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Saul Eslake  
Chief Economist  
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Level 10, 100 Queen Street  
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Dear Mr Eslake

**Tasmania: An Imperative For Reform**  
*A report commissioned by the Tasmanian Chamber of Commerce and Industry*

We are committed to improving the economic performance of Tasmania and the living standards of all Tasmanians. We are pleased to have been commissioned by the TCCI to write **Tasmania: An Imperative For Reform**.

**The key points of 'Tasmania: An Imperative for Reform'**

In our Overview to **Tasmania: An Imperative For Reform** some of the key points we made were:

- Tasmania is very highly-subsided by the rest of Australia (the only state or territory more dependent on other Australians is the Northern Territory);
- on a per capita basis Tasmanians are the poorest Australians in the Commonwealth (and the gap is widening);
- economic growth in Tasmania has lagged behind the rest of Australia; and
- Tasmanians, on average, receive more in social security benefits than they pay in taxation.

We believe that Tasmania's current economic condition is unsustainable in the long-run. As we say in our Overview: 'Tasmanians have the right to choose their economic destiny and should not be Commonwealth mendicants.'

**Your response**

The way forward for Tasmania is to have an honest debate about the state's future. It is therefore with great disappointment we've noted your remarks about our report.

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Comments from you such as 'The only way I could draw the conclusions he's [Professor Davidson] done from the data he claims that he's cited would be if I held the graphs of them upside down...' are so strident as to verge on the ridiculous.

You've made a number of unsubstantiated claims about our work. You claim that 'many of the things that are presented as facts are simply wrong.' However, you have not identified a single error or mistake in our work.

In an interview with *Stateline Tasmania* on 31 October 2008 you said that the problem with our report is that it could be used by New South Wales and Victorian treasury departments as 'ammunition' to reduce Tasmania's share of federal revenues. From this you seem to imply that Tasmania's finances should not be scrutinised for fear of drawing attention to them, with the result that the state will therefore receive reduced federal funding. We strongly disagree with your position. Tasmania's economic condition will not be improved by keeping secret its financial performance.

You also argued that if the federal government did reduce its funding to Tasmania than therefore taxes on the state's businesses would need to be increased. However you ignore our statement on page 15 of the report that 'increasing the tax burden is not ideal – that would only act to suppress much needed economic activity.' Our aim is to increase overall economic activity.

We attach a more detailed response to the claims you made concerning key macroeconomic trends.

### **A way forward for Tasmania**

Tasmanians deserve to be told the truth about their future.

For too long Tasmanians have believed that they can continue to rely indefinitely on handouts from the rest of Australia.

We look forward to a future when Tasmanians are not dependent on the mainland.

Tasmanians deserve the chance to make their own choices about their own future - and this is the essential point of our work.

We would be delighted to meet with you at any time to discuss our report.

Yours sincerely,



**Professor Sinclair Davidson**



**Julie Novak**

Copy to:                   TCCI Board of Directors  
                                Members of the Parliament of Tasmania  
                                Tasmanian media outlets

## Attachment

The following remarks are made in response to specific statements you made during the Stateline interview:

*Statement: 'degree of dependence on social security and on federal support is actually lessening rather than deteriorating'*

Figure Four in the overview report shows that, since 2000, Tasmanian residents received more in social security benefits than they paid in taxation. This is despite the percentage of social security payments, as a proportion of total gross household income, declining. So while your statement is true, it does not change our conclusion in any way – Tasmanians receive on average more in social security than they pay in taxation.

You appear to overlook other important household income data. The proportion of households receiving government pensions and allowances in excess of 50 per cent of gross household income was the second highest in Australia (after South Australia).

The proportion of Tasmanian household income represented in own wages and salaries is the lowest of all States and Territories. Further, the growth in State average weekly earnings has trailed the national trend for much of this decade.

We are concerned that you have chosen to overlook these disturbing income trends in your attacks on our overview paper.

*Statement: 'Tasmania's income per head has risen from about 78 per cent of the mainland average at the beginning of this decade to 85 per cent of the mainland average in 2006-07'*

We found this statement most intriguing. Our data, sourced from the Australian Bureau of Statistics (Cat. 5220.0 Table 1), indicates that Tasmanian Gross State Product per capita increased from 78.9 per cent of the mainland average in 2001 to 81.7 percent of the mainland average in 2007. Yet if we look just two years before your chosen start date in 1999 the Tasmanian Gross State Product per capita was 82.3 per cent of the mainland average – by your own chosen measure Tasmania has gone backwards over ten years. We note that for your comparison you managed to choose the lowest income per head in 18 years.

*Statement: 'Tasmania's unemployment rate is for the first time in 30 years below the national average'*

We acknowledge that since April this year the Tasmanian unemployment rate has been below the national average. However, this does not obscure the fact that the unemployment rate in Tasmania has persistently been above the national average rate since February 1978 – indeed we calculate the Tasmanian unemployment rate has been below the national average 21 times since 1978.

Whereas there has been a slight increase in Tasmania's participation rate in recent months, it continues to remain at levels appreciably below the national

average and has largely done so since the late 1970s. The last time the Tasmanian participation rate was above the national average was August 1979. This poses a real constraint on the capacity of the economy to grow, and for Tasmanian people to enjoy sustained improvements in their living standards.

*Statement: 'over the last six years Tasmania's per capita economic growth rate has been exceeded among the States and Territories only by Western Australia'*

We appreciate that Tasmania's per capita economic growth rate has improved in recent years. But our data, drawn from the ABS, does not show that Tasmania has enjoyed the second highest growth rate in the Commonwealth. In fact Tasmania has only enjoyed the second highest growth rate in two of the past six years (2002, 2005). Furthermore, an examination of GSP per capita on a levels basis shows that Tasmanian output remains the lowest of all jurisdictions.

Your public criticisms of our report also centre on our view that Tasmania, and other States, should become more fiscally self-reliant. You stated during the Stateline interview that if 'Tasmania's share of federal grants were actually reduced, then ... the State's businesses would inevitably be paying more taxes in order to make up for the shortfall in federal grants'.

You have chosen to completely ignore that we argued on page 15 that 'increasing the tax burden is not ideal – that would only act to suppress much needed economic activity'. Your comment also overlooks the fact that reductions in wasteful government expenditure can also help to offset the transition away from Commonwealth mendicancy.

Given your almost exclusive focus on short run data, we direct your attention to a compendium of data compiled by the Federal Parliament Library (online at <http://www.aph.gov.au/library/Pubs/rp/2007-08/08rp14.htm>). It shows that, in 2006–07, Tasmania had the lowest employment growth, highest unemployment rate, highest proportion of long-term unemployed, lowest participation rate, lowest vacancy rate, lowest average weekly ordinary time earnings, lowest GSP per capita, lowest retail turnover, and lowest population growth of all States and Territories. Tasmania also recorded negative growth in business investment and motor vehicle sales.