

2009

2010



Distinguished economist and Tasmanian
Saul Eslake
presents his annual report:

The state of the 'nation'

2010 was a difficult year for Tasmania's economy. Although it is clearly recovering from the downturn induced by the global financial crisis of 2008–09, it is doing so at a much slower rate than the rest of Australia.

By the end of last year, employment in Tasmania was still some 1.2% below the highest level reached before the onset of the global financial crisis (in 'trend' terms), whereas on the mainland, employment was 3.0% above its pre-crisis peak. The contrast is even more striking in terms of full-time employment, which at the end of last year was 6.7% below its pre-crisis peak in Tasmania, as against 2.9% above its pre-crisis peak on the mainland.

And although Tasmania's measured unemployment rate was slightly below the national average at the end of 2010, this was only because of a significant increase in 'hidden' unemployment, reflecting the fact that Tasmanians are

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much more likely than other Australians to give up looking for work when job prospects appear dim. Only 57.7% of working-age Tasmanians were actually working at the end of last year: 2.2 percentage points below the pre-crisis peak, and almost 5 percentage points below the mainland average, which was itself only 0.3 percentage points below its pre-crisis peak.

Other figures tell a similar story. Retail sales were flat, on average, in Tasmania last year, as the national government's fiscal stimulus measures faded. (These had benefited Tasmania relatively more than other parts of the country because they were targeted at low-income earners, who make up a larger share of Tasmania's population than that of any other state.) By contrast, in 2010 retail sales on the mainland rose by an average of 3.6%. Housing approvals fell by 6.2% last year in Tasmania, compared to an increase of 17.6% on the mainland. Perhaps most disconcertingly of all, business investment fell by 18% in Tasmania in 2010, compared with a 3.3% increase on the mainland.

One of the reasons for Tasmania's relatively poor economic performance over the past year is that it is missing out on one of the principal drivers of growth in the national economy – the 'resources boom' which has resumed after being only temporarily derailed, as it turned out, by the global financial crisis. The on-going rapid urbanisation of China, and to a lesser extent, India, is giving Australia's terms of trade (the ratio of the prices received for the nation's exports to the prices paid for its imports) the most sustained increase in at least 140 years. Australia is the only country in the world with ample supplies of the three resources for which Chinese and Indian demand is rising most rapidly – namely iron ore, coal and natural gas. Increases in the prices of these and other commodity exports boosted Australia's national income by around 3 percentage points last year.

Tasmania has very little iron ore, no coal, no gas, and only relatively small amounts of the other minerals for which global demand is rising strongly. Mining accounts for only 2.2% of the total value of goods and services produced in Tasmania, compared with 10.1% of the national total.

Conversely, some of the side effects of the resources boom have had a more deleterious effect on Tasmania's economy than on other parts

of the country. That's because industries such as agriculture, forestry, fishing, manufacturing and tourism – the competitiveness of all of which has been eroded by the rising value of the Australian dollar against other currencies – account for a larger share of Tasmania's economy than they do for most other Australian states and territories.

Many of Tasmania's premium agricultural and horticultural producers have been hurt not only by the strong dollar but also by severe downturns in their principal overseas markets. The strong Australian dollar has compounded the severe woes confronting Tasmania's forestry industry, which is now undergoing a substantial and painful period of structural adjustment.

With the resources boom likely to last at least another 15 years, according to the Australian Treasury's chief economic forecaster, these pressures on the Tasmanian economy are not going to go away any time soon.

Another source of pressure on the Tasmanian economy has arisen as a by-product of what the Reserve Bank of Australia describes as the 'new frugality' of Australian households. Despite the fact that they have, in aggregate, suffered much smaller losses in wealth than their counterparts in other Western countries, and have far less reason to fear for the security of their jobs or pensions, or the prospect of large increases in taxes in the future, Australians have, since the onset of the global financial crisis, become much more thrifty than they had been during the preceding decade, choosing to save almost 10% of their income last year.

The inevitable corollary of this new frugality is that Australian consumers are spending less, and that means that they're paying less by way of the goods and services tax (GST) than Australian governments had banked on when drawing up their budgets in recent years. This has been a particular problem for Tasmania, because its state government depends to a much greater extent on its share of the revenues from the GST (which are divided up among the states and territories according to the recommendations of the Commonwealth Grants Commission) than any other state (except for the Northern Territory).

Successive downward revisions to forward estimates of GST revenues have deprived the Tasmanian government of almost \$800 million

that it had previously expected to have at its disposal in the current and subsequent three financial years.

That has in turn forced the Tasmanian government to confront an issue which has been festering for many years: the significantly higher level of spending on government services in Tasmania than in other states. In the 2009–10 financial year, the Tasmanian state and local governments spent 6% more per capita on services of one kind or another than their counterparts on the mainland, and about 14% more than Victoria, which is Australia's 'best practice' state government in this regard.

Tasmania's relatively small population, and the fact that it's more widely dispersed than that of any other state or territory (with more than half our population living outside the state capital), accounts for some of that difference.

But it's impossible to believe that *any* of this difference is attributable to Tasmanians getting a better quality, or broader range, of services from their state and local governments than

people on the mainland (because they don't), or to public sector employees being paid more than their counterparts in mainland states and territories (because they aren't). Rather, it seems highly probable that the margin by which the per-capita cost of providing government services in Tasmania exceeds that in other parts of Australia is largely due to inefficiencies in the way in which those services are delivered.

There's no easy way out of this problem. Tasmanians aren't willing to pay significantly higher state taxes in order to underwrite 'feather-bedding' in the provision of government services – and nor should they be expected to. Some difficult choices are going to have to be made. And they can be made, without detracting from the quality or range of services that Tasmanians legitimately expect from their state and local governments.

But the quality of leadership in Tasmania, both at the political level and in other areas, will be tested by the challenges that now lie ahead. 