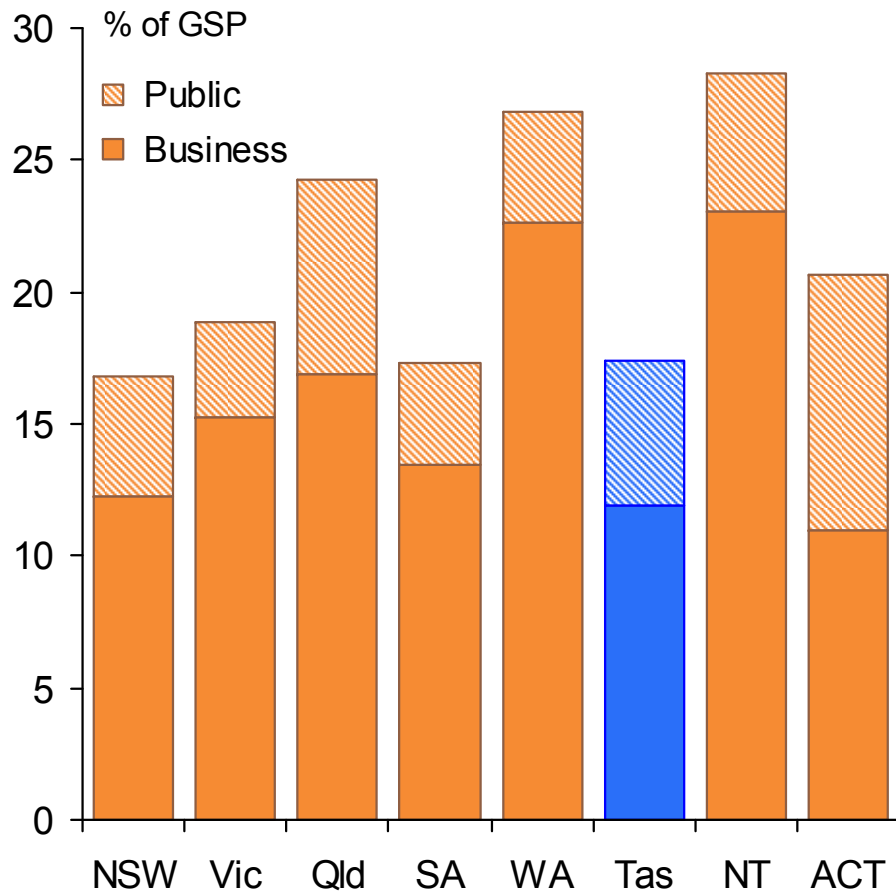
Labour productivity and per capita income by State and Territory



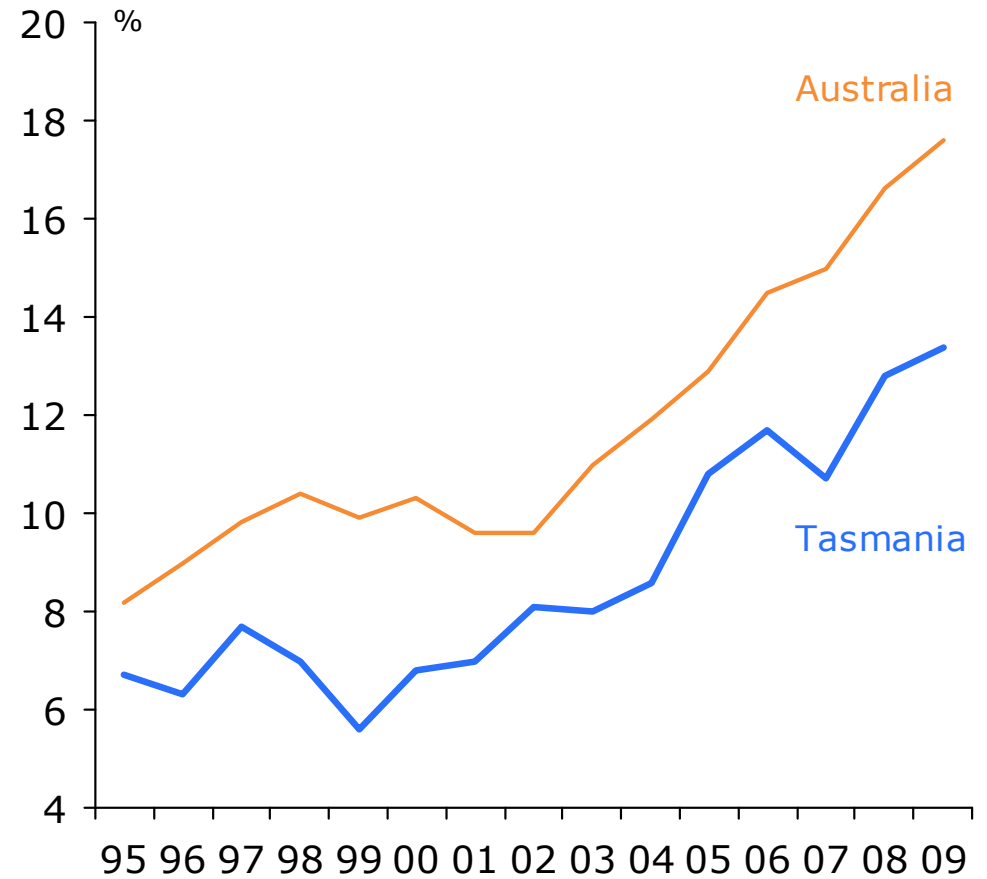
Source: ABS State Accounts (5220.0) 2008-09; and Grattan Institute calculations.

Tasmania invests a smaller proportion of its income than most other States and Territories

Fixed capital investment as a pc of gross product, 2008-09



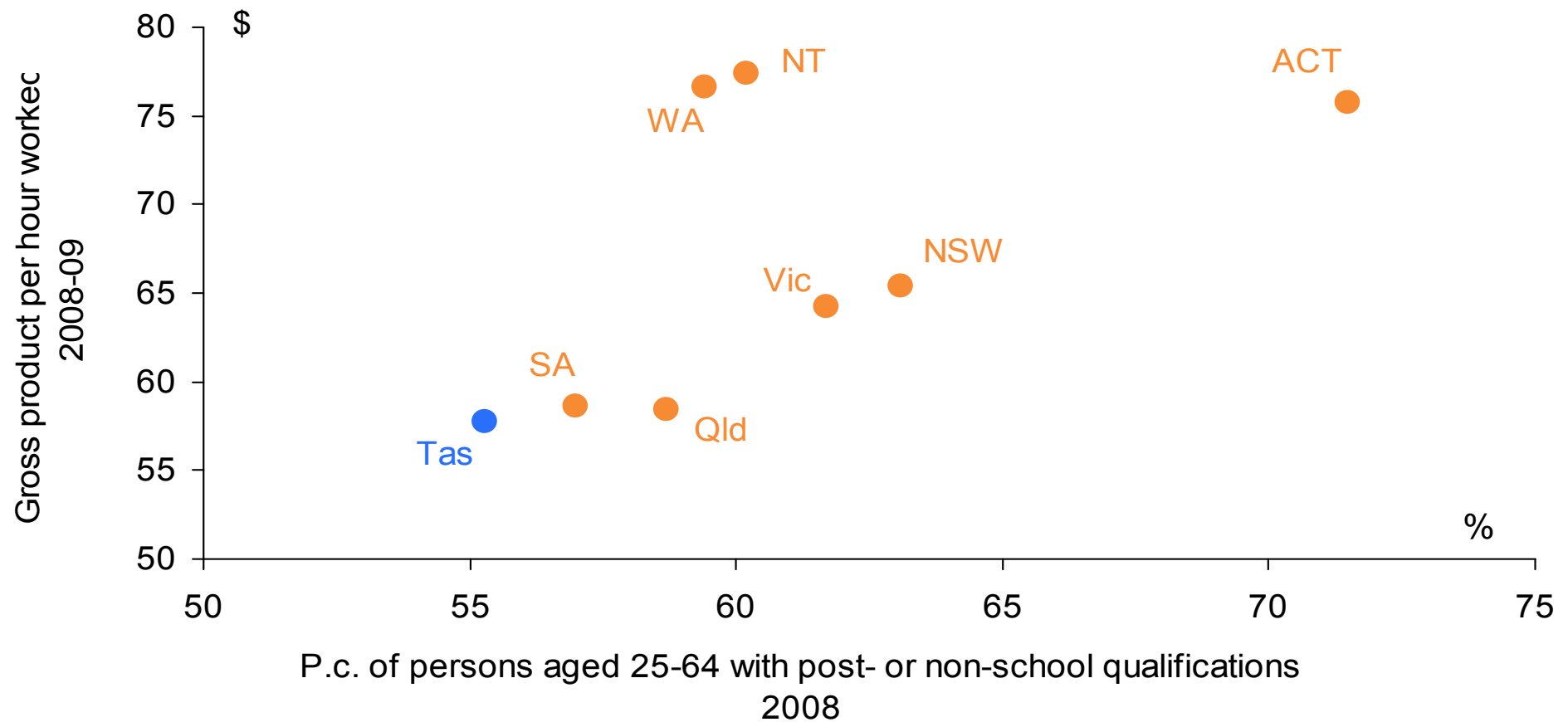
Business investment as a pc of gross product, 1994-95 to 2008-09



Source: ABS State Accounts (5220.0) 2008-09

There's a strong correlation between levels of educational attainment in the work force and labour productivity

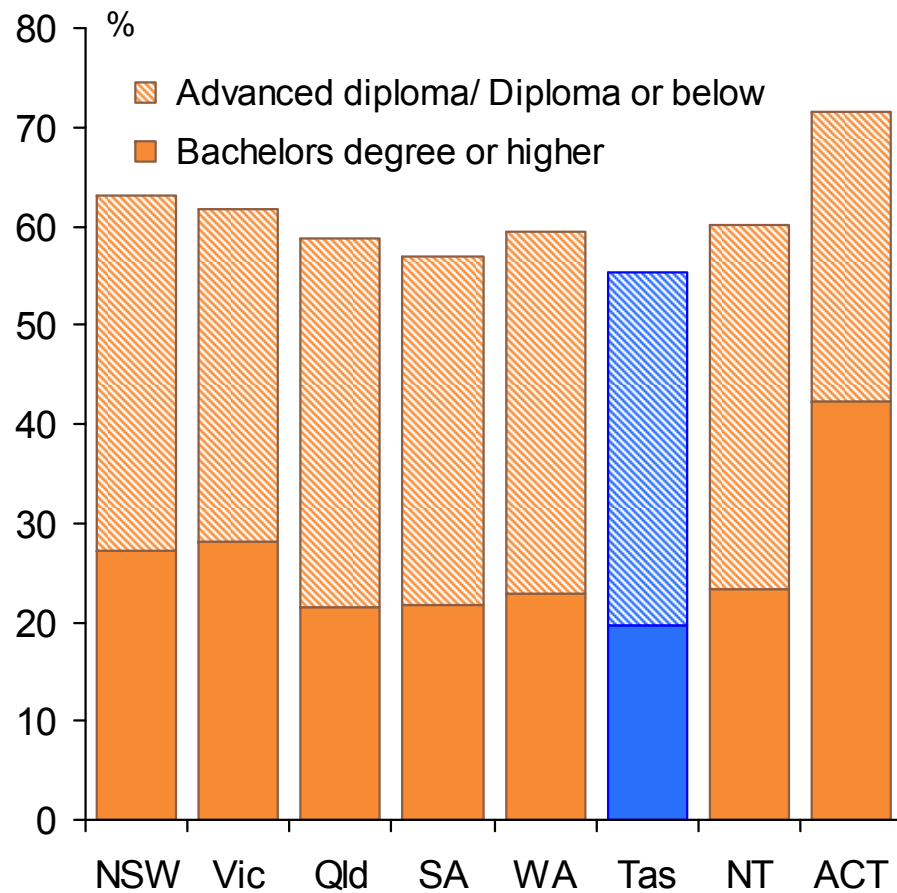
Labour productivity and educational attainment, 2008-09



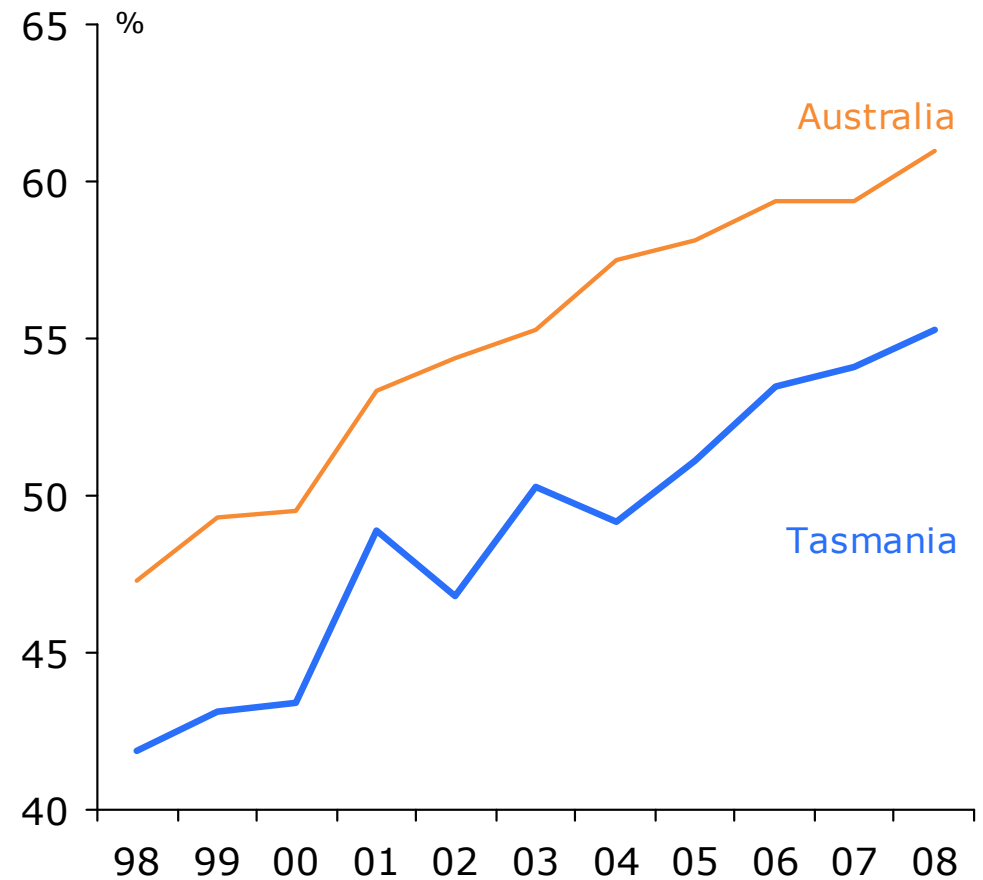
Source: ABS State Accounts (5220.0) 2008-09; Survey of Education and Work (6227.0) May 2009.

A smaller proportion of the Tasmanian workforce has post-school qualifications than that of any other State or Territory

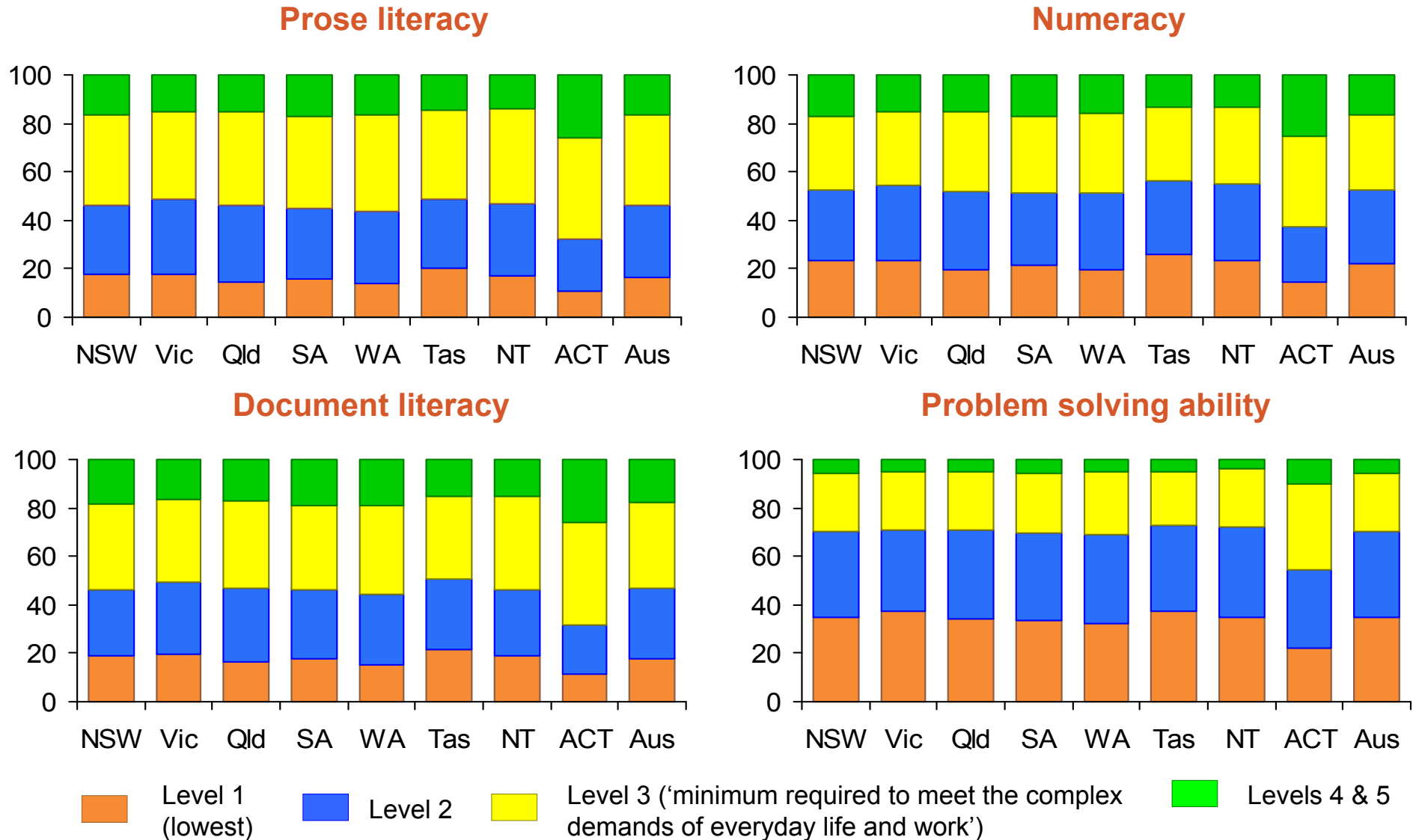
Proportion of persons aged 25-64 with post-school qualifications By State and Territory, 2008



Tasmania and Australia, 1998-2008



Tasmanian adults have, on average, lower literacy and life skills than the national average

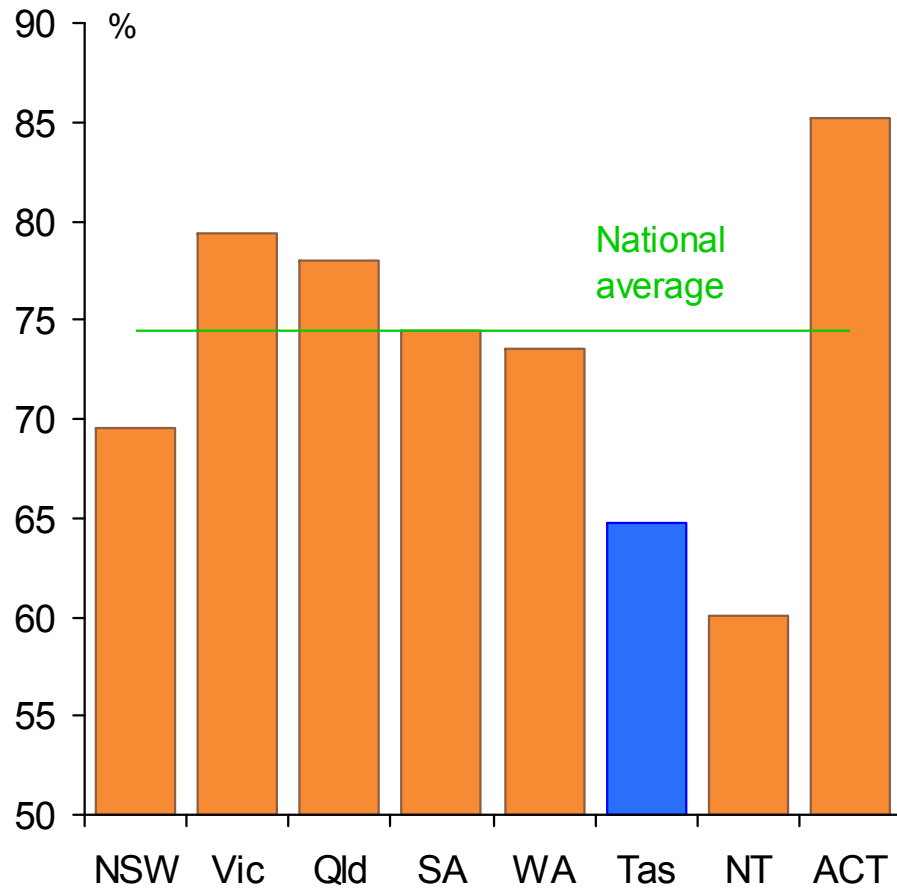


Source: ABS, Adult Literacy & Life Skills Survey, Summary Results 2006 (4228.0)

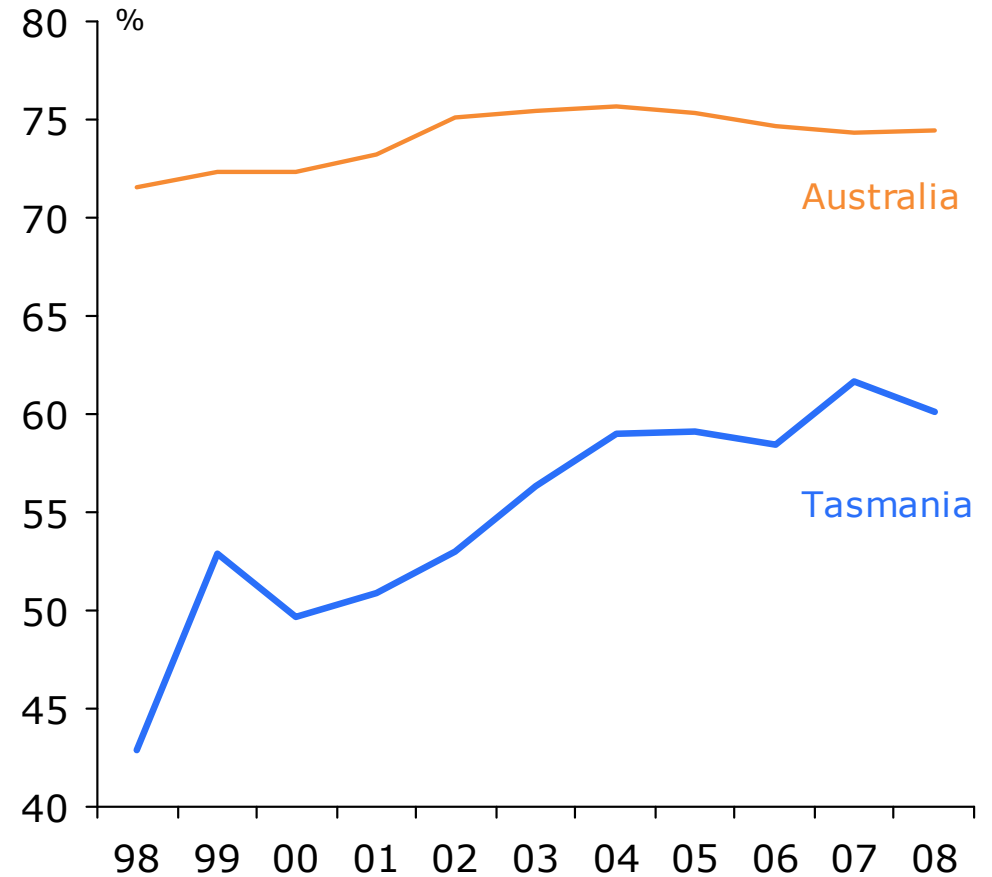
There's still too few Tasmanian school children completing secondary school

Apparent school retention rates, Years 7/8 to Year 12

By State and Territory, 2008



Tasmania and Australia, 1998-2008

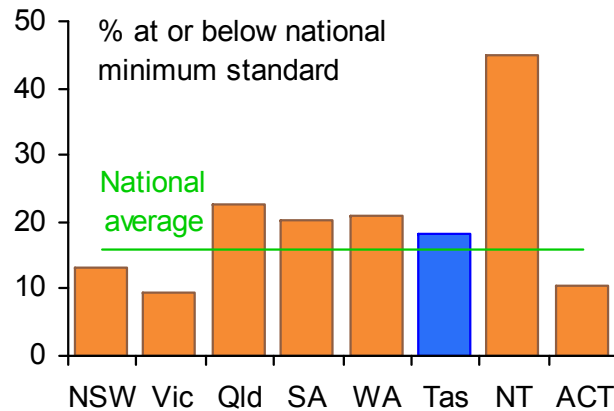


Source: ABS Social Trends (4102.0).

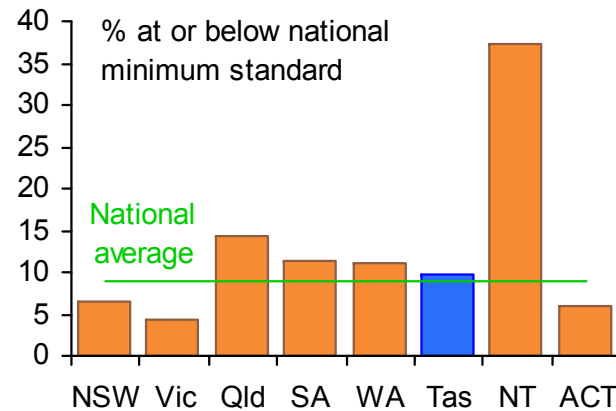
A slightly higher proportion of Tasmanian year 3 school children are achieving at or below national minima than the national average ...

% of Year 3 students at or below minimum NAPLAN standards, 2009

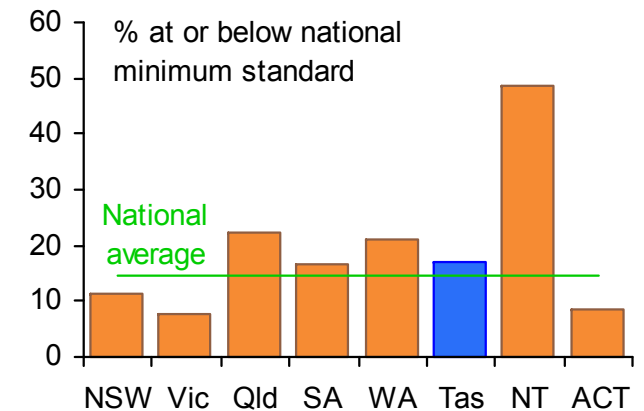
Numeracy



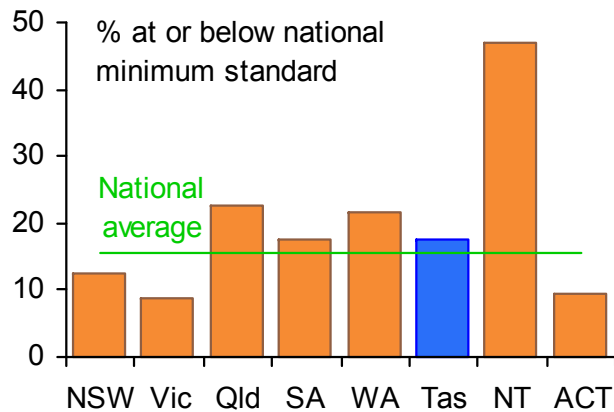
Writing



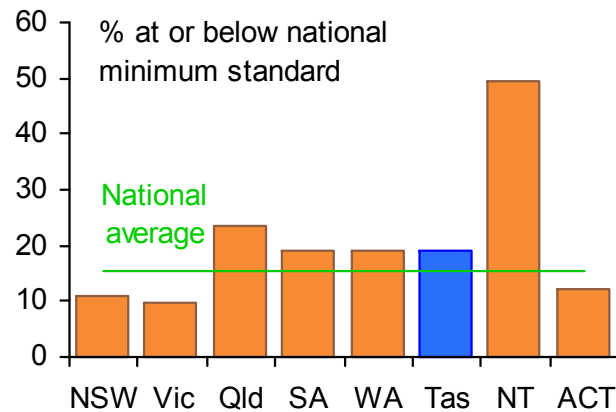
Grammar & punctuation



Reading



Spelling

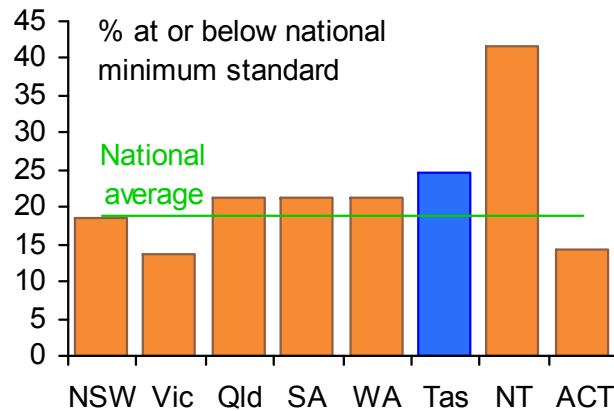


Note: These charts show the proportion of school children achieving at or below the national minimum benchmark for each 'domain'; hence, crudely, 'the lower the figure the better'.

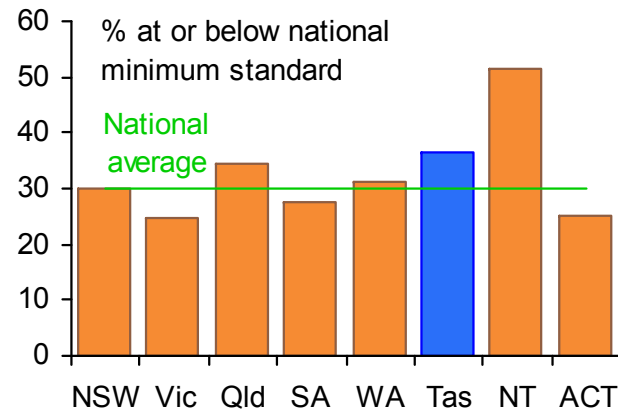
... and in most 'domains' the proportion of Tasmanian children achieving below benchmark has widened relative to the national average by Year 9

% of Year 9 students at or below minimum NAPLAN standards, 2009

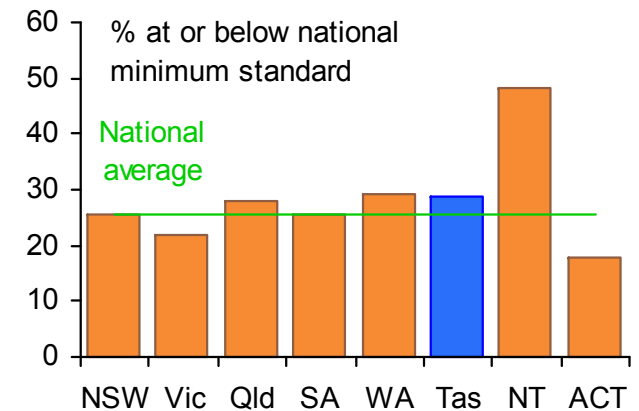
Numeracy



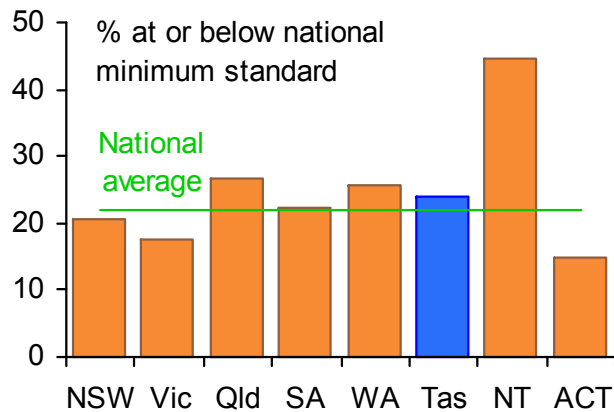
Writing



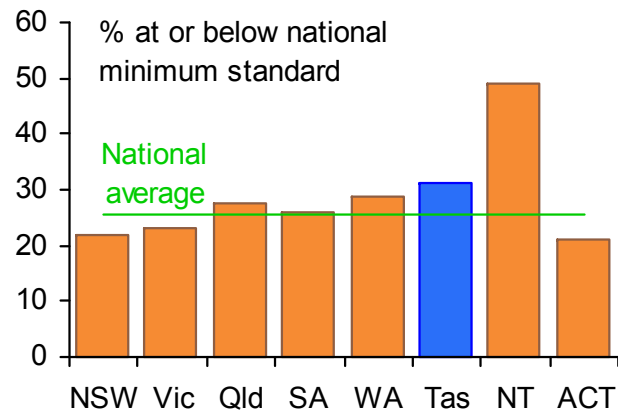
Grammar & punctuation



Reading



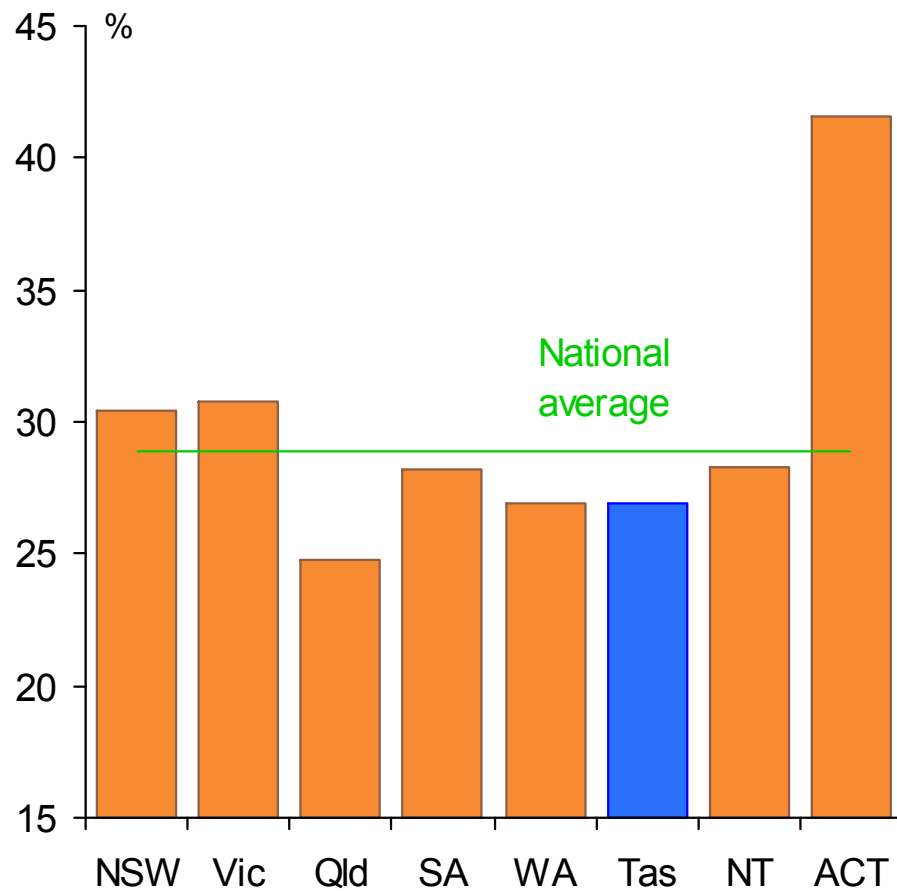
Spelling



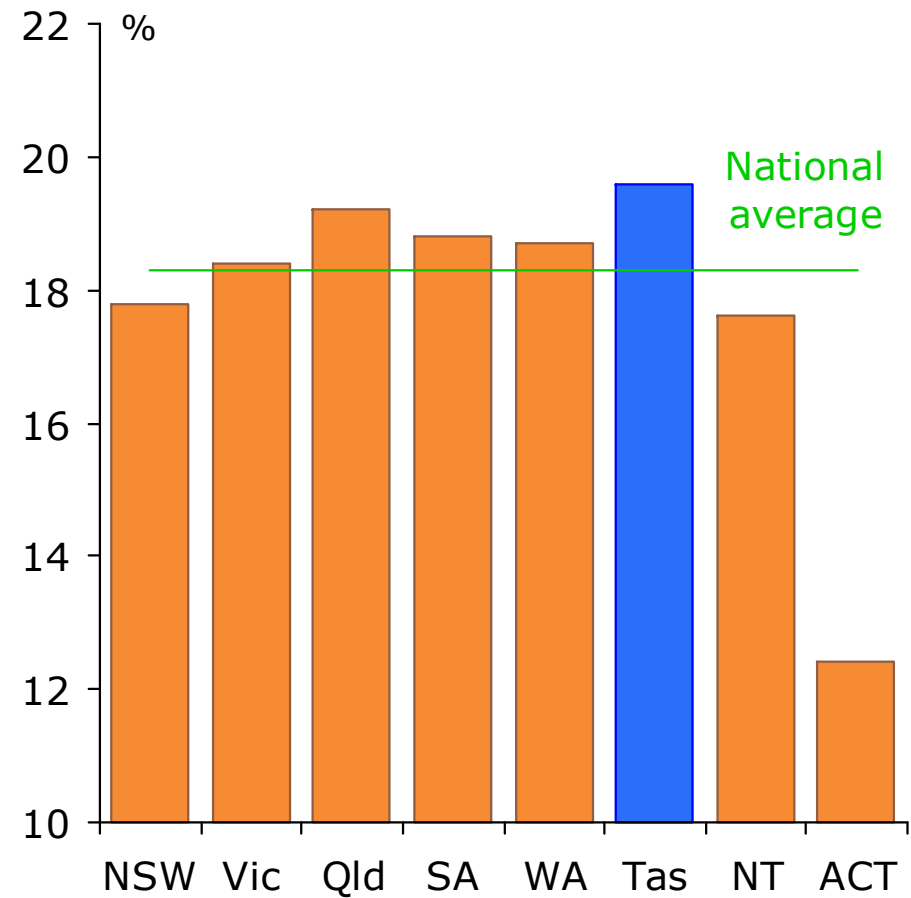
Note: These charts show the proportion of school children achieving at or below the national minimum benchmark for each 'domain'; hence, crudely, 'the lower the figure the better'.

A below-average proportion of Tasmanians are employed in high-skill occupations, and an above-average proportion in low-skill ones

Pc of workforce employed in highest-skill occupations, 2008-09



Pc of workforce employed in lowest-skill occupations, 2008-09

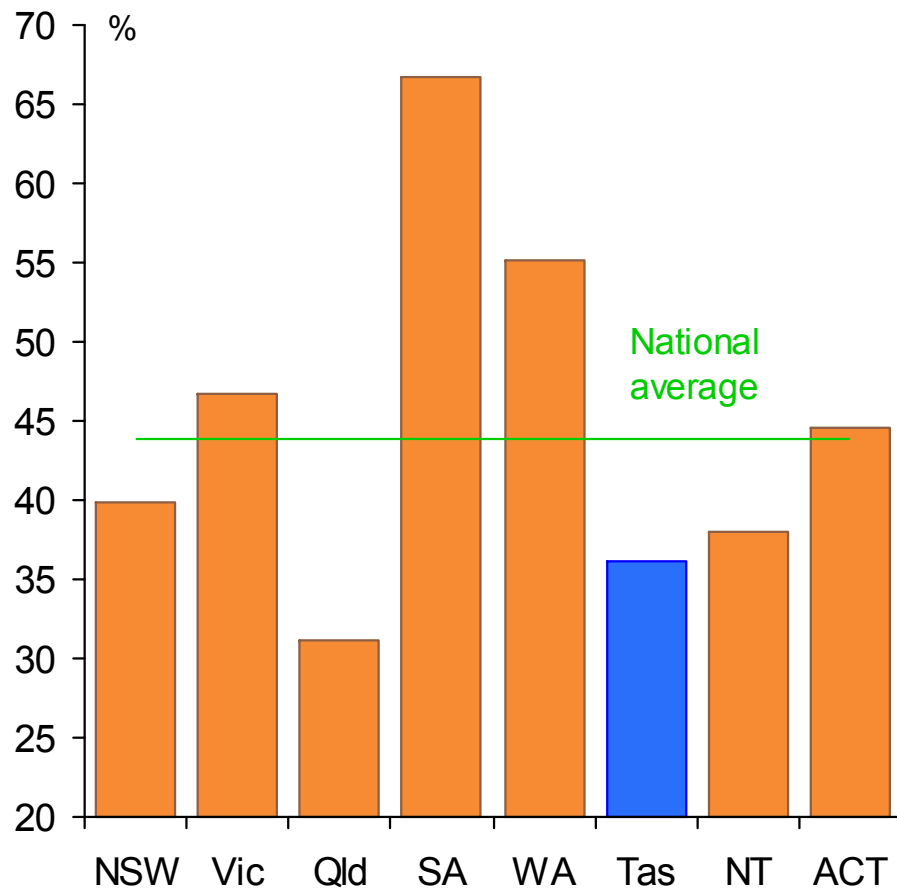


Source: ABS, Labour Force, Australia, Detailed, Quarterly (6291.0.55.003)

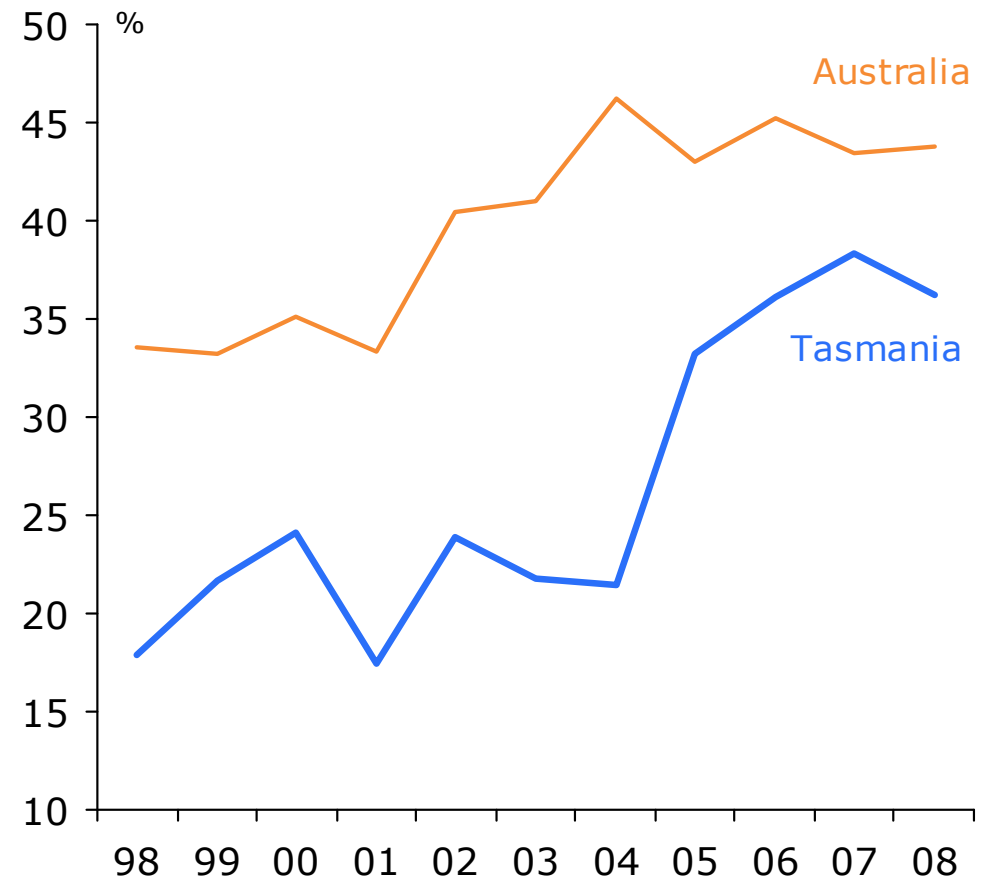
Immigration contributes less to Tasmania's skill base than it does that of most other States and Territories

Skilled immigrants as a p.c. of total settler arrivals

By State and Territory, 2008



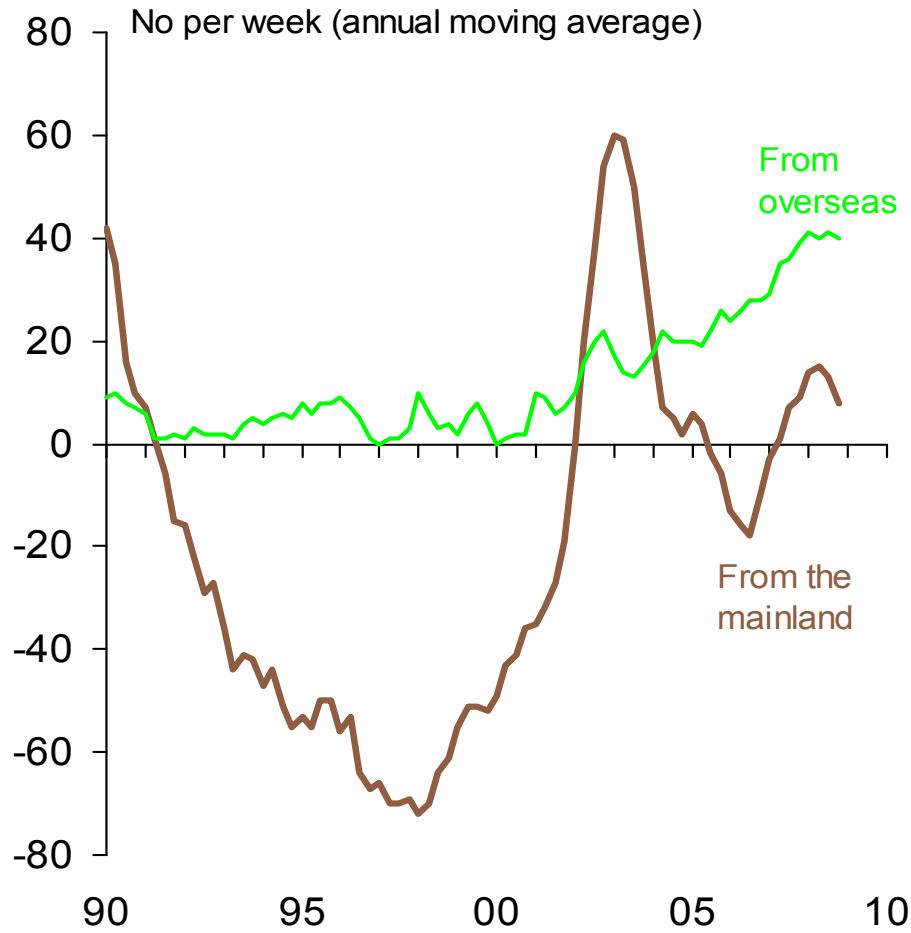
Tasmania and Australia, 1998-2008



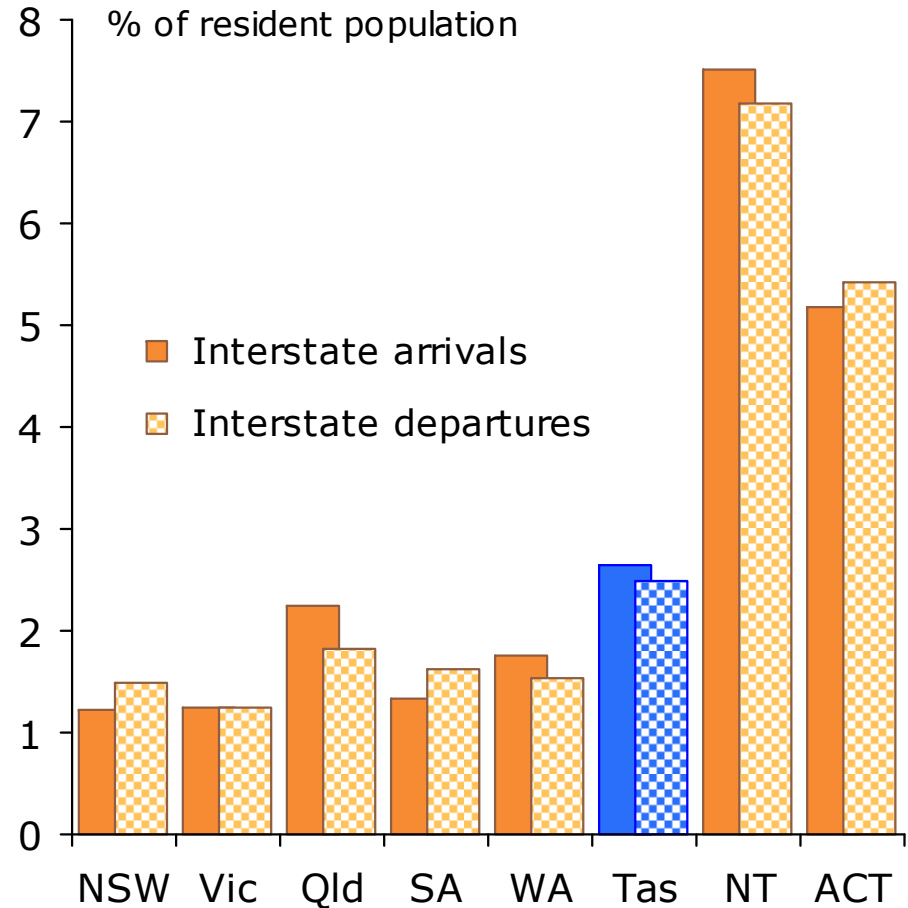
Source: Department of Immigration and Multicultural Affairs, *Settler Arrivals*.

Interstate migration patterns are (probably) detracting from Tasmania's skill base and (certainly) speeding up the ageing of Tasmania's population

Net migration to Tasmania



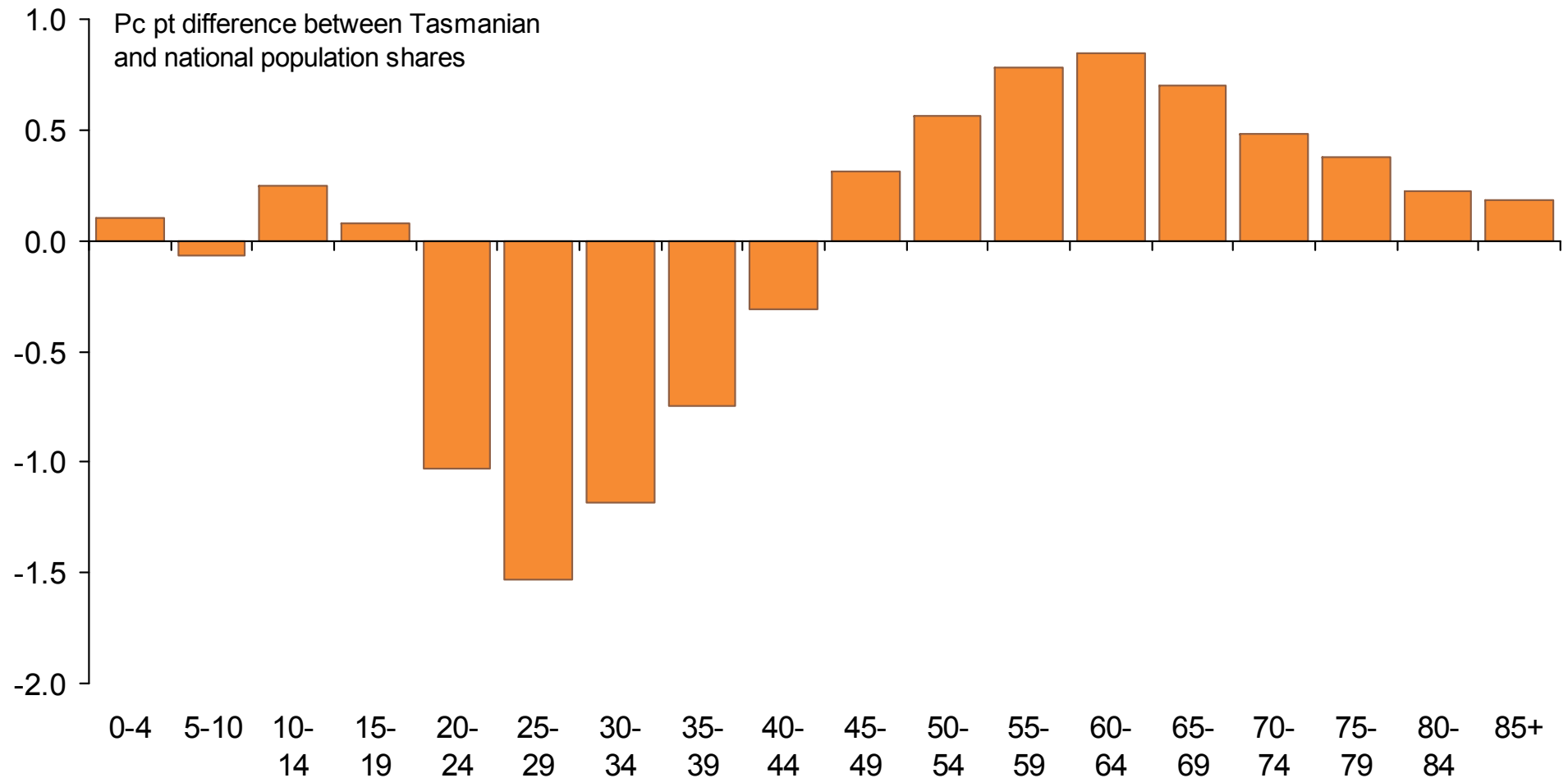
Interstate migration as a p.c. of resident population, States & Territories, 2008-09



Sources: ABS Demographic Statistics Quarterly (3101.0); Grattan Institute calculations.

Tasmania has a below-average share of 20-45 year olds, and an above-average share of those aged 45 and over

Difference between age structure of Tasmanian and Australian populations



Source: Tasmanian Department of Economic Development.

Four insights from a recent McKinsey study

- **Productivity of individual sectors matters more than ‘sector mix’**
 - the strongest-performing sectors vary from region to region
 - what above regions have in common is that their largest sectors (whatever they are) maintain strong growth
- **Services sector productivity and competitiveness is critical**
 - services sectors have accounted for almost all net jobs growth in high-income countries over the past two decades
- **Government policies can strongly influence productivity and competitiveness in sectors not directly exposed to international trade or global competition**
 - regulation that facilitates business entry tends to increase competition and productivity
 - flexible hiring laws and part-time employment arrangements correlate with higher employment and more rapid adjustment to change
- **Competitiveness in ‘new innovative sectors’ is not enough to boost economy-wide employment and growth**
 - these sectors are too small to make a difference to economy-wide growth
 - access to talent and favourable demand conditions are more important than tax incentives or direct government involvement

Tasmania's future ...

- ... cannot possibly lie predominantly in the volume production of essentially unprocessed commodities competing solely on the basis of price against others
 - with access to larger and cheaper resources of labour and capital
 - able to operate on a much larger scale
 - and who are geographically closer to their principal markets, or who are members of preferential trade blocs
- ... but instead depends on its capacity to produce and market
 - highly differentiated goods and services
 - embodying a relatively high intellectual content
 - and for which customers are willing to pay premium prices

This does not mean that commodity production (including mining and forestry) has no future in Tasmania – but it does mean that we can't expect the kind of commodity-based industries Tasmania has relied on in the past to underwrite the future

An agenda for lifting Tasmanian productivity and incomes

- **A sustained effort to improve the quantity and quality of Tasmanian education**
 - lifting year 12 retention rates to mainland levels
 - curriculum reform
 - closing the school performance gap with the mainland
 - challenging entrenched beliefs that higher levels of education aren't necessary
- **Extending and upgrading of Tasmanian infrastructure**
 - with particular emphasis on transport, communications, water and 'clean' energy
- **Seeing structural change as an opportunity, not a threat**
 - much more skeptical approach towards propping up 'old' industries
 - positive attitude towards competition and new businesses
 - abandon the 'cargo cult' approach to large industrial projects
- **Capitalizing on – rather than resisting – advances in knowledge**
 - (for example) abandoning bans on GM technologies
- **Seeing the 'Tasmanian diaspora' as an asset, not a loss**
 - making much better use of Tasmanians living and working on the mainland or overseas as ambassadors and champions