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Prof. Sinclair Davidson & Ms Julie Novak
Level 12, 239 Bourke Street
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Dear Professor Davidson and Ms Novak

I refer to your letter of 5th November in which you express 'great disappointment' at my remarks on the ABC's Tasmanian *Stateline* program on 31st October about the report which you jointly authored for the Tasmanian Chamber of Commerce and Industry, and to the attachment in which you respond in greater detail to some of the comments I made on that program.

Your assertion that my observations on your work were 'unsubstantiated' is, to a degree, understandable in view of the fact that the segments during which I did substantiate my observations, and in which I enumerated specifically some of what I believe to be errors of fact or interpretation in your report - were edited out of the version of the interview which was actually broadcast - something which, as I am sure you know from your own experience, inevitably happens with pre-recorded interviews.

Beyond that, however, I stand by every one of the statements which I made on that program and have made elsewhere.

Rather than repeat those statements, however, I would like to respond to the specific remarks made in your letter and the attachment.

You acknowledge that my statement that 'the degree of dependence on social security and federal support is actually lessening rather than deteriorating' is true. You then go on to say that this 'does not change' your conclusion that Tasmanians receive on average more in social security than they pay in taxation 'in any way'.

This encapsulates, in a single paragraph, the problem I have with your report. It consists almost entirely of assertions - some of which are backed up by statistics, some of which are not - that Tasmanians are worse off than their mainland counterparts. That is both unarguable and (in the sense that it has been that way for most of the past 205 years) unremarkable.

What you refuse to acknowledge or concede at all is that in many of the respects in which Tasmanians are worse off than their mainland counterparts, the gaps between Tasmanians and their mainland counterparts *have* been narrowing. That is, that Tasmania *has* been making progress, and in some cases significant progress, in tackling many, though certainly not all, of the factors which have for the best part of two centuries resulted in Tasmanians being less well off than their mainland counterparts.

This progress is reflected in the fact – a fact which your report nowhere mentions or acknowledges – that Tasmania's share of GST revenues has fallen from 4.5% to 3.8% during the nine years since the GST was introduced. That is, Tasmania *has* been reducing its 'dependence' (in your words) on the Commonwealth.

Your approach, if applied to a comparison of (say) China and the United States, would hold that because Chinese citizens are (still) less well off in almost every respect than United States citizens, the fact that the gaps between the average Chinese and the average American were narrowing (indeed, narrowing rapidly) was entirely irrelevant.

Among the reasons why an above-average proportion of Tasmanians receive government pensions and allowances is that 15.2% of Tasmanians (at the 2006 Census) are of pensionable age, compared with the national average of 13.5%. This is true of most regions of Australia outside of the four largest cities, Canberra and Darwin; why should one expect that Tasmania would be any different in this regard?

You take particular exception to my statement that 'Tasmania's income per head has risen from about 78% of the mainland average at the beginning of this decade to 85% of the mainland average in 2006-07', and cite by way of counter-argument figures from Table 1 of the 2006-07 edition of ABS *State Accounts* that Tasmania's per capita GSP had risen from 79% to 82% of the mainland average over this period and was actually lower as a proportion of the mainland average in 1998-99. You accuse me of choosing (presumably for the sake of my argument) the year of 'the lowest income per head in 18 years'.

My figures were based on nominal rather than real GSP, because – as you would have known had you been following, in detail, the various arguments about Tasmania's economic performance over the past two decades, or would have learned if you had made enquiries – the Tasmanian Treasury has some reservations (which the ABS for its part acknowledges) about the reliability of the deflators used to compile some of the expenditure components of Tasmania's GSP.

I chose the beginning of the decade as the basis for my comparison precisely because it represented the nadir of Tasmania's under-performance on this parameter. How else is one supposed to ascertain whether Tasmania is making progress in improving its position or not?

Moreover, using nominal rather than real data, Tasmania's per capita GSP in 2006-07 was in fact higher than in any year since 1980-81 (splicing together estimates for the periods before and after 1989-90, when there was a change in the methodology used by the ABS to compile estimates of gross State product).

You say that you 'appreciate that Tasmania's per capita economic growth rate has improved in recent years' – not that there is any acknowledgement of that fact in your report – but then argue that 'your data' does 'not show that Tasmania has enjoyed the second highest growth rate in the Commonwealth'.

This is despite the undeniable fact that Tasmania's nominal per capita GSP growth over the past six years of 7.6% per annum and its nominal per capita GSP growth of 2.6% per annum, on average, are exceeded only by Western Australia. That this might be largely attributable to a couple of years during this period, rather than being true of every single year during it, is a reflection of the fact that GSP growth for a small jurisdiction like Tasmania is inherently more volatile than for the larger States, and for Australia as a whole.

The facts that Tasmania's per capita GSP has risen faster than in any other State except resource-rich WA so far this decade, and has risen relative to the mainland average during the current decade, were the basis for my assertion that the only way one could have drawn the conclusions which you did about Tasmania's economic performance was by holding the charts upside down (as illustrated in the attached charts). It is a characterization by which I stand.

Although you do not contest the fact that 'Tasmania's unemployment rate is for the first time in 30 years below the national average', you purport to dismiss the significance of it by pointing to the historically above-average rate of unemployment in Tasmania, and by the fact that Tasmania's labour force participation rate remains, as it has long been, below the national average.

This is another striking example of your unwillingness to acknowledge that Tasmania has been making any progress at all.

Surely, the fact that Tasmania's unemployment rate has for five months now been below the national average, after almost three decades of being above it, is a remarkable achievement – especially when one considers that Tasmania has derived little benefit from the resources boom but has been more disadvantaged than most other States (apart from Victoria and South Australia) by the appreciation of the exchange rate which the resources boom until recently brought in its wake.

In the same vein you appear not to have noticed, or have chosen to ignore, the fact that Tasmania's participation rate has of late been rising significantly faster than the national average, and as of October was only 2.1 percentage points below the national average, the smallest margin since September 1993. And this difference is largely attributable to the fact (mentioned above) that the proportion of Tasmania's population aged 65 and over is 1.7 percentage points above the national average (so that the proportion of the working age population aged 65 and over would be above the national average by a larger margin).

I did not suggest, on *Stateline* or anywhere else, that you have argued for an increase in Tasmania's State tax burden. I would not have expected anyone affiliated with the Institute of Public Affairs to support higher taxes anywhere, any time, and nor do I think that any good would come from increasing Tasmania's State taxes.

However it is surely incontrovertible that, were Tasmania to receive less by way of financial assistance from the Commonwealth than it does at present, then either State spending would need to be reduced or State own-source revenues would need to rise. And since, according to the Commonwealth Grants Commission's figures on which your report in part relies, Tasmania's 'level of service provision ratio' (excluding debt charges, superannuation and depreciation, over which no State Government has any control in the short- or medium-term) is only 2% above the all State and Territory average, while its 'revenue-raising effort' ratio for State taxes is 4.5% below the all State and Territory average (a figure which you show in the only table presented in your report, but whose significance you obviously fail to grasp, since you assert in contradiction of that figure that Tasmania's tax system is 'top heavy'), it seems inevitable that an increase in State taxes would be more likely than a reduction in State spending.

Nowhere have I ever suggested, as you assert, that 'Tasmania's finances should not be scrutinized for fear of drawing attention to them', or that Tasmania's economic condition could be improved by 'keeping secret its financial performance'.

On the contrary, there is probably no-one other than the ratings agencies and the Commonwealth Grants Commission who has subjected Tasmania's finances to more intensive scrutiny than me. I have undertaken and published a detailed analysis of Tasmania's State Budget Papers and Mid-Year Budget Review for each of the last five years (copies of which are posted on the ANZ Economics website). More than almost anyone else, I have been critical of the lack of disclosure and transparency in the Tasmanian Budget Papers; and would like to think that my criticism has played some role in prompting a substantial increase in the quantity and quality of financial information now provided in the State Budget Papers in recent years – not that your report shows any sign of having had any regard to the information which is now available in the Tasmanian Budget Papers.

I do not for one minute contest or deny that there remain significant gaps, on a variety of economic and social indicators, between Tasmania and other parts of Australia. Indeed, I have been drawing attention to these gaps for over a decade, beginning with the 42-page submission which I authored on behalf of ANZ to the Nixon Inquiry of which you are apparently so enamoured.

And I agree absolutely that Tasmanians have suffered from the 'poor policy choices' made by previous State Governments – and in particular, by the one led by Robin Gray in the 1980s, which in my view ranks second in the post-War era only to the Victorian Government led by John Cain when it comes to fiscal and economic incompetence.

Unlike you, however, I have consistently put forward concrete suggestions as to how those gaps might be narrowed. I have put forward an alternative vision of Tasmania's future based on the production and marketing of highly differentiated goods and services embodying a high intellectual content and for which consumers are willing to pay high prices, in contrast to Tasmania's historical preference for the volume production of essentially undifferentiated commodities competing almost solely on the basis of price.

Unlike you, I have been willing to acknowledge that, since the mid-1990s, successive Tasmanian Governments have made better policy choices than their predecessors.

And unlike you, I have acknowledged that in at least some areas, significant progress has been made in narrowing the gaps between Tasmania and the rest of Australia.

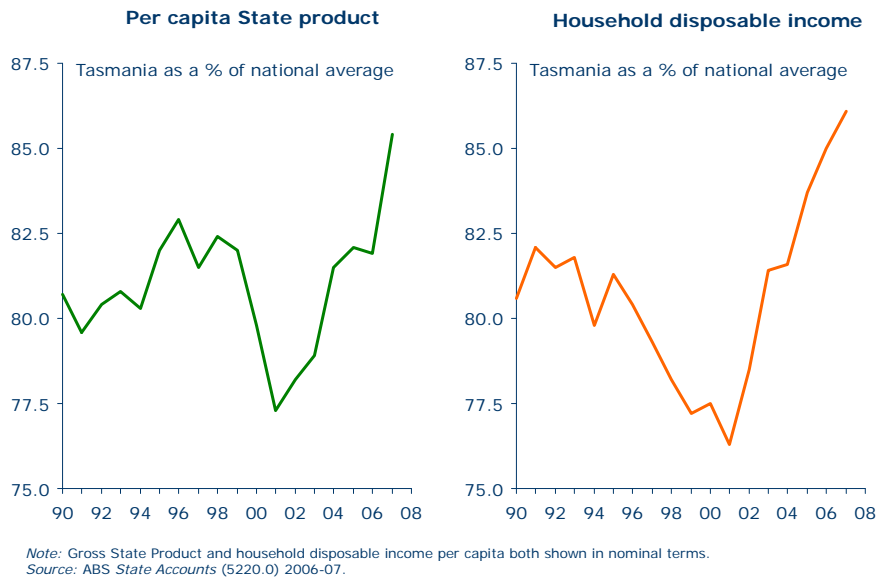
Even your colleague Jeffrey Rae, whose article in the September 2002 edition of the *IPA Review* your report appears closely to resemble, was willing to acknowledge that 'the Tasmanian Government is making serious attempts to turn around the State's dismal economic performance' and had 'made progress on addressing some of the fundamental causes of [what he referred to as] the Tasmanian problem'. You have been unprepared to concede even that.

Notwithstanding all of the above, I would be happy to take up your invitation to discuss your report, and suggest that we make arrangements to do so at a mutually convenient time after mid-December or during January.

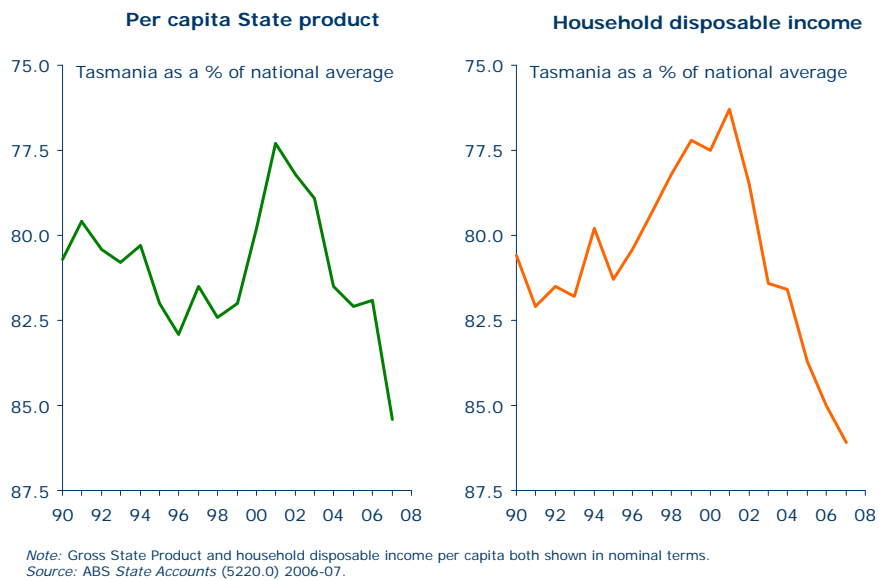
Yours sincerely

(Saul Eslake)

How I view data on Tasmania's output and household income relative to the mainland ¹

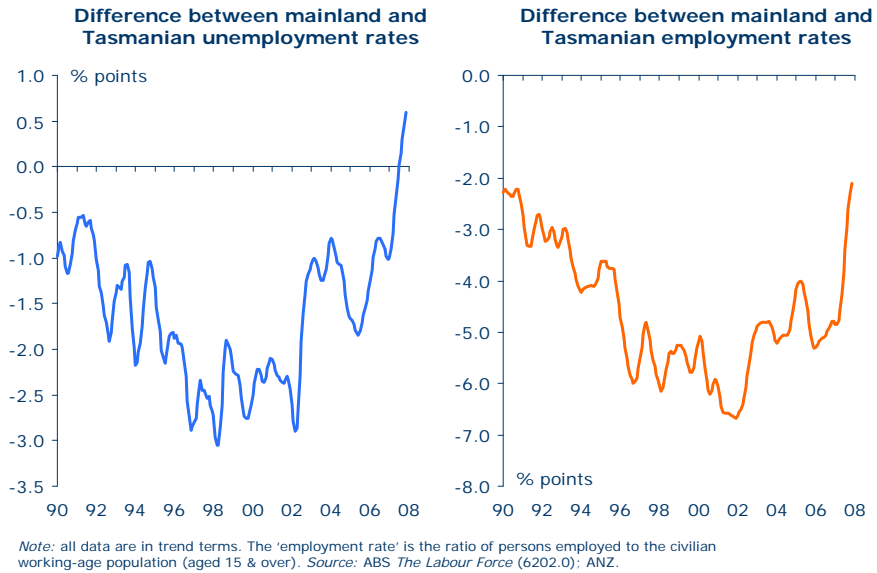


How Davidson & Novak apparently view data on Tasmania's output and household income relative to the mainland ²



How I view data on Tasmania's labour market performance compared to the mainland's

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How Davidson & Novak apparently view data on Tasmania's labour market performance relative to the mainland's

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