

# **The Tasmania Report 2017**

Prepared for the

**Tasmanian Chamber of Commerce and Industry**

by

**Saul Eslake**

Independent Economist and Vice-Chancellor's Fellow  
at the University of Tasmania

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# From the Chair

SUSAN PARR



It is with great pleasure and pride that I introduce this third Tasmania Report to you. It is remarkable both in the quality of the data, the analysis and the themes identified by Saul Eslake, as well as the unique partnership that makes the funding of the report possible. The idea that the Tasmanian Chamber of Commerce and Industry and TasCOSS together with partners Bank of us, Chartered Accountants Australia and New Zealand, the Federal Group, Southern Cross Television and the Mercury Newspaper could combine in a partnership that provides all of us with key data continues to disrupt conventional attitudes around likely partnerships formed for the benefit of all Tasmanians.

As engaged Tasmanian leaders, you all know the significance of accurate data in measuring and managing key objectives and the benefits of positive relationships with stakeholders who join with us in striving to achieve a better Tasmania for all and who recognise that prosperity and wellbeing are intrinsically linked at an individual and community level. It is gratifying to note that many organisations like Tasplan Super, are now using the Tasmania Report in their planning.

The significance of economic indicators alone can cloud vision and judgement. The juxtaposition of social and economic indicators informs a fuller appreciation and prompts debate about the priorities that Tasmania must set. Of course, State Government plays a huge part in the achievement of community priorities, but Local Government, health and education institutions, industry, businesses, community groups, households and individuals have a responsibility to look beyond self-interest and professional empires, and understand and act for the needs of Tasmania as a whole.

Tasmanians are the unhealthiest, oldest, worst educated, most under-employed and most dependent on Government benefits in Australia. This is not sustainable and if it continues will condemn a large number of Tasmanians to unproductive lives with compromised opportunities for employment, personal fulfilment and community engagement. The flow on effects mean increasing health costs, more people who feel alienated from society, and who in turn, have no stake in developing communities.

Traditionally, business has not examined the qualitative indicators of Tasmania's success such as housing, education and health.

The TCCI believes that the true measure of a successful Tasmania must include improved achievements in these areas as well as the quantitative indicators of employment, infrastructure development, levels of taxation and the costs of doing business in an island state with a static population and limited transport options.

The recent Productivity Commission Report *Shifting the Dial: 5 year productivity review (October 2017)* highlights the need for "a new agenda focused on individuals. Getting better outcomes involves new agendas involving the non-market economy (mainly education and healthcare), the innovation system, using data, creating well-functioning cities and re-building confidence in institutions."

As we approach the next State election, it is essential the each of the parties seeking government commit to a clear strategic plan designed to achieve measurable outcomes in education and training, health and infrastructure underpinned by a commitment to rebuild confidence in our institutions.

This will require leaders with courage, vision and valour to see beyond political horizons to deliver policies that avoid the future as described by the Productivity Commission. Mediocrity is not the future Tasmanians deserve.

The TCCI envisages Tasmania as the most successful state in the Commonwealth. The measures of that success include prosperity but depend on education standards and good health and confidence in our institutions.

With the publication of the third Tasmania Report, the TCCI will continue to track Tasmania's progress towards the attainment of improved results in jobs, construction, exports, new businesses, housing, health status and educational achievement.

I commend the report to you all.

**Susan Parr**  
Chair  
Tasmanian Chamber of Commerce and Industry

# A social vision for Tasmania

TasCOSS CEO



In the three years since the first TCCI Tasmania Report the story of Tasmania has evolved and our vision and sense of who we are and who we want to be is starting to look very different.

Education and health, low household incomes, housing affordability and the essentials of life such as energy, healthy food and transport continue to be major issues. Every year 5000 households go without meals, 7000 can't afford to heat their homes and over 21,000 struggle to pay their bills on time.

But the evidence is building: We don't want this to be the story of our future. The people of Tasmania know that things can change.

The first indication of this major change was the outcome of the federal election in 2016 and the loss of three House of Representative members who demonstrated a deep ignorance of the views of their constituency. Our rejection of those views at the polls was the first strong evidence that Tasmanians wanted a new way of thinking and the first major twist in our traditional story. The 63.6% Yes vote for marriage equality from Tasmania shows that this isn't a one off.

These messages paint a strong picture of who we are: progressive change-makers who want our communities and our state to be fair, equal and inclusive.

This hasn't always been our traditional narrative. Our story has long been one of power that sat with a few and often negatively impacted many – the sobering data in the Tasmania Report is the legacy of this approach.

The evidence is building: We don't want this to be the story of our future.

People and communities matter to Tasmanians, it is at the heart of who we are. It is what connects us all, the threads of humanity that run through a small state like Tasmania. This is why Tasmanians want the voices and needs of those on the margins brought to the centre.

But change is hard. Our story, the culture and the perceptions of who we are, runs deep. We tend to default to discussion about our deficits and, in doing so, quickly lose sight of our greatest potential asset – our people. People are not born a liability. Our systems, our cultures, our ingrained attitudes can cause people to be marginalised and not able to participate, socially or economically. In fact, people are the competitive advantage we have to leverage a new future.

To change, we need to invest differently – in communities and people, in the same way we invest in projects of state significance, in industries, in tourism infrastructure.

Our story should be about all, not some.

We need a bold government to take us there. A government striving for truly "balanced books", not just measuring that balance economically, but also outcomes for people. This then pays dividends, in health, education, employment, participation rates and the strength and resilience of our communities.

The first chapters of our new story of our state have been written by all of us and they herald a Tasmania that is fair, just and inclusive. We are poised at the start of our next chapter and it is our job as Tasmanians to act and to tell our decision-makers what we want our story to be.

**Kym Goodes**  
CEO

Tasmanian Council of Social Service

## Section 1: Tasmania's economy

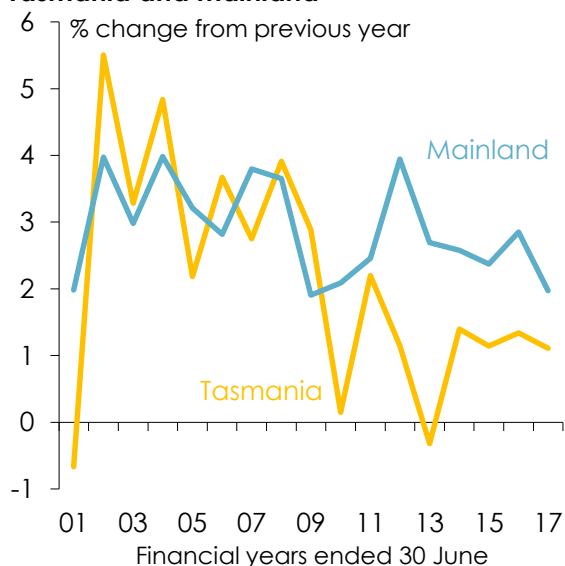
### Tasmania's overall economic performance in 2016-17

Tasmania's economy – as measured by chain-volume or 'real' gross state product (GSP)<sup>1</sup> – grew by 1.1% in 2016-17, in line with the most recent Treasury forecast (though well below the original 2016-17 Budget forecast of 2¼%), and down slightly from 1.3% in 2015-16. Over the past four years, Tasmania's economy has grown at an average annual rate of 1.3%, up from an average of 0.8% over the preceding three years. The ABS has upwardly revised its previous published estimates of Tasmania's economic growth since 2000-01 – for further discussion see Box 1.

Tasmania's economy grew more slowly than the national average in 2016-17, as it has done every year since 2008-09 (Chart 1.1). Over the eight years since then, Tasmania's economy has grown at an average annual rate of 1.0%, well below the national average of 2.6% per annum. As a result, Tasmania's share of the national economy has continued to decline, from 1.9% in the years preceding the onset of the global financial crisis, to 1.7% in 2016-17.

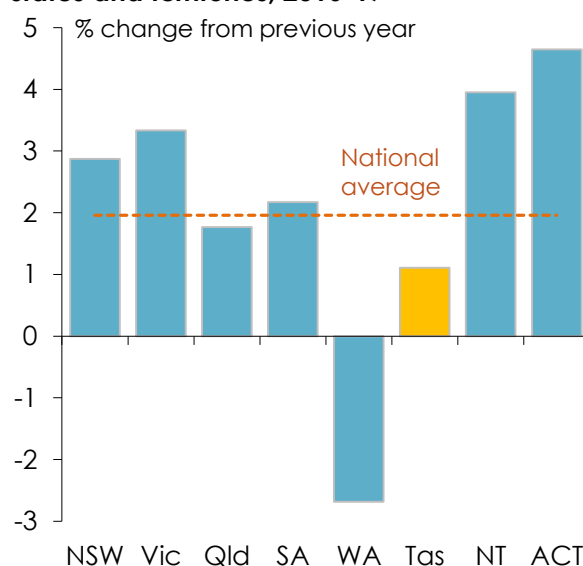
Tasmania's growth rate in 2016-17 was slower than that of any other state or territory, with the exception of Western Australia, where economic activity contracted by 2.7% in 2016-17 (Chart 1.2). Western Australia's result was the worst outcome for any state or territory since 1991-92.

**Chart 1.1: Growth in real gross state product, Tasmania and mainland**



Source: ABS, *State Accounts* (5220.0), 2016-17.

**Chart 1.2: Growth in real gross state product, states and territories, 2016-17**



Source: ABS, *State Accounts* (5220.0), 2016-17.

<sup>1</sup> For a more detailed explanation of what GSP measures and how it is derived, see ABS, [Australian System of National Accounts: Concepts, Sources and Methods, 2015](#) (5216.0), Chapter 21, pp. 468-523, or the explanatory notes to ABS, [Australian National Accounts: State Accounts 2016-17](#) (5220.0). The Tasmanian Treasury continues to harbour significant reservations about the 'reliability and volatility' of ABS estimates of GSP and other key data for Tasmania (see Tasmanian Government, [Budget Paper No. 1, May 2017](#), p. 28). Nonetheless, the ABS data provide the only basis for analysing the performance of the Tasmanian economy over time, and for making comparisons between Tasmania's economic performance and that of other states and territories, and hence are used throughout this Report.

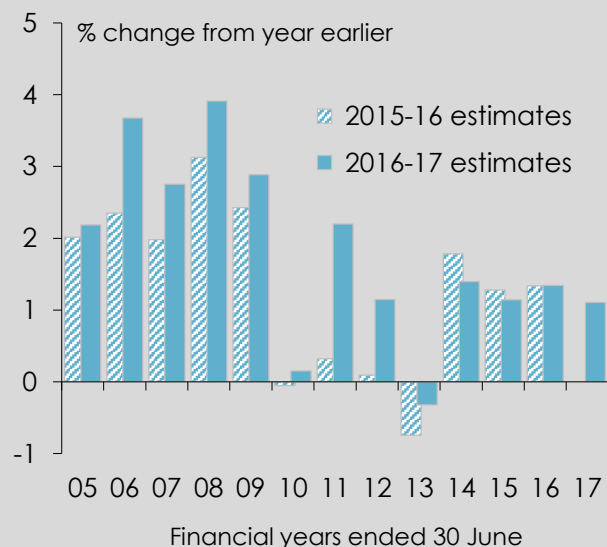
### Box 1: Tasmania's economy is larger than previously thought

The latest ABS State Accounts incorporate significant revisions to previously published estimates of the growth rate and size of the Tasmanian economy. As a result, Tasmania's real gross state product is now estimated to have grown at an average annual rate of 2.2% between 2000-01 and 2015-16, as against 1.8% according to the corresponding estimates published this time last year.

In particular, the Tasmanian economy is now estimated to have grown more rapidly over the five years to 2008-09, at an average annual rate of 3.1%, 0.7 pc points per annum faster than previously reckoned; and not to have fared quite as poorly over the following four years as previously reported, growing at an average annual rate of 0.8% between 2009-10 and 2012-13 rather than contracting at an average annual rate of 0.1% as previously reported. The previously reported growth rate for the three years to 2015-16 has been revised down by 0.2 pc points per annum, to 1.3% per annum (see Chart B1.1 below).

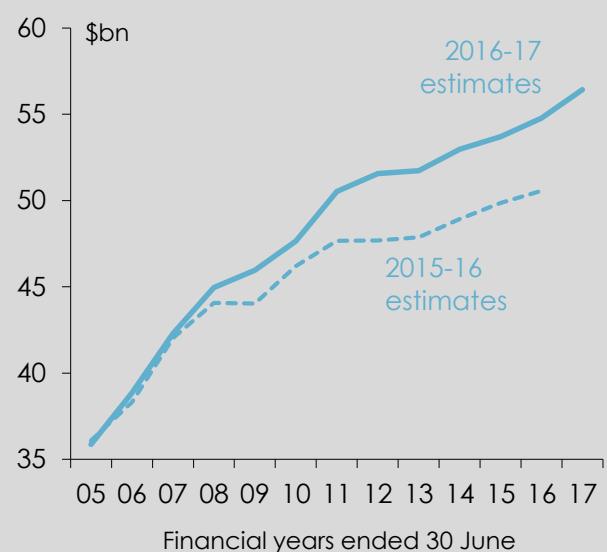
As a result of these revisions, Tasmania's economy is now estimated to have been \$4.2bn, or 8.3%, larger in 2015-16 than reported a year ago (Chart B1.2).

**Chart B1.1: Latest and previous estimates of growth in Tasmania's real gross state product**



Source: ABS, *State Accounts* (5220.0), 2015-16 & 2016-17.

**Chart B1.2: Latest and previous estimates of the size of Tasmania's gross state product**



Source: ABS, *State Accounts* (5220.0), 2015-16 & 2016-17.

These revisions are the result of significant historical revisions to the ABS national accounts which are made every five years or so to incorporate updated data sources (including the 2016 Census) and changes in methods and classifications, as well as other revisions to state-based data. On these occasions the revisions have been larger for Tasmania (and the ACT) than for other states (or the NT), or for Australia as a whole.

Among other things this means that Tasmania's per capita gross product did not decline as sharply relative to that of Australia as a whole as previously reported (and discussed in last year's *Tasmania Report*). The significance of this is discussed in more detail later in this Section. The revisions also imply that measures such as government spending or net debt will be slightly smaller when expressed as percentages of gross product (all else being equal) than previously reported.

As is traditionally the case, Tasmania's relatively slow population growth detracted from its economic performance by comparison with the rest of Australia. Tasmania's population increased by 0.6% in 2016-17, the fastest growth rate since 2010-11. However that was still a percentage point below the national average.

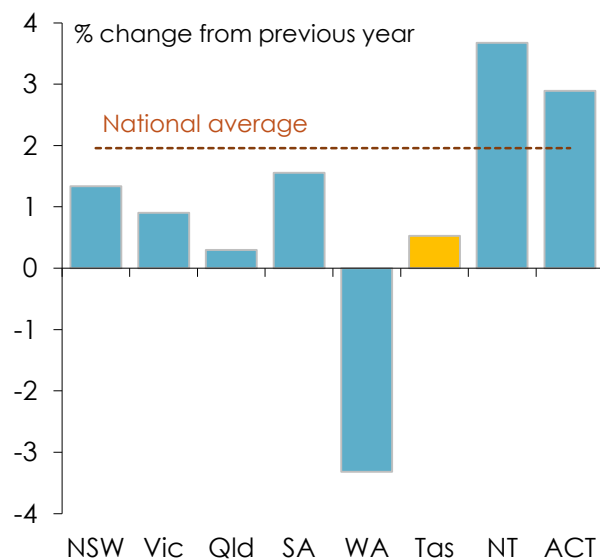
Abstracting from differences in population growth, Tasmania's **per capita gross product** increased by 0.5% in 2016-17. This was slightly above the national average of 0.4% (a figure which was dragged down 0.7 percentage points by the 3.3% decline in Western Australia) (Chart 1.3), but lower than in any year since 2013-14.

Over the past four years, Tasmania's per capita real growth rate has, on average, matched the national figure of 0.9% per annum, a performance exceeded only by New South Wales and the two Territories. This comparison has not been greatly affected by the revisions to previously published ABS estimates described in Box 1 above.

However, those revisions have significantly raised Tasmania's per capita real growth rate over the previous decade – from an average of 0.9% per annum previously reported to an average of 1.6% per annum according to the latest estimates. By contrast, the average real per capita growth rate of the mainland states and territories over the ten years to 2012-13 remains unaffected by these revisions, at 1.4% per annum.

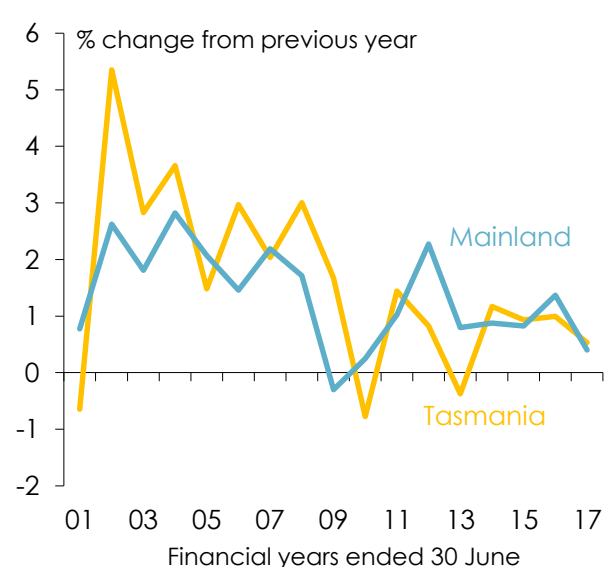
Put differently, Tasmania's economic performance as measured by real per capita growth in gross state product exceeded that of the rest of Australia by a wider margin than previously thought over the years preceding the onset of the financial crisis; and fell behind that of the rest of Australia by a smaller margin than previously thought over the four years after the financial crisis.

**Chart 1.3: Growth in real gross state product, per capita, states and territories, 2016-17**



Source: ABS, State Accounts (5220.0), 2016-17

**Chart 1.4: Growth in real per capita gross state product, Tasmania and mainland**



Source: ABS, State Accounts (5220.0), 2016-17



## Performance of key sectors of Tasmania's economy in 2016-17

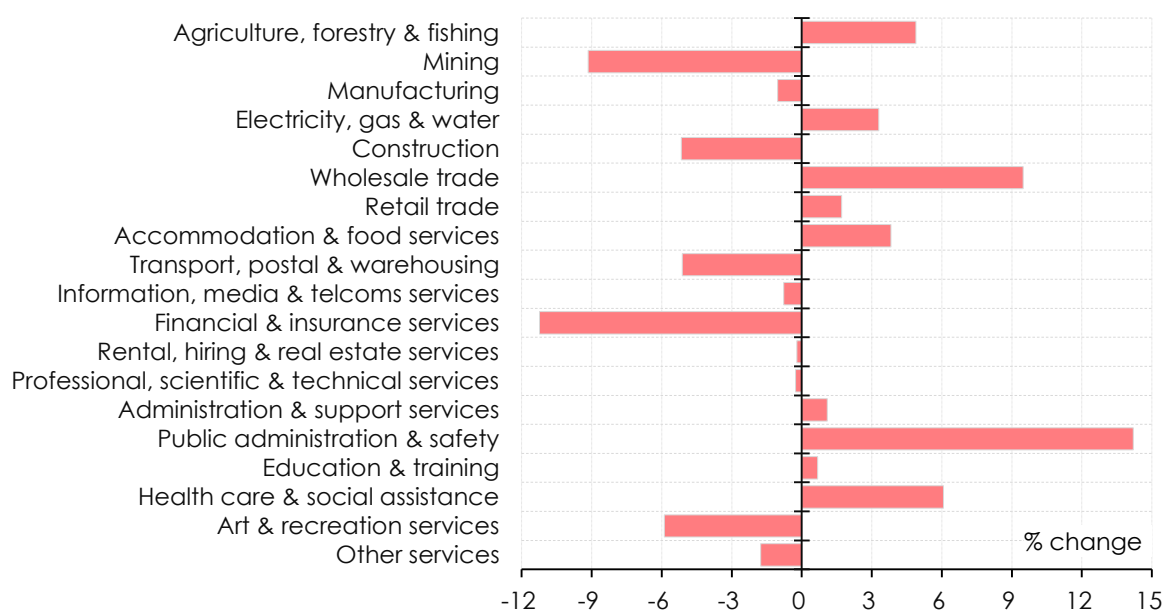
The industry detail of the ABS State Accounts (see Chart 1.5 below) suggests that the growth in Tasmania's economy during 2016-17 was largely driven by four sectors – **public administration and safety**, the estimated output (gross value added) of which increased by 14.2% (more than reversing a 7.7% decline in 2015-16); **health care and social assistance** (the largest individual sector of the Tasmanian economy), where output increased by 6.1%; **agriculture, forestry and fishing** (the second-largest sector of the Tasmanian economy), which recorded a 4.9% increase in value added, following on from a 4.7% increase in 2015-16 (previously reported as an 8.2% decline); and **wholesale trade**, in which output rose by 9.5%.

Other sectors recording growth in 2016-17 included **accommodation and food services** (where value added increased by 3.8%), **electricity, gas, water and waste services** (3.3%), **retail trade** (1.7%), and **education and training** (0.7%).

Value added in **mining** fell by 9.1% in 2016-17, the third consecutive large decline, while the **financial and insurance services** sector contracted by 11.2% (partially reversing a reported 30.8% increase in 2015-16) and the **construction** sector by 5.2% (following an 8.9% decline in 2015-16). The declines in activity in these three sectors sliced almost 1.5 percentage points off Tasmania's overall economic growth rate in 2016-17. Other sectors to record significant declines in value added in 2016-17 were **transport, postal and warehousing services** (down 5.1%), **art and recreation services** (down 5.9%), and **manufacturing** (down 1.0%, after a 9.4% decline in 2015-16).

It's unclear what has driven the large recorded swings in the public administration and safety, and finance and insurance sectors over the past two years. It is hard to reconcile these with other data (including on employment in these sectors), or with anecdotal evidence.

**Chart 1.5: Change in real gross value added by industry, Tasmania, 2016-17**



Source: ABS, *State Accounts* (5220.0), 2016-17.

The reported slow growth in the accommodation and food services, and education and training sectors, and the reported contraction in the art and recreation sectors in 2016-17, also seem hard to reconcile with other data, including on visitor numbers and (in the case of art and recreation services) employment.

From a longer-term perspective the latest ABS State Accounts suggest that most of the growth in the Tasmanian economy over the past five years has come from just two sectors:

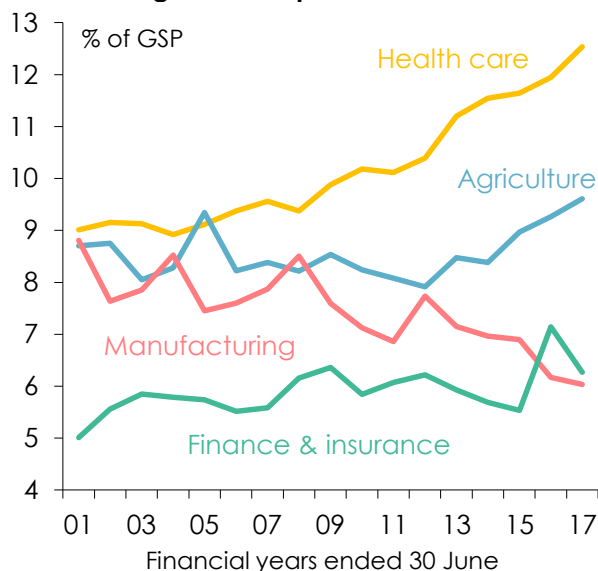
- the health care and social assistance sector expanded by almost 18% over the five years to 2016-17, accounting for nearly 60% of the increase in Tasmania's real gross state product over this period (growth in this sector reflects not only traditional health services but also aged and disability care including the NDIS);
- while the agriculture, forestry and fishing sector has expanded by 19% over the past five years, accounting for 45% of the increase in real GSP since 2011-12.

Other sectors to have recorded strong growth over the past five years were information, media and telecommunications (20%); rental, hiring and real estate services (23%); and (despite the large decline in 2016-17) finance and insurance services (11%).

Conversely some of the more traditional mainstays of the Tasmanian economy have contracted significantly over the past five years – including manufacturing (-11%), mining (-22%), and electricity, gas, water and waste services (-17%)<sup>2</sup>.

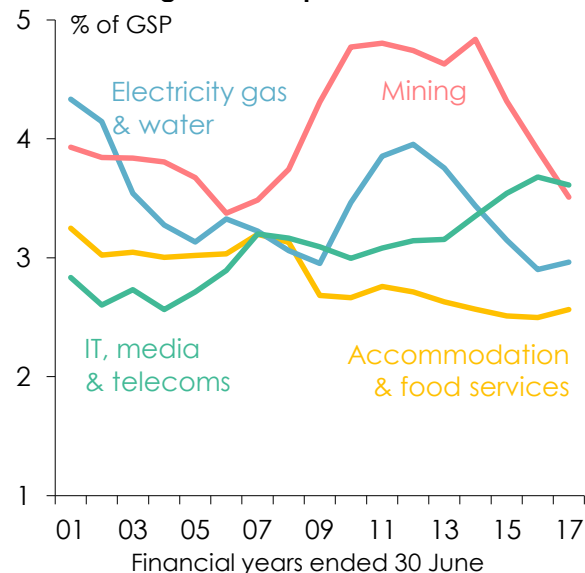
Charts 1.6 and 1.7 illustrate some of the more significant changes in the structure of Tasmania's economy since the turn of the century.

**Chart 1.6: Selected sectors' shares of Tasmanian gross state product**



Source: ABS, State Accounts (5220.0), 2016-17.

**Chart 1.7: Selected sectors' shares of Tasmanian gross state product**



Source: ABS, State Accounts (5220.0), 2016-17.

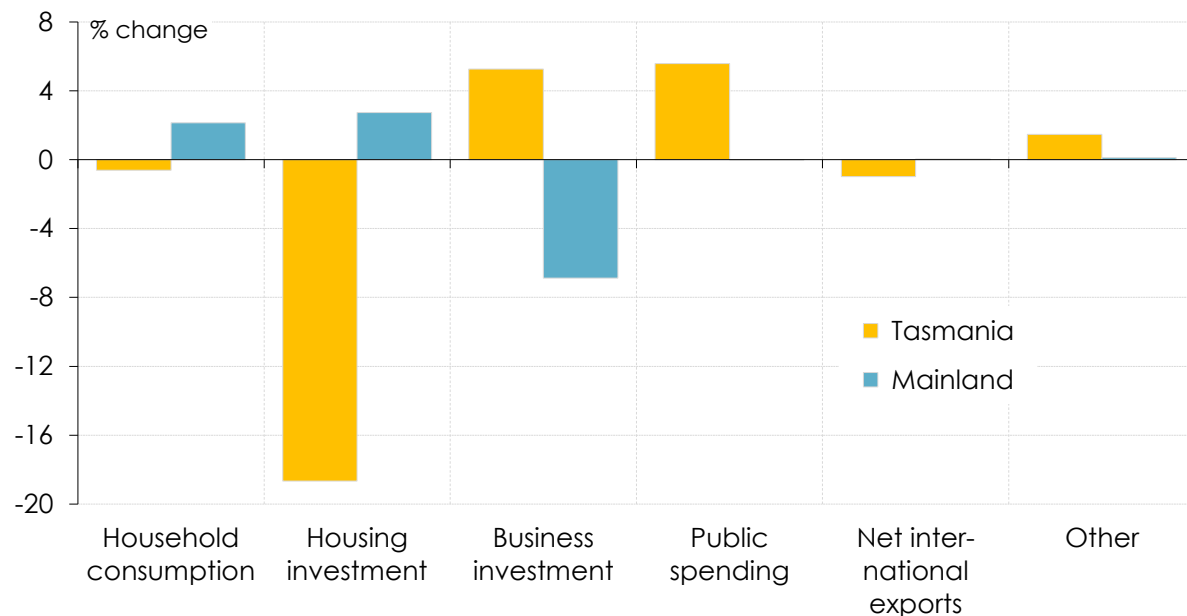
<sup>2</sup> As with the figures for 2016-17, it seems hard to reconcile the reported very slow growth of just 2.5% in the accommodation and food services sector, or the decline of 0.7% in the arts and recreation sectors, over the past five years with other indicators.



## Major expenditure components of Tasmania's economic growth

Chart 1.8 below shows the changes in the major expenditure components of Tasmania's gross state product in 2016-17, alongside corresponding figures for the mainland states and territories as a group.

**Chart 1.8: Changes in major expenditure components of real gross state product, 2016-17**



Note: 'other' (conceptually) includes net interstate exports, and changes in business inventories, although these are not measured directly. Source: ABS, *State Accounts* (5220.0), 2016-17

**Household consumption spending** fell by 0.6% in real terms in 2016-17, after a 4.0% increase in 2015-16. Tasmania was the only state or territory in which consumer spending fell in 2016-17. Year-on-year declines in household spending are in fact comparatively rare: in the history of the ABS State Accounts (which goes back to 1990-91) they have never been recorded in New South Wales, Queensland or Western Australia, and only once in Victoria (in 1990-91), South Australia (in 1992-93), the ACT (in 2008-09) and the Northern Territory (in 2014-15). It has only occurred once before in Tasmania (in 2012-13).

The decline in the total household consumption spending seems to have been driven by a large deterioration in 'net interstate expenditure' – the difference between what Tasmanians spend interstate and what mainlanders spend in Tasmania. Abstracting from that factor, Tasmanian household consumption spending increased by 1.4% in 2016-17.

This deterioration in net interstate spending seems difficult to reconcile with the available evidence on the number of visitors to Tasmania – although there is far less data available on the number of Tasmanians visiting the mainland, or how much they spend whilst there.

However, growth in most other categories of household spending was relatively subdued in 2016-17 – apart from communications (spending on which rose 6.6% in real terms) and furnishings and household equipment (where spending rose by 4.1%).

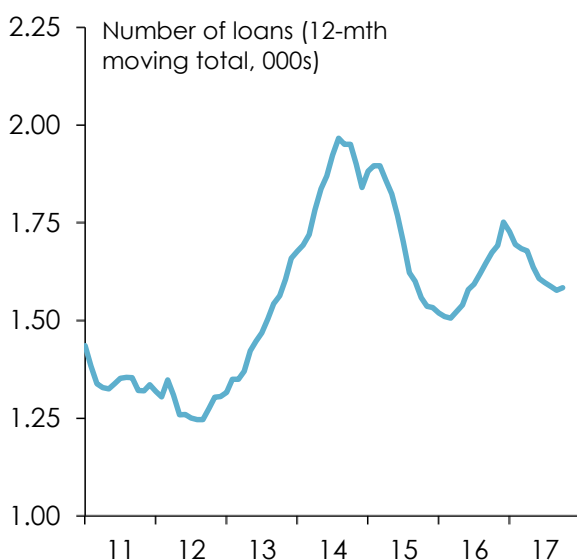
This likely reflects the subdued growth in Tasmanian household incomes. Aggregate Tasmanian household disposable income was unchanged in real terms in 2016-17, the weakest outcome since 2013-14, largely reflecting a decline in real terms in total wage and salary income, together with a (surprising) decline in income from social security benefits.

An even more striking feature of Tasmania's economic performance in 2016-17, according to the ABS State Accounts, was an 18.7% decline in **housing investment**, following a 4.3% decline in 2015-16 and an 18.1% increase in 2014-15. This decline lowered Tasmania's overall economic growth rate in 2016-17 by 0.9 of a percentage point. The *level* of housing investment spending in 2016-17 was the lowest, in real terms, since 2001-02. By contrast, housing investment spending in the rest of Australia rose by 2.7% in real terms in 2016-17, to a new record high (Chart 1.8).

The outsized fluctuations in housing activity in Tasmania over the past three years appear largely attributable to the effects of the \$30,000 'First Home Owners Boost' originally introduced in the 2013-14 State Budget, and extended (at lower levels) in subsequent budgets.

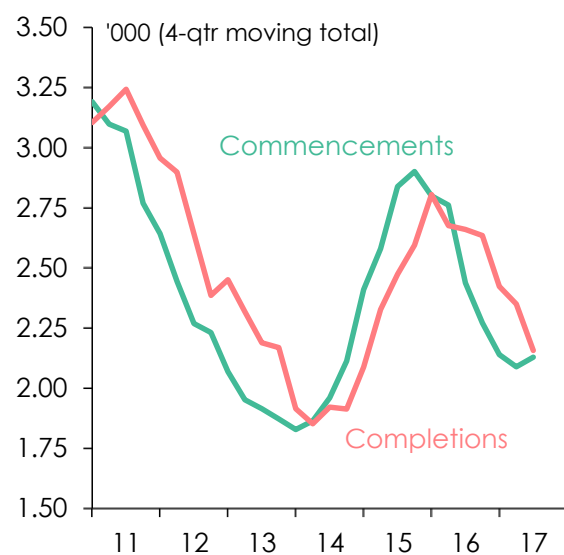
As has almost always been the case on other occasions and in other jurisdictions, the principal effect of cash grants to first home buyers is to 'bring forward' purchases which would otherwise have been made at a later date (as well as, in many instances, to increase purchase prices by the amount of the grant, resulting in a temporary 'spike' in housing activity followed by a subsequent decline (see Charts 1.9 and 1.10). This episode again demonstrates (if it needs demonstrating) that there is no long-term economic benefit to be derived from such schemes.

**Chart 1.9: Finance commitments to first home buyers in Tasmania**



Source: ABS, *Housing Finance* (5609.0), September 2017.

**Chart 1.10: Housing commencements and completions in Tasmania**

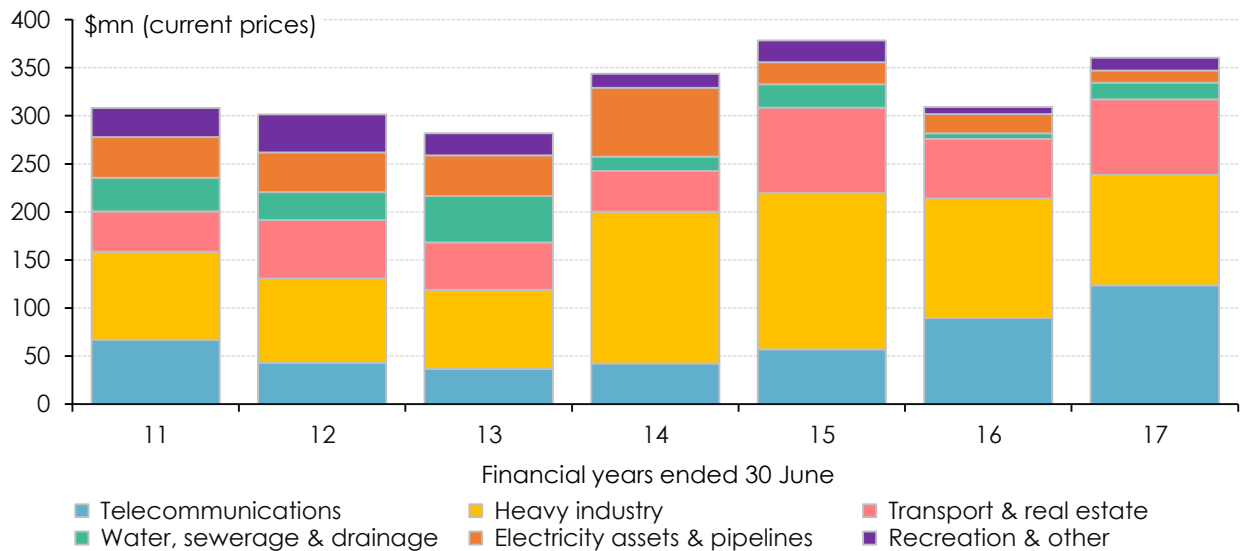


Source: ABS, *Building Activity* (8752.0), June quarter 2017.

Partly offsetting the weakness in household consumption and investment spending was a 5.3% increase in **business investment**, the best outcome in five years and in contrast to a 6.9% decline in business investment on the mainland.

The increase in business investment in Tasmania in 2016-17 largely reflects a 16% real increase in new **engineering construction**. More than half of this was on telecommunications projects, but there were also significant increases in business spending on roads and subdivisions, water storage and supply, and recreation projects (Chart 1.11).

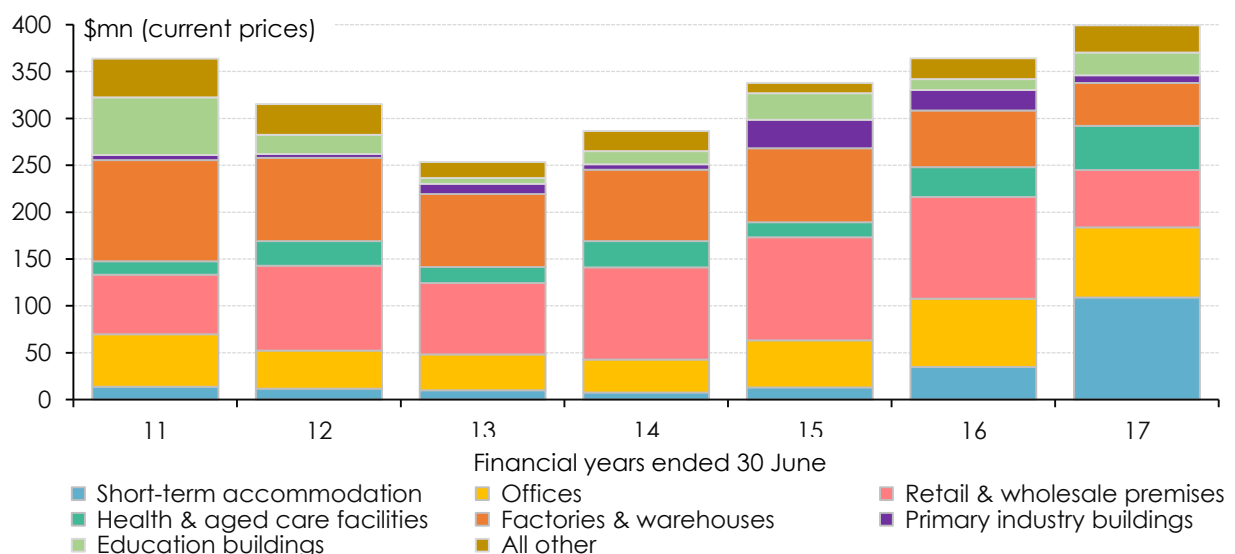
**Chart 1.11: Private sector engineering construction work done, Tasmania**



Source: ABS, *Engineering Construction Activity* (8762.0), June quarter 2017.

Private new **non-residential building** expenditure declined by 1.8% in real terms in 2016-17, after three years of very strong gains (although average prices in this sector rose by 5½%). More work was done on 'short-term accommodation facilities' (mainly hotels) in 2016-17 than in the previous five years combined (Chart 1.12). There was also a significant increase in work done on aged care facilities, while office construction work remained at a high level. However, work done on new factories fell to its lowest level in 15 years, while work on agricultural and aquacultural facilities declined sharply from elevated levels in the previous two years.

**Chart 1.11: Private non-residential building work done, Tasmania**



Source: ABS, *Building Activity* (8752.0), June quarter 2017. Data in this chart are in current prices.

The other major component of business investment, expenditure on **machinery and equipment**, increased by 3.0% in real terms in 2016-17, the largest increase in five years.

**Public sector spending** in Tasmania rose by 5.6% in real terms in 2016-17, in contrast to a marginal decline on the mainland. This was the result of strong growth in both consumption and investment spending by both the national and state governments, and in investment spending by Commonwealth public enterprises (presumably reflecting NBN-related work), partly offset by a decline in investment spending by state and local public enterprises.

Public sector consumption and investment expenditure has directly contributed more than 80% of the increase in Tasmania's real gross state product over three years to 2016-17, according to the latest ABS *State Accounts*. This is in stark contrast to mainland Australia, where public spending (as measured in the national accounts) has declined over the past three years<sup>3</sup>.

The performance of Tasmania's state public sector is discussed in more detail in Section 7.

## Tasmania's trade

The dollar value of Tasmania's **international exports of goods** rose by 3.8% in 2016-17, compared with a 19.6% increase in the value of mainland exports (Chart 1.12). Based on the limited information available publicly, the increase in the value of Tasmania's exports appears to reflect increases in exports of metals (which would have benefited from higher prices, especially for aluminium and zinc), dairy products and paper, partly offset by lower exports of meat, fruit and vegetables, and vessels.

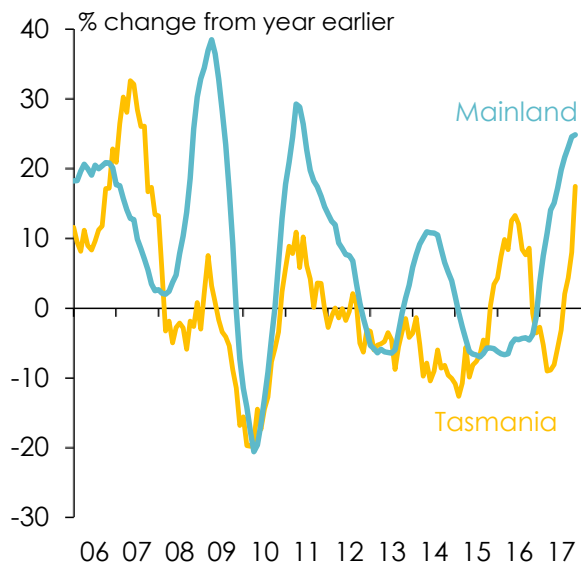
The ABS *State Accounts* dissects this increase in the value of Tasmania's goods exports into an estimated 7.9% increase in average prices, and a 3.8% decline in the volume of international exports – partially reversing an estimated 10.6% decline in prices and a 19.7% increase in volumes in 2015-16<sup>4</sup>.

By destination, the value of Tasmania's merchandise exports to China fell by 23% in 2016-17 after surging by almost 80% in 2015-16 (suggesting that some large one-off exports to China in 2015-16 may have been a significant factor in the large swings in export volumes reported in the ABS *State Accounts*). The value of exports to Taiwan, Korea, the US and the EU also fell in 2016-17, offset by a large increase in exports to ASEAN countries (who collectively represent Tasmania's largest export market), Japan, Hong Kong and India. Chart 1.13 shows the change in the destination of Tasmania's merchandise exports over the past decade.

<sup>3</sup> Note that the measures of public sector expenditures in the ABS national and state accounts only include purchases of goods and services by governments and public corporations, and do not include cash transfers to individuals (pensions and benefits), businesses (subsidies) or other governments (grants).

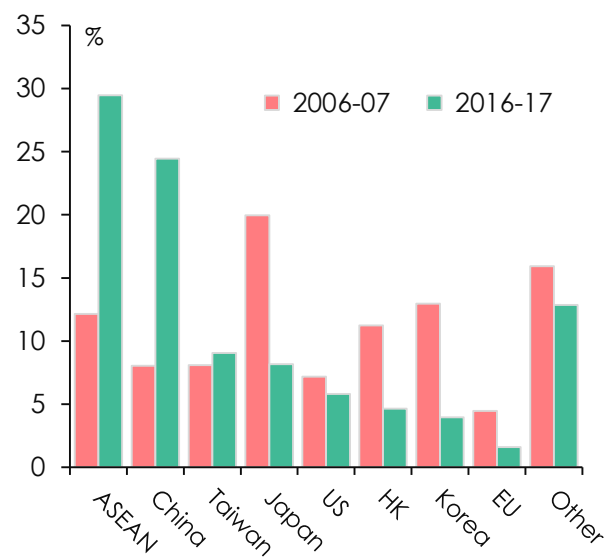
<sup>4</sup> As noted in last year's *Tasmania Report*, the swings in the estimates of the average prices of Tasmania's exports contained in the annual ABS *State Accounts* occasionally seem implausibly large, resulting in similarly implausible movements in estimates of export volumes. To at least some extent, any measurement errors in these estimates of export prices and volumes are offset in the 'balancing item' between the production- and expenditure-based measures of gross state product.

**Chart 1.12: Value of merchandise exports, Tasmania and mainland**



Source: ABS, *International Trade in Goods and Services* (5368.0), October 2017.

**Chart 1.13: Tasmania's merchandise exports, by destination**

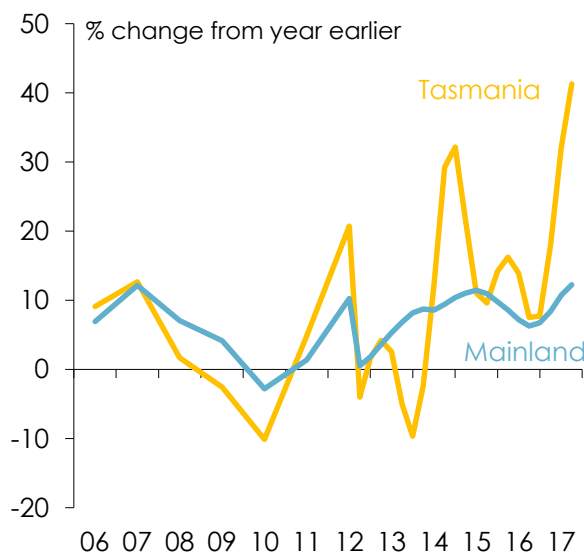


Source: ABS, *International Trade in Goods and Services* (5368.0), October 2017.

The value of Tasmania's **international exports of services** rose by 16.7% in 2016-17, the third consecutive large gain (Chart 1.14). Services exports now account for 19% of the total value of Tasmania's international exports, up from 10.7% in 2006-07, and for 2.7% of gross state product, up from 2.2% a decade ago. However, Tasmania is still some way behind the mainland with regard to the importance of services exports, which account for 21.9% of total mainland exports and 4.7% of mainland gross product (Chart 1.15).

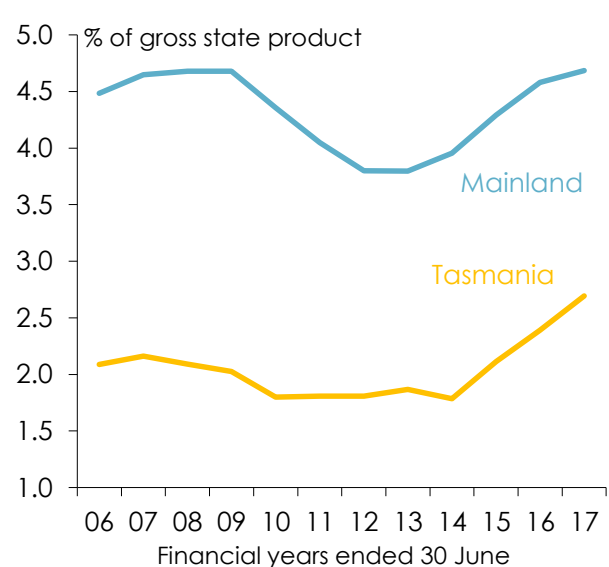
**Tourism** has been a significant contributor to the growth in Tasmania's services exports in recent years – see Box 2.

**Chart 1.13: Value of services exports, Tasmania and mainland**



Source: ABS, *Balance of Payments and International Investment Position* (5302.0), September quarter 2017.

**Chart 1.14: Services exports as percentages of gross product**



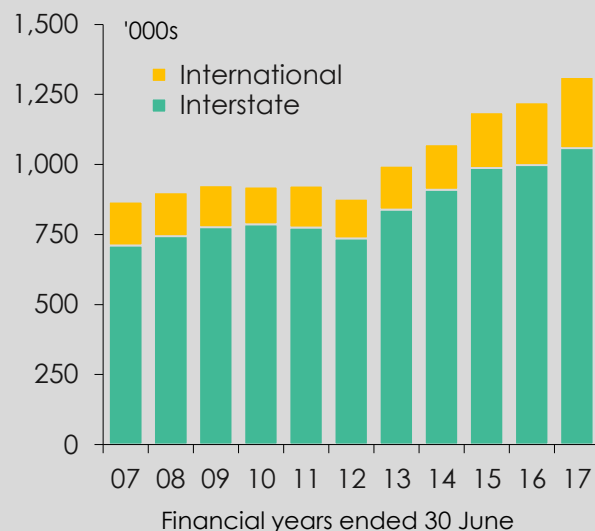
Source: ABS, *State Accounts* (5220.0), 2016-17.

## Box 2: Tasmania's tourism industry

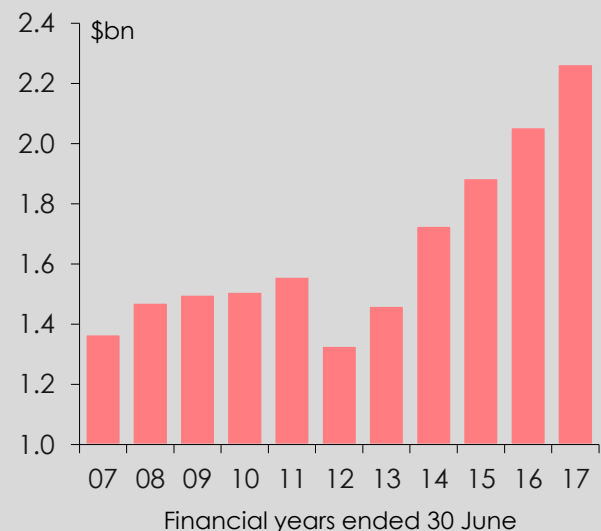
Tasmania's tourism industry has experienced significant growth over the past five years. Total visitor numbers rose by more than 48% over the five years to 2016-17, compared with less than 4% over the preceding five years (Chart B2.1). More than one-quarter of this increase is attributable to international visitors, whose numbers have grown by almost 80% over the past five years, while the number of interstate visitors has grown by 44% over this period.

Although the average number of nights spent by visitors to Tasmania has not changed much over this period, the average visitor spend has increased by about 15%, so that total visitor spend has increased by more than 70% over the five years to 2016-17 (Chart B2.2), or from about 5% to about 7¼% of gross state product. Employment in tourism-related sectors (accommodation and food services, and art and recreation services) has increased by almost 122,000 – more than half the increase in total employment in Tasmania over the past five years.

**Chart B2.1: Visitors to Tasmania**



**Chart B2.2: Spending by visitors to Tasmania**



Source: Tourism Tasmania, *Tasmanian Visitor Survey*.

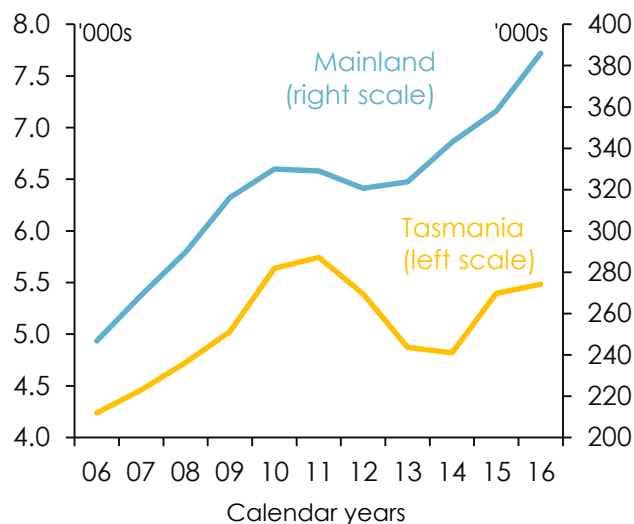
Tasmania's tourism industry was adversely affected by the appreciation of the A\$ during the 'mining boom' and has benefited from the substantial depreciation which occurred between 2012 and 2015. However, the continued growth in visitor numbers despite a gradual rise in the A\$ since early 2016 suggests that other factors have also been important – including the development of new attractions (such as MONA and its associated festivals, other cultural and sporting events, food and wine tourism, and new walking and hiking trails), the enhanced exposure provided by Chinese President Xi Jinping's visit in November 2014, successful marketing, and improved access through growth (of over 40%) in the number of aircraft seats into Tasmania.

As noted earlier in this section, the growth in Tasmania's tourist industry suggested by these statistics does not appear to be fully reflected in the industry detail of the ABS *State Accounts*, for reasons that are not immediately clear. It may be that some of the growth in spending by visitors to Tasmania has been offset by growth in spending by Tasmanians interstate (something on which far less data is available, but which would have also been facilitated by growth in airline capacity, among other things).



Another contributor to the growth in Tasmania's services exports is **education**. The number of overseas students enrolled at the University of Tasmania (including the Australian Maritime College) has risen from just over 4,800 in 2013 and 2014 to almost 5,500 in 2016 (the latest year for which data are available). However, this remains short of the peak level of enrolments attained in 2011.

**Chart 1.15: International higher education student enrolments, Tasmania and mainland**



Source: Commonwealth Department of Education and Training, uCube.

By contrast, overseas enrolments at mainland higher education institutions have grown more rapidly than in Tasmania over the past three years, and are now well in excess of their previous peak in 2011 (Chart 1.15).

Tasmania has less than 1½% of Australia's total overseas higher education student enrolments, below its 2% share of Australia's total population. This suggests that there is potential for further growth in overseas student numbers in Tasmania – something which would also contribute to further growth in international visitors, via students' families and friends.

Tasmania's direct **international imports of goods and services** rose by 14.4% in real terms in 2016-17, the largest increase in five years. This was presumably driven by the increase in business investment in machinery and equipment (which is particularly import-intensive) noted earlier (and possibly by increased spending on telecommunications networks), as well as by a 10% increase in services imports.

In practice, a large share of Tasmania's imports come via the mainland, just as a proportion of Tasmania's exports leave Australia via the mainland. These transactions, together with Tasmania's exports to and imports from the rest of Australia and changes in the level of business inventories – none of which are directly measured – are implicitly captured in the 'balancing item' on the expenditure side of the ABS *State Accounts*. As shown in Chart 1.8 above, this 'balancing item' contributed 1.5 percentage points to growth in Tasmania's gross state product in 2016-17, the first positive contribution in four years.

At face value, this suggests that interstate trade (that is, between Tasmania and the mainland) contributed positively to growth in Tasmania's economy in 2016-17, in ways not otherwise captured in the ABS *State Accounts* – although given that this 'balancing item' also includes other items (including measurement errors) it is difficult to be definitive on that score.

## Near-term prospects for Tasmania's economy

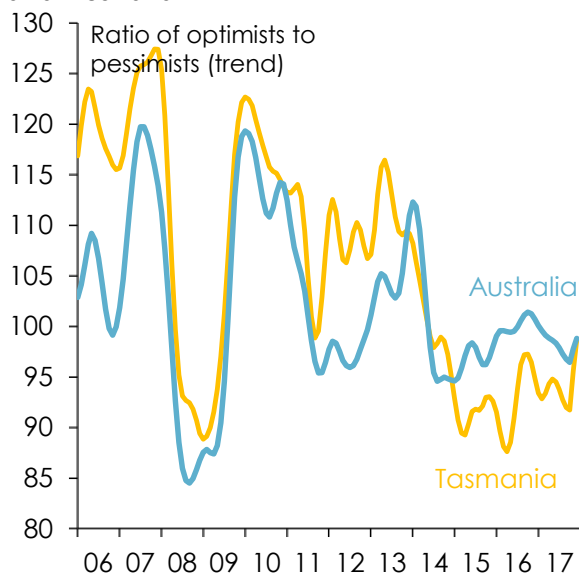
The analysis in this section thus far has shown that Tasmania's economy has continued its recovery from the recession of 2011-13 (a recession which wasn't as severe as previously reported, and which followed a period of stronger growth than previously reported). It has highlighted some areas of encouraging strength, particularly in agriculture, health, aged and disability care, tourism and commercial construction (especially infrastructure and hotels). However it has also shown that the recovery has been heavily dependent on continued growth in public sector spending; and that it has been constrained by weakness in household spending, in particular on dwelling construction).

The improving outlook for the world economy, as noted by both the IMF and the OECD in their most recent forecasts<sup>5</sup> is a positive development for the Tasmanian economy, given that exports account for more than 12% of Tasmania's economy.

But the two most important elements to sustaining the recovery in Tasmania's economy are a revival in household spending, and continuation of the upturn in business investment.

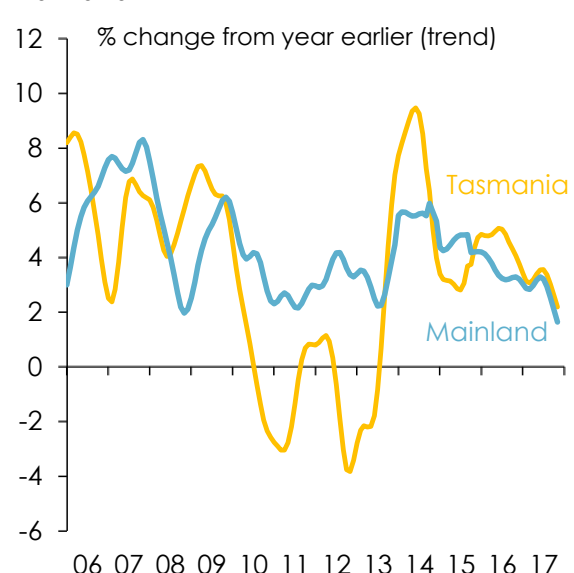
**Consumer confidence** appears to have picked up in Tasmania in recent months, after an extended period in which Tasmanian consumers were notably more pessimistic than the Australian consumers as a whole (Chart 1.16). However, this is yet to translate into any pick-up in **retail sales** (Chart 1.17). Tasmanian retailers are as exposed as their counterparts elsewhere in Australia to heightened competition from new channels for selling goods to consumers.

**Chart 1.16: Consumer confidence, Tasmania and Australia**



Source: Westpac-Melbourne Institute.

**Chart 1.17: Retail sales, Tasmania and mainland**



Source: ABS, Retail Trade (8501.0), October 2017.

<sup>5</sup> The IMF forecast, in its most recent [World Economic Outlook](#) released in October 2017, growth in the global economy of 3.7-3.8% per annum from 2018 through 2022, stronger than in any year since 2011; while the OECD's latest [Economic Outlook](#), published in late November, says that 'the global economy is now growing at its fastest pace since 2010, with the upturn becoming increasingly synchronised across countries'.

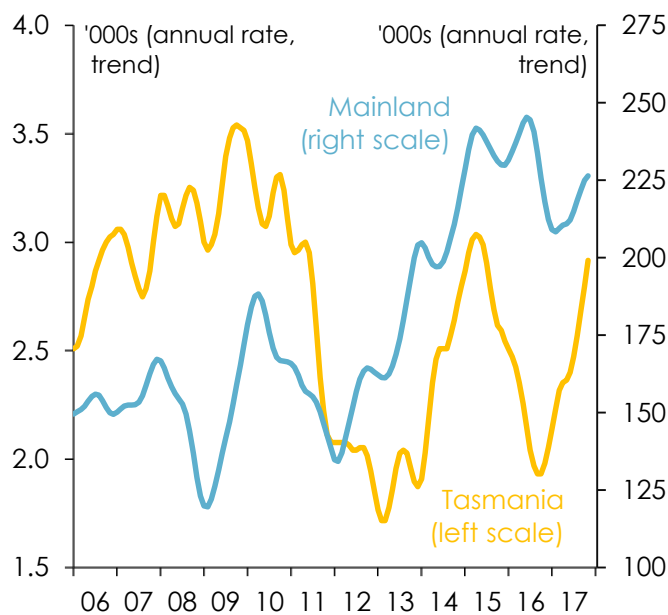
Tasmanian households are, in general, less indebted than their mainland counterparts and hence devote a smaller percentage of their incomes to interest payments (4.1% in 2016-17) than households elsewhere in Australia (5.8%). They are therefore less likely to be concerned by the prospect of higher interest rates at some point in the future. And although Tasmanian households spend the same proportion of disposable income (2.1%) on energy as the national average, they have been less exposed to increases in energy costs than households in mainland eastern states. A continued gradual increase in the growth rate of Tasmania's population should also be helpful, at the margin, for growth in household spending.

However, the most important obstacle to a sustained upturn in growth in Tasmanian household spending is continued weak growth in household incomes. As discussed in Section 2 below, recent developments in employment growth in Tasmania are somewhat encouraging from that perspective – although it remains to be seen whether the recent strong growth in employment will be sustained. However, Tasmanian employee households, like their counterparts in other states, are continuing to experience unprecedentedly slow growth in wage and salary earnings – something which, according to the Reserve Bank<sup>6</sup> and others, seems likely to persist for some time yet.

Hence, the best that can probably be hoped for is very moderate growth in Tasmanian household spending in 2017-18 and 2018-19.

The significant downturn in **dwelling construction** which, as noted earlier in this section, sliced almost a full percentage point off Tasmania's overall economic growth rate in 2016-17, seems likely to be reversed in the current financial year.

**Chart 1.18: Residential building approvals, Tasmania and mainland**



Source: ABS, *Building Approvals* (8731.0), October 2017.

The number of residential building approvals granted by local governments in Tasmania has risen by almost 47% since August last year, which suggests that there should be a significant increase in residential building work in 2017-18 (Chart 1.18).

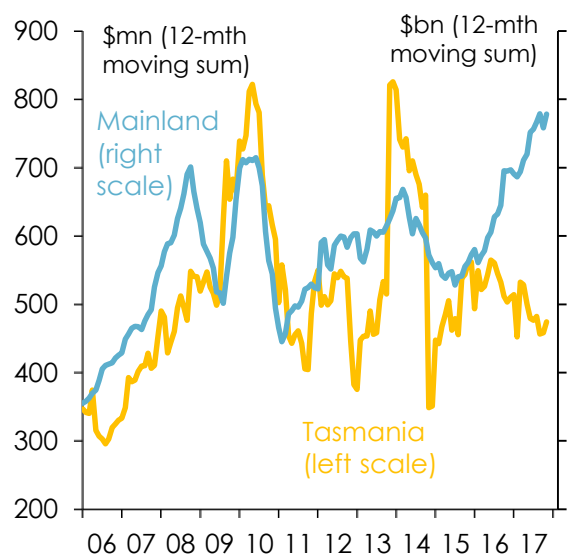
However, it seems to be taking longer than usual for construction to get under way after approvals have been granted. The number of dwellings commenced in the June quarter 2017 was only 7½% higher than a year earlier, while the number of dwellings under construction in the June quarter was almost 3% lower than a year earlier.

<sup>6</sup> Reserve Bank of Australia, [Statement on Monetary Policy](#), November 2017, pp. 68-9.

The reasons for this extended backlog are not clear. However, if it can be reduced, then residential construction should make a positive contribution to growth in the Tasmanian economy in 2017-18 and beyond.

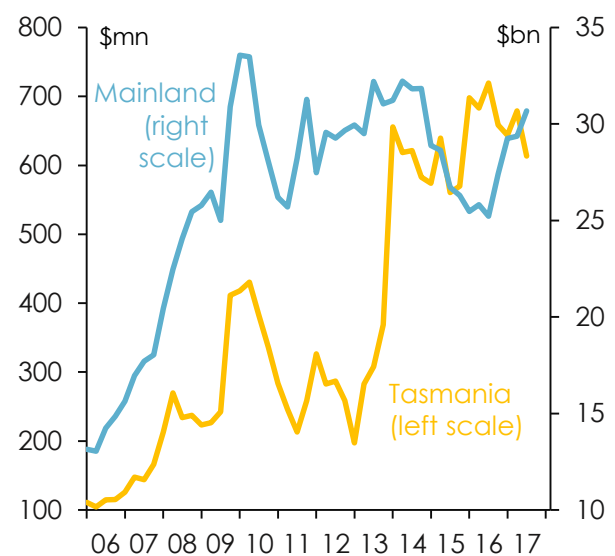
The level of **non-residential building approvals** has tailed off over the past year in Tasmania, in contrast to the trend on the mainland (Chart 1.19). Nonetheless, the 'pipeline' of work to be done on projects already under way remains high by historical standards (Chart 1.20), reflecting the volume of work now under way on new hotels, offices and University of Tasmania projects. There is also almost \$600bn of work to be done on **engineering construction** projects around Tasmania. All of this constitutes a solid basis for expectations that commercial construction will continue to provide an important source of impetus for the Tasmanian economy in 2017-18 and perhaps beyond.

**Chart 1.19: Non-residential building approvals, Tasmania and mainland**



Source: ABS, *Building Approvals* (8731.0), October 2017.

**Chart 1.20: Value of non-residential building work yet to be done, Tasmania and mainland**



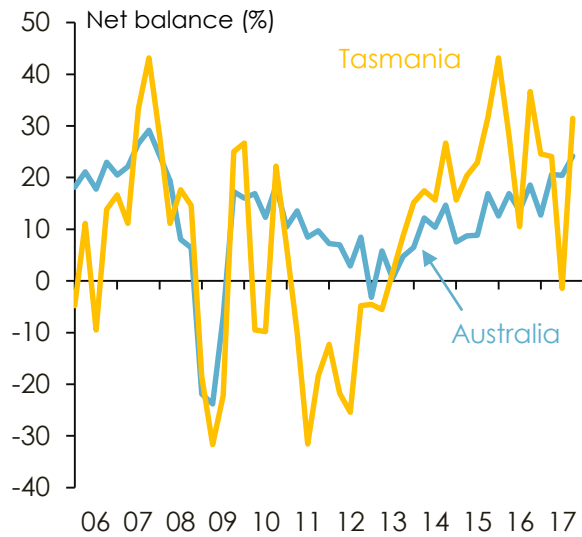
Source: ABS, *Building Activity* (8752.0), June quarter 2017.

More generally, the ongoing relatively high level of business confidence in Tasmania augurs well for the prospects for continued growth in **business investment**.

The most widely-regarded measures of business sentiment, though more volatile for Tasmania than for Australia as a whole, have on average indicated higher levels of business confidence in Tasmania than the national average in recent years (Charts 1.21 and 1.22).

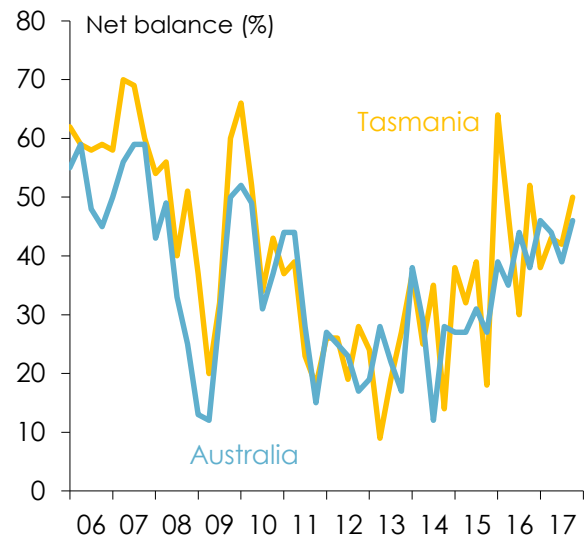
One of the reasons for that is the continuing confidence of small and medium businesses in state government economic policies, which has generally been much higher in Tasmania than in other states or territories since the last state election in 2014 (Charts 1.23 and 1.24). The history of the series depicted in Chart 1.24 (and of the equivalent series for other states) suggests that declines in business confidence occur gradually – typically when a government has been in office for an extended period – and are followed by an abrupt improvement when an election results in a change of government (as happened in New South Wales in 2011, and in Tasmania in 2013). Abrupt declines following changes of government are much less common.

**Chart 1.21: Expected business conditions – NAB Business survey**



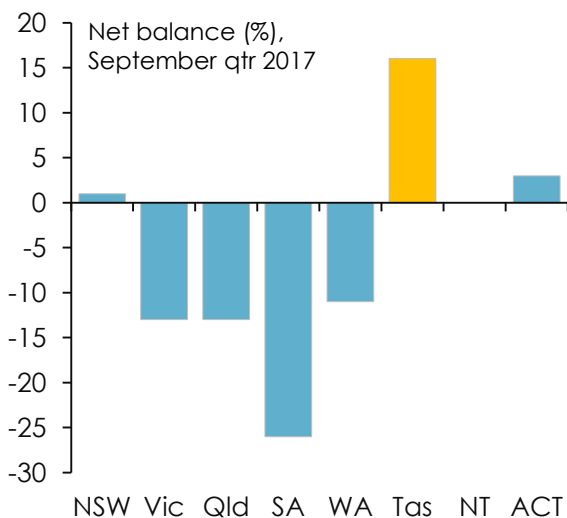
Source: National Australia Bank Quarterly Business Survey, September quarter 2017.

**Chart 1.22: Small & medium enterprise business confidence – Sensis survey**



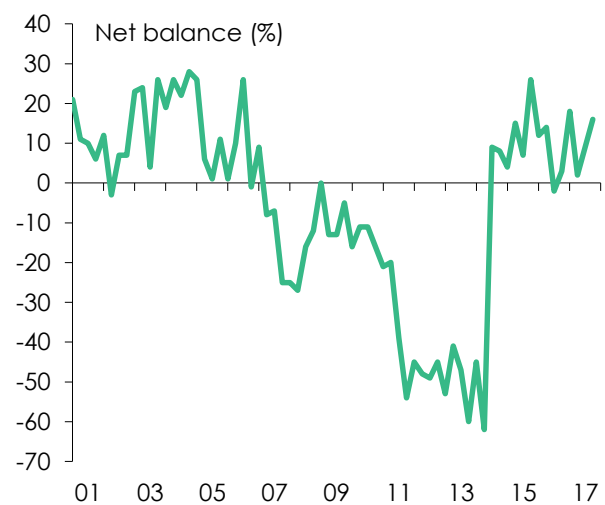
Source: Sensis, Sensis Business Index, September 2017.

**Chart 1.23: SMEs assessment of state & territory government policies, September 2017**



Source: Sensis, Sensis Business Index, September 2017.

**Chart 1.24: SMEs assessment of Tasmanian Government policies**



Source: Sensis, Sensis Business Index, September 2017.

In the absence of any unforeseen shocks, it seems reasonable to anticipate that Tasmania's economy will continue to grow at a pace similar to the 1-1½% per annum of the past three years, possibly reaching 2% in 2017-18 – although the 2½% growth forecast for 2017-18 in the most recent State Budget may be a stretch.

However, in order to narrow the long-standing gap in economic performance, and in material living standards, between Tasmania and the rest of Australia, the Tasmanian economy will need a sustained period of growth at a pace of 2½% per annum or better. What needs to be achieved in order to attain that objective will be considered in greater depth in Section 7.

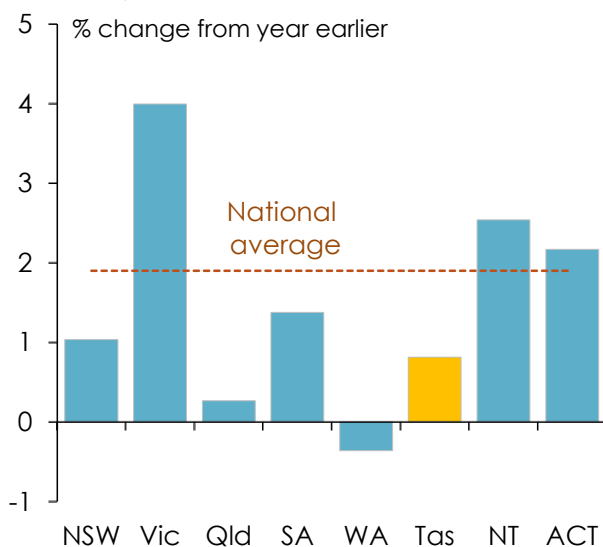
## Section 2: Tasmania's labour market

### Employment in Tasmania

Employment increased by 0.8% in Tasmania, on average, in the 2016-17 financial year, slightly less than half the national average (Chart 2.1).

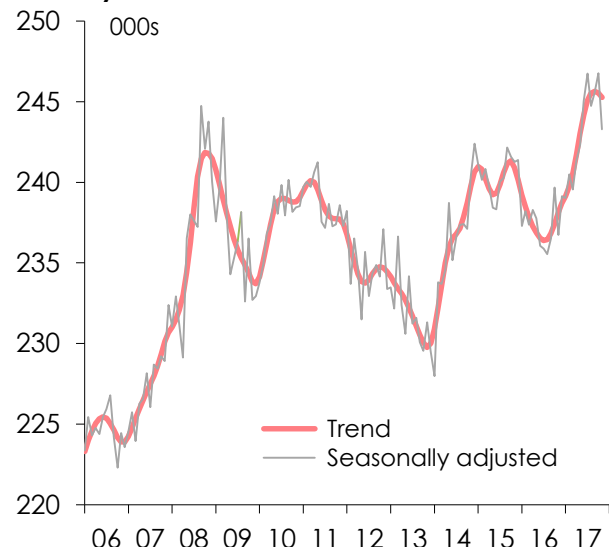
Monthly labour force data suggests that this reflects a decline in employment which began in late 2015 and continued until the winter of 2016, followed by a strong rebound which continued through to mid-2017, after which the level of employment appears to have flattened out (Chart 2.2).

**Chart 2.1: Employment growth, states and territories, 2016-17**



Source: ABS, Labour Force (6202.0), October 2017.

**Chart 2.2: Level of employment, Tasmania, monthly**



Source: ABS, Labour Force (6202.0), October 2017

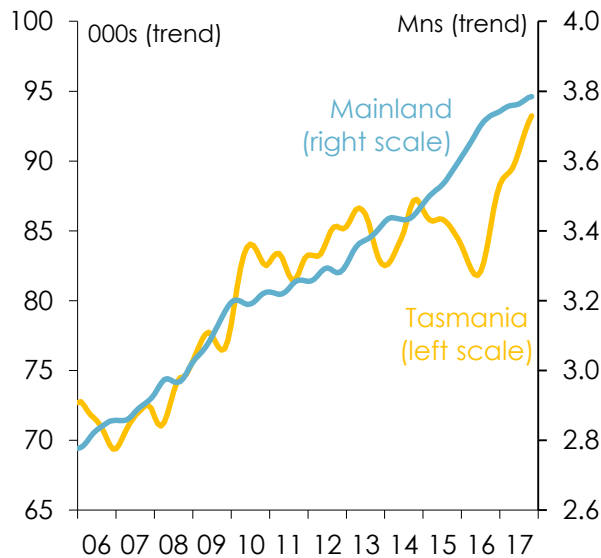
Chart 2.2 also highlights that in April 2017, employment in Tasmania finally regained the level it had reached before the onset of the global financial crisis in October 2008 (a milestone the mainland passed in August 2009).

Two-thirds of the increase in employment since the recession trough in late 2013, and all of the increase since the most recent low in mid-2016, has been in the form of **part-time employment**. Indeed, thanks to this most recent surge, part-time employment in Tasmania has now grown almost as rapidly since the financial crisis as it has on the mainland (Chart 2.3).

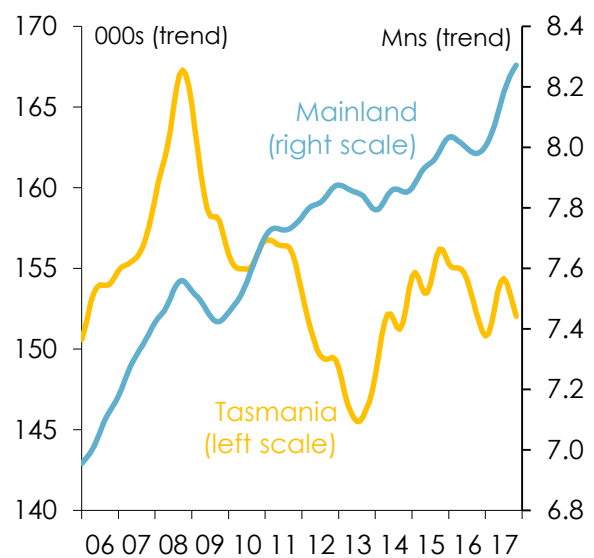
However the level of **full-time employment** is still some 15,200, or more than 9%, below its pre-financial crisis peak. The only other state where full-time employment remains below pre-crisis levels is South Australia, where it is still 2% below the pre-crisis peak. For the mainland as a whole, full-time employment is now more than 9% above its pre-financial crisis peak (Chart 2.4)<sup>7</sup>.

<sup>7</sup> For a more detailed analysis and discussion of changes in employment (including by age, gender and industry) between the 2006 and 2016 Censuses, see the recently-published report by Lisa Denny of the



**Chart 2.3: Part-time employment, Tasmania and mainland**

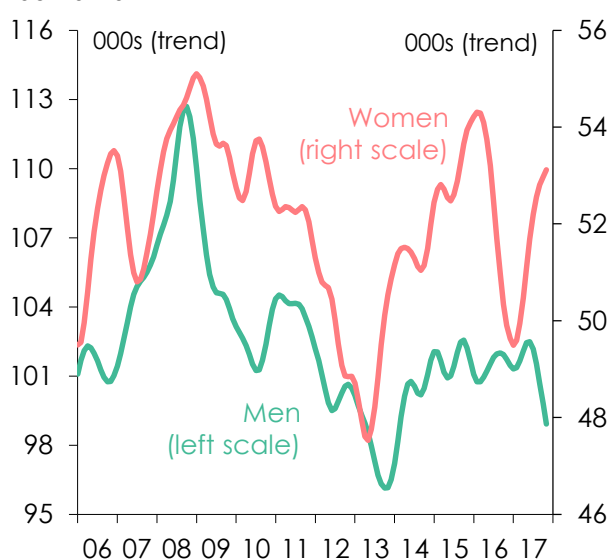
Source: ABS, Labour Force (6202.0), October 2017.

**Chart 2.4: Full-time employment, Tasmania and mainland**

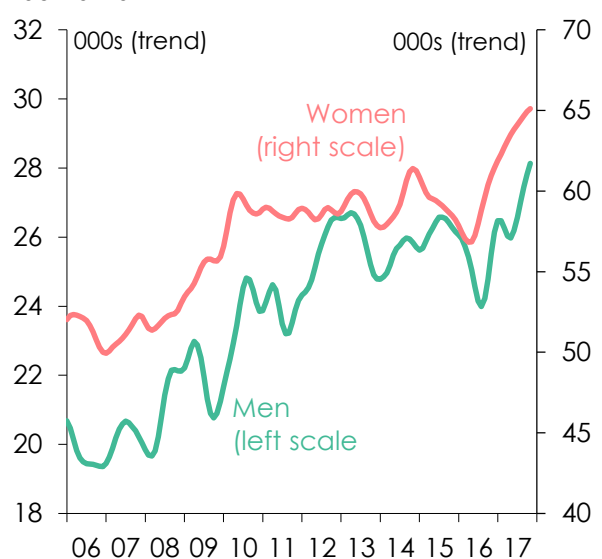
Source: ABS, Labour Force (6202.0), October 2017

The weakness in full-time employment in Tasmania has been especially pronounced among **men**. The number of males in full-time employment has fallen by more than 13,000, or nearly 12%, since before the financial crisis, and is still less than 3% above the recession low in mid-2013 (when it was lower than it had been at any time since the beginning of 2003). By contrast, although full-time employment fell almost as much among **women** as for men between 2008 and 2013, it has since risen by almost 12%, to be just 1,700 or 3% below the pre-financial crisis peak (Chart 2.5).

Part-time employment has risen by roughly similar proportions for both women and men (a little less and a little more, respectively, than 25%) since the financial crisis.

**Chart 2.5: Full-time employment by gender, Tasmania**

Source: ABS, Labour Force (6202.0), October 2017.

**Chart 2.6: Part-time employment by gender, Tasmania**

Source: ABS, Labour Force (6202.0), October 2017

This stark contrast between the employment experiences of men and women in Tasmania is in large part the result of profound structural changes in the industry composition of employment over the past decade.

Chart 2.7 shows changes in full- and part-time employment in Tasmania by industry between 2007-08 (the year before the financial crisis) and 2016-17. Full-time employment in manufacturing and agriculture, forestry and fishing – sectors traditionally dominated by males – fell by 6,300 (or nearly 32%) and 2,200 (or 19%) respectively, over this period. Full-time employment in retailing – which employs a larger proportion of females – fell by 2,900 (or nearly 20%) between 2007-08 and 2016-17.

The only sectors to have experienced significant growth in full-time employment over the past nine years have been construction (3,900 or 26%) and professional, scientific and technical services (1,900 or 27%). Full-time employment in the accommodation and food services sector has also increased by more than 1,300 (or nearly 20%) over the past two years – more than any other sector except construction - after falling by 1,200 between 2007-08 and 2014-15.

The rapid growth in the health care and social assistance sector (noted previously in Section 1) has generated almost 5,500 new part-time jobs since 2007-08, an increase of almost 44%. Many of these positions have been taken up by women. Part-time employment in accommodation and food services has increased by just over 2,600 (27%) over the past nine years. Other sectors where part-time employment has increased significantly have been retail trade (1,800 or 15%), public administration and safety (1,800 or 65%), and administration and support services (1,250 or 45%).

**Chart 2.7: Change in full- and part-time employment by industry, Tasmania, 2007-08 to 2016-17**



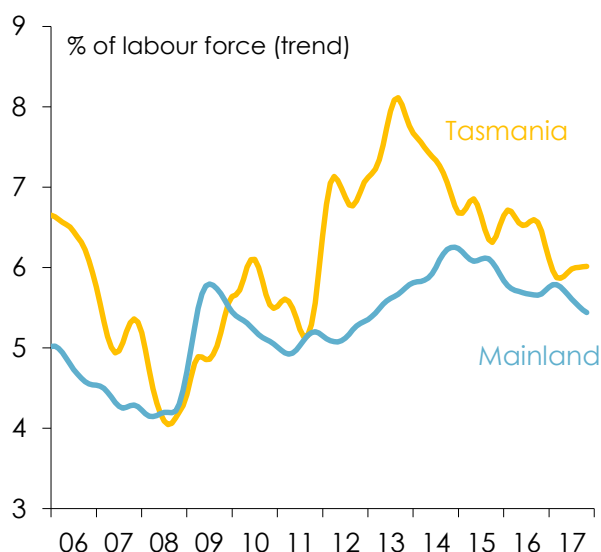
Note: Employment data for 2007-08 and 2016-17 are averages of original data for August, November, February and May of each year. Source: ABS, *Labour Force, Australia, Detailed, Quarterly* (6291.0.55.003), August 2017.

## Unemployment and under-employment

Tasmania's (trend) **unemployment rate** fell by about ½ pc point over the second half of 2016, but has since remained more or less unchanged at 5.9-6.0%, the lowest since mid-2011 (Chart 2.8). By contrast, the unemployment rate on the mainland was steady at 5.7-5.8% throughout 2016 and into the first quarter of 2017, but has since declined to 5.4%. After being lower than three (or sometimes four) of the mainland states between December 2016 and May 2017, since September 2017 Tasmania has once again had the highest (trend) unemployment rate of any state or territory.

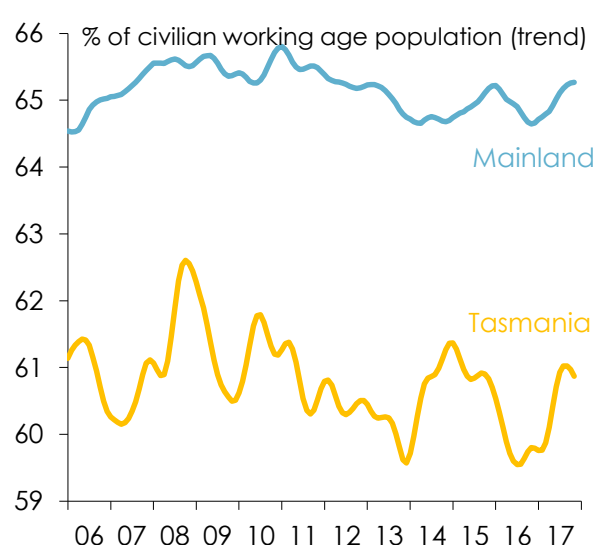
The extent of unemployment in Tasmania has traditionally been masked by a markedly lower **labour force participation rate** than in the rest of Australia – something which is in large part, but not completely, explained by Tasmania having a larger proportion of its 'working age' population (as defined by labour force statistics) being aged 65 or over than any other state or territory. That difference, though still large, has narrowed somewhat since mid-2016, with Tasmania's (trend) participation rate rising by 1.4 pc points to 60.9% as of October 2017, as against an increase of 0.4 pc point to 64.3% on the mainland over the same period (Chart 2.9)<sup>8</sup>.

**Chart 2.8: Unemployment rate, Tasmania and mainland**



Source: ABS, Labour Force (6202.0), October 2017.

**Chart 2.9: Labour force participation rate, Tasmania and mainland**



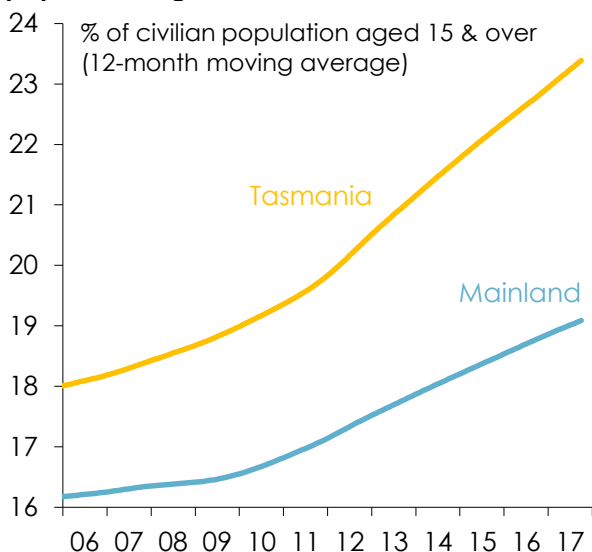
Source: ABS, Labour Force (6202.0), October 2017

The net effect of the decline in Tasmania's unemployment rate and the increase in labour force participation since mid-2016 is that the proportion of Tasmania's working-age population who are employed – the **employment rate** – has increased by 1.7 pc points, to 57.3% (as of October 2017), the highest figure since mid-2011. This

<sup>8</sup> Hypothetically, if Tasmania's participation rate remained unchanged at its July 2016 level and employment grown as it did between then and October 2017, Tasmania's unemployment rate would have fallen to around 4%. In practice, employment would not have grown as it did had the participation rate been unchanged, because a large proportion of the jobs created during this period appear to have been taken up by new (or re-) entrants to the labour force.

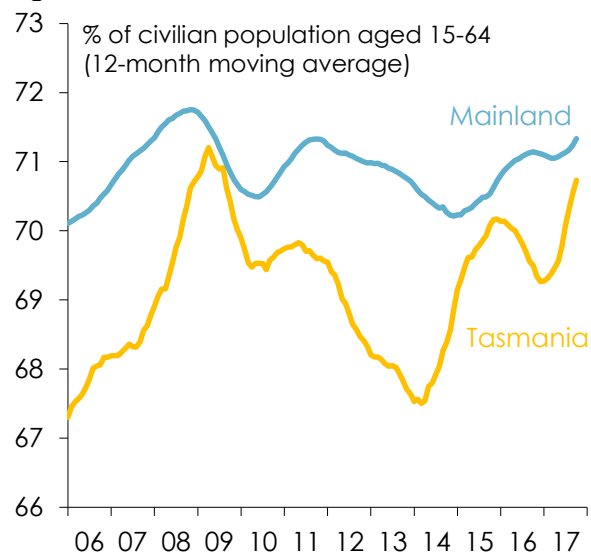
is still lower than in any other state or territory, and 4.4 pc points below the corresponding average for the mainland as a whole.

**Chart 2.10: Proportion of 'working age' population aged 65 or over**



Source: ABS, *Labour Force, Detailed – Electronic Delivery* (6291.0.55.001), September 2017.

**Chart 2.11: 'Employment rate' for population aged 15-64**



Source: ABS, *Labour Force, Detailed – Electronic Delivery* (6291.0.55.001), September 2017.

However, given that almost 23½% of Tasmania's 'working age' population (4.3 pc points more than the corresponding proportion of the mainland's 'working age' population) are 65 or over (Chart 2.10), and that only 11% of them are actually working (1.5 pc points less than the mainland's 65-and-over population), it would be surprising if Tasmania's overall employment rate wasn't significantly lower than that of the rest of Australia.

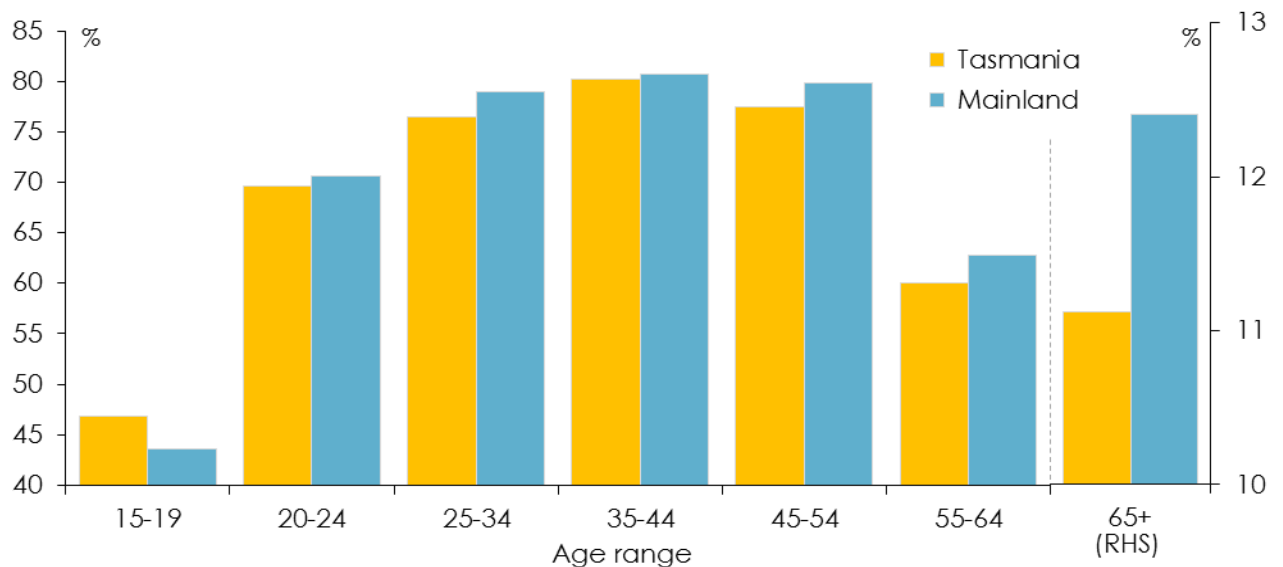
Indeed, as shown in Section 4 of last year's *Tasmania Report*, the gap in overall employment rates between Tasmania and the mainland is likely to widen over time, all else being equal, because Tasmania's population is ageing much more rapidly than the rest of Australia.

Rather more encouraging is that the proportion of 15-64 year old Tasmanians who are working has increased by 1.4 pc points since October 2016 – and by 3.2 pc points from the low point in early 2014 (Chart 2.11). Indeed, the employment rate of 15-64 year old Tasmanians is now higher than at any time other than between January 2008 and April 2009. And the gap between this measure and the corresponding figure for the rest of Australia is now, at 0.6 pc points, lower than at any time in the past 25 years, apart from February-September 2009 and September-October 2015.

Nonetheless, it should be an objective of Tasmanian Government policy to eliminate this gap altogether. Chart 2.12 shows that a lower proportion of Tasmanians in every age group within the 'working age' population are in employment than in the corresponding group of the population of the rest of Australia – with the conspicuous exception of 15-19 year olds. And that exception should *not* be regarded as an achievement, because it is the mirror image of the fact that a smaller proportion Tasmanians in this age group are continuing in full-time education than of the same

age group in other states and territories.

**Chart 2.12: Employment-to-population ratios by age group, Tasmania and mainland, 2016-17**



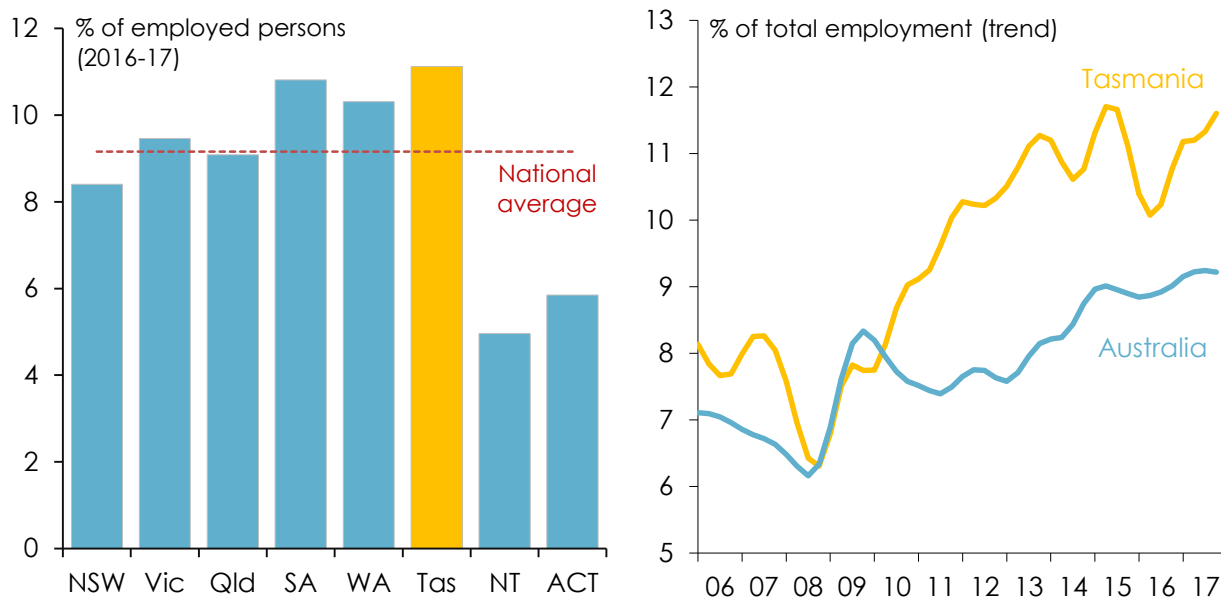
Source: ABS, *Labour Force, Australia, Detailed – Electronic Delivery* (6291.0.55.001), September 2017.

Earlier in this section it was noted that most of the increase in employment in Tasmania in recent years had been in the form of part-time employment. Part-time work is often a preferred option for people with caring responsibilities, people who are undertaking some form of study or training, and older people transitioning towards retirement.

However, Tasmania has a higher proportion of people who are working fewer hours than they are willing and able to than in any other State or Territory (Chart 2.131). Moreover, unlike the unemployment rate, this proportion has not declined over the past few years (Chart 2.14).

**Chart 2.13: 'Under-employment' rates, states and territories, 2016-17**

**Chart 2.14: 'Under-employment' rates, Tasmania and Australia, 2006-17**

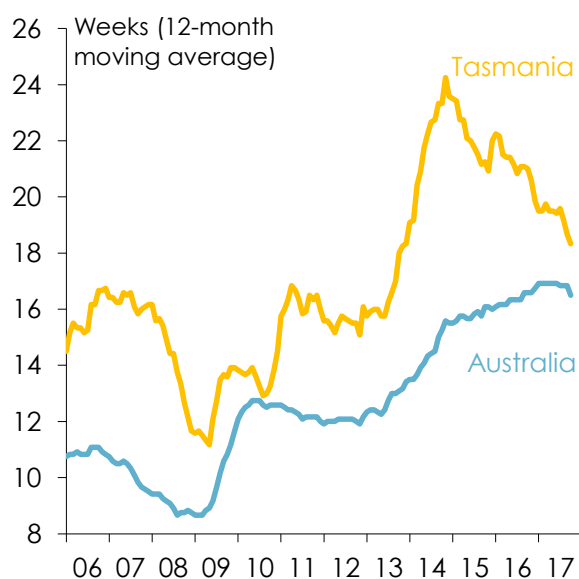


Note: The 'under-employment' rate is the number of people working fewer hours than they are willing and able to work, expressed as a percentage of the total number of employed people. Source: ABS, *Labour Force* (6202.0), October 2017.

## Long-term and youth unemployment

While Tasmania's unemployment rate has been gradually declining over the past four years, there remains a significant cohort of Tasmanians who have encountered severe difficulties in finding or remaining in work. The proportions of Tasmania's unemployed who have been out of work for more than a year, and for more than two years, are each higher than in any other State or Territory (Chart 2.13). Moreover, in contrast to the overall unemployment rate, the margin by which long-term unemployment in Tasmania exceeds that for the rest of Australia has continued to widen (Chart 2.16).

**Chart 2.17: Median duration of unemployment, Tasmania and Australia**



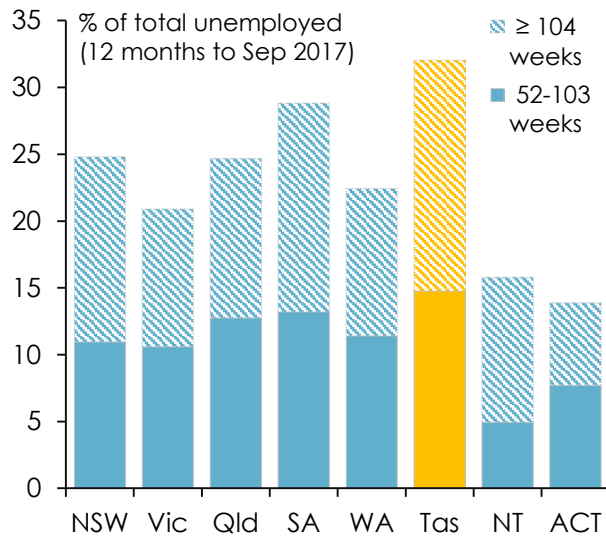
Source: ABS, *Labour Force, Detailed – Electronic Delivery* (6291 0 55 001) September 2017

The median duration of unemployment in Tasmania has declined significantly from more than 23 weeks in the second half of 2014 to just over 18 weeks in 2017 – implying that Tasmanians are, in general, taking less time to find a job than previously (Chart 2.17). Nonetheless, the median duration of unemployment remains higher than the national average, and it remains higher than before the recession of 2012-14.

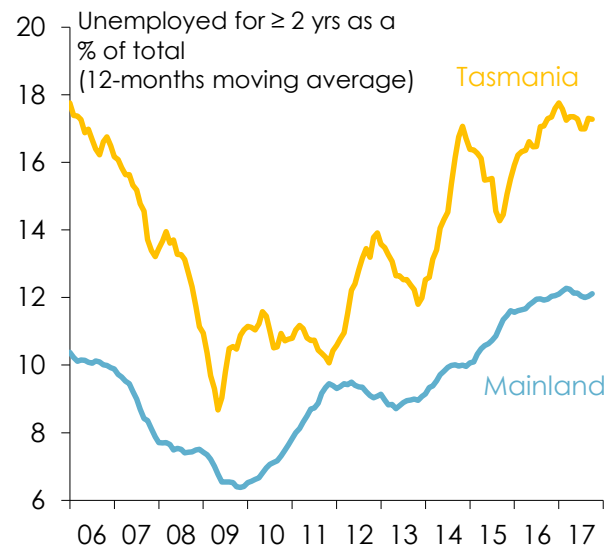
Additionally, the job search experience for Tasmanians who have been out of work for a long time has not improved very much. Those out of work for 2 years or more are taking an average of 109 weeks to find a job, a decline of only 8 weeks from the most recent peak in 2016, and about 5 weeks longer than the national average.



**Chart 2.15: Long-term unemployment rates, states and territories**



**Chart 2.16: Very long-term unemployment rates, Tasmania and mainland**



Source: ABS, *Labour Force, Detailed – Electronic Delivery* (6291.0.55.001), September 2017.

Unemployment among young (15-24 year old) Tasmanians has fallen significantly over the past three years, from nearly 18% (of 15-24 year olds in the labour force) in late 2014 to just under 14% as of October 2017 (Chart 2.18). This partly reflects an increase in employment among 15-24 year-olds) but also, importantly, an increase in the proportion of this age group engaged in full-time education.

Tasmania's youth unemployment rate remains above the national average, although it is no longer the highest in Australia, being some 2½ pc points lower than in South Australia, and only marginally higher than in Western Australia, Queensland and Victoria.

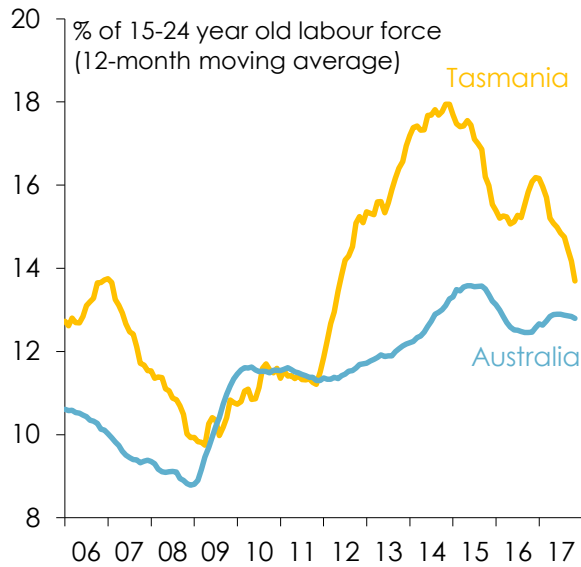
Tasmania also has an above-average proportion of 15-24 year olds who are neither in the labour force (that is, neither working nor actively looking for work) nor in full-time education.

The number of so-called 'NEETs' (not in employment, education or training) as a proportion of the total number of 15-24 year olds in Tasmania has fallen from a peak of around 18% in 2016 to 15.2% on average over the 12 months ended October 2017, but is still higher than in any other jurisdiction except the Northern Territory and Queensland (where it is the same as in Tasmania) (Chart 2.19).

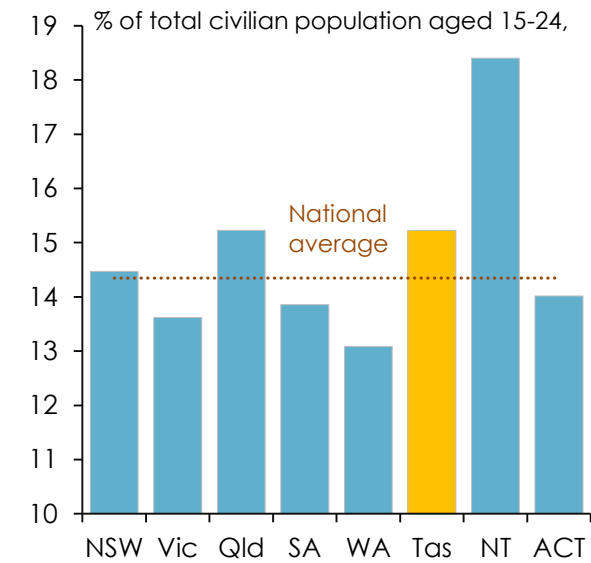
Expanding opportunities for young Tasmanians to engage in education and training, and to enhance their capacity to find and hold down jobs, is critical to narrowing the gap in overall labour force participation rates between Tasmania and the rest of Australia discussed earlier in this section.

**Chart 2.18: Youth unemployment rates, Tasmania and Australia**

**Chart 2.19: 15-24 year olds not in education, employment or training states and territories**



Source: ABS, Labour Force, (6202.0), October 2017.



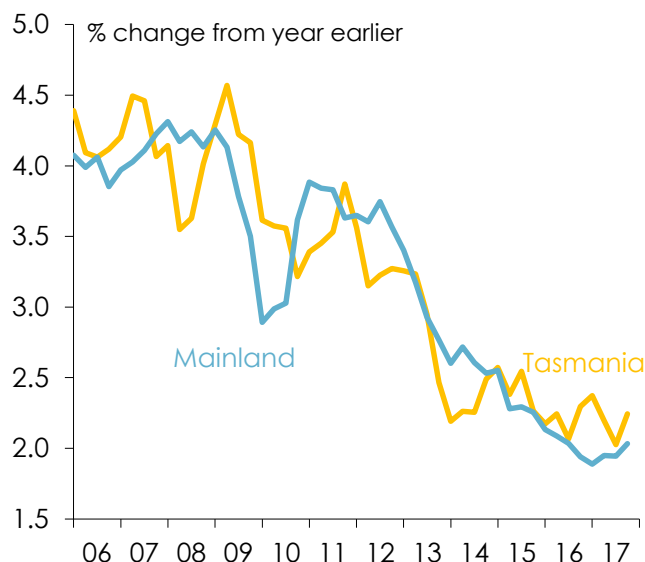
Source: ABS, Labour Force, (6202.0), October 2017.

## Labour earnings

A common development across 'advanced' economies in recent years has been the persistence of unusually slow growth in employee earnings, even in economies where the unemployment has fallen to (or below) levels traditionally regarded as being consistent with 'full employment'. A number of different explanations have been proffered for this, including the lingering effects of the global financial crisis; heightened competition from workers in 'emerging and developing' economies (via globalization and 'offshoring') or from various forms of technological innovation (including robots and computers); changes in the structure or regulation of labour markets which have altered the 'balance of power' between employers and employees; and a widespread and persistent slow-down in productivity growth which pre-dates the financial crisis.

This trend has been evident in Australia – especially since the end of the ‘mining boom’ – and seems likely to persist for some time yet to come given that Australia is still some way from being at ‘full employment’<sup>9</sup>.

**Chart 2.20: Ordinary hourly rates of pay (excluding bonuses), Tasmania and mainland**



Source: ABS, Wage Price Index (6345.0), September quarter 2017.

As measured by the ABS wage price index, nowadays the most widely-used measure of movements in labour costs, wages growth appears to have slowed slightly less in Tasmania over the past few years than elsewhere in Australia (Chart 2.20).

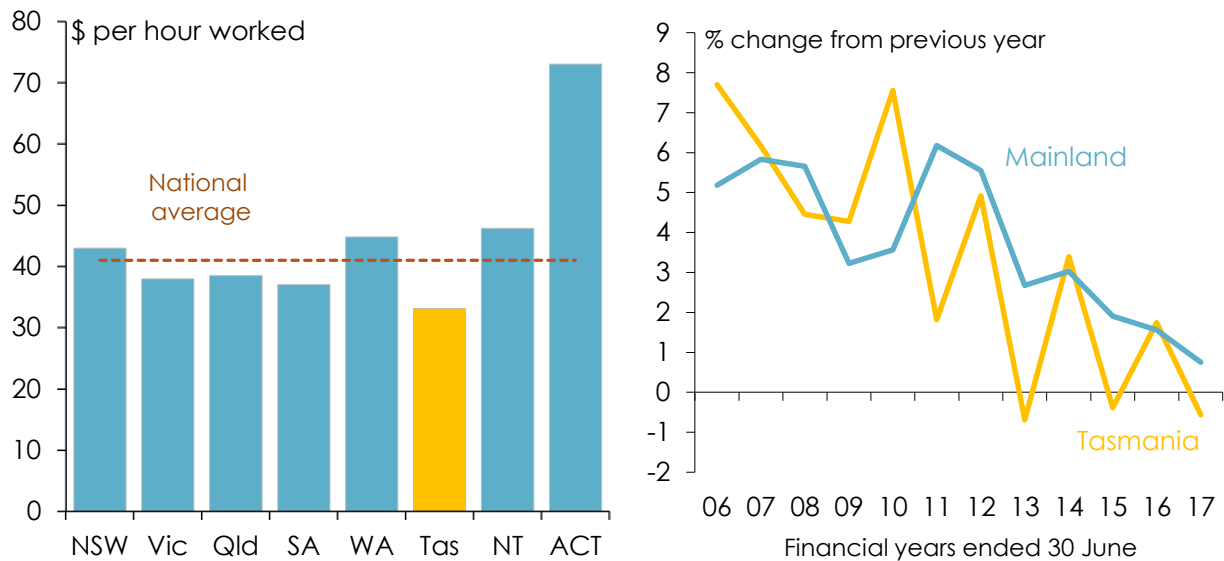
This stems from the fact that, since the end of the ‘mining boom’, public sector wages have risen by about ¼-½% per annum more than private sector wages – and public sector employees account for a larger share of total employment in Tasmania (20%) than on the mainland (16.2%).

However, the wage price index, by design, says nothing about the *level* of wages, and abstracts from the effects of compositional changes in the workforce – for example between high- and low-paying jobs, or between full- and part-time jobs, both of which have been (as discussed earlier in this Section) quite substantial in Tasmania in recent years. An alternative measure which captures the effects of these changes can be derived, on a financial year basis, from the estimates of ‘employee compensation’ (wages and salaries, plus superannuation contributions and workers’ compensation premiums) provided in the ABS *State Accounts*.

**Chart 2.21: Employee compensation per hour worked, states and territories, 2016-17**

**Chart 2.22: Annual growth in compensation per hour, Tasmania and mainland**

<sup>9</sup> See Reserve Bank of Australia, [Statement on Monetary Policy](#), November 2017, pp. 68-9.



Sources: ABS, *State Accounts* (5220.0), 2016-17; and *Labour Force, Australia, Detailed, Quarterly* (6291.0.55.003), August 2017.

Average employee compensation per hour worked in Tasmania in 2016-17, of \$33.13, was the lowest of any state or territory, and 19% below the national average (Chart 2.21). This represents a 0.6% decline from 2015-16 (presumably as a result of changes in the 'mix' of employment). Over the past five years, average hourly employee compensation has increased by just 0.7% per annum, less than in any other state or territory, and well below the national average of 2.0% per annum (Chart 2.22).

Moreover, because Tasmanian employees work fewer hours, on average, than workers in any other state or territory, their average annual compensation of \$52,932 in 2016-17 was nearly 23% below the national average of \$68,474 (that is, a larger margin than the difference in average hourly compensation).

As previous *Tasmania Reports* have emphasized, and as again discussed in more detail in Section 7 of this Report, the single most important reason why Tasmanian wages and salaries are lower than anywhere else in Australia is because Tasmanian labour productivity is 12% below the national average: and one of the most important reasons for that is because Tasmanian employees are, on average, less educated and skilled than those in other parts of Australia.

## Section 3: Tasmania's residential property market

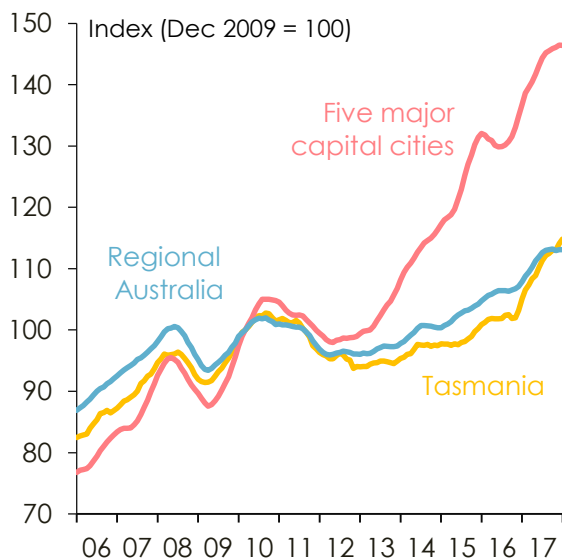
For most of the past two decades, Tasmania's residential property market has been less vibrant than those of other states and territories – with fewer transactions (relative to the size of the state's population) and much more subdued movements in prices than other parts of Australia, and in particular by comparison with the capital cities of the mainland states.

That has changed over past couple of years, with the Tasmanian market 'out-performing' other states and territories on many dimensions. While there are many positive aspects to this, there is also a downside, particularly for those who do not own residential property, and are exposed to increases in the cost of rental accommodation.

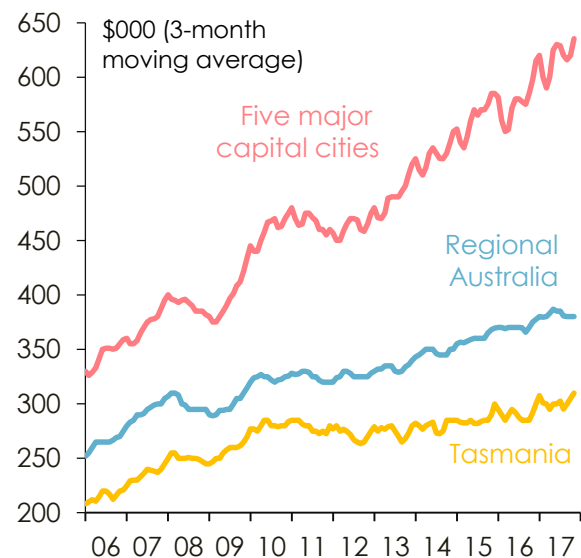
### Residential property prices

Tasmanian **residential property prices** rose by 9.2% over the 12 months to October 2017, according to the hedonic indices compiled by CoreLogic - faster than in any state or territory except Victoria, and compared with a national average of 6.6%. Over the past decade, Tasmanian residential property prices have risen by 21.2% - less than half the national average of 46.6%. However the national average reflects gains averaging nearly 57% in the five largest cities on the mainland (including 87% in Sydney and 79% in Melbourne). By contrast, residential property prices outside the mainland capital cities have risen by only 15.3% over the past decade (ie, less than in Tasmania). (Chart 3.1). However, Tasmanian property prices remain, on average, below those in non-metropolitan areas of other states (with the exception of regional South Australia), and well below those in mainland capital cities (Chart 3.2).

**Chart 3.1: Hedonic home value indices, Tasmania, metropolitan and regional averages**

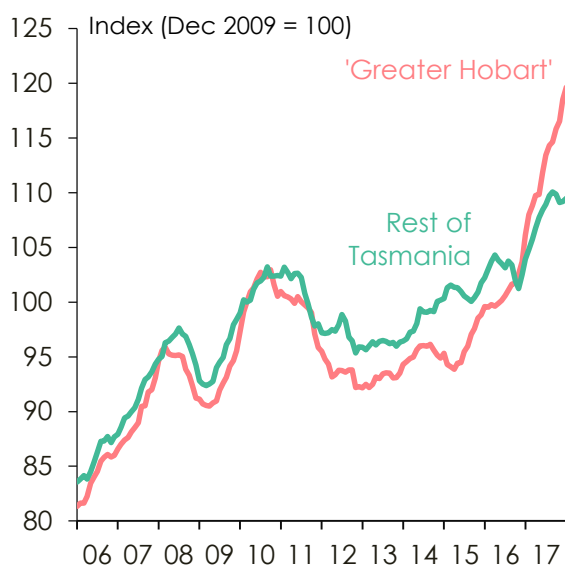


**Chart 3.2: Median sale prices, Tasmania, metropolitan and regional averages**



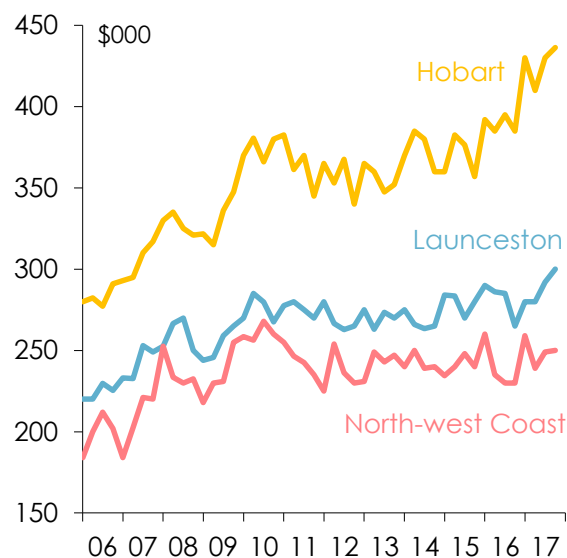
Note: Hedonic indices measure the 'organic change' in underlying sale values of properties using the [hedonic imputation methodology](#). They are designed to show *rates of change* in property prices rather than the *level* of prices. The median price is the middle (50<sup>th</sup> percentile) price of all transactions during the preceding three months. Source: CoreLogic Property Market Indices.

**Chart 3.3: Hedonic home value indices, 'Greater Hobart' and regional Tasmania**



Source: CoreLogic.

**Chart 3.4: Median sale prices, Hobart, Launceston and NW Coast**



Source: Real Estate Institute of Tasmania.

Residential property prices have risen further in **Hobart** and surrounding areas than in the rest of Tasmania. The CoreLogic hedonic home value index for 'Greater Hobart'<sup>10</sup> rose by 13.4% over the twelve months to October 2017, more than in any other capital city; and by 26.5% over the past five years (Chart 3.3), more than in any mainland capital city except for Sydney and Melbourne.

By contrast, home values across the **rest of Tasmania** rose by only 5.4% over the twelve months to October, and by 15.5% over the five years to October 2017. The latter is in line with the corresponding figure for regional Australia, which reflects outright declines in regional Queensland and (especially) WA, offset by much larger increases (of 37-42%) in regional NSW and Victoria.

Data compiled by the Real Estate Institute of Tasmania present a similar picture of larger price increases in Hobart than in the rest of Tasmania, although they do suggest that property prices have begun to rise at a faster rate in Launceston and (to a lesser extent) along the North West Coast during 2017 than at any time since 2009 (Chart 3.4).

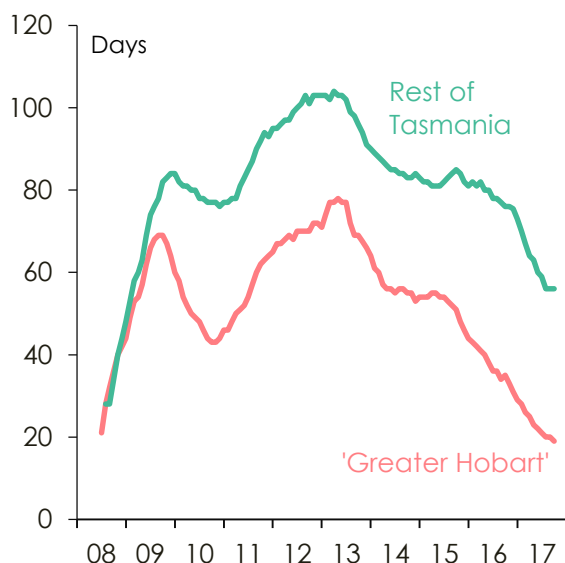
CoreLogic data suggests that properties in Hobart are selling much more quickly than at any time in the past decade – typically in 20 days or less this past spring, compared with more than 70 days during 20-13 (Chart 3.5), and with 27-30 days in recent months in Sydney and Melbourne. Properties are typically on the market for longer periods in the rest of Tasmania, but even so have recently been selling within less than 60 days, compared with more than 100 days in 2012-13.

Vendors in Hobart are also having to discount their initial asking prices by less than at any other time in the past decade in order to complete a sale – over the past spring by around 3½-3¾%, compared with 6½-6¾% in 2012-13.

<sup>10</sup> 'Greater Hobart' includes Sorell, Richmond, Dodges Ferry, Lewisham, Brighton, Pontville, Margate and Snug.

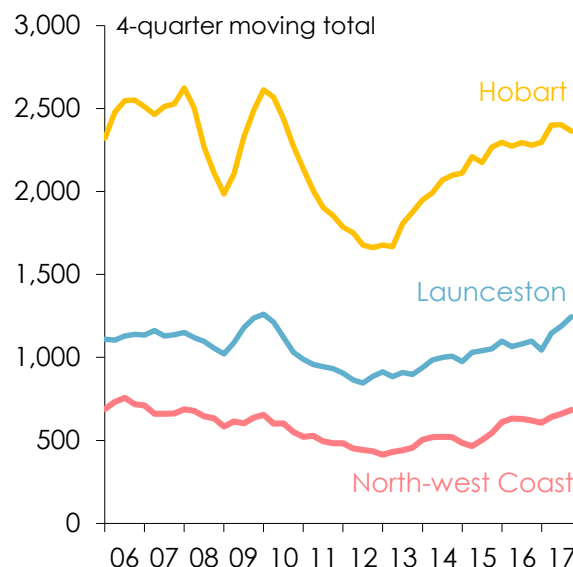


**Chart 3.5: Median time on market, 'Greater Hobart' and regional Tasmania**



Source: CoreLogic.

**Chart 3.6: Volume of residential property sales, Tasmania**



Source: Real Estate Institute of Tasmania.

Residential property **sales volumes** have continued to rise gradually in Hobart, although they remain below the levels experienced in the years preceding, and immediately after, the global financial crisis (Chart 3.6). However the volume of sales in Launceston and along the North West Coast – which have typically been less volatile than in Hobart – are now approaching the peaks experienced a decade ago (Chart 3.6).

## Housing finance

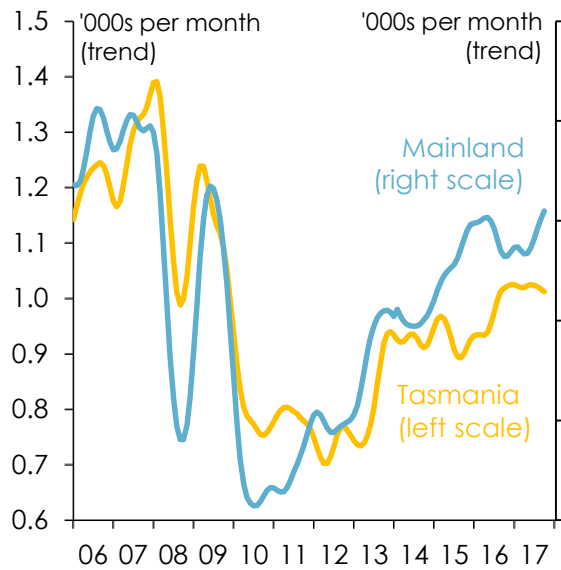
The **number** of housing **finance commitments** to owner-occupiers has levelled off in 2017, after rising steadily over the preceding two years, in contrast to the trend on the mainland where a modest decline during the first half of 2016 has been followed by a gradual recovery over the past winter and spring (Chart 3.7).

However the **value** of finance commitments has continued to rise steadily (Chart 3.8), reflecting the ongoing rise in the size of the average mortgage taken out by Tasmanian home borrowers, from an average of \$226,400 in 2015-16 to \$241,600 in the first three months of 2017-18, an increase of 6.7%. This compares with an increase of 2.1% in the size of the average new mainland mortgage since 2015-16 (although the average new mortgage taken out by mainland home buyers is of course much larger, at \$375,500 in the first three months of the current financial year).

As noted in Section 1, the further extension of the \$20,000 'First Home Owners Boost' in the most recent State Budget does not appear to have had any material impact on demand from **first home buyers**. Indeed first home buyers' share of total lending for housing thus far in 2017-18 has been lower than in any year since 2003-04.

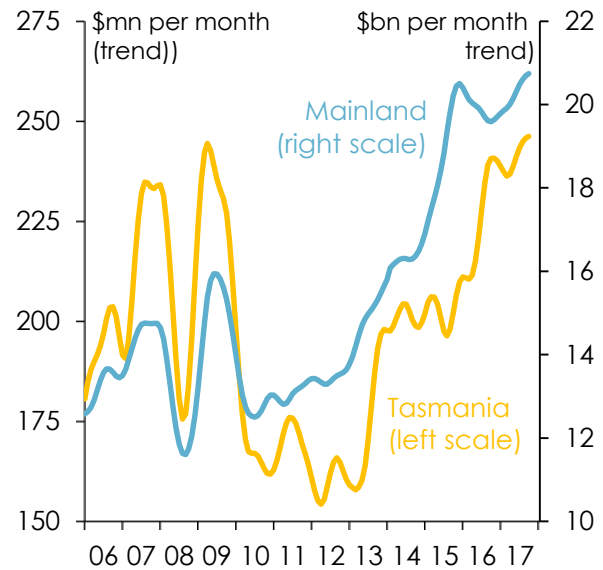
Instead, the recent growth in lending to home-buyers appears to have been largely attributable to people buying second or subsequent homes, or **refinancing** existing loans (Chart 3.9).

**Chart 3.7: Number of housing finance commitments to owner-occupiers**



Source: ABS, Housing Finance (5609.0), September 2017.

**Chart 3.8: Value of housing finance commitments to owner-occupiers**

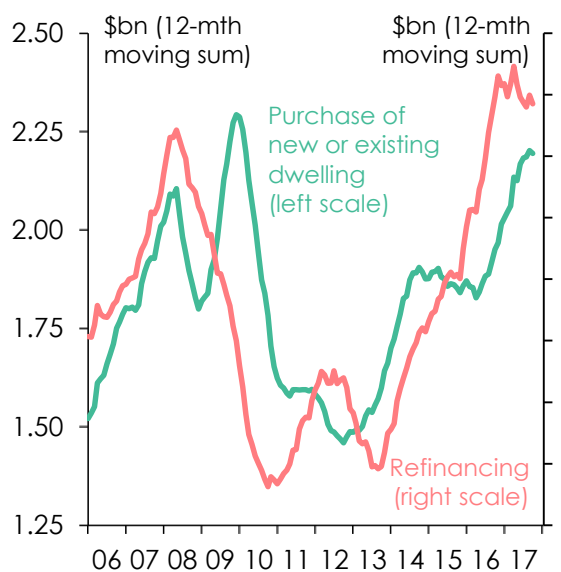


Source: ABS, Housing Finance (5609.0), September 2017.

Lending to residential property **investors** in Tasmania has been rising strongly since the middle of 2016, and by late 2017 had reached record levels, exceeding the previous peak in mid-2015, ahead of the introduction of tighter standards for lending to investors at the instigation of the Australian Prudential Regulatory Authority. The rebound in lending to investors has been much more pronounced in Tasmania than on the mainland (Chart 3.10).

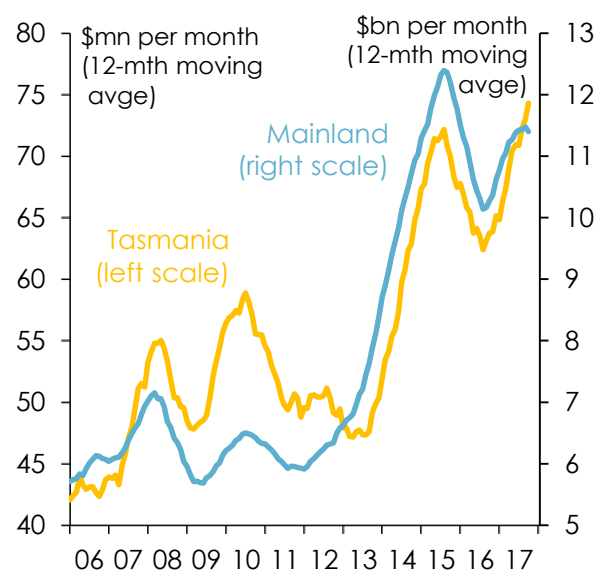
Nonetheless, investors still only account for 23% of total housing lending in Tasmania, a smaller proportion than in any other state or territory, and well below the national average of 36%.

**Chart 3.9: Re-financing and lending for home purchase, Tasmania**



Source: ABS, Housing Finance (5609.0), September 2017.

**Chart 3.10: Value of housing finance commitments to investors**

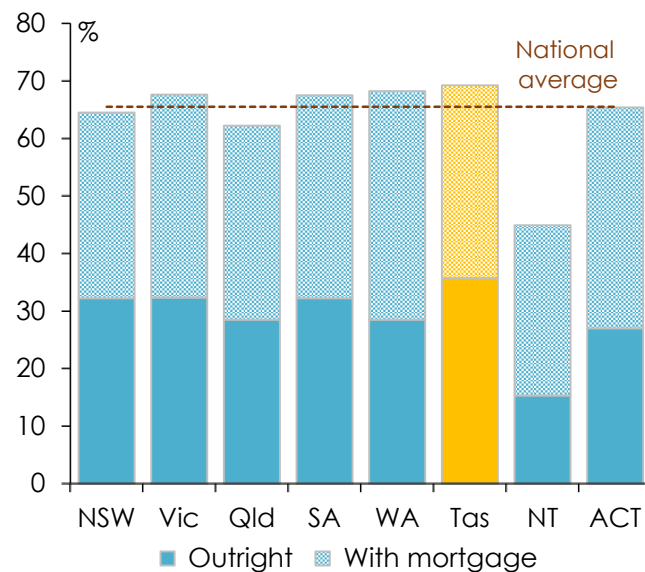


Source: ABS, Housing Finance (5609.0), September 2017.

Together with Tasmania's slower population growth rate, and lower average household incomes, this is an important reason why property prices have risen by less, and housing remains more affordable (for buyers) than elsewhere in Australia.

## Home ownership

**Chart 3.10: Home ownership rates, states and territories, 2016 Census**



Source: ABS, *Census QuickStats*, 2016.

Tasmania has the highest rate of **home ownership** of any state or territory, at 69.2%, according to the results of the 2016 Census.

Tasmania's home ownership rate has declined by just 0.2 percentage points over the 25 years since the 1991 Census, compared with a decline of 1.5 percentage points in the national home ownership rate.

Tasmania is the only state or territory where more than half of all home-owners own their homes outright – that is, without any outstanding mortgage debt.

Tasmania's above-average home ownership rate is partly attributable to the slower rate of increase in residential property prices over the past two decades, both in absolute terms and relative to household incomes. As noted earlier in this section, that partly reflects the fact that prospective home-buyers have faced less competition from investors in Tasmania than they have in other parts of Australia. There has also been relatively less demand from overseas immigrants.

As a result, housing affordability (for buyers and owners) hasn't deteriorated nearly as much in Tasmania as it has in other states. According to Real Estate Institute of Australia calculations, debt service payments on an average-sized mortgage absorbed 23.9% of average household income in Tasmania in mid-2017, compared with 31.4% across Australia as a whole<sup>11</sup>.

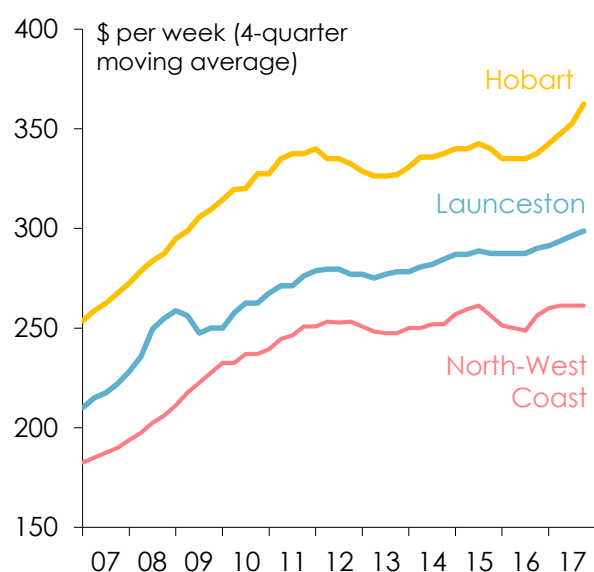
Tasmania's above-average home ownership rate is also a by-product of Tasmania's older-than-average population, since home ownership rates typically increase with age, and home ownership rates nationally have declined by much less among people aged 55 or over (who comprised 33.5% of Tasmania's population at the 2016 Census, compared with 27.3% of mainland Australia's) than among younger age groups.

<sup>11</sup> Real Estate Institute of Australia, *Housing Affordability Report*, June Quarter 2017.

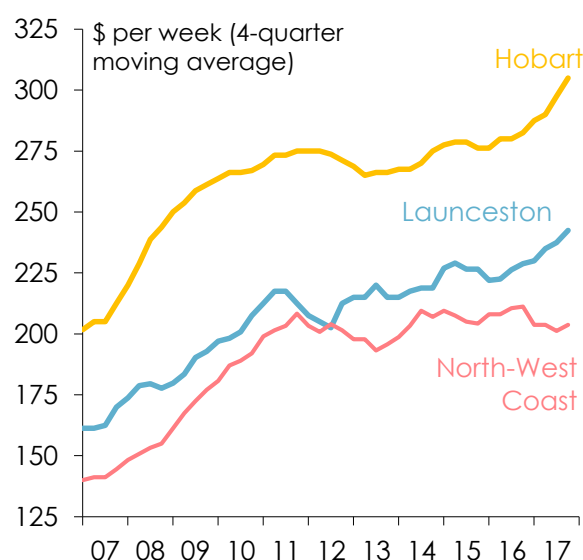
## The rental housing market

The rental housing market has tightened, particularly in Hobart, over the past year. Median rents for houses and units have risen by 7.4% and 8.0%, respectively, in Hobart over the year to the September quarter 2017. Elsewhere in Tasmania there has been less upward pressure on rents, although in Launceston, typical apartment rents increased by 6.0% over the year to the September quarter. One exception is apartments on the North West Coast, for which median rents declined by 3.6% over the year to the September quarter (Charts 3.11 and 3.12).

**Chart 3.11: Median rents, 3-bedroom houses**



**Chart 3.12: Median rents, 2-bedroom units**



Source: Real Estate Institute of Tasmania.

These data are consistent with the measure of rents included in the consumer price index, which for Hobart rose by 4.1% over the year to the September quarter, compared with an average of just 0.8% for all capital cities.

The upward pressure on rents in Hobart reflects the significant decline in vacancies over the past four years. Hobart's vacancy rate fell below 2% in the September quarter for the first time in nine years, to its lowest level since the March quarter of 2004; the annual moving average rate (a better indicator of the underlying trend) is now down to levels not seen in seven years (Chart 3.13).

Vacancy rates remain much higher, and have fallen by less, in Launceston and along the North-West Coast.

It has been suggested that the decline in the supply of rental accommodation in Hobart may have been exacerbated by property owners electing to make their properties available to tourists (using online platforms such as Airbnb) rather than to tenants<sup>12</sup>.

<sup>12</sup> See, for example, Larry Schlesinger, 'Airbnb keeping Hobart housing market robust', [Australian Financial Review](#), 14<sup>th</sup> June 2017; Loretta Lohberger, 'Solid research needed to measure the impact of Airbnb on rental properties', [The Mercury](#), 23<sup>rd</sup> June 2017.

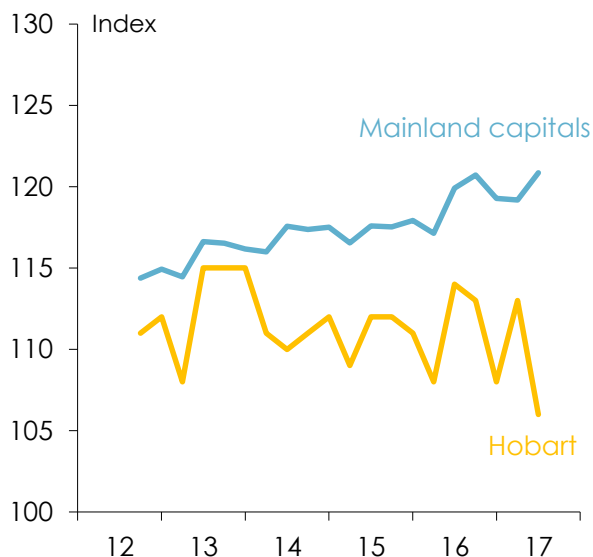
Certainly, the number of Hobart properties listed on Airbnb has increased significantly over the past year. However it's unclear to what extent this is driven by property owners seeking to rent out rooms in their own homes, as distinct from investment properties which would otherwise have been rented to tenants.

Although rents in Tasmania are typically lower than in other states and territories, so are household incomes. Moreover, a higher proportion of households in Tasmania are on low incomes (that is, have incomes which place them in the bottom 40% of the national income distribution) than in the rest of Australia. Hence, housing is typically less 'affordable' for renters in Tasmania than it is for home buyers.

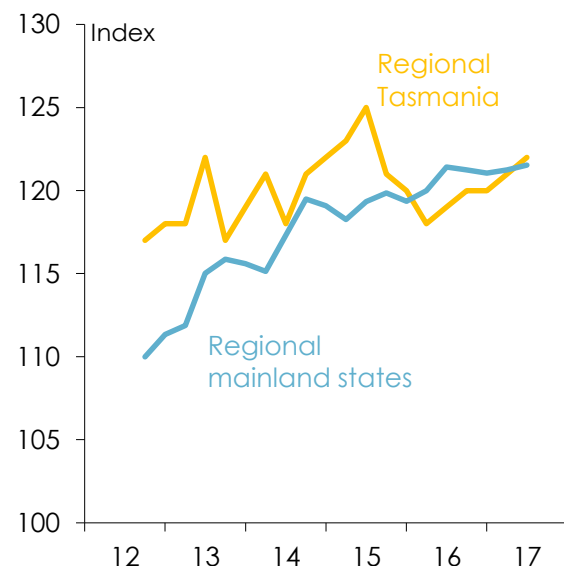
A measure of housing affordability for low-income rental households is compiled by National Shelter, Community Sector Banking and SGS Economics and Planning. It is based on the ratio of median income to the income at which median rent would represent 30% of income (30% of income being the most widely-used threshold for identifying housing stress)<sup>13</sup>.

By this measure, rental affordability for low income households in Hobart has deteriorated significantly in Hobart over the past three years, and in the June quarter of 2017 was lower than in any other capital city except Sydney (Chart 3.13). Rental affordability in regional Tasmania has been more stable over the past four years – but this has been in contrast to a gradual improvement in rental affordability in the regional areas of mainland states over this period (Chart 3.14).

**Chart 3.13: Rental affordability index, Hobart and mainland capitals**



**Chart 3.14: Rental affordability, regional Tasmania and regional mainland states**



Note: The index is the ratio of median income to the income at which median rent represents 30% of income. Hence, an increase (decrease) in the index indicates an improvement (deterioration) in rental affordability.

Source: National Shelter, Community Sector Banking and SGS Economics & Planning, *Rental Affordability Index*, November 2017.

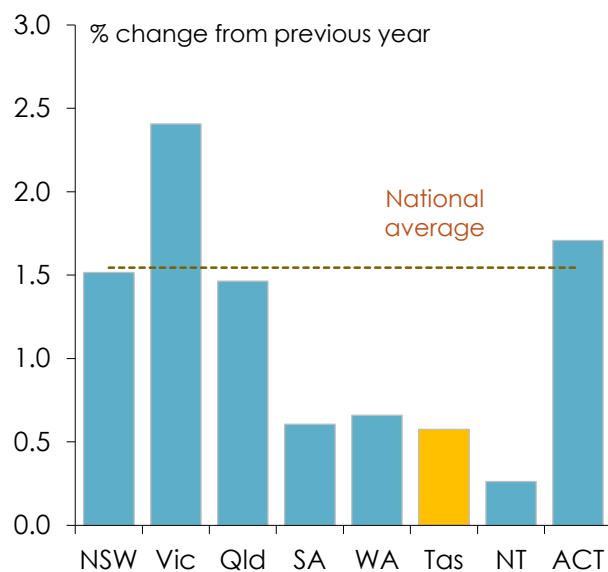
<sup>13</sup> For further details see SGS Economics and Planning, [Rental Affordability Index](#), November 2017.

## Section 4: Tasmania's population and society

### Population growth

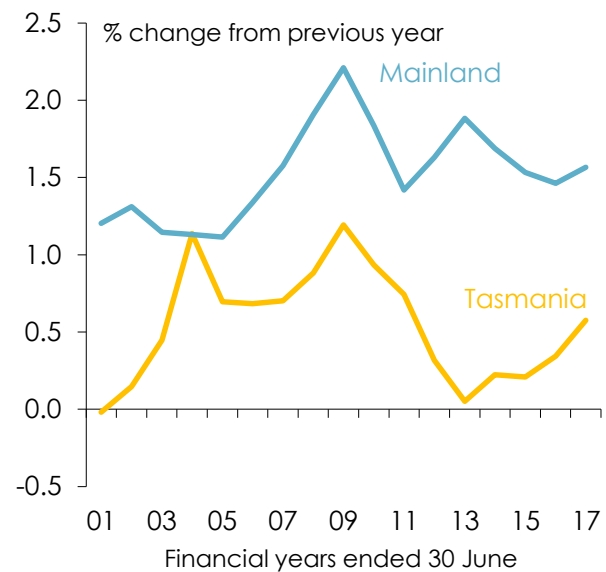
Tasmania's population increased by 0.6% in 2016-17, the fastest growth rate since 2010-11, and marginally ahead of its average growth rate since the turn of the century. As it has been every year since 2004-05, Tasmania's population growth rate was slower than that of any other state, although for the third year in a row it was faster than that of the Northern Territory (Chart 4.1). The margin between the growth rate of Tasmania's population and that of the rest of Australia was the smallest in six years (Chart 4.2).

**Chart 4.1: Population growth, states and territories, 2016-17**



Source: ABS, State Accounts (5220.0), 2016-17.

**Chart 4.2: Population growth, Tasmania and mainland Australia, 2000-01 to 2016-17**



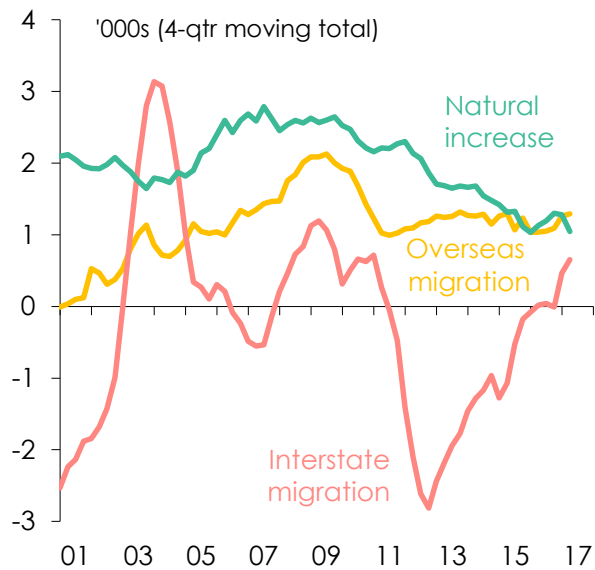
Source: ABS, State Accounts (5220.0), 2016-17.

The gradual pick-up in the growth rate of Tasmania's population has been driven by a turnaround in **interstate migration**, from a net outflow which peaked at more than 2,800 people in the year ended September 2013, to a net inflow of 681 people (the highest in nearly eight years) in the year ended March 2017 (Chart 4.3).

This reflects both a decline in the number of people leaving Tasmania and an increase in the number of people moving to Tasmania from the mainland, compared with the years 2012-15 – although each remains well below the levels prevailing during the first decade of this century (Chart 4.4).

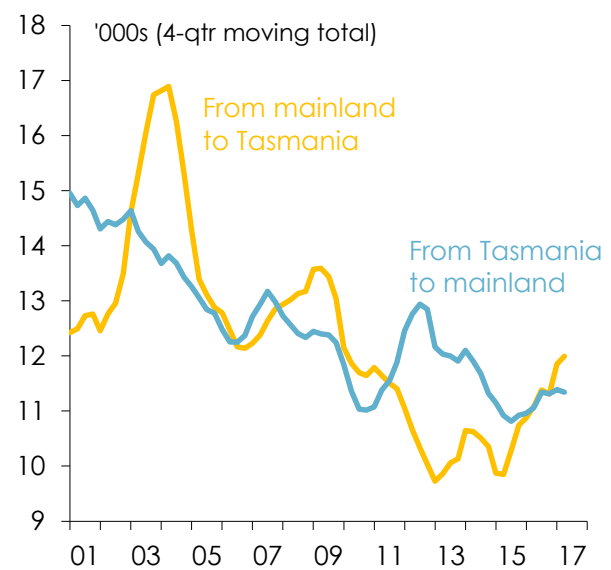
Net **overseas immigration** continues to add just over 1,000 people to Tasmania's population each year. This represents 0.5% of Australia's total net immigration intake – well below Tasmania's 2.1% share of Australia's population. An instructive comparison is with South Australia, whose population is about 3¼ times larger than Tasmania – yet it receives eight times as many overseas immigrants as Tasmania. This is the main reason why South Australia's population has grown at a faster rate than Tasmania's over the past five years, despite losing a relatively larger share of its population to net interstate migration over this period than Tasmania.

**Chart 4.3: Components of Tasmania's population growth**



Source: ABS, Australian Demographic Statistics (3101.0), March 2017.

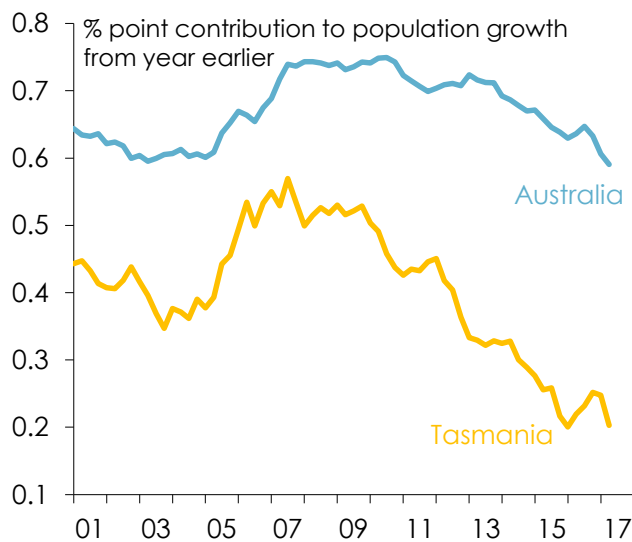
**Chart 4.4: Net interstate migration to Tasmania, by age groups**



Source: Australian Demographic Statistics (3101.0), March 2017.

The rate of **'natural increase'** in Tasmania's population (ie, births minus deaths) has also continued to slow, adding just 0.3 of a percentage point to the growth rate of Tasmania's population over the year to March 2017, down from 0.6 of a pc point a decade ago – a much sharper slowdown than for Australia as a whole (Chart 4.5).

**Chart 4.5: Contribution of 'natural increase' to population growth, Tasmania and Australia**



Source: ABS, Australian Demographic Statistics (3101.0), March 2017.

As discussed in this section of last year's *Tasmania Report*, Tasmanian women have a higher total fertility rate – that is, they on average have more children over the course of their 'reproductive years' – than women in any other part of Australia except the Northern Territory.

But because women in their 'reproductive years' represent a smaller proportion of the female population than that of any other state or territory, Tasmania's crude birth rate – 11.0 per 1,000 population in 2015 – is the lowest of any state or territory, and well below the national average of 12.8.

In addition, because Tasmania's population is, on average, older than that of the rest of Australia, and because Tasmanians die at a (slightly) younger age than people in the rest of Australia (with the conspicuous exception of the Northern Territory and, marginally, Queensland), Tasmania's crude death rate, of 8.9 per 1,000 population in 2016, is significantly higher than the national average of 6.5.



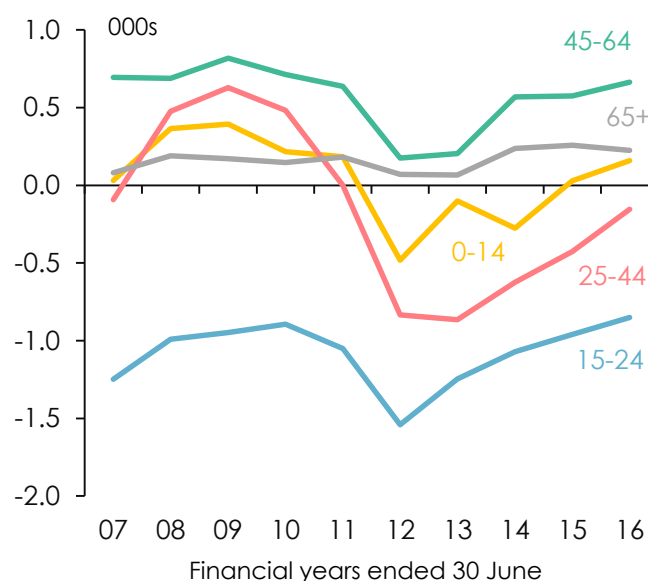
The composition of interstate migration to and from Tasmania continues to have a significant impact on the age profile of Tasmania's population.

Tasmania has long been a 'net exporter' of people aged under 45 – and, in particular, people who are more likely than those in other age groups to be undertaking higher education, to be employed, and to be forming families – and a 'net importer' of people aged 45 or over, who on average are less likely to participate actively in the labour market.

The contrasting age profile of people moving to and from the mainland inevitably re-inforces the trend in Tasmania's birth and death rates discussed above.

Against that background, some encouragement may be drawn from the fact that the turnaround in net immigration since 2013 stems largely from a decline in the 'net outflow' of young adults. However, this development would need to strengthen further, and be sustained for an extended period, even merely to slow the rate at which Tasmania's population is ageing.

**Chart 4.6: Net interstate migration to Tasmania, by age group**



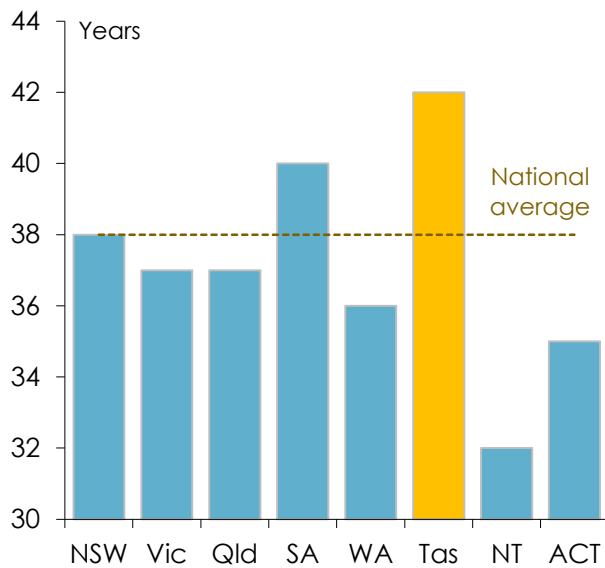
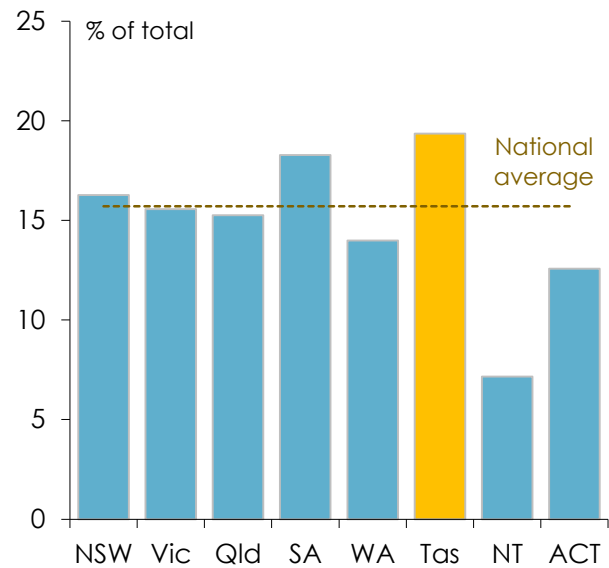
Source: ABS, Australian Demographic Statistics (3101.0), March 2017.

## Characteristics of Tasmania's population

Tasmania has the oldest, and most rapidly-ageing, population of any Australian state or territory. At the August 2016 Census, the **median age** of Tasmania's population was 42 (that is, half of Tasmania's population was younger than 42 and half older), five years above the corresponding figure for mainland Australia (Chart 4.7). At the 2006 Census, Tasmania's median age of 39 years was only 2 years higher than the mainland average.

19.4% of Tasmanian's population at last year's Census was **aged 65 or over**, the highest of any state or territory, and 3.7 percentage points above the average for mainland Australia. (Chart 4.8). The proportion of Tasmania's population aged 65 or over has risen by 4.4 percentage points since the 2006 Census, whereas the corresponding proportion for mainland Australia has only risen by 2.4 pc points.

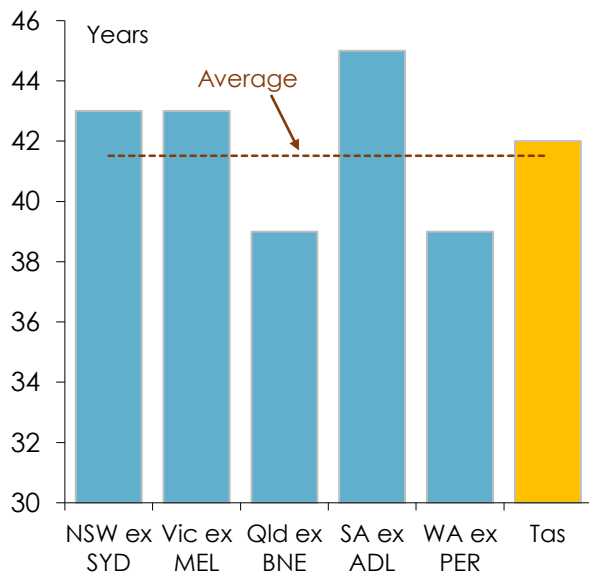
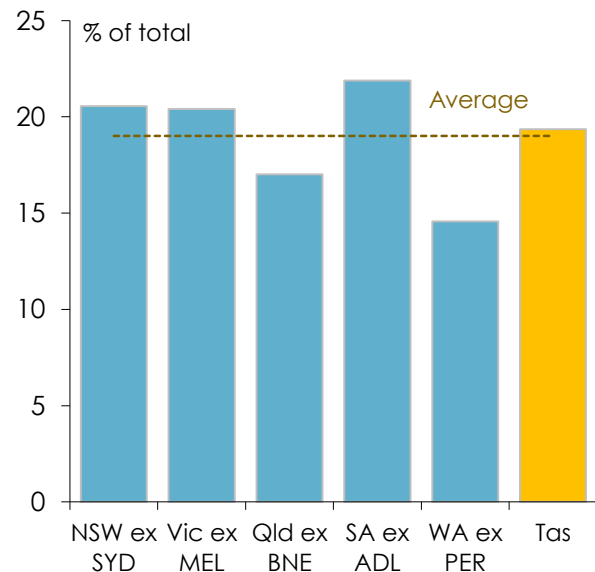
Conversely, 29.0% of Tasmania's population at last year's Census were **aged between 20 and 44**, the lowest of any state or territory and 5.7 percentage points below the mainland average. A decade earlier, the proportion of Tasmania's population in this age range was only 2.4 percentage points below the mainland average.

**Chart 4.7: Median age, states and territories, 2016 Census****Chart 4.8: Population aged 65 and over, states and territories, 2016 Census**

Source: ABS, 2016 Census Community Profiles.

While Tasmania's population is considerably older than that of any other state or territory, this in large part reflects the younger demographic profile of the capital cities of Australia's mainland states and territories.

Tasmania's median age, and the share of its population aged 65 or over, are much closer to the corresponding averages for the non-metropolitan areas of the mainland states, and actually lower than the averages for the non-metropolitan regions of New South Wales, Victoria and South Australia (Charts 4.9 and 4.10).

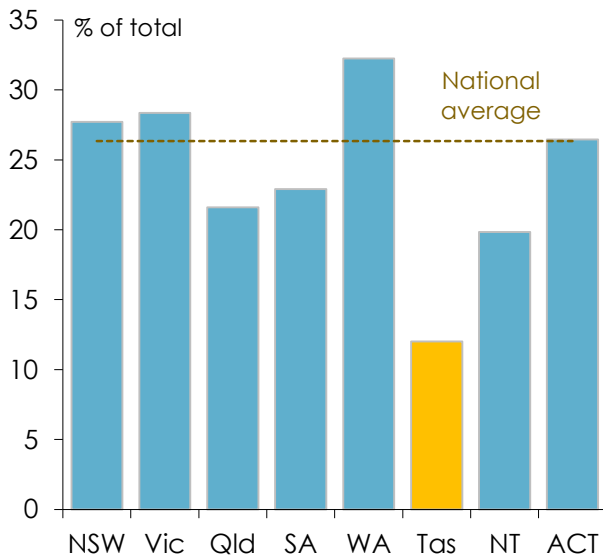
**Chart 4.9: Median age, Tasmania and regions of mainland states, 2016 Census****Chart 4.10: Population aged 65+, Tasmania and regions of mainland states, 2016 Census**

Note: 'Average' in these charts is for the non-capital city regions of the mainland states. Territories are not included. Tasmania includes Greater Hobart. Source: ABS, 2016 Census Community Profiles.

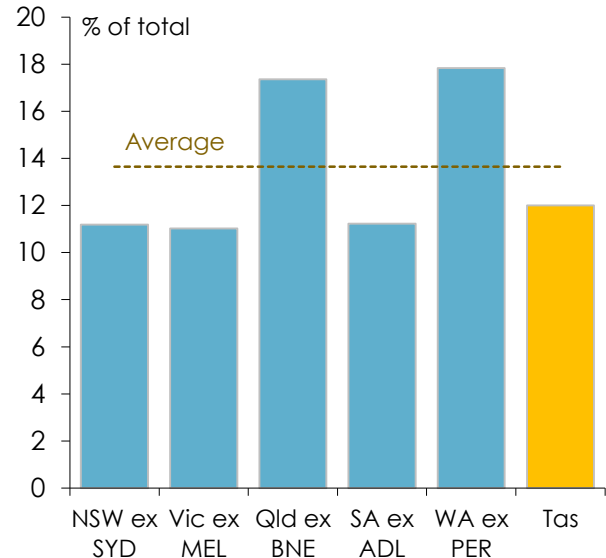
Tasmania's population is much less culturally diverse than that of any other state or territory. Only 12% of Tasmania's population at the 2016 Census were **born overseas**, less than half the national average (Chart 4.11). Just 2.6% of Tasmania's population were born in East, South-East or South Asia, compared with 9.9% of Australia's total population. One or both of the parents of 23% of Tasmania's population were born overseas, compared with 45% of the national total. Only 5.4% of Tasmanians speak a **language other than English** at home, a quarter of the national average of 20.8%.

Again, however, these differences are largely attributable to the capital cities of the mainland states. The proportion of Tasmanians born overseas is actually slightly higher than that of the people living outside the capitals of the three mainland south-eastern states (Chart 4.12), while the proportion of Tasmanians speaking a language other than English at home is only slightly lower than that of the non-metropolitan populations of New South Wales and Victoria, and higher than that of regional South Australia.

**Chart 4.11: Overseas-born population, states and territories, 2016 Census**



**Chart 4.12: Overseas-born population, Tasmania and mainland regions, 2016 Census**



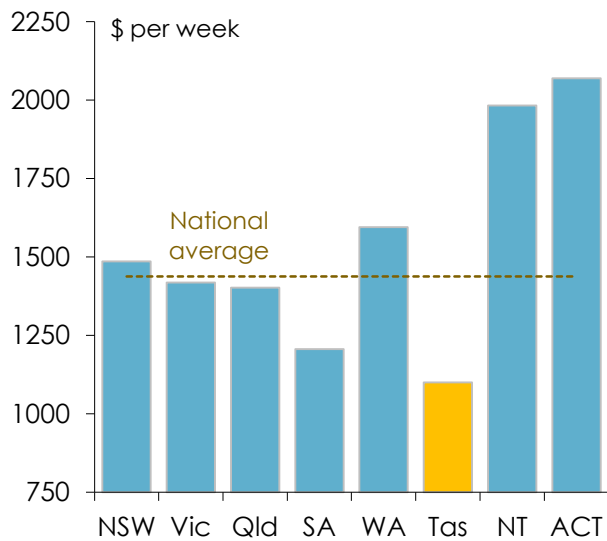
Source: ABS, 2016 Census Community Profiles. Footnotes to Charts 4.9 and 4.10 also apply to Chart 4.12.

## Household income

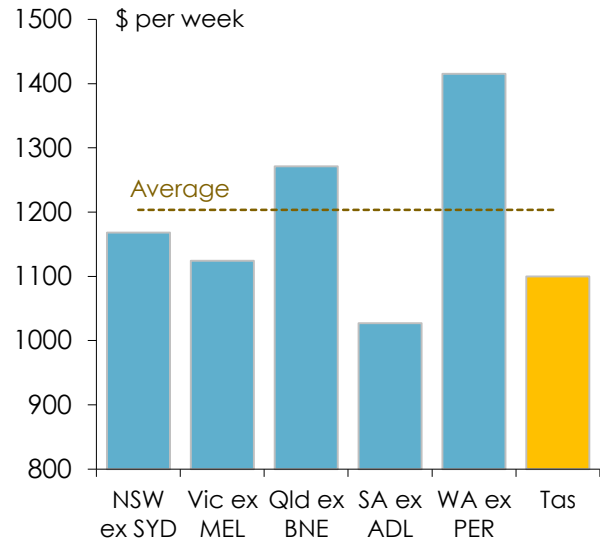
Tasmanians are poorer, on average, than people living in other states and territories. Median **personal income** in Tasmania according to the 2016 Census was \$573 per week, lower than in any other state or territory, and 13.4% below the national average. And median Tasmanian **household income** of \$1,100 per week was 23.5% below the national average at the 2016 Census (Chart 4.13).

If the mainland state capitals and Canberra are excluded from the comparison, then the median Tasmanian household income at last year's Census was only 8.6% below the average for the non-metropolitan regions of the mainland states, and not significantly different from those in regional New South Wales, Victoria and South Australia (Chart 4.14).

**Chart 4.13: Median household incomes, states and territories, 2016 Census**



**Chart 4.14: Median household incomes, Tasmania and mainland regional areas**

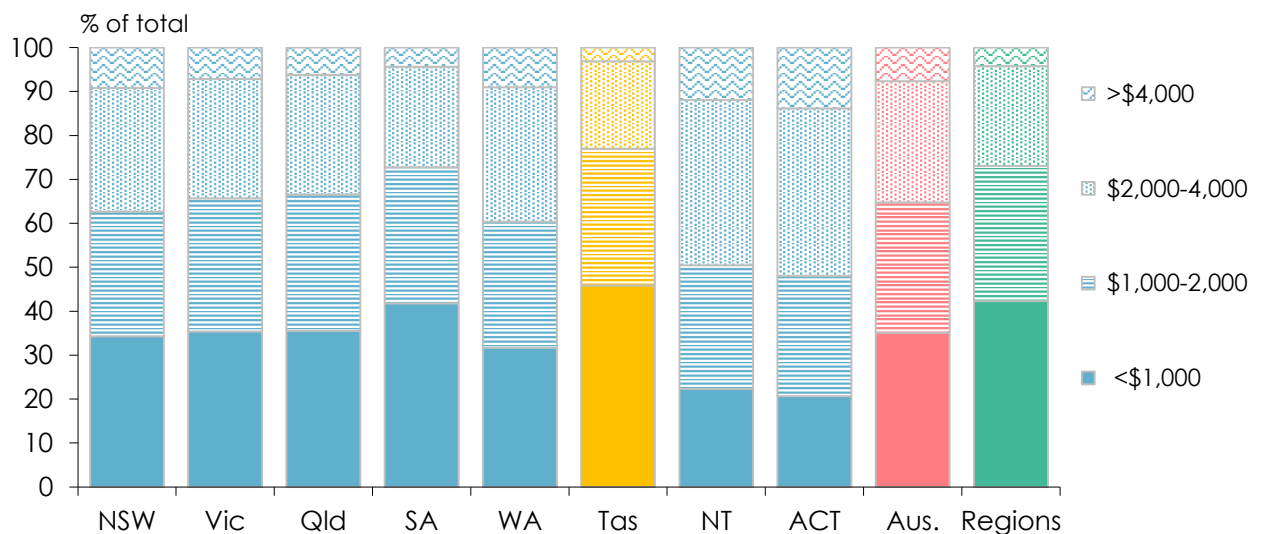


Source: ABS, 2016 Census Community Profiles. Footnotes to Charts 4.9 and 4.10 also apply to Chart 4.14.

Tasmania's low median household income is *not* because Tasmania's low-income households have lower incomes than their counterparts in other states and territories, but rather because a much higher proportion of Tasmanian households earn low incomes; because there are relatively fewer high-income households in Tasmania than in other states and territories; and because the incomes of Tasmanian households which are classified as 'high income' are nonetheless typically not as high as those of high-income households in other states and territories.

Thus, as Chart 4.15 shows, 46% of Tasmanian households have a (gross) income of less than \$1,000 per week – more than in any other state or territory, and more than 10pc points above the national average (though only 3½ pc points above the average for the non-metropolitan regions of the mainland states).

**Chart 4.15: Weekly household income, by income range, 2016 Census**

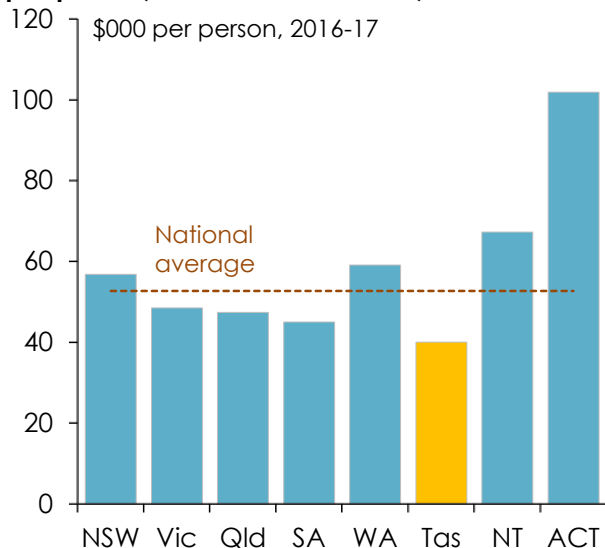


Source: ABS, 2016 Census Community Profiles. 'Regions' means mainland states excluding 'greater capital city' regions, and Territories.

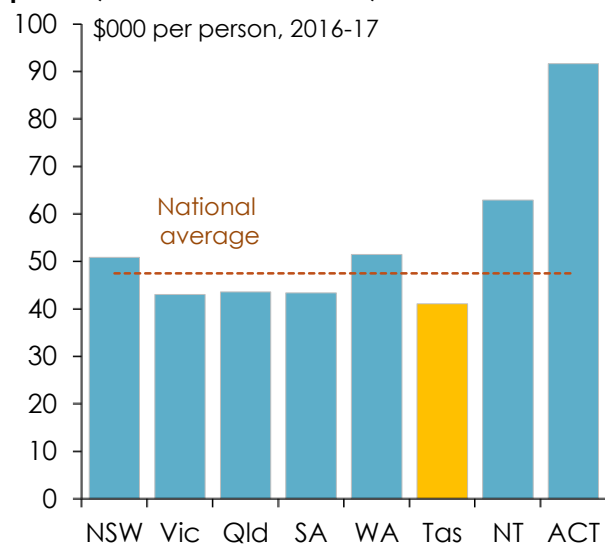
Conversely, only 23% of Tasmanian households have a gross income of over \$2,000 per week, fewer than in any other state or territory, and more than 12 percentage points below the national average (although only 4 pc points below the average for the areas outside the capital cities of mainland states). At the top end of the income distribution, only 3.1% of Tasmanian households earn \$4,000 per week or more, less than half the national average of 7.6% (and even 1.2 percentage points below the average for regional areas in mainland states).

National income redistribution systems therefore play a more important role in the well-being of households in Tasmania than they do in other states and territories. Data from the ABS *State Accounts* shows that **primary household income** (that is, wages and salaries, small business income, and interest, rent and dividends) averaged just under \$40,000 per person in Tasmania in 2016-17, almost \$12,700 or 24% less than the national average (Chart 4.16). However, **household disposable income** (that is, net of income tax and interest payments, and pension and other benefits received) averaged just over \$41,000 per person in Tasmania in 2016-17, which was just under \$7,000 or 13½% below the national average (Chart 4.17).

**Chart 4.16: Gross household primary income per person, states and territories, 2016-17**



**Chart 4.17: Household disposable income per person, states and territories, 2016-17**

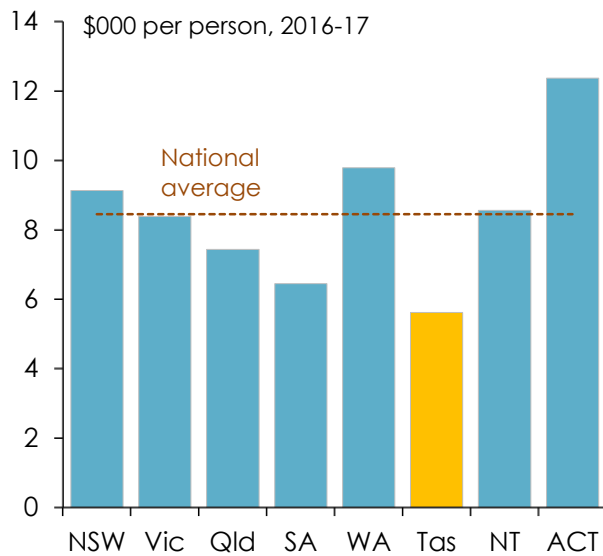


Source: ABS, *State Accounts* (5220.0), 2016-17.

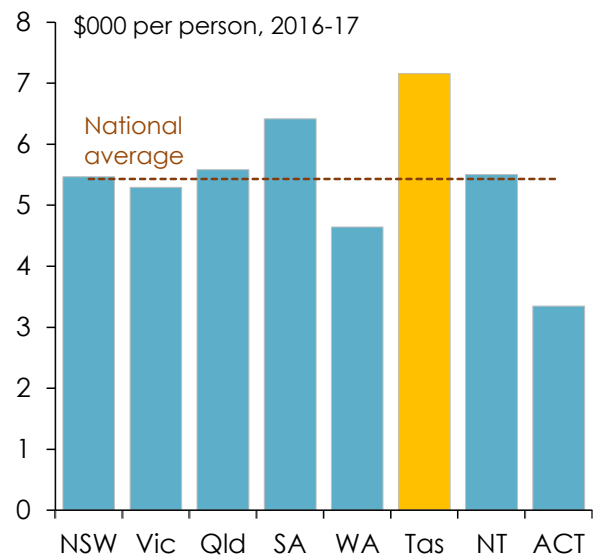
This largely reflects the fact that Tasmanian households (as a group) pay less in personal income tax (an average of \$5,621 per person in 2016-17, 33½% less than the national average) than they receive by way of pensions and other benefits (an average of \$7,154 per person in 2016-17, 32% above the national average) (see Charts 4.18 and 4.19).

Tasmania is the only state or territory where households (in aggregate) receive more from the social security system than they contribute to the personal income tax system. This represented a net transfer to the Tasmanian economy (from the federal government) in 2016-17 of \$791mn (equivalent to 2¾% of gross state product). For households in mainland states, the net impact of the personal income tax and social security systems is a transfer to the federal government equivalent to 4.3% of gross product.

**Chart 4.18: Personal income tax payments per person, states and territories, 2016-17**



**Chart 4.19: Social security benefit receipts per person, states and territories, 2016-17**



Source: ABS, *State Accounts* (5220.0), 2016-17.

This should not be seen as any sort of achievement – on the contrary, it would be far preferable if Tasmanians' circumstances were such that they could be 'net contributors' to the national tax-transfer system as households (in aggregate) in other states and territories are. But since that isn't the case, it underscores the continuing importance to the well-being of Tasmanians of a progressive income tax system and an adequate social 'safety net'.

## Health and disability

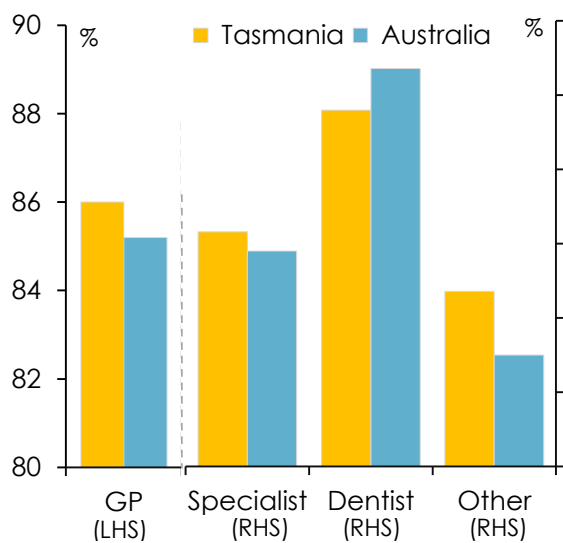
Last year's *Tasmania Report* presented data from the ABS *National Health Survey*, conducted in 2014-15, which showed that a lower proportion of Tasmanians assessed their health status as 'excellent' or 'very good', and a higher proportion as 'fair' or 'poor', than of the population of any other state or territory<sup>14</sup>.

Further data from this survey released over the past year indicates that Tasmanians **consult health professionals** marginally more frequently, on average, than people all Australians – with the exception of dentists, whom they consult less frequently (Chart 4.20). 33% of Tasmanians hadn't seen a dentist within the past two years, compared with 26% of Australia's population as a whole.

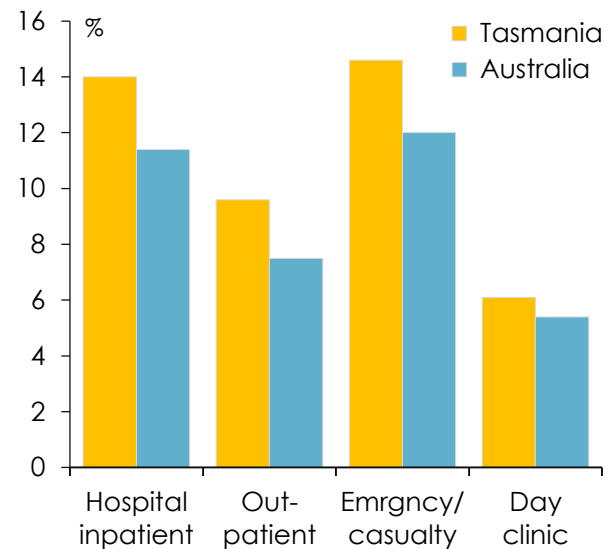
However, Tasmanians are notably more intensive in their **use of hospital facilities** than people living in other states and territories. According to the National Health Survey, 14% of Tasmanians had been admitted to a hospital as an inpatient during the previous 12 months, more than in any other state or territory, and 2.6 pc points above the national average; 9.6% had visited an outpatient clinic, 2.0 pc point above the national average; and 14.6% had visited emergency or casualty, 2.6 pc points above the national average (Chart 4.21).

<sup>14</sup> [Tasmania Report](#), 2016, pp. 51-52.

**Chart 4.20: Consultations with health professionals in past 12 months**



**Chart 4.21: Use of hospital or medical facilities in the past 12 months**



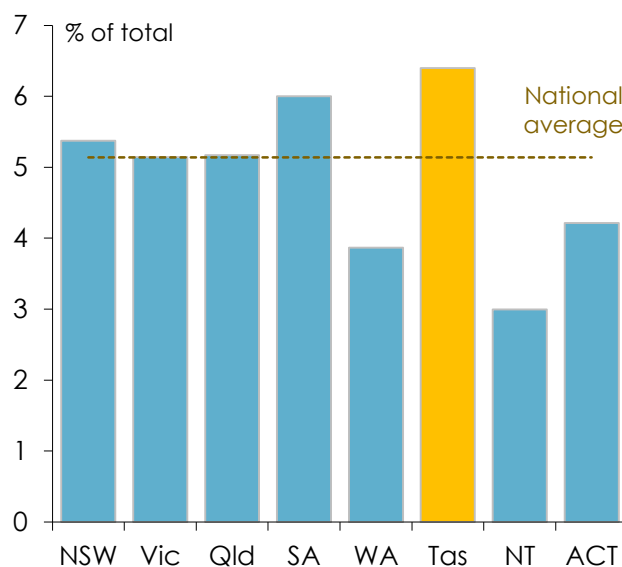
Note: Percentages are of estimated resident populations in 2014-15. Source: ABS, *Health Service Usage and Health Related Actions, Australia* (4364.0.55.002), 2014-15.

The 2014-15 National Health Survey also showed that 17.7% of Tasmanians had had time away from work, study or school due to illness in the two weeks prior to the survey, 2.7 pc points above the national average and a higher proportion than in any other state or territory.

These outcomes are not surprising in view of Tasmania having a higher proportion of its population in older age groups, as noted previously in this section.

Data from the 2016 Census indicates that Tasmanians are more affected by **disability** than people in other states and territories (Chart 4.22).

**Chart 4.22: People needing assistance with 'core activities', states and territories, 2016 Census**



Note: 'core activities' means self-care, mobility or communications. Source: ABS, *2016 Census Community Profiles*.

Perhaps surprisingly, however, this is *not* a corollary of Tasmanians being older, on average, than other Australians. The proportion of Tasmanians aged 65 or over needing assistance with 'core activities' at last year's Census, of 16.7%, was actually lower than in any other state except WA, and 0.7 pc pts below the national average.

Rather, 2.9% of Tasmanians aged under 15, and 4.2% of Tasmanians aged 15-64, needed assistance with 'core activities', in each case above the corresponding national averages of 2.6% and 2.9%, respectively.



## Socio-economic status

This Section has thus far presented data showing that Tasmanians are older, poorer, less healthy and more likely to be affected by disability than other Australians. Section 2 showed that Tasmanians are less likely to be employed than other Australians, and to earn less when they are employed; while Section 5 will show that they remain less well-educated, on average, than people living in other states and territories.

All of these factors are contributors to the fact that Tasmania has relatively greater concentrations of economic and social disadvantage than any other state or territory – and conversely, fewer concentrations of social and economic privilege than other parts of Australia.

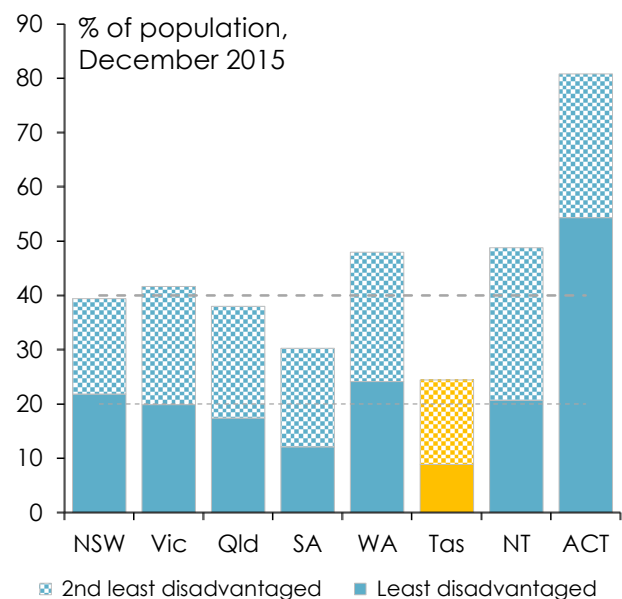
Calculations undertaken by the Commonwealth Grants Commission as part of its annual assessments of the capacity of each state and territory government to raise revenue from its own resources, and the requirements for expenditure on public services, indicate that 31.3% of Tasmanians are in the most disadvantaged socio-economic status (SES) quintile (fifth) of Australians – 11.3 percentage points more than would be the case if socio-economic advantage and disadvantage were evenly spread across the country; while a further 23.3% of Tasmanians are in the second-most disadvantaged SES quintile – 3.3 percentage points more than if advantage and disadvantage were evenly spread (Chart 4.23).

Conversely, only 8.9% of Tasmanians are in the highest SES quintile – 11.4 percentage points less than if advantage were evenly spread across Australia – while 15.5% were in the second-most advantaged SES quintile – 4.6 percentage points than if there were an even spread of social and economic advantage.

**Chart 4.23: Low SES status as a pc of population, December 2015**



**Chart 4.24: High SES status as a pc of population, December 2015**



Source: Commonwealth Grants Commission, *Report on GST Revenue-Sharing Relativities – 2017 Review*.

There are actually almost 4,500 more people among the most socio-economically advantaged fifth of the Australian population living in the Northern Territory than in Tasmania, even though the Northern Territory's total population is less than half of Tasmania's. There are more than 4½ times as many people in the highest SES quintile living in the ACT as there are in Tasmania, even though the ACT's population is only three-quarters of Tasmania's.

Conversely, there are almost two-and-a-half times as many people in the most disadvantaged quintile of the Australian population living in Tasmania as there are in the Northern Territory and ACT combined, even though the two Territories' combined population is only 23% larger than Tasmania's.

## Other dimensions of 'well-being'

Much of this section has presented a less-than-flattering impression of the economic and social condition of Tasmania's population. However, it's worth remembering that, important as income, wealth and health are, they are not the only dimensions of 'well-being'. Clearly, a very large proportion of Tasmanians choose to remain in the state, notwithstanding that they might well be able to earn a higher income if they moved elsewhere. Among the things that Tasmanians value are things that are difficult to put a dollar value on – but they are no less important for that.

Some of these other dimensions of well-being were highlighted in the 2016 *Tasmania Report* – for example, relatively fewer Tasmanians experience housing stress than people in other states and territories; Tasmanians spend less time travelling to and from work or study than people in any other state or territory; Tasmanians have more frequent contact with family and friends outside their own households than people in other states or territories; and the proportion of people who feel they are 'able to have a say, most or all of the time' on 'important issues' is higher in Tasmania than in any other state or territory<sup>15</sup>.

The results of last year's Census, released over the past six months, provide some further instances where various aspects of 'well-being' or 'social capital' in Tasmania compare favourably with other states and territories.

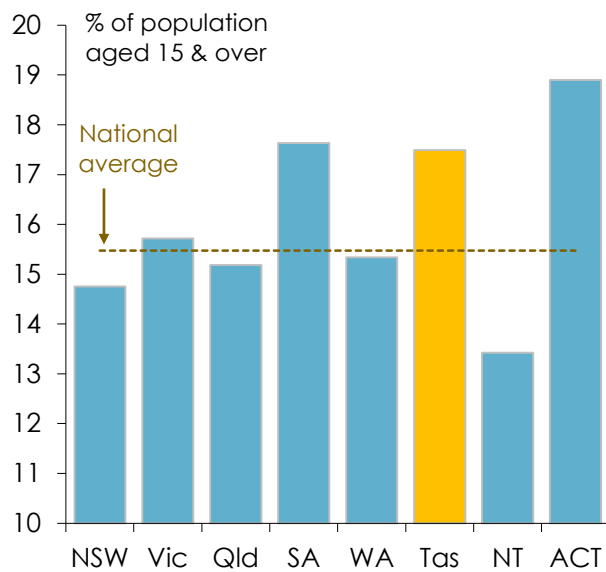
As one example of this, the Census found that 17.5% of Tasmanians aged 15 and over undertake **voluntary work** for an organization or group, a higher proportion than in any other state or territory except for the ACT and (marginally) South Australia, and 2 pc points above the national average. (Chart 4.25). It was also 2.1 pc points above the average for non-metropolitan regions of mainland states.

This wasn't simply a function of a higher proportion of Tasmanians being aged 65 or over (even though people in this age group, wherever they live, are more likely to volunteer their time than people in younger age groups). The proportion of Tasmanians aged 15-64 who undertake some form of voluntary work was, at 16.8%, higher than in any other state, and 1.8 pc points above the national average.

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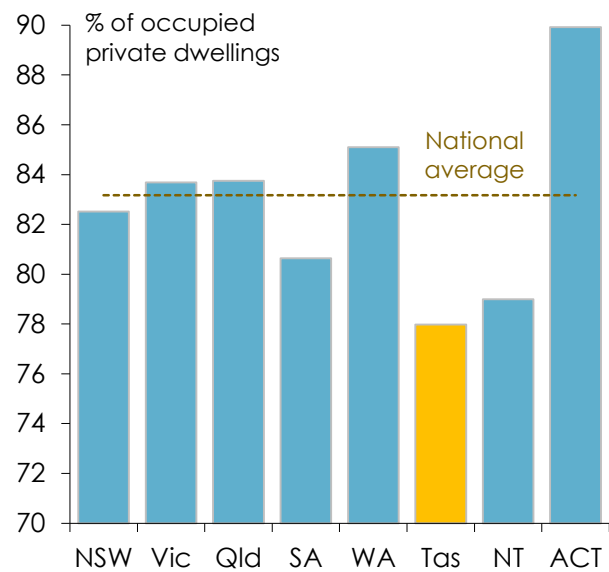
<sup>15</sup> [Tasmania Report](#), 2016, pp. 54-55.

**Chart 4.25: People aged 15 and over doing voluntary work, 2016 Census**



Source: ABS, 2016 Census Community Profiles.

**Chart 4.26: Occupied private dwellings with internet access, 2016 Census**



Source: ABS, 2016 Census Community Profiles.

A different dimension where Tasmania does not compare so favourably is in regard to **internet access**. According to last year's Census, 78.0% of Tasmanian homes had access to the internet – less than in any other state or territory, and more than 5 percentage points below the national average of 83.2% (Chart 4.26). Unlike some other indicators highlighted in this section, this comparison is not greatly affected by excluding the mainland metropolitan centres. The proportion of Tasmanian homes with access to the internet is lower than the average for the non-metropolitan areas of the mainland states – and, in particular, lower than for regional Queensland or Western Australia (where distance might have been expected to have been a factor affecting internet access), though higher than in regional New South Wales and South Australia.

## Section 5: Tasmania's education system

### The importance of education

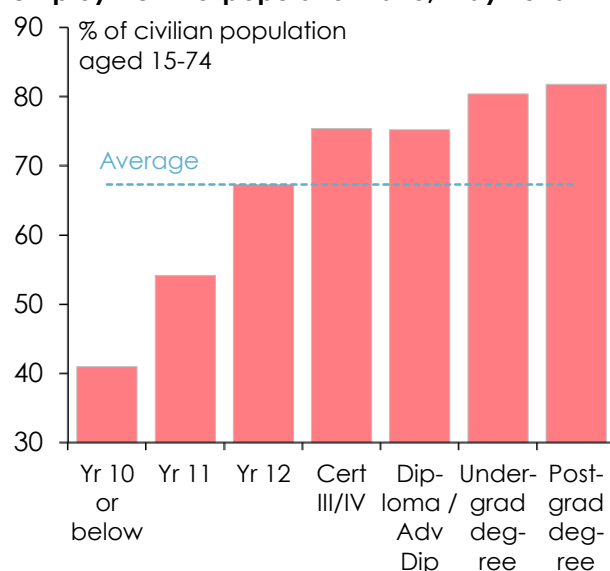
The first *Tasmania Report*, published two years ago, quoted the inaugural Professor of Economics at the University of Tasmania, Douglas Copland, as saying “not merely financially, but in the moral and social field, education is the most profitable investment a community can make”<sup>16</sup>. However, it is not only economists who stress the importance of education. Nelson Mandela once said, “Education is the most powerful weapon which you can use to change the world”<sup>17</sup>.

The first *Tasmania Report* cited a range of international and Australian evidence demonstrating strong linkages between both the *quantity* of education (as measured by years of schooling, or the attainment of post-school qualifications) and the *quality* of education (as measured by standardized test scores) and economic outcomes, for individuals and nations<sup>18</sup>.

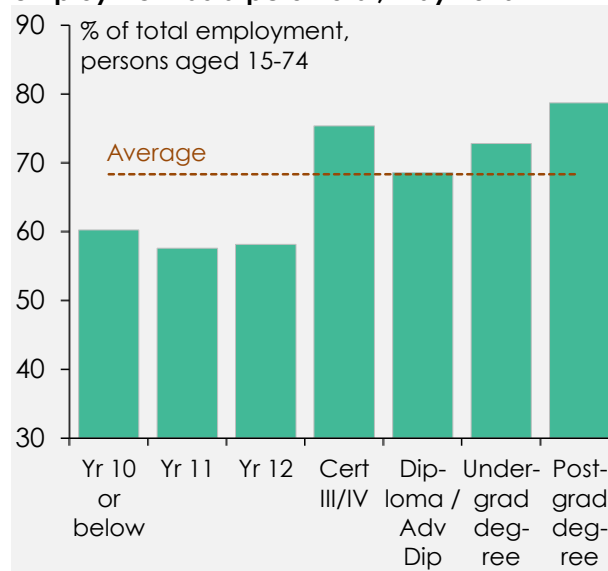
More recent Australian data shows that the higher a person's level of educational attainment, the more likely he or she is to have a job (Chart 5.1); and the more likely it is that his or her job will be a full-time one (Chart 5.2).

In particular, a person with at least 12 years of schooling is almost 60% more likely to have a job than a person who has had 10 years of schooling or less; and a person with a post-secondary qualification is, if he or she is employed, about 25% more likely to have a full-time job than a person without one.

**Chart 5.1: Educational attainment vs employment-to-population ratio, May 2016**



**Chart 5.2: Educational attainment vs full-time employment as a pc of total, May 2016**



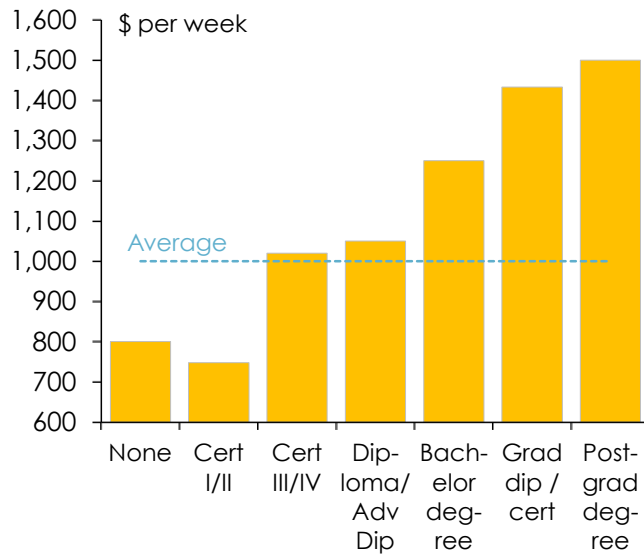
Note: Data shown in these charts are for Australia as a whole. Source: ABS, *Education and Work* (6227.0), May 2017.

<sup>16</sup> Marjorie Harper, *Douglas Copland – Scholar, Economist, Diplomat*, The Miegunyah Press, Melbourne, 2013, p. 48.

<sup>17</sup> Nelson Mandela, [Speech at the launch of the Mindset Network](#), University of Witwatersrand, Johannesburg, 16 July 2003.

<sup>18</sup> Tasmanian Chamber of Commerce and Industry, [Tasmania Report](#), December 2015, pp. 34-35.

**Chart 5.3: Educational attainment and median weekly earnings, August 2016**



Source: ABS, *Characteristics of Employment* (6333.0), August 2016.

There is also a clear correlation between educational attainment and earnings in employment (Chart 5.3).

People with post-secondary qualifications (Certificate III/IV or higher) earn an average of 56% more than those who have either no post-secondary qualifications (or a Certificate I/II); and people with a university degree earn 6% more, on average, than those who don't have one (or 75% more than those who have no post-secondary qualification at all).

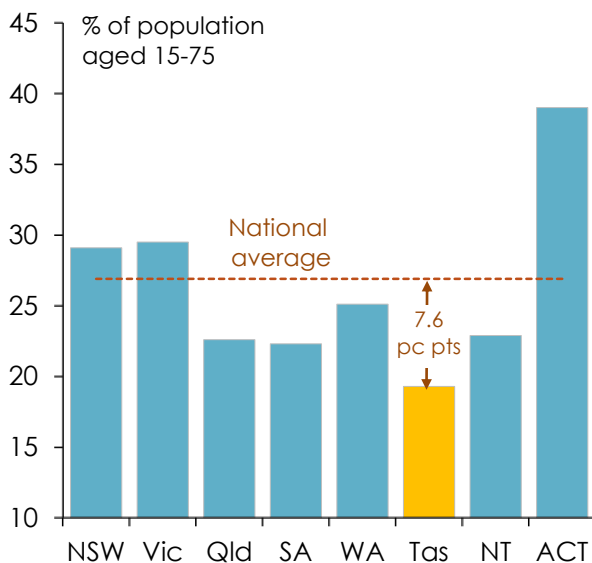
Findings such as these are directly relevant to the main themes of this report.

## Educational attainment in Tasmania

Tasmanians are, in general, less well-educated than people living in other parts of Australia.

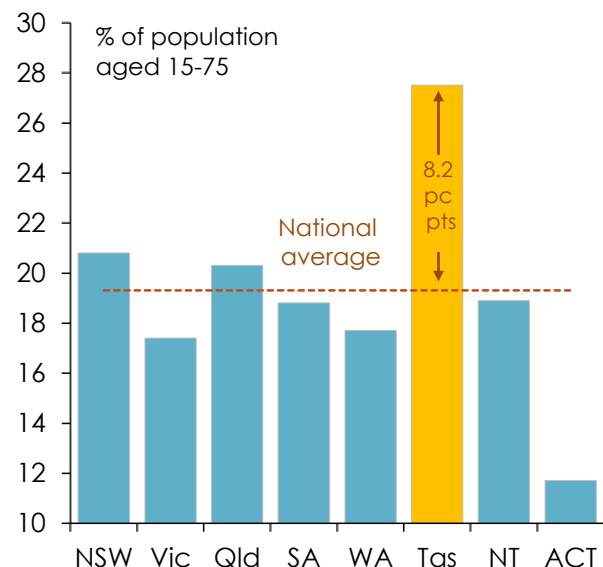
Only 19.3% of Tasmanians aged 15-75 have a university degree or higher, the lowest proportion of any state or territory, and more than 7½ percentage points below the national average (Chart 5.4). This proportion has risen by 2.4 percentage points over the past three years – but the corresponding national average has risen by 2.8 pc points over the same period, so the gap has actually widened since 2014.

**Chart 5.4: Population aged 15-75 with bachelor degree or higher, May 2017**



Source: ABS, *Education and Work* (6227.0), May 2017.

**Chart 5.5: Population aged 15-75 with no qualification beyond Year 10, May 2017**

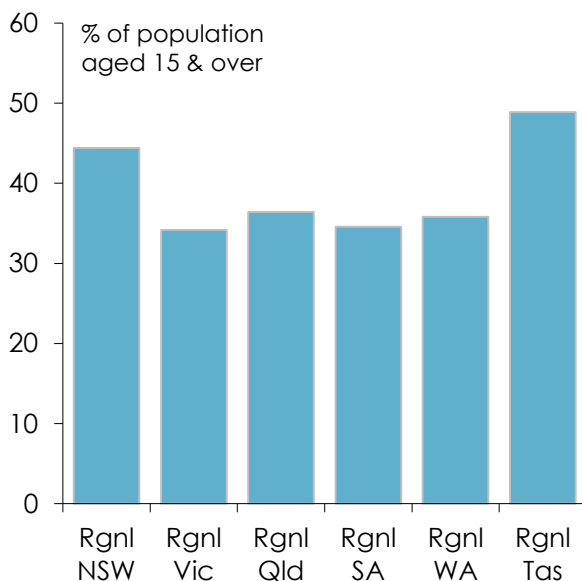


Conversely, 27.5% of Tasmanians aged 15-75 have no qualification beyond Year 10. This is (by a wide margin) the highest of any state or territory, and 8.2 percentage points above the national average (Chart 5.5). More encouragingly, the proportion of 15-75 year old Tasmanians with no qualifications beyond Year 10 has fallen by 6.6 percentage points over the past three years, compared with a decline of 2.9 percentage points in the corresponding national average – so this gap is at least moving in the right direction.

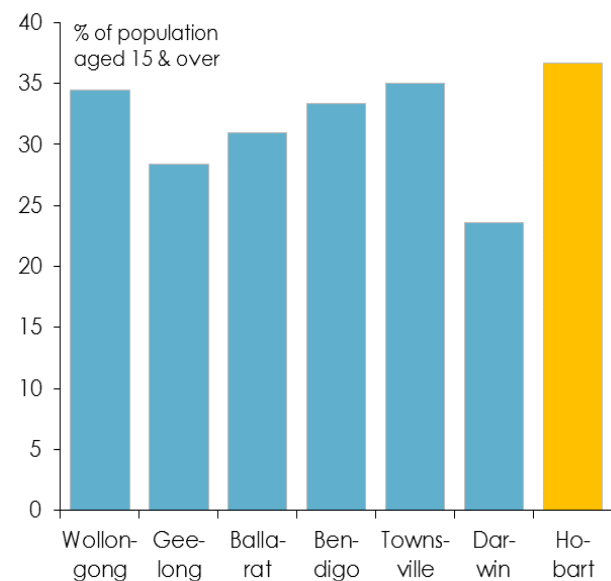
Data from last year's Census shows that Tasmania's below-average levels of educational attainment **cannot** be 'explained' by the fact that a larger proportion of Tasmania's population lives outside the capital city than that of any other state or territory, or that Tasmania lacks a large metropolitan area the size of the other state capitals.

A higher proportion of people aged 15 and over living in regional Tasmania (that is, outside of Hobart) have no educational qualifications beyond Year 10 than that of people living outside the capital cities of any other state (Chart 5.6). And the proportion of people aged 15 and over living in Hobart who have no educational qualifications beyond Year 10 is higher than that in any of the six mainland 'provincial' cities shown in Chart 5.7 with which Hobart might reasonably be compared.

**Chart 5.6: Population aged 15 & over with no qualifications beyond Year 10 – non-capital city regions, 2016 Census**



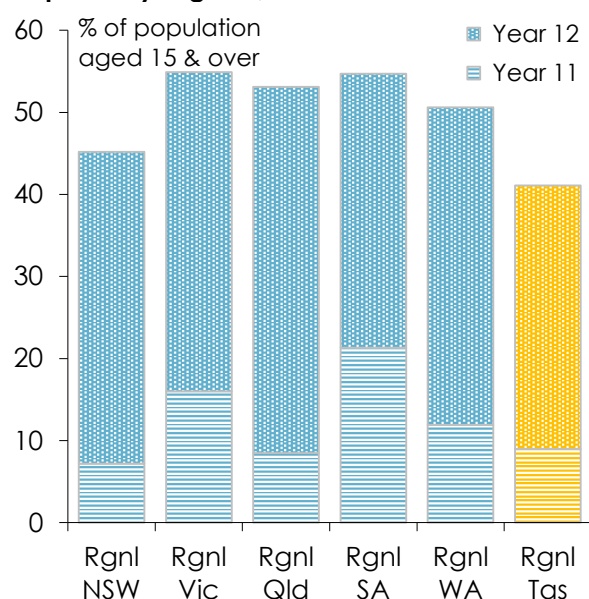
**Chart 5.7: Population aged 15 & over with no qualifications beyond Year 10 – 'provincial cities', 2016 Census**



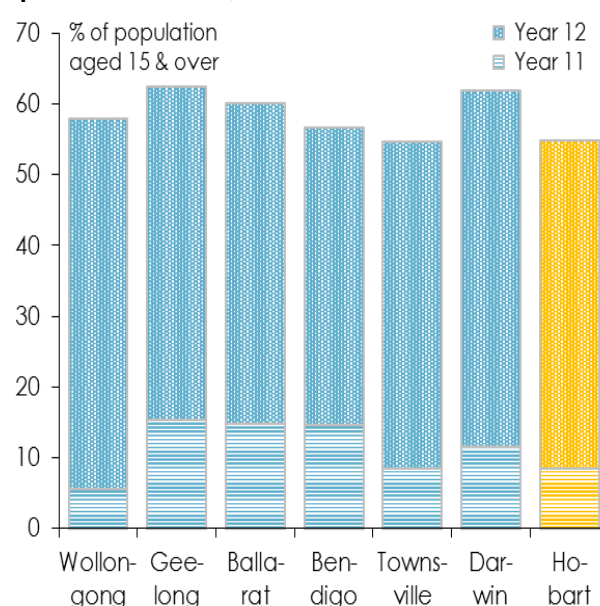
Source: ABS, 2016 Census Community Profiles; Regional Statistics by ASGS 2016 (1379.0.55.01), 2017.

Conversely, the proportion of people aged 15 and over who have completed Year 11 or Year 12 is much lower in regional Tasmania than it is in the non-metropolitan areas of any mainland state (Chart 5.8); while the proportion of people aged 15 and over living in Hobart who have completed Year 11 or Year 12 is lower than in any of the mainland 'provincial' cities shown in Chart 5.9, apart from Townsville.

**Chart 5.8: Population aged 15 & over who have completed Year 11 or Year 12 – non-capital city regions, 2016 Census**



**Chart 5.9: Population aged 15 & over who have completed Year 11 or Year 12 – 'provincial cities', 2016 Census**



Source: ABS, 2016 Census Community Profiles; Regional Statistics by ASGS 2016 (1379.0.55.01), 2017.

The below-average proportion of Tasmanians with university qualifications, and the above-average proportion who have never progressed beyond Year 10 of high school, partly reflects the patterns of interstate migration discussed in Section 4.

However it is also a legacy of persistently below-average participation in, and completion of, senior secondary school in Tasmania compared with the rest of Australia.

## Educational participation in Tasmania

A smaller proportion of Tasmanian Year 10 students continue their studies on to Year 12 than of those in any other state or the ACT – or in the Northern Territory if the Indigenous population is excluded from the comparison (Chart 5.10).

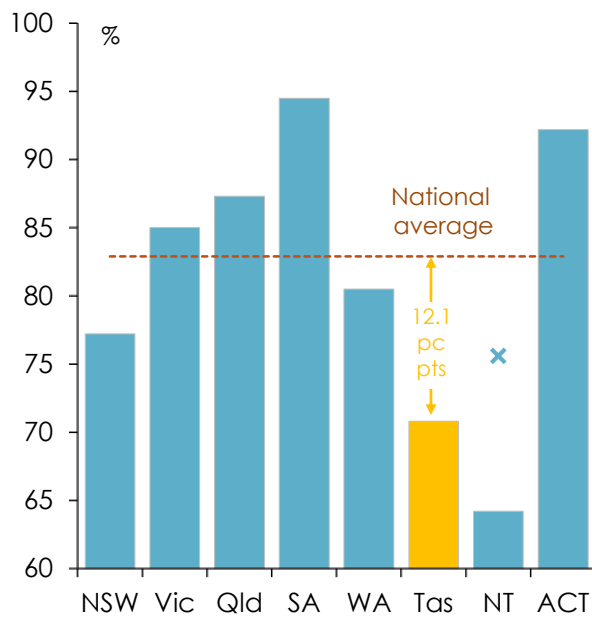
Tasmania's apparent **retention rate** to Year 12 fell back by 1.8 percentage points, to 70.8%, in 2016, after rising by 5 percentage points between 2012 and 2015. By contrast, the national average apparent retention rate rose to a new record high of 82.9% (Chart 5.11). Apparent retention rates in the ACT and in South Australia are now both over 90%.

The decline in Tasmania's Year 12 retention rate in 2016 was largely due to a 2.6 percentage point fall in the retention rate at non-government high schools, to its lowest level since 2010. By contrast, the retention rate at government schools declined by 0.4 of a percentage point, but was still the second-highest on record (albeit still 6.1 percentage points below the national average retention rate for government schools).

Apparent retention rates are based on enrolment figures – that is, the number of students enrolled in (in this case, Year 12) courses at the beginning of each year.

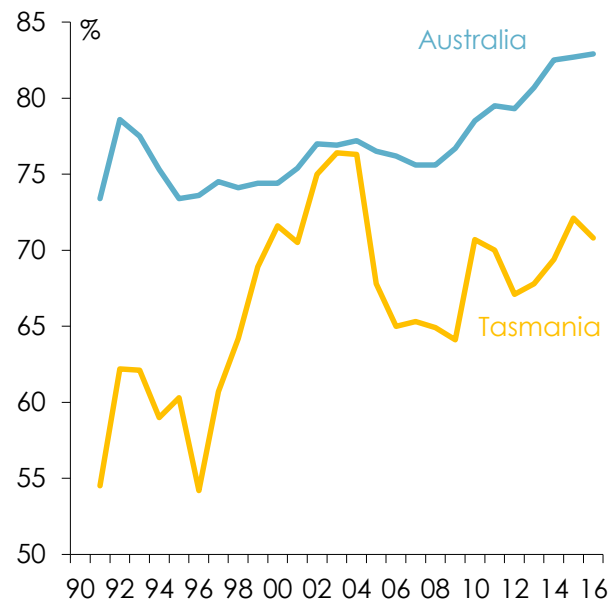


**Chart 5.10: Apparent retention rates from Year 10 to Year 12, states and territories, 2016**



Note: 'x' is the value for the non-Indigenous population of the Northern Territory. Source: ABS, Schools (4221.0), 2016.

**Chart 5.11: Apparent retention rates from Year 10 to Year 12, Tasmania and Australia, 1990-16**



Source: ABS, Schools (4221.0), 2016.

They do not convey any information about the extent to which students successfully complete the courses in which they enrol.

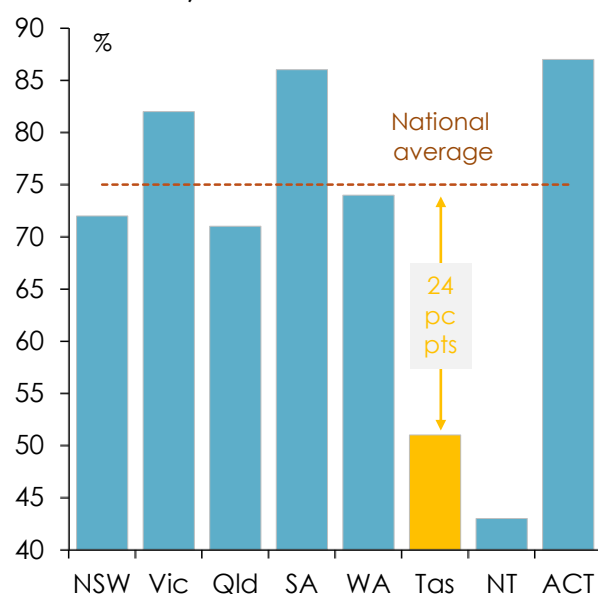
Tasmania's Year 12 **completion rate** - the number of students who meet the requirements of a Year 12 Certificate or equivalent expressed as a percentage of the potential Year 12 population (in turn defined as one fifth of the population aged 15-19) – was just 51% in 2015, the latest year for which data for all states and territories are publicly available. As shown in Chart 5.12, this was lower than in any other part of Australia except the Northern Territory.

Tasmanian Government data indicate that the Year 12 completion rate rose significantly, to 56.4%, in 2016 – though this is still well below the national average (Chart 5.13).

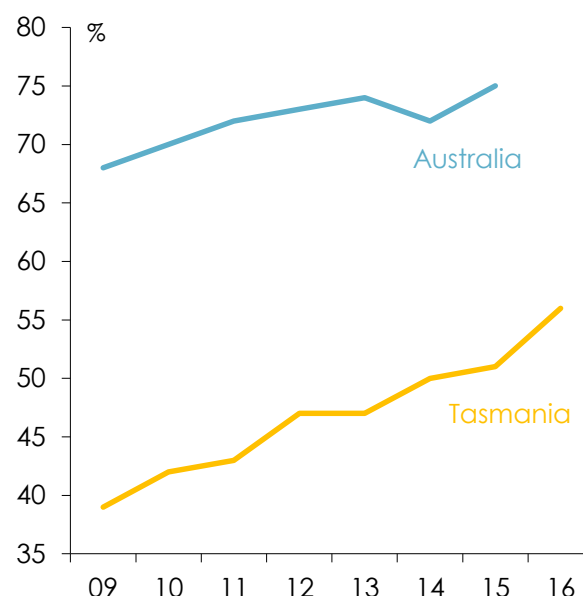
It is sometimes argued that Tasmania's Year 12 certificate (the TCE) is 'harder to obtain' than the equivalents in other states, because since 2009 it has, unlike other states and territories, required students to demonstrate 'ordinary adult capacity to use computers and the internet' – and hence that comparisons with other states' and territories' completion rates are misleading. In practice, only a very small proportion of Tasmanian students fail to attain a TCE because of an inability to meet this requirement. A more detailed study, which included an assessment by principals in other states of how their Year 12 completion requirements compared with Tasmania's, concludes that, if anything, the TCE is "the least demanding of all the states' senior secondary certificate requirements"<sup>19</sup>.

<sup>19</sup> Michael Rowan and Eleanor Ramsay, [The Great TCE Completion Conundrum](#), Education Ambassadors, 2 September 2015.

**Chart 5.12: Year 12 completion rates, states and territories, 2015**



**Chart 5.13: Year 12 completion rates, Tasmania and Australia**



Source: Productivity Commission, *Report on Government Services, 2017, Volume B, Chapter 4, School Education*; Office of Tasmanian Assessment, Standards and Certification (TASC), *Rates of Attainment 2016*.

It is also frequently asserted that Tasmania's low Year 12 completion rates are the 'inevitable' result of the facts that a larger proportion of Tasmanian students than of students in other states and territories live in rural and regional areas; and that a larger proportion of students in Tasmania than in other states and territories come from low socio-economic status (SES) households.

Both of those facts are, by themselves, undeniable (as has been acknowledged and discussed earlier in this report). It is also true that, in general, students from rural and regional areas tend to have lower Year 12 completion rates than students from large cities; and that students from high SES households tend to have higher Year 12 completion rates than students from low SES households.

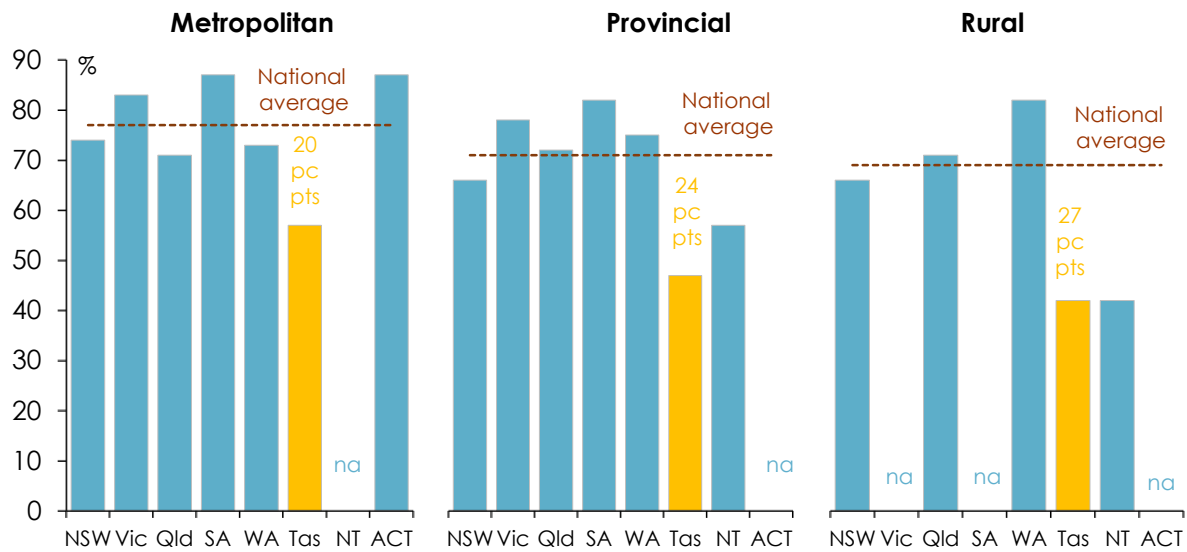
However, data compiled by the Productivity Commission show that neither of these factors explains why Tasmanian Year 12 completion rates are so much lower than those in other states.

As shown in Chart 5.14, Year 12 completion rates are lower in every geographic category in Tasmania than they are in the corresponding regions of every mainland state.

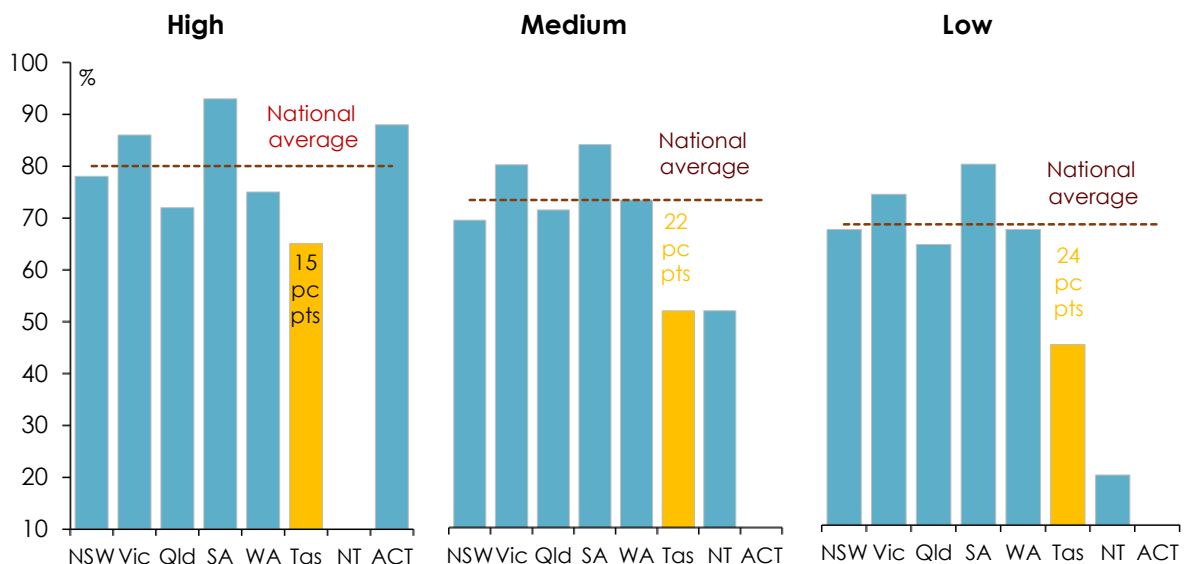
Indeed, a student from Hobart is *less likely* to complete Year 12 than a student from a *remote area* of any mainland state.

Similarly, Chart 15 shows that Year 12 completion rates are lower in every SES grouping in Tasmania than they are in the corresponding groupings in every mainland state.

A student from a *high* SES household in Tasmania is *less likely* to complete Year 12 than a student from a *low* SES household in any of the mainland states.

**Chart 5.14: Year 12 completion rates by location, States and Territories, 2015**

Note: Definitions of 'metropolitan', 'provincial' and 'remote' are as defined by the Education Council Geographic Location Council. 'na' means population too small for statistical purposes. Source: Productivity Commission, *Report on Government Services, 2017*, Volume B, Chapter 4, *School Education*, Table 4A.109.

**Chart 5.15: Year 12 completion rates by SES status, States and Territories, 2015**

Note: Low socioeconomic status is the average of the three lowest deciles, medium socioeconomic status is the average of the four middle deciles and high socioeconomic status is the average of the three highest deciles. 'na' means population too small for statistical purposes. Source: Productivity Commission, *Report on Government Services, 2017*, Volume B, Chapter 4, *School Education*, Table 4A.108.

It is more likely that the 'causation' runs the other way round from how it has often been portrayed – that is, Tasmania's historically low levels of educational participation and attainment are an important reason (albeit not the only one) why a higher proportion of Tasmanian households than of households in other States are fall into the lowest socio-economic status, rather than the latter 'causing' the former.

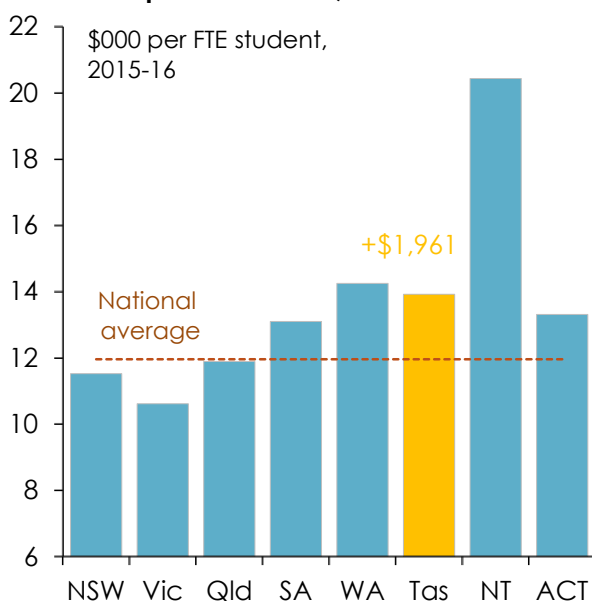
Combined with the evidence presented at the beginning of this section about the correlation between educational attainment, labour force status and earnings, it is highly likely that Tasmanians' low levels of educational attainment are the *reason for* their lower-than-average participation in employment (at any given age) and their lower-than-average incomes – rather than the other way round.

## Spending on education

Nor can Tasmania's historically low levels of educational participation and attainment be attributed to inadequate levels of government spending on education.

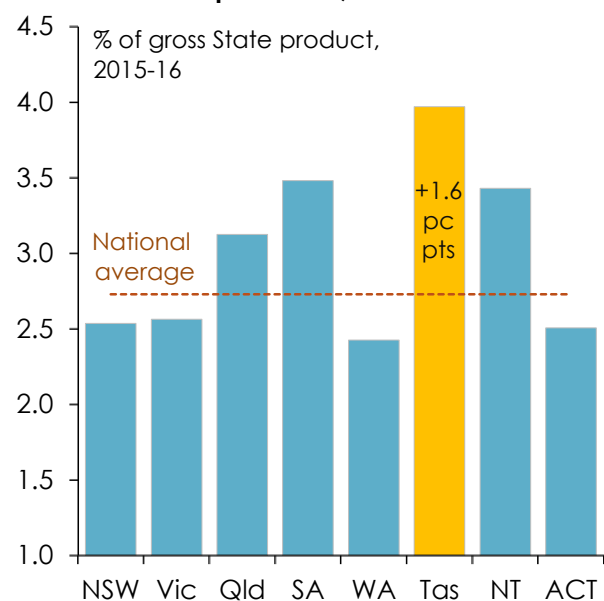
In the 2015-16 financial year, the Tasmanian government spent just over \$13,900 per full-time equivalent student on school education, almost \$2,000 per FTE student (or 17%) more than the average for all States and Territories, and more than any other jurisdiction except the Northern Territory (Chart 5.16). This was equivalent to 4% of Tasmania's gross state product in 2015-16, more than for any other State or Territory, and some 1.2 pc points above the average for all States and Territories (Chart 5.17).

**Chart 5.16: Government spending on school education per FTE student, 2015-16**



Sources: ABS, Government Finance Statistics, Education, (5518.0.55.001), 2015-16; and Schools (4221.0), 2016.

**Chart 5.17: Government spending on school education as a pc of GSP, 2015-16**

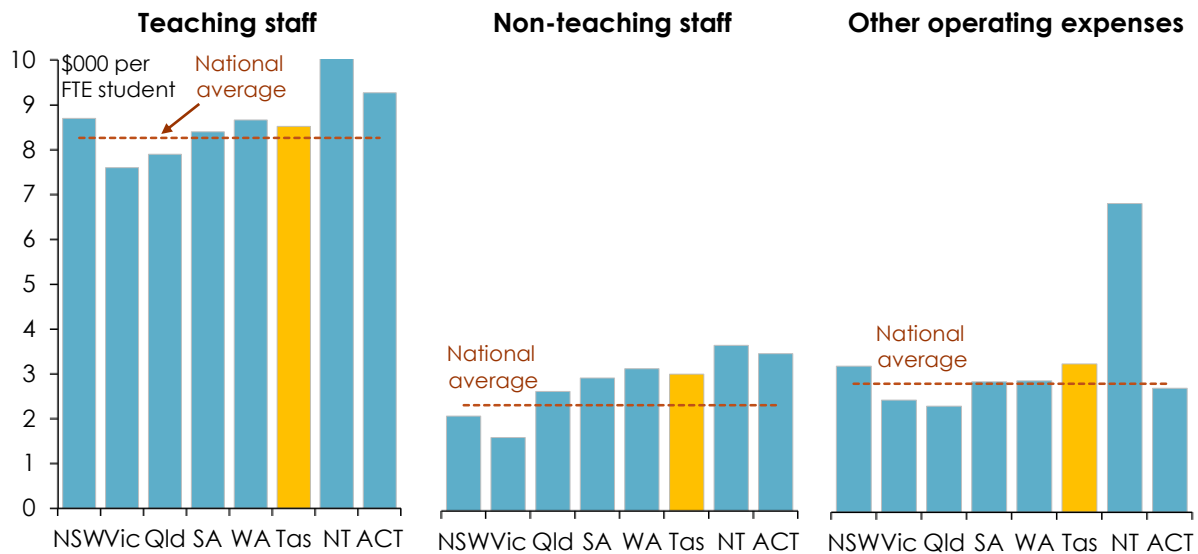


Source: ABS, Government Finance Statistics, Education, (5518.0.55.001), 2015-16; and State Accounts (5220.0), 2016-17.

If this above-average spending were producing better-than-average educational outcomes – as appears to be the case in South Australia, for example – then that would be money well spent. However, Tasmania is spending *more* on education than other states and territories, on average, and getting worse results<sup>20</sup>.

More detailed data compiled by the Productivity Commission suggest that Tasmania's above-average spending per student on school education isn't the result of above-average spending on teachers, but rather is due to above-average spending on non-teaching staff and on other operating costs (Chart 5.18).

<sup>20</sup> The annual assessment by the Commonwealth Grants Commission, as part of its determination of GST revenue-sharing relativities, also concludes that Tasmania spends (slightly) more (per head of population) on school education than it would need to in order to provide 'the same standard of service' as the average of all states and territories, after taking account of differences in factors such as the proportion of the population which is of school age, the proportion of students attending government schools, the proportion of students living in provincial or remote areas, and the socio-economic status of students' families (CGC, [2017 Update Report](#), Tables S7-3 and S7-4).

**Chart 5.18: Spending per FTE student on government school education, by type, 2014-15**

Source: Productivity Commission, *Report on Government Services*, 2017, Volume B, Chapter 4, School Education, Table 4A.10.

In the 2014-15 financial year (the latest for which these data are available), Tasmania spent only \$253 (or 3.1%) more per student than the national average on teachers in government schools. But it spent \$690 (or 29%) per student more on non-teaching staff, and \$438 (or 15%) per student more on other operating expenses than the national average<sup>21</sup>.

As outlined in the two previous *Tasmania Reports*, one of the reasons why Tasmania spends more on education, without getting commensurately better results, is the relatively small size of Tasmanian schools. Tasmanian government schools had an average of 295 FTE students each in 2016, fewer than those in any other state (on average), and well below the national average of 373 students per government school.

More detailed data compiled by the Productivity Commission show that this is because Tasmania has relatively few large primary schools (with more than 400 students), a relatively large number of small secondary schools (with fewer than 300 students), and relatively few large secondary schools (with more than 800 students).

Smaller schools will typically have higher overhead and fixed costs (eg for school leaders, administrative, support and maintenance staff) per student than larger schools. However, in the Tasmanian context, there is no evidence to suggest that smaller schools produce better student outcomes.

Another reason why Tasmania spends relatively more on schools whilst obtaining poorer outcomes is that Tasmania's long-standing system of senior secondary schools is a relatively expensive way of educating the relatively small proportion of eligible students who attend them.

<sup>21</sup> The estimates of schools expenditure published by the Productivity Commission in its annual [Report on Government Services](#) include depreciation and a 'notional user cost of capital', which are not included in the ABS figures used in Charts 5.16 and 5.17, and referred to in the accompanying discussion.

## Tasmania's college system

The most obvious and substantial structural difference between the government school system in Tasmania and elsewhere in Australia is that Year 11 and 12 courses have traditionally been taught only in 'colleges', separate from high schools which in Tasmania, unlike other states, have traditionally only catered for Years 7 through 10. The only other jurisdiction which provides senior secondary education through separate colleges is the ACT – which, as shown throughout this Report, is economically, culturally and in almost every other way more different from Tasmania than any other part of Australia.

Colleges were originally established in Tasmania in the 1960s, as a 'half-way house' between the more structured environment of schools and the relatively greater freedom of universities, when the principal reason students undertook Year 11 and 12 studies was in order to 'matriculate', that is, qualify for entry into a university. They were intended to attract "the best qualified teachers and most promising students that one central college could provide"<sup>22</sup>. In 1995 the Catholic school system adopted the college model for Years 11 and 12 in southern Tasmania.

This Report does not suggest that the colleges have done a poor job of providing senior secondary education to the students who have attended, or are attending them.

However, it does appear that the college system is a relatively expensive way of providing Year 11 and 12 courses.

One recent estimate, based on *MySchool* data for 2012, suggested that the average cost per graduate (across the eight colleges) was \$58,525, compared with an average of \$39,116 at thirteen South Australian high schools whose students came from a similar range of socio-economic backgrounds to the Tasmanian colleges, and \$33,789 at a sample of independent schools in Tasmania and New South Wales. The average cost per graduate at the Tasmanian colleges was also \$10-14,000 more than the University of Tasmania charged overseas students for two years of a BA or BSc course<sup>23</sup>.

The separate college system has also led to the existence of a number of obstacles confronting students who might otherwise have been more likely to progress all the way to Year 12, which do not exist in the integrated high school systems of mainland states.

The 'structural break' in the Tasmanian education system at Year 10 means that students in Years 7 through 10 at government high schools do not come into regular contact with Year 11 and 12 students who can serve as 'role models' for them, inspiring them to see Year 12 as the appropriate 'exit point' from schooling, rather than Year 10. As some of them have said, "you cannot be what you cannot see".

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<sup>22</sup> Mike Frost, ['Talking Point: Where our colleges went wrong'](#), *The Mercury*, 4 February 2016.

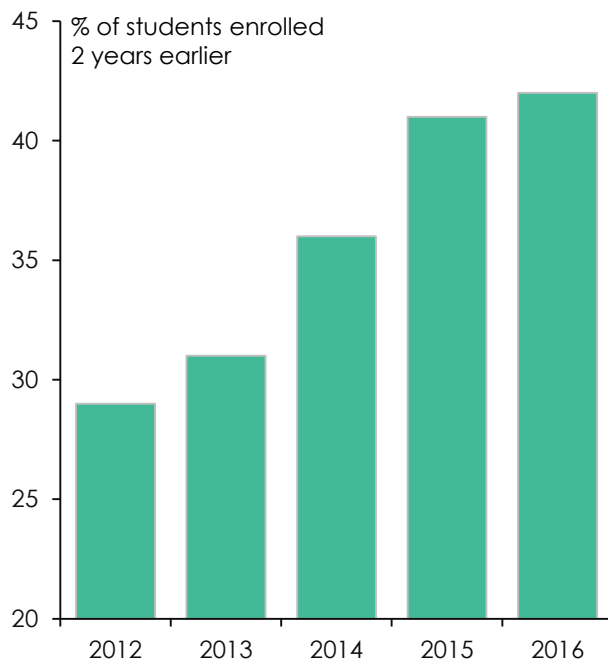
<sup>23</sup> Michael Rowan and Eleanor Ramsay, ['Tasmanian Colleges – Fit for the Purpose of Post-Compulsory Schooling?'](#) Education Ambassadors, August 2014, updated in [Submission to the State of Tasmania Years 9-12 Education Review: Attachment 1](#), Australian Council for Educational Research, September 2016.

It means that students who do go on to Years 11 and 12 at a college lose contact with subject teachers and other staff who have come to know their strengths and weaknesses over their first four years of high school, and have to 'start again' with college staff who will only have two years to achieve the same insights – and who are themselves 'starting from scratch' with their new intakes each year.

And of course it has traditionally meant that students from other than the four centres where the colleges are located have had to commute long distances, or board, in order to complete Years 11 and 12 – which have often turned out to be insurmountable hurdles.

One of the present Tasmanian Government's most important policy initiatives has been the extension of Year 11 and 12 courses in high schools outside the four major population centres (where the colleges are located). 30 such schools now offer Year 11 and 12 courses.

**Chart 5.19: Year 12 completion rates at 30 'extension' high schools, 2012-2016**



Source: Office of Tasmanian Assessment, Standards and Certification (TASC), *Attainment Profiles and Direct Continuation Data*, 2017.

42% of students enrolled in these schools in 2014 attained their TCE in 2016, up from 29% of those enrolled in these schools in 2010 who attained their TCE in 2012 – an increase of 13 percentage points, compared with an increase of 10 percentage points in the completion rate for all Tasmanian schools (including the 'extension schools').

The proportion of students at these schools in Year 10 who had attained at least some Year 11 or Year 12 credits has risen by 8 percentage points since 2012.

These figures suggest that the providing the opportunity for a 'seamless transition' from Year 10 to Years 11 and 12 does have a positive effect on retention and completion rates.

Against that background, the Government's recently-announced commitment that, if returned to office at the forthcoming state election, it will enable the 19 high schools in the four major population centres (where almost three-quarters of Tasmania's population live) to offer Year 11 and 12 courses<sup>24</sup> is a further important step towards eliminating the gap between Tasmania's Year 12 retention and completion rates and those of the rest of Australia.

<sup>24</sup> See, eg, Lucy Stone, '[Rockliff announces grades 11 and 12 rollout for all state schools if Liberal government re-elected](#)', *The Examiner*, 3 December 2017.



Ideally, this commitment will be matched by other parties contesting the election.

It may well be that, as the Opposition has suggested, the extension of Year 11 and 12 courses to all Tasmanian high schools will render the colleges 'unsustainable'<sup>25</sup>. But this should be seen as a desirable consequence of the Government's proposal. Some if not all of the colleges could be converted to comprehensive high schools offering classes from Year 7 through Year 12.

Ultimately, the question which should be asked is, if the college system really has done such a stellar job of educating Tasmanian students in the senior secondary years over the past five decades, why is it that *no other State* has seen fit to copy it (other than the ACT which, as argued earlier, might as well be Mars for all the relevance its circumstances have to Tasmania)?

The fact that no other state has seen fit to emulate Tasmania's system – even outside of the mainland capital cities – but have instead maintained a network of high schools offering integrated courses from Year 7 through Year 12 (Year 8 through Year 12 in South Australia), in their capital cities and in locations far more remote from those capitals than any school in Tasmania is from Hobart – ought to convey a very clear message about how Tasmania's system is regarded across the rest of Australia.

There is no other single thing within the power of a Tasmanian Government to accomplish which would do more to solve the challenge which Tasmania confronts – of below-average engagement with the labour market, below-average productivity, below-average incomes, above-average incidence of multi-generational poverty, and worse-than-average health outcomes (among others) – than lifting Tasmanians' educational participation and attainment rates to mainland levels.

Increasing Year 12 retention and completion rates is also critical to the success of the University of Tasmania's 'Northern Transformation Program'<sup>26</sup>, which envisages the development of new inner-city campuses in Launceston and Burnie, offering new pathways to employment and/or more traditional university degrees, in communities where participation in tertiary education has historically been much lower than in other parts of Australia.

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<sup>25</sup> Nick Clark, '[Education to be a major election issue as parties split on Year 12 school extensions](#)', *The Mercury*, 4 December 2017.

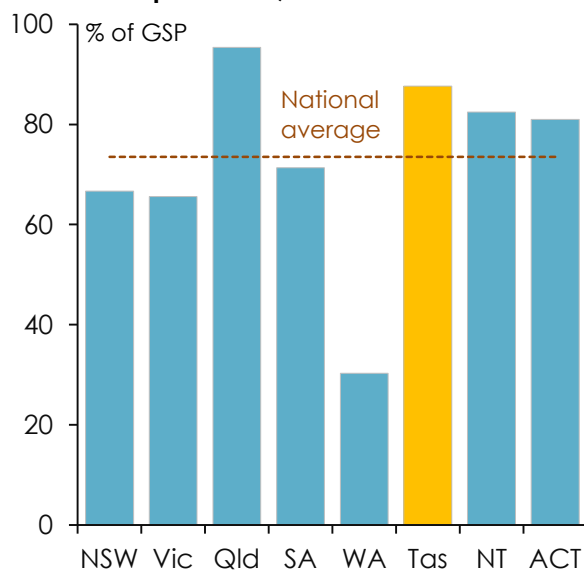
<sup>26</sup> University of Tasmania, '[Transforming Lives. Transforming Cities - A partnership proposal to deliver an Education-Driven Revitalisation of Northern Tasmania](#)', March 2016.

## Section 6: Tasmania's public sector

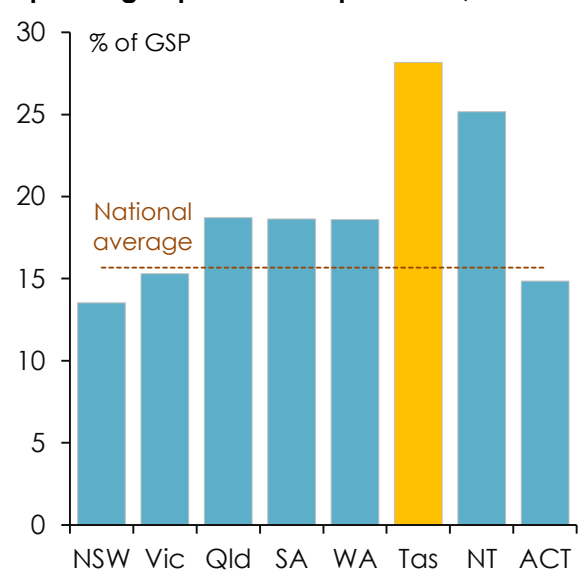
### Size of the public sector

Tasmania has a relatively large state public sector. At the end of the 2016-17 financial year, the **assets** of the state non-financial public sector had a value equivalent to 88% of Tasmania's gross state product for the year, a larger figure than for any other state except Queensland, and well above the average for all states and territories of 73.5% (Chart 6.1)<sup>27</sup>. Tasmanian state non-financial public sector '**operating expenses**' in 2016-17 were equivalent to 28.2% of gross state product, a larger proportion than in any other state or territory, and well above the average of 15.7% for all states and territories (Chart 6.2).

**Chart 6.1: State non-financial public sector assets as a pc of GSP, 30 June 2017**



**Chart 6.2: State non-financial public sector operating expenses as a pc of GSP, 2016-17**



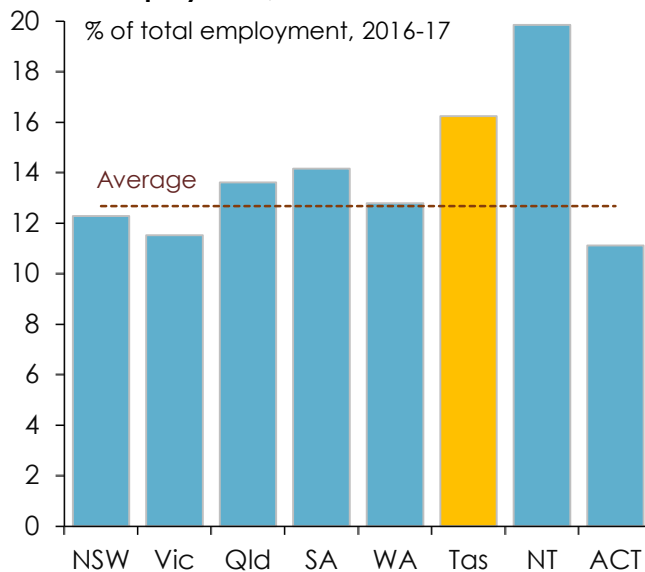
Sources: State and Territory Treasuries, *Annual Financial Reports* (or equivalents), 2016-17, except for Queensland and South Australia, 2017-18 Budget Papers; ABS, *State Accounts* (5220.0), 2016-17.

The size of Tasmania's state public sector partly reflects the relatively greater importance of its **GBEs**, whose assets at the end of 2016-17 were worth 38% of gross state product, and whose 'operating expenses' represented 10.5% of GSP in 2016-17 – in each case higher than for any other state or territory, and well above the averages for all states and territories of 15.7% and 3.5% of GSP, respectively.

Tasmania's 'general government' (or core budget) sector was also larger than that of most other states and territories, with assets valued at the equivalent of 66% of GSP in 2016-17 (higher than in any other state except Queensland, and the two Territories), and 'operating expenses' amounting to 19% of GSP in 2016-17 (higher than for any other jurisdiction except the Northern Territory, and well above the average for all states and territories of 13.5%).

<sup>27</sup> The value of assets owned by the entire Tasmanian state public sector, including the Tasmanian Public Finance Corporation (Tascorp) and the Motor Accident Insurance Board (which are classified as public financial corporations) was equivalent to almost 102% of GSP as at the end of the 2016-17 financial year.

**Chart 6.3: State public sector employment as a pc of total employment, 2016-17**



Source: ABS, *Employment and Earnings, Public Sector, Australia*, 6248.0.55.002), 2016-17.

The state public sector is also a relatively large employer, accounting for 16.2% of total **employment** in Tasmania in 2016-17 – more than in any jurisdiction except the Northern Territory, and 3.6 percentage points above the average for all states and territories (Chart 6.3).

The Commonwealth Government is also a larger employer in Tasmania than in any other state, accounting for 2.2% of total employment – although this is a smaller figure than for the Northern Territory or (especially, but unsurprisingly) the Australian Capital Territory.

## Financial position and performance of Tasmania's public sector

Except for its very large unfunded superannuation liability – on which more below – the Tasmanian public sector is in a very strong financial position.

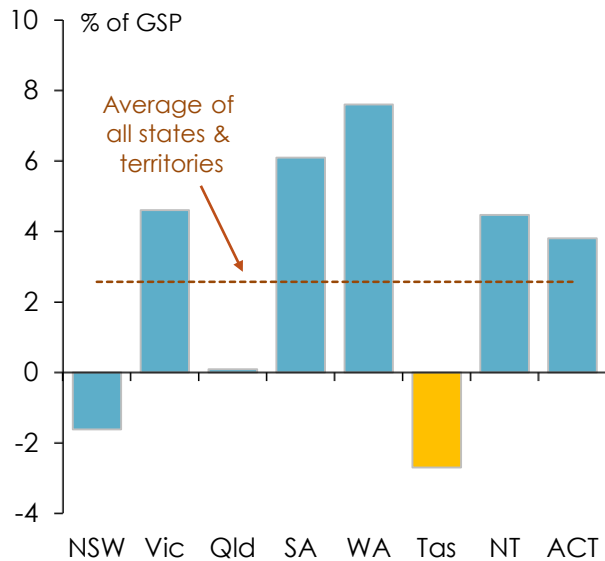
Tasmania is one of only two jurisdictions where the 'general government' sector is a **net creditor** – and the other, New South Wales, will be in this position only temporarily, whereas Tasmania's general government sector is projected to remain a net creditor throughout the current forward estimates period, which ends in 2020-21 (Charts 6.4 and 6.5)<sup>28</sup>.

Hence, even though Tasmania's GBEs have a relatively large amount of net debt – equivalent in 2016-17 to 7.9% of gross state product, more than any other state or territory except Queensland, and well above the average of 5.5% of GSP for all states and territories<sup>29</sup> – Tasmania's total non-financial public sector debt is lower, as a proportion of gross product, than that of any other state or territory except New South Wales (Charts 6.6 and 6.7), and on the most recent state budget projections will be the lowest of any state or territory by 2020-21. The extent to which this should be regarded as a 'Good Thing' is considered later on in this section.

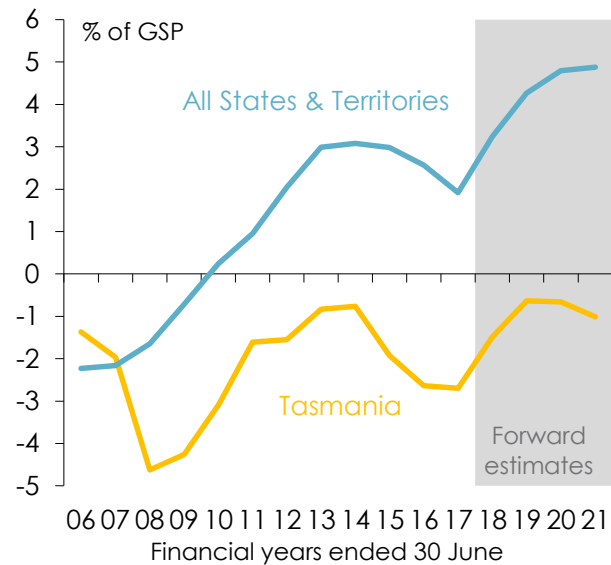
<sup>28</sup> The NSW Government seems curiously unwilling to acknowledge that Tasmania shares its status as having no 'general government' net debt. Its [2017-18 Budget Paper No 1](#) makes no fewer than **eleven** separate comparisons between NSW and other 'mainland states' or the 'average of mainland states' with regard to net debt, or growth in net worth – as if Tasmania's status as an island somehow disqualifies it from relevance in this context. One wonders whether if it had been, say, South Australia, rather than Tasmania which was also a net creditor, the NSW Budget Papers would have used 'states whose capital cities begin with a consonant' as a comparison. The refusal to acknowledge Tasmania's position in this context is all the more surprising when it is noted that the Tasmania is the only other state or territory whose government is of the same political complexion as that of New South Wales.

<sup>29</sup> As noted above, Tasmania's GBEs also have more assets, as a pc of GSP, than any other state or territory.

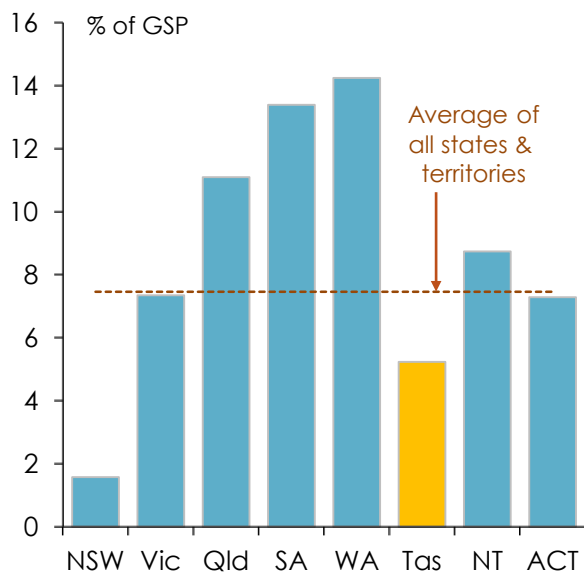
**Chart 6.4: 'General government' net debt as a pc of GSP, 30 June 2017**



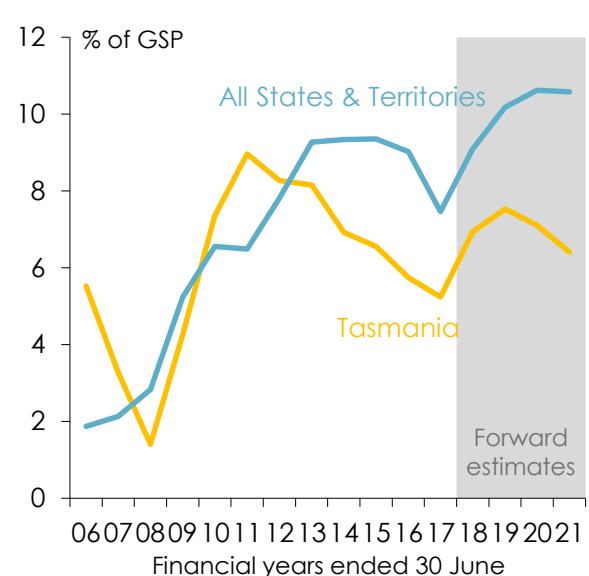
**Chart 6.5: 'General government' net debt, Tasmania and all states & territories**



**Chart 6.6: State non-financial public sector net debt as a pc of GSP, 2016-17**



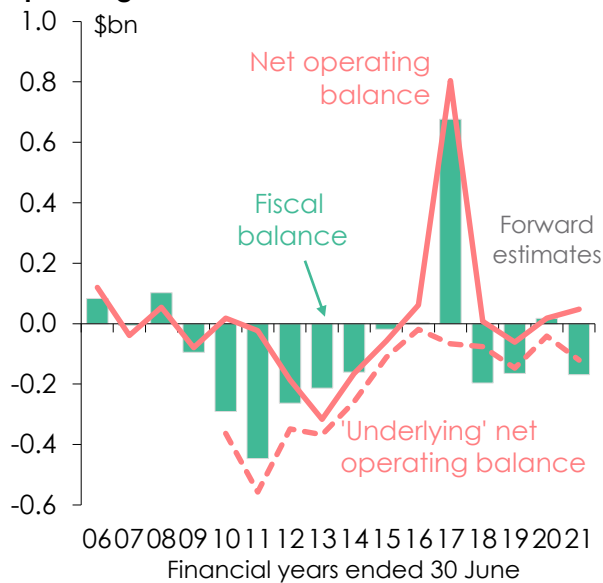
**Chart 6.7: State non-financial public sector net debt, Tasmania and all states & territories**



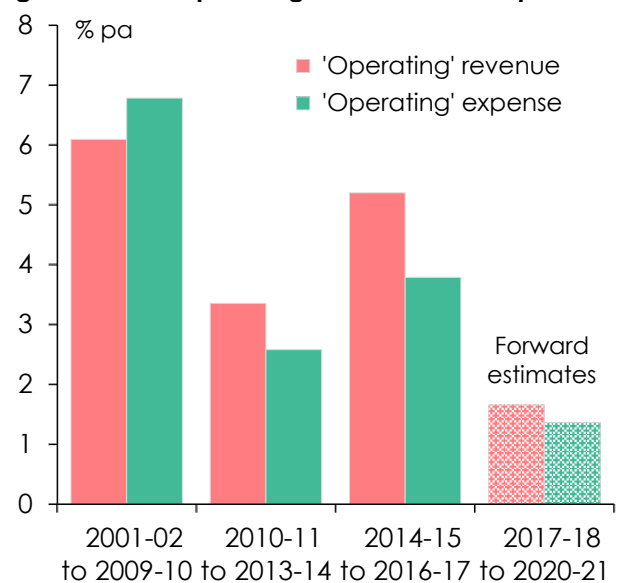
Sources: State and Territory Governments, 2017-18 Budget Papers; ABS, *State Accounts* (5220.0), 2016-17.

The improvement in the financial position of Tasmania's general government sector reflects both tighter control over **spending** (especially by comparison with the first decade of this century) and reasonably buoyant growth in **revenues** (by comparison with what had been expected at the time of the last state election). This has, in turn, resulted in much lower 'underlying' net operating deficits (that is, after abstracting from the impact of one-off capital payments from the Australian Government, including in particular the \$730mn payment associated with the transfer of the Mersey Community Hospital back to the Tasmanian Government in the last days of the 2016-17 financial year) in recent years, than between 2009-10 and 2014-15 (Chart 6.8).

**Chart 6.8: Tasmanian general government 'net operating' and fiscal balances**



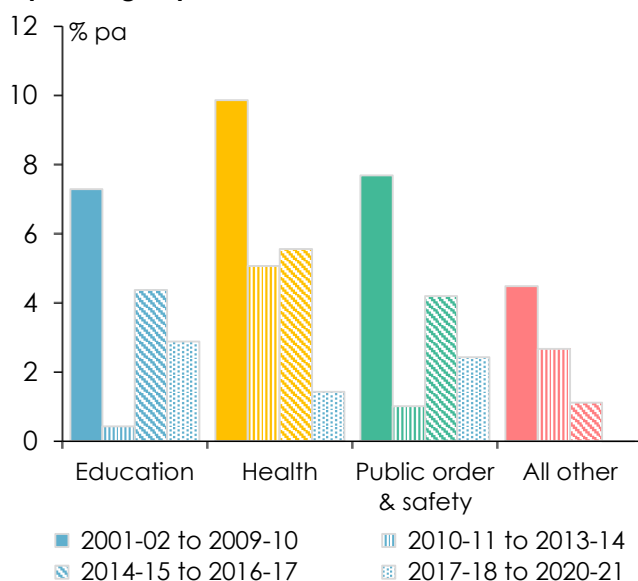
**Chart 6.9: Growth in Tasmanian general government operating revenue and expenses**



Note: The net operating balance for 2016-17 was inflated by a one-off payment of \$740mn from the Australian Government accompanying the transfer of the Mersey Community Hospital. The 'underlying' net operating balance excludes this and other one-off Australian Government capital funding (such as for the Royal Hobart Hospital re-development, and various roads projects). The fiscal balance includes net purchases of non-financial assets. Sources: Tasmanian Government, *Budget Paper No. 1*, 2017-18 and previous years; *Treasurer's Annual Financial Report*, 2016-17.

After growing at an average annual rate of nearly 7% per annum between 2001-02 and 2009-10, growth in **'operating' expenses** was curtailed to 2.6% per annum between 2010-11 and 2013-14, and since then has been held at an annual average rate of 3.8% per annum. Importantly, spending has grown at a slower rate than revenue since 2010-11, in contrast to the preceding decade (Chart 6.8).

**Chart 6.10: Growth in major categories of 'operating expenses'**



Source: Tasmanian Government, *Budget Paper No. 1*, 2017-18 and previous years.

The restraint in spending between 2010-11 and 2013-14 focussed primarily on education and public order and safety, and to a lesser extent on health (Chart 6.9).

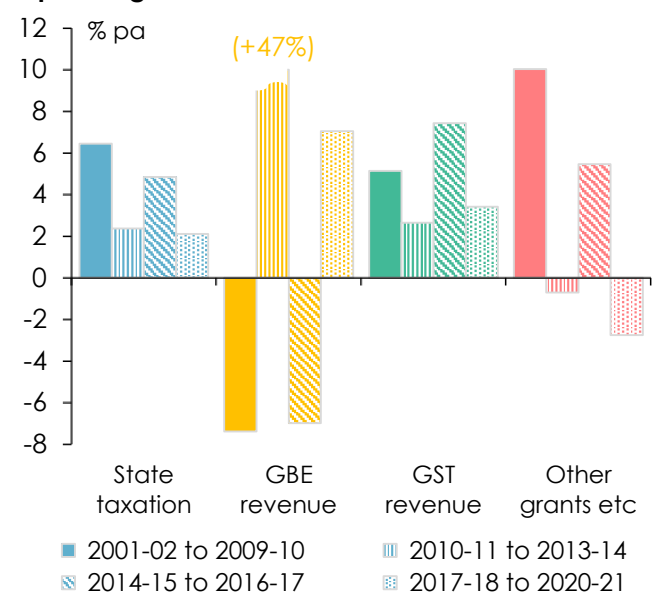
Under the present Government, spending on health has grown at about the same rate as over the preceding three years; spending on education and on public order and safety at a faster rate than over the preceding three years; and all other areas of spending at a slower rate.

The latest forward estimates imply unusually slow growth in spending (in particular on health) over the four years to 2020-21. It is uncertain whether this will prove sustainable.

The improvement in **revenue** growth since the last state election reflects faster growth in state tax collections (in particular, stamp duty and, to a lesser extent, payroll tax); an increase in Tasmania's share of the revenue from the GST; and an increase in specific purpose payments from the Australian Government – partly offset by lower tax and dividend payments from GBEs.

The stronger growth in state tax collections represents a 'dividend' from the improved performance of Tasmania's economy (especially the property market); while the higher level of GST revenue and other payments from the federal government reflect factors entirely beyond the influence of the Tasmanian Government.

**Chart 6.11: Growth in major categories of 'operating revenues'**



Note: 'Other grants' excludes one-off capital payments.  
Source: Tasmanian Government, Budget Paper No. 1, 2017-18 and previous years.

It is possible that state taxation revenue could grow at a faster rate over the four years to 2020-21 than projected in the most recent state budget. However, as discussed later in this Section, there is also some downside risk to Tasmania's share of GST revenue, arising from the review of 'horizontal fiscal equalization' currently being undertaken by the Productivity Commission.

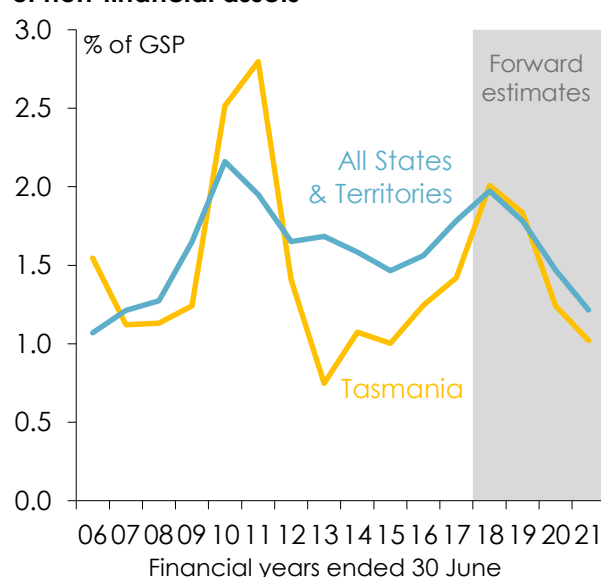
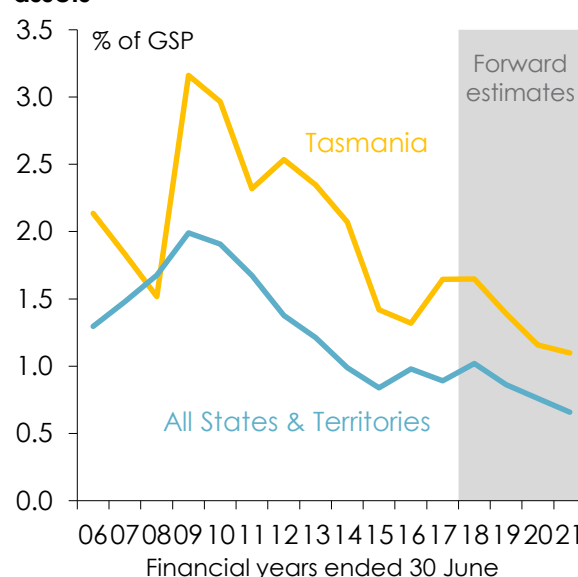
## Public sector infrastructure spending

State Government **infrastructure spending** has picked up strongly over the past three years, to a level similar to that of other states and territories - but is projected to fall more sharply than in other states and territories over the next four years (Chart 6.12).

Capital spending by Tasmania's GBEs is higher, as a proportion of gross product, than in any other state or territory (Chart 6.13), principally as a result of the larger role which they play in the Tasmanian economy (in particular, Tasmania is one of only two states where the electricity supply industry is still almost entirely owned by the state government). Even so, GBE infrastructure spending is also projected to decline over the four years to 2020-21.

It is worth considering whether Tasmania could afford to undertake a higher level of borrowings (rather than continuing to be a net creditor) in order to fund higher levels of infrastructure spending.

International economic agencies have in recent years consistently advised that governments should be willing to incur additional debt in order to fund increased infrastructure spending, where they have the 'fiscal space' (borrowing capacity) to do so, especially given the historically low interest rates at which governments have been able to borrow in recent years.

**Chart 6.12: 'General government' purchases of non-financial assets****Chart 6.13: GBE purchases of non-financial assets**

Sources: State and Territory Budget Papers; ABS, *State Accounts* (5220.0), 2016-17.

Earlier this year, for example, the International Monetary Fund advised that “the case for increasing public investment is very strong almost everywhere in the world in light of the low long-term borrowing costs and substantial infrastructure deficiencies”<sup>30</sup>. This advice has been endorsed, in the Australian context, by both the former and current Governors of the Reserve Bank<sup>31</sup>.

The key point made by all of these agencies is that borrowing to fund the provision of assets which will generate economic or social benefits over a long period of time – provided that they are selected on the basis of rigorous evaluation processes – should be seen in a different light from borrowing in order to finance recurrent expenditures (such as pensions and benefits, wages and salaries, or interest and depreciation).

There are clearly areas where additional infrastructure spending could produce substantial long-term benefits in Tasmania – including enabling all high schools to provide classes up to Year 12; reducing the unmet demand for hospital facilities; improving Tasmania's transport infrastructure; expanding Tasmania's capacity to generate, store and transmit electricity; and upgrading facilities in Tasmania's national parks. In many of these instances a sound business case could be made for financing part of the investment required by borrowing.

However, there is one very large obstacle standing in the way of Tasmania's capacity to borrow more in order to finance additional infrastructure spending – and that is Tasmania's very large unfunded public sector superannuation liability, and the substantial (and growing) call which this makes on Tasmania's available revenue each year).

<sup>30</sup> International Monetary Fund, *Fiscal Monitor*, April 2017, p. x.

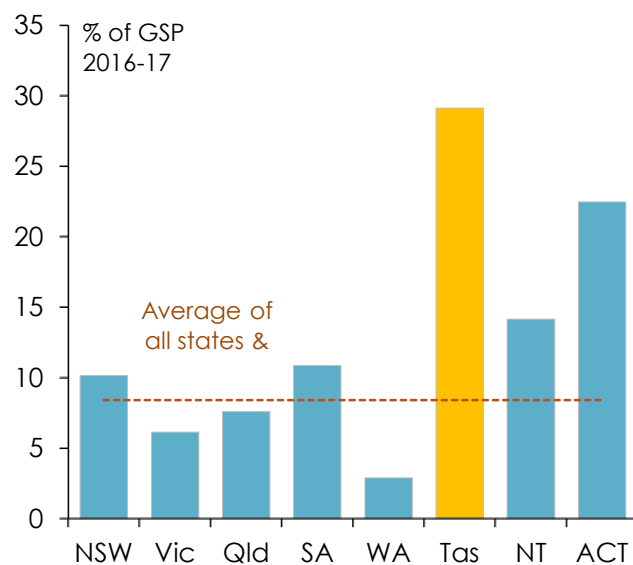
<sup>31</sup> See, for example, Glenn Stevens, '[An Accounting](#)', Address to the Anika Foundation, 10<sup>th</sup> August 2016; or Phillip Lowe, '[Buffers and Options](#)', Address to the Committee for the Economic Development of Australia (CEDA), 15<sup>th</sup> December 2016.



## Tasmania's unfunded superannuation liability

The present value of the Tasmanian Government's liability to pay pensions and lump sums to current and former employees (including judges and MPs) who are or were members of (now closed) defined benefit superannuation schemes was estimated to be \$9.7bn as at the end of the 2016-17 financial year. Partly offsetting this, the value of 'plan assets' (that is, the contributions made by members of these schemes and the accumulated investment income earned on them) was estimated to be \$1.8bn – leaving an 'unfunded liability' of \$7.9bn. Adding in the unfunded liability in respect of GBE employees, the total **unfunded superannuation liability** was estimated to have been \$8.5bn as at the end of the 2016-17 financial year<sup>32</sup>.

**Chart 6.14: Non-financial public sector unfunded superannuation liabilities, June 2017**



Sources: State and Territory Treasuries, *Annual Financial Reports* (or equivalents), 2016-17, except for Queensland and South Australia, 2017-18 Budget Papers; ABS, *State Accounts* (5220.0), 2016-17.

This represents 29% of Tasmania's 2016-17 gross product, a larger proportion than for any other state or territory, and more than three times the average for all states and territories (Chart 6.14).

The cash cost of meeting the 'general government' component of this liability is forecast to rise from about \$280mn (equivalent to 4.7% of operating cash receipts) in 2017-18 to a peak of \$443mn (5.4% of operating cash receipts) in 2026-27.

On present indications, the unfunded superannuation liability will not be extinguished until 2078; servicing it will still be absorbing 3¾% of operating cash flows in 20 years' time.

The unfunded superannuation liability constrains Tasmania's capacity to borrow in order to fund higher levels of infrastructure investment in two ways. First, it means that, notwithstanding Tasmania's very strong position with regard to net debt, its **net financial liabilities** (which includes superannuation) represent a higher proportion of its revenues (a key ratio used by credit rating agencies) than that of any other state except South Australia. This is one of the main reasons why Tasmania doesn't have a AAA rating, as might otherwise be expected – which in turn results in the Tasmanian Government paying slightly higher interest rates on its borrowings than most other states.

<sup>32</sup> These estimates are highly sensitive to the discount rate used to calculate the present value of liabilities expected to fall due over the next 55 or so years. A 1 percentage point change in the discount rate increases or decreases the State's gross liability by an average of \$1¼bn. The 2017-18 Budget forecast that the total unfunded superannuation liability will decline to by \$1.7bn, to \$6.8bn by 30 June 2018, is driven largely by the use of a discount rate of 4.75%, as against 3.3% used in estimating the value of the liability as at 30 June 2017.

Second, the relatively large annual cash cost of meeting the Government's obligations to retired public sector employees means that it has less scope than other states or territories to pay interest on debt without pushing the 'net operating balance' into deficit.

There are only two broad options open to a government wishing to reduce a large unfunded superannuation liability – whether to improve its financial position or to 'make room' for increased borrowing for infrastructure investment.

The first is to run persistent budget surpluses, and invest those surpluses so as gradually to offset the liability. Previous Tasmanian Governments did this in the late 1990s and early 2000s, building up assets in what was called the Superannuation Provision Account to a peak of nearly \$1½bn (enough to offset 30% of the liability) by the end of the 2010-11 financial year. However this account was drawn upon, and then closed down, in order to finance the budget deficits incurred over the following three years. The Howard Government established the Future Fund for the same purpose in 2006, but the enabling legislation prevented subsequent governments from withdrawing funds deposited in it for other purposes.

The second option is to sell assets and reserve the proceeds for use in defraying unfunded superannuation liabilities. The Howard Government also did this with the third and final tranche of the sale of Telstra. The value of the Future Fund's assets is now equivalent to about half the most recent estimate of the Federal Government's unfunded superannuation liability. Some other state governments have adopted similar strategies in the past.

It is unlikely that the present or any future Tasmanian Government will want to run budget surpluses large enough, for long enough, to defray a substantial proportion of its superannuation liability – since that would inevitably lead to growing pressure for tax cuts, or increases in recurrent spending.

Hence the only practicable way open to the present or any future Tasmanian Government to create 'headroom' for higher levels of infrastructure investment funded by increased borrowings is by undertaking asset sales, and investing the proceeds in order to offset part of the superannuation liability.

That's not something which any government could contemplate without an explicit electoral mandate. And there are many assets for which a mandate is unlikely ever to be forthcoming, and with good reason, such as Hydro Tasmania or TT-Line<sup>33</sup>. However, a future Tasmanian Government wishing to invest more in infrastructure may see merit in seeking a mandate for the sale or lease of TasNetworks, Aurora Energy or TasPorts, the equivalents of which in other states have been sold or leased by governments of both major political persuasions, and for which superannuation funds (among others) have been willing purchasers.

This possibility is considered further in Section 9.

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<sup>33</sup> Disclosure: the author of this report is a non-executive director of Hydro Tasmania, although his term will come to an end in September 2018.

## Risks to Tasmania's share of GST revenues

Tasmania has always been a major beneficiary of the arrangements by which so-called 'general revenue payments' from the Commonwealth – since 2000-01, in the form of revenue from the goods and services tax (GST) – are distributed among the states and territories, in accordance with the recommendations of the Commonwealth Grants Commission (CGC).

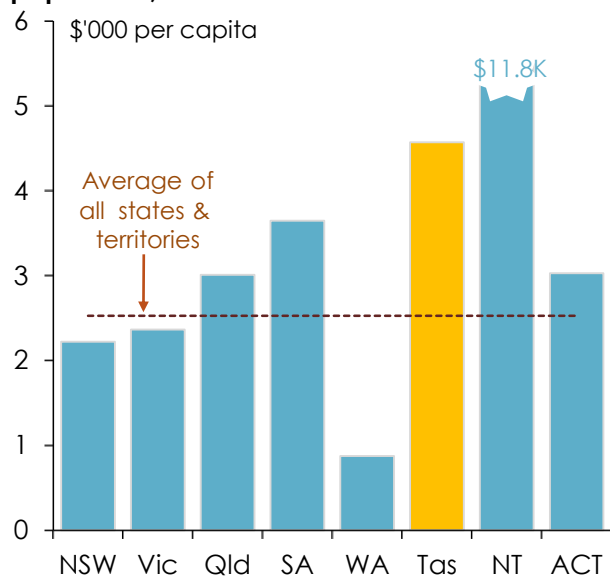
Each year the CGC recommends a distribution of GST revenue so as to provide each state and territory with the capacity to provide public services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources, having regard to differences in their capacities to raise revenue and in the need for and cost of providing those services – a process known as 'horizontal fiscal equalization'<sup>34</sup>.

Because the CGC assesses that Tasmania has less capacity to raise revenue from its own sources, and faces in most areas of service provision both greater demand and higher unit costs, Tasmania typically receives a considerably larger share of the revenue from the GST than its share of the population – or than it would if the GST revenues were distributed on an 'equal per capita' basis.

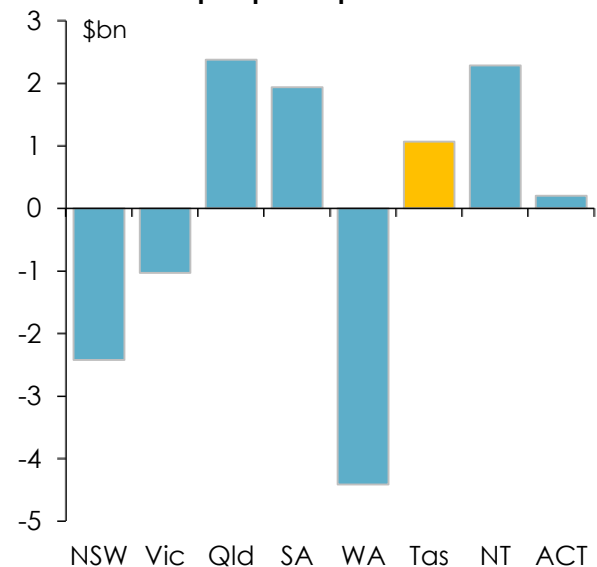
Thus in 2017-18, Tasmania will receive \$2.4bn in revenue from the GST, equivalent to \$4,573 per head of population (Chart 6.15). This is \$1.3bn more than Tasmania would have received had the GST revenue been distributed on an equal per capita basis (Chart 6.16).

Tasmania's share of revenue from the GST will provide 41% of its total 'general government' operating revenue in 2017-18 – a larger proportion than for any other jurisdiction except the Northern Territory.

**Chart 6.15: GST revenue shares per head of population, 2017-18**



**Chart 6.16: Difference in 2017-18 GST revenue shares from equal per capita distribution**



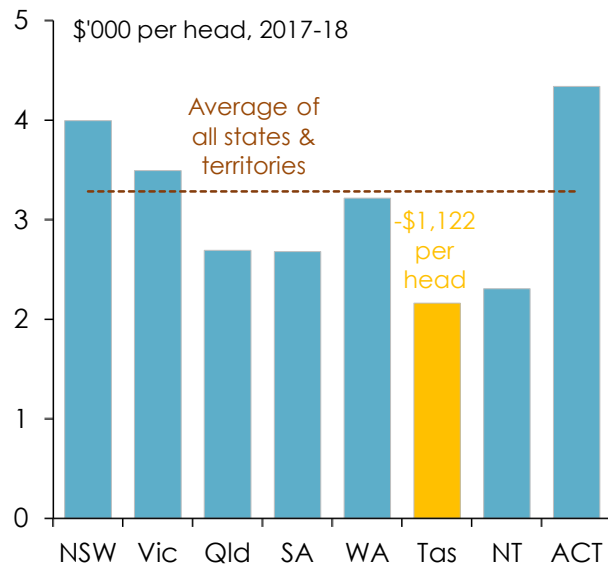
Source: Australian Government, Budget Paper No. 3, *Federal Financial Relations*, 2017-18.

<sup>34</sup> Commonwealth Grants Commission, [Introduction to Horizontal Fiscal Equalization](#), 2017.

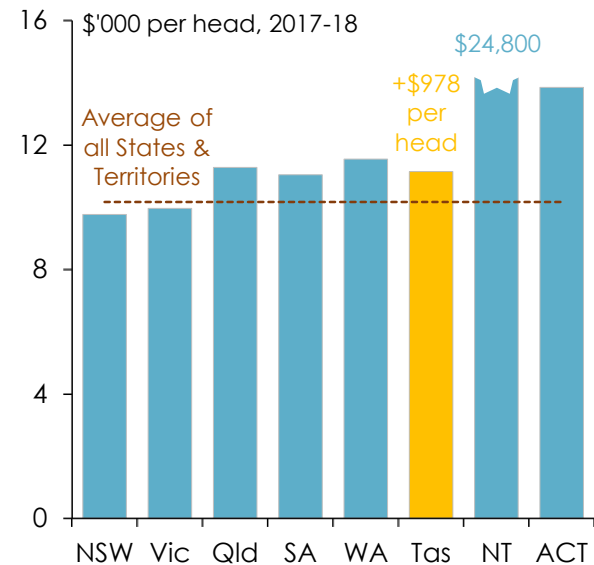
The distribution of GST revenues in accordance with the principle of 'horizontal fiscal equalization' in effect allows Tasmania to collect about \$1,100 per head less in state taxation than the average of other states and territories (Chart 6.17) and spend around \$980 more per head on public services than the average of other states and territories (Chart 6.18).

Any changes to existing arrangements would inevitably force Tasmania to raise state taxes, cut spending, run larger budget deficits (or some combination of all three).

**Chart 6.17: Taxation revenue per head of population, 2017-18**



**Chart 6.16: Operating expenses per head of population, 2017-18**



Sources: State and Territory Governments, 2017-18 Budget Papers; Australian Government, Budget Paper No. 3, 2017-18.

The CGC was originally established in 1933 in response to Western Australian grievances about the financial impact of federation, and Western Australia benefited in much the same way (though not to the same extent) as Tasmania from the CGC's recommendations for most of the ensuing 72 years. However, since the middle of the first decade of this century – as the 'mining boom' prompted largely by China's rapidly growing demand for the resources with which Western Australia has been richly endowed by nature made Western Australia richer than the rest of Australia by a larger margin than any other state has ever been – Western Australia has become a significant 'loser' from the system of horizontal fiscal equalization.

As a result, Western Australia has joined New South Wales and Victoria – who have always received a smaller share of GST revenue (and before that, financial assistance grants) than their share of Australia's population – in demanding changes to the way in which the revenue from the GST is distributed. At different times over the past decade, Western Australia has argued that the GST revenue should be distributed on an equal per capita basis (as long sought by New South Wales and Victoria); that a 'floor' be established below which any state's share of the GST revenue relative to its population share cannot fall; or that revenue from mining royalties be 'discounted' to some extent in determining each state's 'revenue-raising capacity'.

Needless to say, any of these suggestions, if implemented, would result in Western Australia gaining a significant increase in its share of the revenue from the GST at the expense of some or all of the other states and territories.

Although two previous enquiries had not found any compelling argument for any major changes to the system of 'horizontal fiscal equalization'<sup>35</sup> – and both the Howard and Gillard Governments had rejected repeated demands for change from Western Australia, New South Wales and Victoria – ahead of this year's state election in Western Australia the Turnbull Government asked the Productivity Commission to revisit the issue.

The Productivity Commission's Draft Report<sup>36</sup> rejects many of the demands made by Western Australia and New South Wales, in particular for an equal per capita distribution of GST revenues, and for a 'floor' under states' relativities.

Nonetheless, the Productivity Commission's draft recommendations still carry some significant risks for Tasmania. In particular, it suggests that the current system "arguably takes equalization too far" and that a "less comprehensive form of equalization" should instead be sought. All of the various alternative models which it considers in its Draft Report entail significant increases in Western Australia's share of the revenue from the GST: the differences among them are, in effect, as to whether the positions of any of the other larger states are also enhanced, and how the cost of giving bigger shares to Western Australia or any of the other large states should be shared among the 'losers'.

The Productivity Commission's 'preferred option', ahead of the publication next January of its Final Report, appears to be what it calls 'equalization to the second strongest state', currently New South Wales. That option would have given Western Australia an additional \$3¼bn of GST revenue in 2017-18, but most of that would have been at the expense of New South Wales, Victoria and Queensland; Tasmania would lose \$77mn under this approach, equivalent to 1.4% of its projected total revenue under the current system (compared with a loss of over \$1bn, or nearly 20% of total revenue, under an equal per capita distribution of GST revenue).

The Productivity Commission's Draft Report hasn't really established any convincing rationale for departing from the objective of 'full equalization' of states' and territories' fiscal capacities. Nor has it persuasively established that the existing system has actually prompted states or territories to eschew efficiency- or productivity-enhancing reforms, or to forego economic development opportunities, for fear of the consequences for their GST revenue shares (although it says, unconvincingly, that the 'absence of evidence' on this score does not imply 'evidence of absence'<sup>37</sup>).

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<sup>35</sup> Industry Commission, [Impediments to Regional Industry Adjustment](#), Volume 1, Melbourne, December 1993; John Brumby, Bruce Carter and Nick Greiner, [GST Distribution Review - Final Report](#), The Treasury, Canberra, October 2012.

<sup>36</sup> Productivity Commission, [Horizontal Fiscal Equalisation](#), Melbourne, October 2017.

<sup>37</sup> Using the same logic as was used by the Bush Administration to justify the invasion of Iraq in 2003, notwithstanding that UN inspectors had been unable to find any evidence that Iraq possessed any 'weapons of mass destruction'.

Nonetheless, even if the Productivity Commission concludes, in its Final Report, that the objective of 'full equalization' is still worth pursuing, it may still recommend changes to the way in which the CGC determines how that objective is to be realized, which have an adverse effect on Tasmania's share of GST revenues.

It is also possible that, irrespective of what the Productivity Commission recommends in its Final Report, the Turnbull Government may, for political reasons, choose to direct the CGC to change its methodology in ways that would advantage Western Australia at the expense of Tasmania and the two Territories<sup>38</sup>.

Ultimately, the best way of reducing the risks to the financial position of Tasmania's public sector posed by the possibility of adverse changes to GST revenue-sharing arrangements is by sustainably improving Tasmania's economic performance, raising its capacity to raise revenue from its own sources, and reducing the need for or lowering the cost of providing public services, so that it is no longer as necessitous of favourable treatment under 'horizontal fiscal equalization' as it has long been, and still is. That is the ultimate objective of all of the suggestions made in Section 9 of this Report.

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<sup>38</sup> It is worth noting in this context that the Liberal-National Party Coalition currently holds 11 of the 16 seats in the House of Representatives from Western Australia, but none from any of Tasmania, the Northern Territory or the Australian Capital Territory – implying that they may perceive much to lose, and nothing to gain, from failing to implement changes to the GST distribution arrangements which would benefit Western Australia at the expense of Tasmania and the two Territories.

## Section 7: Tasmania's longer-term economic challenge

Thus far this report has shown that, notwithstanding the improvement in Tasmania's economic performance, including that of its labour and property markets, and the pick-up in the growth rate of its population, Tasmania continues to lag behind the rest of Australia on a wide range of measures of economic and social well-being.

This section explores in more detail the key factors behind the differences between Tasmania's economic performance and that of Australia's other states and territories – using the same framework as in the two previous *Tasmania Reports*, but extending it to include some new, comparisons with the non-metropolitan regions of the mainland states, with which Tasmania has, in some respects, more in common than it does with the mainland capital cities. It also provides a 'high level' view of where there is scope for narrowing those differences over the longer term.

### Tasmania's economy compared with that of mainland Australia

The annual ABS estimates of gross state product provide the broadest, and most timely, basis for comparison of the economic performance of each of Australia's states and territories, and of the material well-being of their populations.

Like its national counterpart, gross domestic product (GDP), gross state product is an incomplete measure of both economic performance and well-being. There are many things which it doesn't include, such as the value of unpaid work done in homes and in the broader community, or the depletion of finite natural resources<sup>39</sup>. Nor does it make any allowance for the effects of traffic congestion, pollution, deteriorating housing affordability, increasing inequality, or crime – the lower incidence of all of which in Tasmania, compared with other parts of Australia, is cherished by most Tasmanians. As acknowledged in Section 1, there are also some specific on-going concerns about the reliability and volatility of the ABS estimates of gross state product for Tasmania.

Nonetheless, these estimates, and others based on them, are widely used by governments, analysts and commentators. They provide the only available basis for making broad comparisons of the sort which this section seeks to make. This section therefore makes extensive use of the published estimates of gross state product, whilst being aware of their limitations, and being conscious of those limitations in the conclusions which it draws.

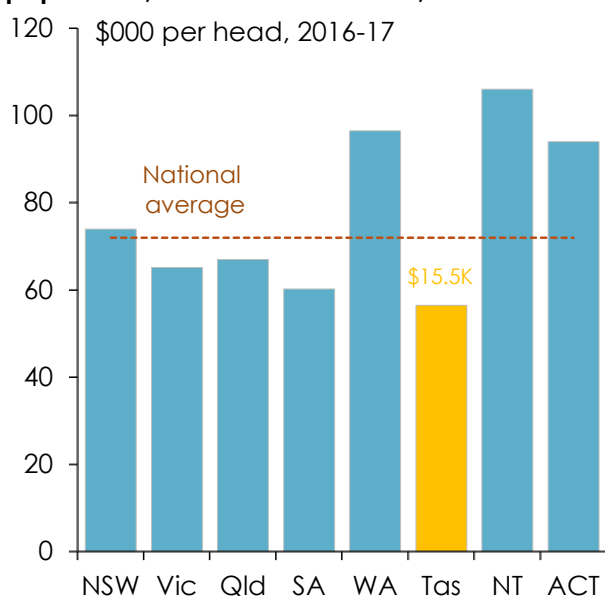
Tasmania's per capita gross state product, according to the most recent ABS *State Accounts*, was \$56,428 in 2016-17. That was lower than for any other state or territory. It was also \$15,543, or 21.6%, below the national average of \$71,971 per person (Chart 7.1).

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<sup>39</sup> For a broader discussion of these issues see, eg, Joseph Stiglitz, Armatya Sen and Jean-Paul Fitoussi, [\*Report by the Commission on the Measurement of Economic Performance and Social Progress\*](#), Paris, September 2009; or Diane Coyle, 'Rethinking GDP', *Finance and Development*, Vol. 54, No. 1, International Monetary Fund, Washington DC, March 2017.

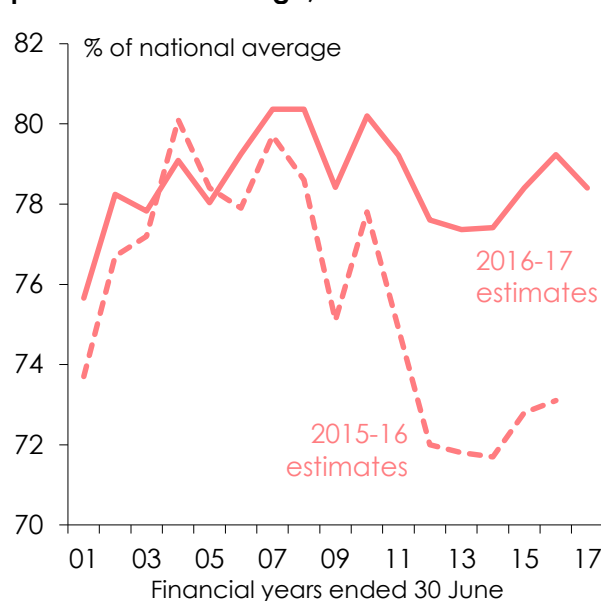


**Chart 7.1: Gross state product per head of population, states and territories, 2016-17**



Source: ABS, *State Accounts* (5220.0), 2016-17.

**Chart 7.2: Tasmania's gross state product as a pc of national average, 2000-01 to 2016-17**



Source: ABS, *State Accounts* (5220.0), 2015-16 & 2016-17.

As a result of the revisions to previously published estimates (discussed in Box 1 in Section 1), the margin between Tasmania's per capita GSP and that of the rest of Australia is not as large as was reported this time last year (Chart 7.2).

Rather than declining from 80% of the national average in 2003-04 to less than 72% of the national average in 2012-13 and 2013-14 (that is, a 'gap' of more than 28%), the ABS now estimates that Tasmania's per capita gross product as a proportion of the national average 'bottomed out' at just under 77½% in 2012-13 and 2013-14 (a 'gap' of about 22½%); and that the margin between Tasmania's per capita GSP and the national average in 2015-16 was just under 21%, rather than nearly 27%, as it estimated in November 2016.

While some comfort can be taken from the fact that the difference between Tasmania's per capita gross product and the rest of Australia's is not as large as previously thought, it is still a *very large* gap. It remains wider than it was between 2003-04 and 2010-11 (as indicated in Chart 7.2); and for that matter it is wider than it was throughout the 1990s. Moreover, combining the economic and population growth forecasts set out in the most recent Tasmanian and Federal Government Budgets, the gap is expected to remain at around 21% - that is, wider than in all but six of the past 25 years – over the four years to 2020-21.

Because Tasmania's population is older, and ageing much more rapidly, than that of the rest of Australia; because Tasmania is so much smaller than the other Australian states, and is therefore less able to reap 'economies of scale'; and because Tasmania lacks, and is never likely to have, some of the major economic 'drivers' present in most of the mainland states (financial or professional services sectors on the scale of Sydney and Melbourne, or mining on the scale of Western Australia), there is *always* going to be some margin between Tasmania's per capita gross product and that of the rest of Australia.

However, that does *not* mean that Tasmania cannot do better than it has been doing in recent years. It should *not* mean that Tasmania needs to accept that the gap will continue to widen (as it will, all else being equal, if only because of the consequences for labour force participation of Tasmania's more rapidly ageing population). It should *not* mean that Tasmanians have to embrace a future of ever-greater reliance on financial support from the national government – or other states (as they would see it) – leaving Tasmanians vulnerable to abrupt changes in the willingness of other Australians to continue providing that support.

A useful framework for understanding why Tasmania's per capita gross product is so much lower than that of the rest of Australia – and where it might be possible to find ways of preventing the gap from widening further, or of beginning to narrow it – is the one which has been widely used by economists to make long-run economic growth projections, for example in the *Intergenerational Reports* produced by the Commonwealth Treasury over the past fifteen years<sup>40</sup>.

This framework can be adapted to show that gross state product per person can be disaggregated into three separate components as follows:

$$\frac{\text{gross state product}}{\text{population}} = \frac{\text{employment}}{\text{population}} \times \frac{\text{hours worked}}{\text{employment}} \times \frac{\text{gross state product}}{\text{hours worked}}$$

or, alternatively:

$$\text{GSP per capita} = \text{employment rate} \times \text{average hours worked} \times \text{productivity}.$$

Note that there is no economic theory, and that there are no assumptions, underlying this expression: it is simply an algebraic expression.

And it holds true by definition, as can be seen by 'cancelling out' the employment and hours worked terms on the right hand side of the equals sign, leaving the statement that gross state product divided by population equals gross state product divided by population. Inserting the employment and hours worked terms serves simply to assist in understanding where differences in, or growth in, gross state product per capita come from.

## Participation in employment

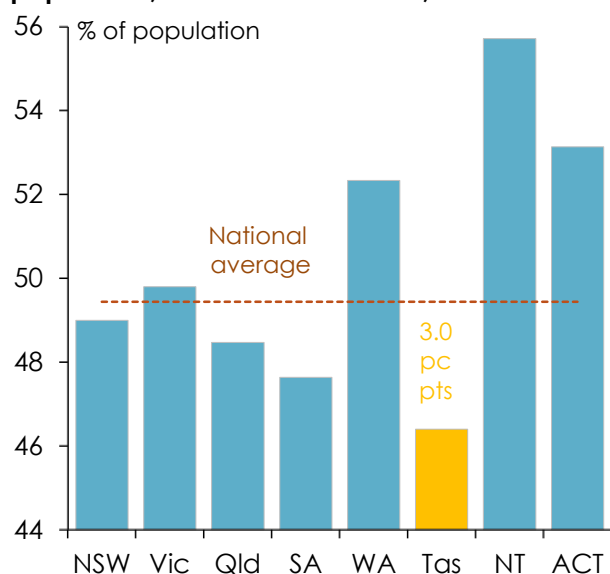
46.4%, on average, of Tasmania's total population were employed during the 2016-17 financial year – a smaller proportion than in any other state or territory, and 3 percentage points below the national average (Chart 7.3).

This measure of 'employment participation' fell by more than 1 percentage point during the recession which Tasmania experienced between 2011 and 2013, but has since recovered to where it was immediately before that downturn (Chart 7.4). However it is still 1.3 percentage points below the pre-financial crisis peak, a larger decline than that experienced by Australia as a whole.

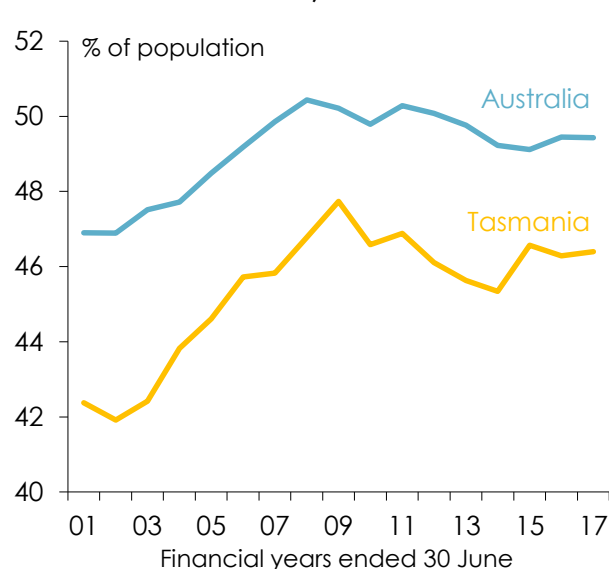
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<sup>40</sup> See, for example, Australian Treasury [2015 Intergenerational Report: Australia in 2055](#), pp. 3, 16, 21-22, 23-25 and 29-30.

**Chart 7.3: Employment as a pc of total population, states and territories, 2016-17**



**Chart 7.4: Employment as a pc of population, Tasmania and Australia, 2000-01 to 2016-17**



Source: ABS, *Labour Force* (6202.0), October 2017; *State Accounts* (5220.0), 2016-17.

As discussed in Section 2, the principal reason for Tasmania's below-average participation rate is that 19.5% of Tasmania's total population is aged 65 or over, 3.7 percentage points more than the corresponding figure for Australia as a whole. After allowing for the fact that children (under 15) also represent a smaller proportion of Tasmania's population (17.7%) than of Australia's as a whole (18.7%), the proportion of Tasmania's working-age population (conventionally defined as those aged 15 and over) who are over 65 is 4.3 percentage points higher than that for Australia as a whole.

Nonetheless, as Section 2 also showed, in every age group other than 15-19 year olds, a smaller proportion of Tasmanians than of mainland Australians are in employment (refer back to Chart 2.10). The analysis in Section 5 suggests that the most likely reason for this is Tasmanians' lower level of educational attainment, given the strong correlation between educational attainment and employment (and, as also shown in Section 5, the below-average level of educational participation among young Tasmanians is the reason why 15-19 year olds are the only group of Tasmanians more likely to be in employment than their counterparts on the mainland).

Hence, although there is always likely to be a significant gap between Tasmania's employment participation rate and that of the rest of Australia, it should be feasible at least to slow the rate at which that gap will widen (as a result of the more rapid ageing of Tasmania's population) – or even better, to narrow it a little – through policies designed to improve the knowledge, skills and employability of Tasmanians.

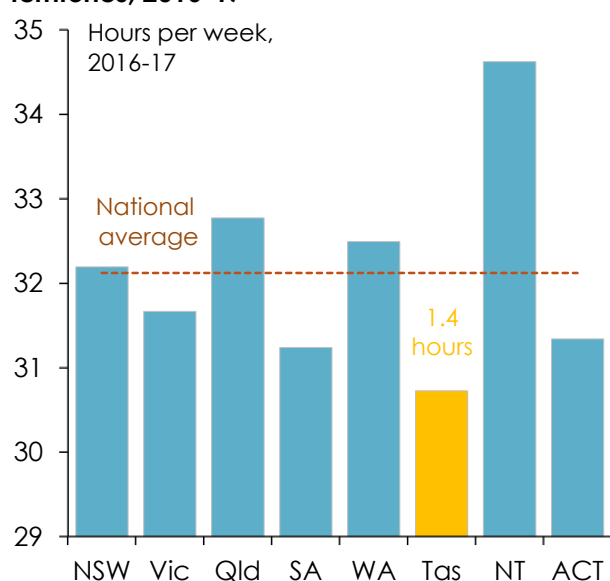
Higher rates of educational participation and attainment offer the best prospects for achieving that goal, although there may also be potential to reduce the extent to which discrimination, for example on the grounds of age or disability, has a greater impact on the employment prospects of Tasmanians than of other Australians.

## Hours of work

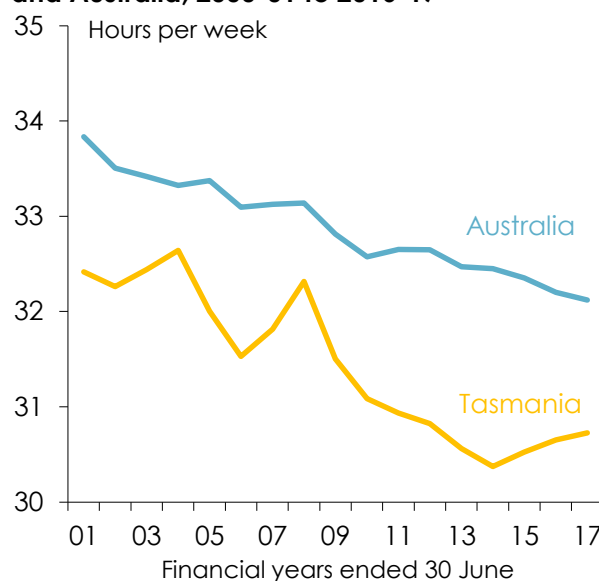
Those Tasmanians who did have jobs during 2016-17 worked an average of 30.7 hours per week, fewer than in any other state or territory, and 1.4 hours per week less than the national average (Chart 7.5). Over the course of an entire year this difference adds up to more than 72 hours. It's as if Tasmanians had 11 more public holidays a year than other Australians.

Average hours worked have declined by more in Tasmania since the global financial crisis than they have in any other state or territory, notwithstanding a slight increase in average hours worked in Tasmania since 2013-14 while the national average has continued to decline (Chart 7.6).

**Chart 7.5: Average hours worked, states and territories, 2016-17**



**Chart 7.6: Average hours worked, Tasmania and Australia, 2000-01 to 2016-17**



Source: ABS, *Labour Force* (6202.0), October 2017.

The difference in hours worked between Tasmania and the rest of Australia stems largely from the fact that 36.5% of employed Tasmanians work part-time, a larger proportion than in any other state or territory except the Northern Territory, and well above the national average of 31.9%. The proportion of workers working part-time has risen by 5.3 percentage points since 2007-08 (the year before the financial crisis) in Tasmania, compared with 3.4 percentage points for Australia as a whole.

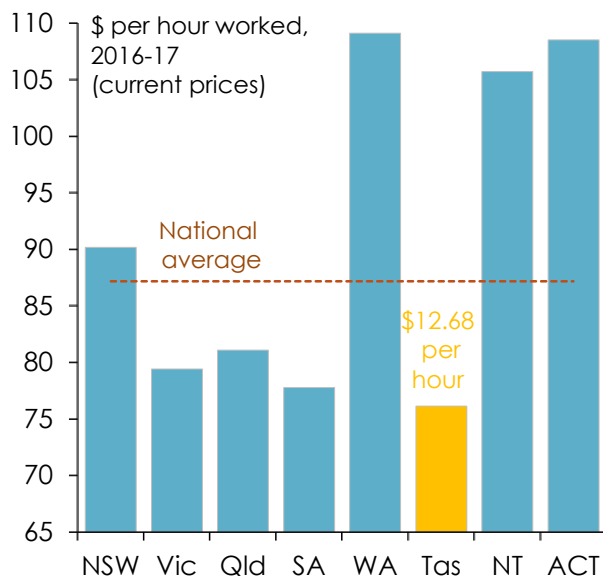
As discussed in Section 2, part-time employment is a matter of choice for many people: and given that Tasmanian workers are, on average, older than their mainland counterparts, many of them are likely to be content with working part-time. However, as also noted in Section 2, a higher proportion of part-time workers in Tasmania than in the rest of Australia are willing and able to work more hours than they currently do. Moreover, as discussed in Section 5, more highly-educated people are more likely to work full-time than those with lower levels of educational attainment. Hence, it is probable that lifting educational participation and attainment in Tasmania will, over time, help to narrow the hours worked gap between Tasmania and the rest of Australia,

## Productivity

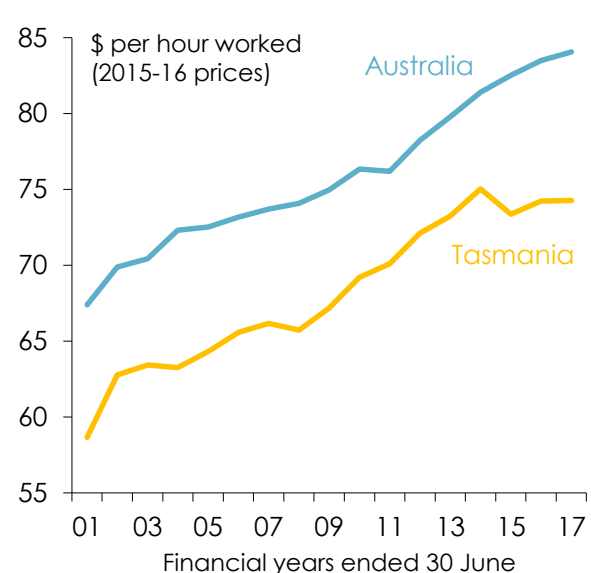
For each hour that they worked in 2016-17, employed Tasmanians produced \$76.11 worth of goods and services – less than in any other state or territory, and \$11.06 or 12.7% below the national average (Chart 7.7).

Over the past three years, gross product per hour worked – or **labour productivity** – in Tasmania has actually *declined* by 1.0% (after allowing for the effects of inflation), whereas in the rest of Australia labour productivity rose by 3.3% over this period. As a result, the 'productivity gap' between Tasmania and the rest of Australia has widened by 3.8 percentage points over this period. Indeed, relative to the national average, Tasmanian labour productivity was lower in 2016-17 than it has been in any year since 2003-04 (Chart 7.8). And the decline in labour productivity since 2013-14 has offset much of the improvement in Tasmania's per capita gross product relative to the national average that the increases in employment participation and hours worked, relative to their national averages, would otherwise have produced.

**Chart 7.7: Gross product per hour worked, states and territories, 2016-17**



**Chart 7.8: Gross product per hour worked, Tasmania and Australia, 2000-01 to 2016-17**



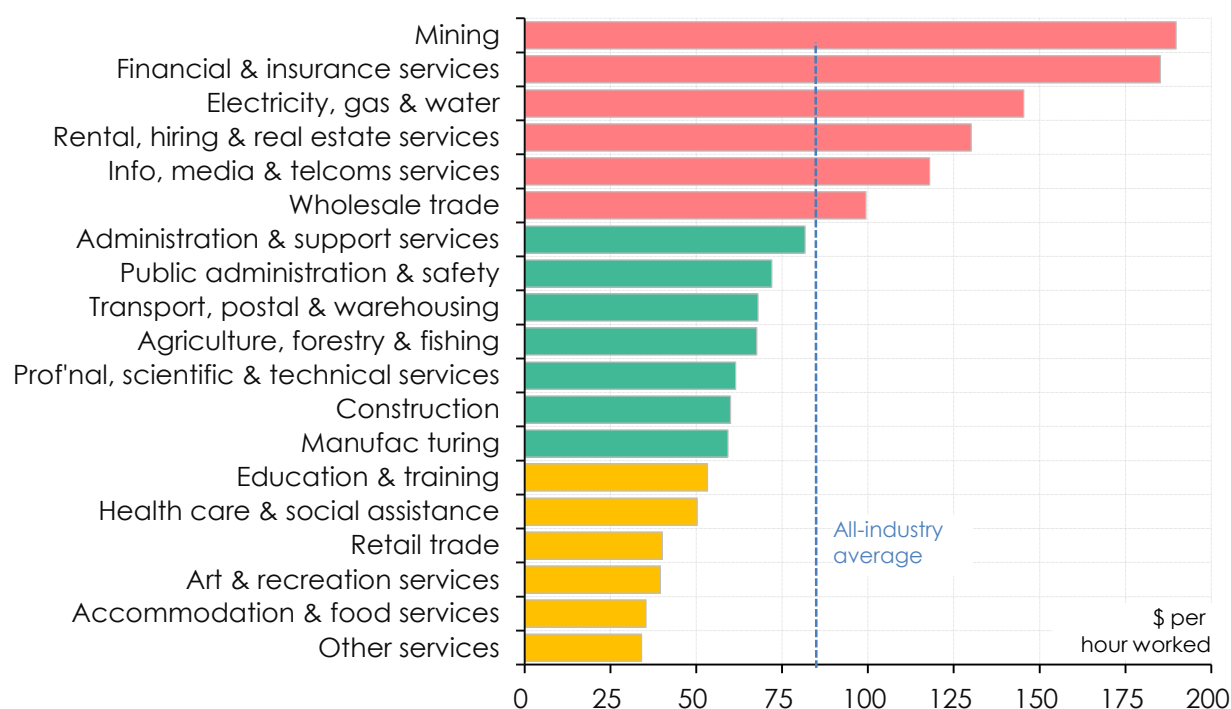
Source: ABS, *Labour Force* (6202.0), October 2017; *State Accounts* (5220.0), 2016-17.

There are two broad reasons why Tasmanian labour productivity, as measured in the ABS *State Accounts*, is so much lower than in the rest of Australia.

The first of these is that intrinsically high (labour) productivity industries – industries which are highly capital-intensive (such as mining, or IT and telecommunications), or which are intensive in their use of highly skilled (or highly paid) labour (such as financial services) – tend to be 'under-represented' in Tasmania.

Chart 7.9 shows estimates of the national average level of labour productivity in 2016-17 for each of the 19 different industry sectors into which the Australian Bureau of Statistics divides the Australian economy, ranked from highest to lowest.

**Chart 7.9: Labour productivity (gross value added per hour worked) by industry, Australia, 2016-17**



Sources: ABS, *State Accounts* (5220.0), 2016-17; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2017.

These estimates are, of necessity, approximations, and hence the discussion based on these estimates should be regarded as suggestive, rather than conclusive<sup>41</sup>.

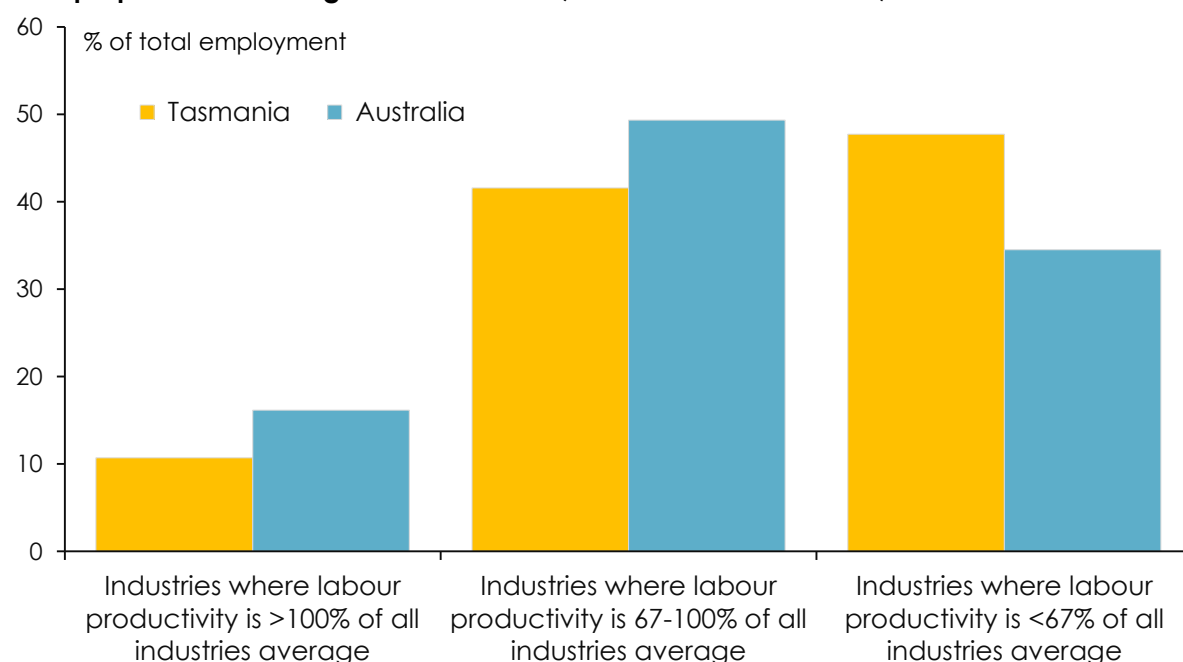
Tasmania's problem, in this context, is that the six industries which, nationally, have above-average levels of labour productivity – the industries represented by pink bars in Chart 7.9 – account for less than 11% of total employment in Tasmania, compared with more than 16% of national employment (see Chart 7.10).

The seven industries whose labour productivity is between two-thirds and 100% of the all-industry average – represented by the green bars in Chart 7.9 – account for about 42% of employment in Tasmania, compared with 49% of employment nationally.

By contrast, the six industries where labour productivity nationally is less than two-thirds of the national all-industry average – represented by the yellow bars in Chart 7.9 – account for almost 48% of employment in Tasmania, compared with less than 35% of employment nationally.

<sup>41</sup> They have been derived by dividing gross value added for each industry by an estimate of hours worked in each industry, which is in turn obtained by multiplying the average number of hours worked in the reference week for the middle month of each quarter during 2016-17 by 52, and then by the average number of people employed in the middle month of each quarter (that being the frequency with which these data are published). These estimates of hours worked by industry are, at best, approximations, and usually do not sum to the estimates of hours worked for Australia as a whole, or for each individual state or territory. The estimates of gross value added and hours worked are sourced from different surveys (of employers and households, respectively). Finally it should also be noted that estimates of gross value added for the public administration and defence, education and training, and health care and social assistance sectors are based largely on estimates of labour input, so that the resulting estimates of labour productivity for these sectors are less meaningful than those for sectors where the value of output is estimated more directly.

**Chart 7.10: Industry composition of employment according to labour productivity nationally as a proportion of average for all industries, Tasmania and Australia, 2016-17**

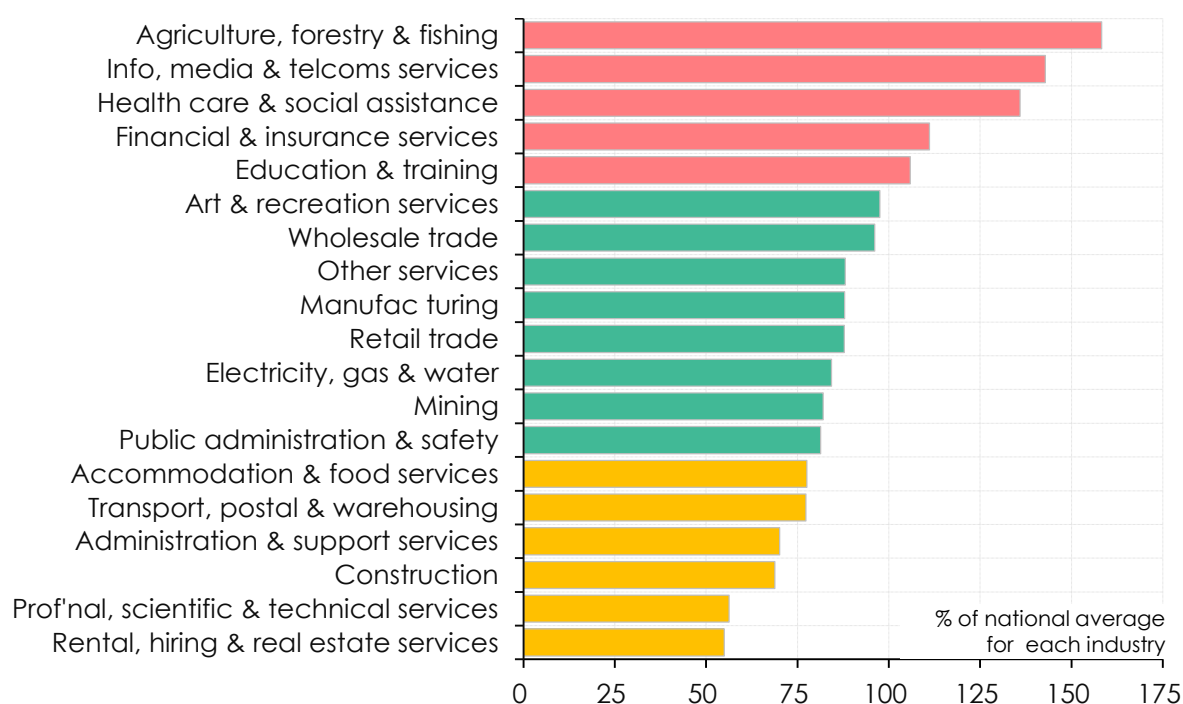


Sources: ABS, *State Accounts* (5220.0), 2016-17; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2017.

The second reason why labour productivity is so much lower than the rest of Australia is that a majority of employed Tasmanians work in industries where labour productivity is less than it is at the corresponding national industry level.

Chart 7.11 shows labour productivity in Tasmanian industries expressed as percentage of the corresponding industry national average.

**Chart 7.11: Labour productivity (gross value added per hour worked) by industry in Tasmania, as a percentage of corresponding national industry averages, 2016-17**

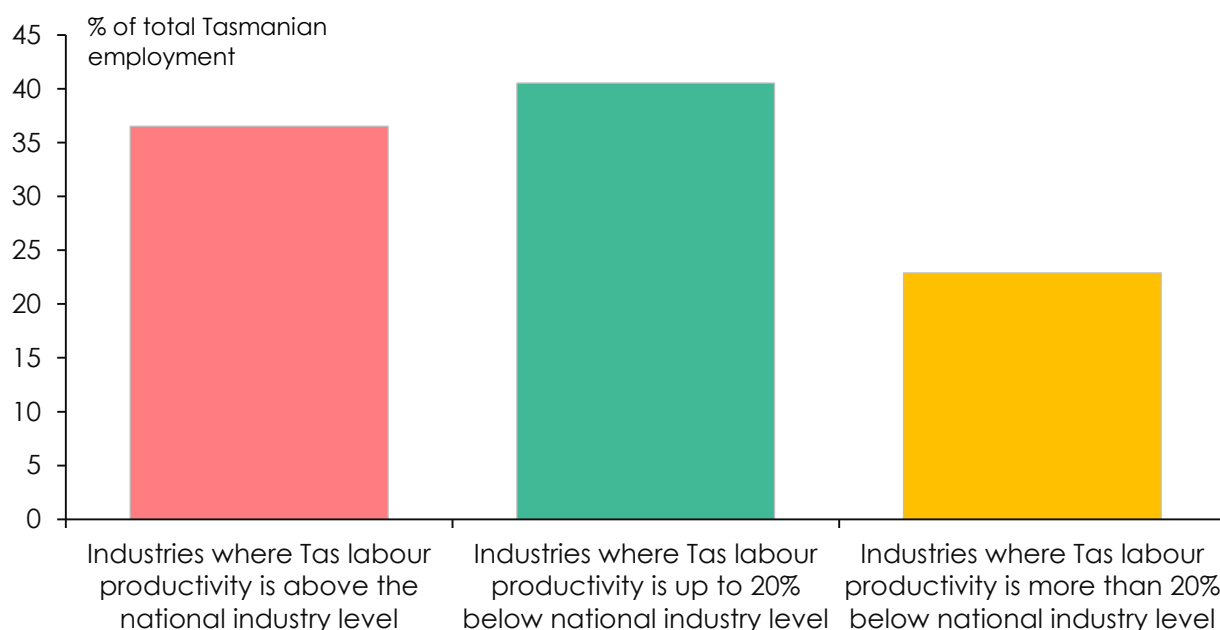


Sources: ABS, *State Accounts* (5220.0), 2016-17; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2017.



Chart 7.11 shows that there are five Tasmanian industries (represented by the pink bars) in which labour productivity is higher than the national average for those industries. However, as shown in Chart 7.12, only 37% of working Tasmanians are employed in those industries. Conversely, 73% of Tasmanian workers are employed in industries where labour productivity is less than the national averages for those industries – including 23% who work industries where labour productivity is more than 20% below the national average for those industries.

**Chart 7.12: Industry composition of employment in Tasmania according to labour productivity as a proportion of the corresponding national industry average, 2016-17**



Sources: ABS, *State Accounts* (5220.0), 2016-17; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2017.

There is not much that Tasmania can do about the first of these factors.

For example, in the absence of any discoveries of significant quantities of commercially recoverable mineral deposits, or oil or gas fields, it is difficult to contemplate the mining sector accounting for a materially larger share of the Tasmanian economy than it does at present.

Similarly, Tasmania's relatively small population makes it an unlikely location for activities which are more typically found in large cities – such as financial services (with the exception of tax havens) or a range of specialist business services. This point was succinctly made by Adam Smith more than 230 years ago:

“There are some sorts of industry, even of the lowest kinds, which can be carried on nowhere but in a great town. A porter, for example, can find employment and subsistence in no other place. A village is much too narrow a sphere for him; even an ordinary market town is scarce large enough to afford him constant occupation”<sup>42</sup>.

<sup>42</sup> Adam Smith, *An Inquiry into the Nature and Causes of The Wealth of Nations*, Straham and Cadell, 1776, p. 17.

As the Reserve Bank's Assistant Governor (Economic) noted when quoting this passage in a speech in November, "So it is also with management consultants, medical specialists and a myriad of other occupations that can only be sustained in a large market"<sup>43</sup>.

There is, arguably, scope to expand the size of Tasmania's electricity generation and transmission industry through Hydro Tasmania's 'Battery of the Nation' initiative<sup>44</sup>. And there may also be potential to grow the information services, telecommunications and media sector in Tasmania.

But it may be no less important to avoid artificially fostering the growth of inherently low-productivity industries in Tasmania, unless it is in response to evident demand or need in Tasmania for the goods or services produced by such an industry.

There ought to be more that Tasmania can do to improve labour productivity in the industries where it is below the national average. And again, it seems likely that the most effective way of achieving that will be obtained by raising levels of educational attainment of new entrants to the Tasmanian workforce and, where possible, those already in the workforce – given the strong correlation between educational attainment and productivity which research demonstrates, and which is evident in the earnings differentials between people with different levels of education.

## Summarizing the key influences

Drawing together the foregoing analysis, the difference of nearly \$15,500 or 22% between Tasmania's per capita gross state product and the national average in 2016-17 can be disaggregated as follows:

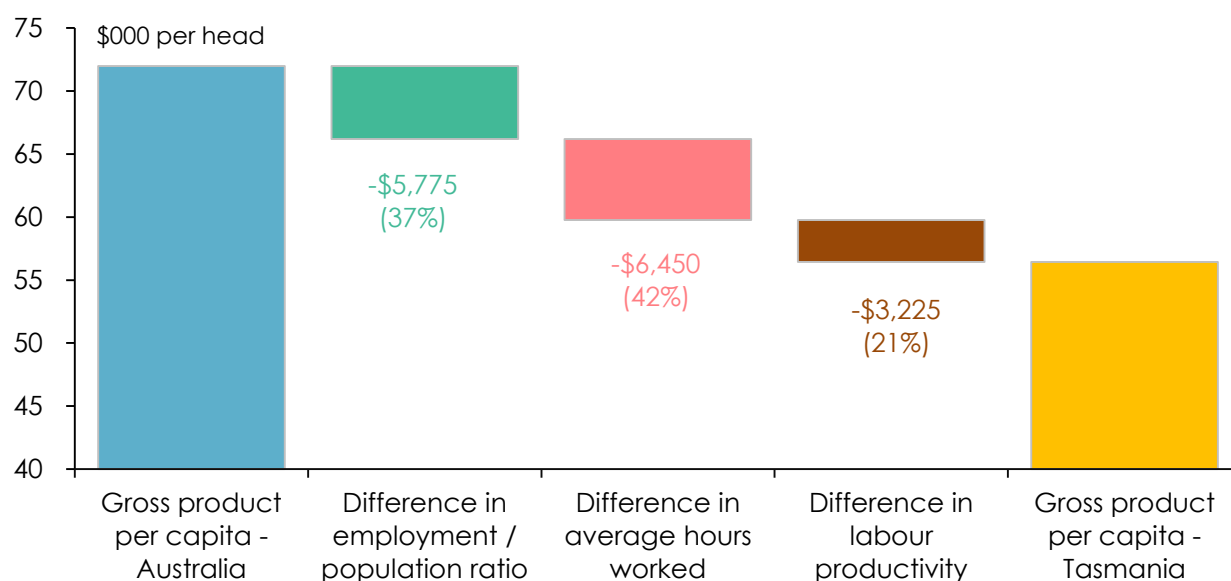
- about \$5,775 (or 37%) was due to the employment participation gap – that is, to the fact that the proportion of Tasmania's population with a job was 3 percentage points below the national average in 2016-17;
- about \$6,450 (or 42%) was due to the hours worked gap – that is, to the fact that Tasmanians in employment worked about 1.4 fewer hours per week (or 11 days per year) than the national average in 2016-17; and
- about \$3,225 (or 21%) was due to the labour productivity gap – that is, to the fact that employed Tasmanians produce, on average, nearly \$11 (or 12%) less for each hour that they work than the average for the Australian workforce as a whole.

This disaggregation is depicted in Chart 7.13.

<sup>43</sup> Luci Ellis, '[Where is the Growth Going to Come From?](#)', Stan Kelly Lecture, Melbourne, Reserve Bank of Australia, 15 November 2017.

<sup>44</sup> Hydro Tasmania, '[Becoming the Battery of the Nation](#)'

**Chart 7.13: Components of the difference in per capita gross product between Tasmania and the Australian average, 2016-17**



Sources: ABS, *State Accounts* (5220.0), 2016-17; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2017.

## How much difference does Tasmania's small scale make?

As has already been noted in this section – and elsewhere in this report – Tasmania's relatively small and more dispersed population (by comparison with the mainland states, if not necessarily with the two territories in both of these respects) does detract to at least some extent from its capacity to match the economic performance of other parts of Australia.

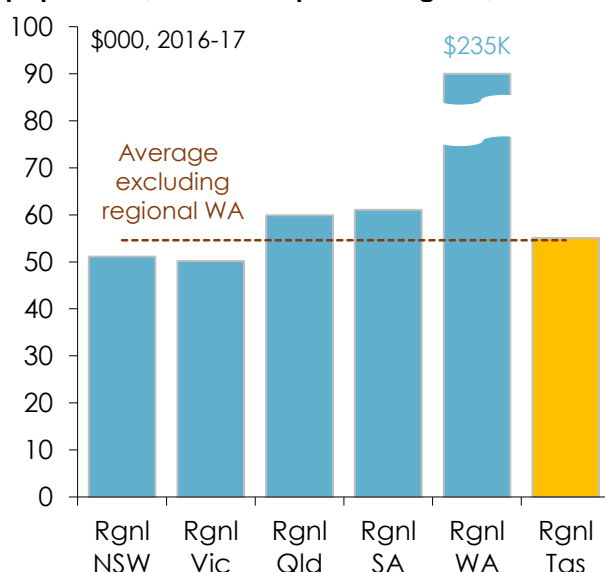
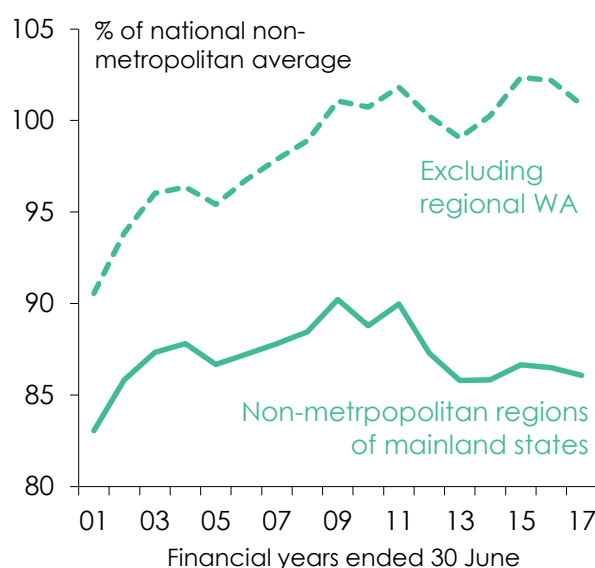
Hence, in at least some respects, comparisons with other states may be unduly harsh in not allowing something for Tasmania's lack of a large city with a population of over 1 million, as every mainland state has.

One way of examining this in more detail is by comparing Tasmania with the non-metropolitan areas of the other states. This has been done in other sections of this report, for example in discussing labour force participation (in Section 2) and educational participation and attainment (in Section 5), and has been considered in this section in the context of the 'under-representation' of high-productivity services activities in the Tasmanian economy.

It has not previously been possible to undertake a similar analysis of differences in per capita gross product between Tasmania and the non-metropolitan regions of other states, because the ABS does not publish estimates of gross product below the state and territory level.

However, SGS Economics and Planning does construct estimates of gross product for cities and regions within the five mainland states<sup>45</sup>, which can be used for this purpose.

<sup>45</sup> SGS Economics and Planning, [Economic Performance of Australia's Cities and Regions 2016-17](#), December 2017.

**Chart 7.14: Gross product per head of population, non-metropolitan regions, 2016-17****Chart 7.15: Tasmania's gross state product as a pc of regional averages, 2000-01 to 2016-17**

Sources: SGS Economics & Planning, *Economic Performance of Australia's Cities and Regions, 2016-17*; ABS, *State Accounts (5220.0)*, 2016-17.

According to these estimates, Tasmania's per capita gross product was slightly higher than that of regional New South Wales and Victoria, and slightly lower than that of regional Queensland and South Australia, but (like all of these regions) was substantially below that of regional Western Australia (the value of whose output has increased dramatically as a result of the mining boom) (Chart 7.142).

Except during the recession of 2011-13, Tasmania's per capita gross product has typically grown at a faster rate than that of regional New South Wales, Victoria and South Australia since the turn of the century. As a result, every year since 2008-09, with the exception of 2012-13, Tasmania's per capita gross product has actually been slightly higher than the average of the regional areas of the mainland states, excluding Western Australia (Chart 7.15).

These estimates could be interpreted as implying that Tasmania cannot realistically aspire to a higher level of economic performance – and hence that Tasmanians cannot expect to attain higher material standards of living – than they have at present, because, so it might be argued, Tasmania cannot 'do any better' than the regional areas of the mainland states (leaving regional WA aside as a 'special case').

However, this is a needlessly limiting view.

In particular, while Hobart may not be anywhere near as large as the capital cities of the mainland states, it nonetheless has many of the growth-enhancing accoutrements of a state capital, and is larger than all but two non-capital cities (Gold Coast and Newcastle). It should be capable of higher levels of economic performance than (for example) Toowoomba, Tamworth, Wagga Wagga, Bendigo, Mount Gambier or Bunbury.

It was noted in Section 5 that people living in Hobart typically had lower levels of educational attainment than people in mainland provincial cities, and that people in regional Tasmania typically had lower levels of educational attainment than people in the regional areas of mainland states. If Tasmanians were to reach similar levels of educational attainment as those of people outside the capital cities of mainland states, it is highly likely that Tasmania's economy would be stronger than it currently is, and that Tasmanians would enjoy higher material standards of living, than they presently do.

In other words, while it is quite unrealistic to expect that Tasmania will be ever be able to match the levels of economic performance – as indicated by gross product per capita, or other indicators – of the mainland states in aggregate, it should not be beyond the realms of possibility to improve Tasmania's per capita gross product from almost 22% below the national average, where it was in 2016-17, to (say) 16% below the national average, which is where South Australia was in 2016-17. South Australians, in particular, would probably say that isn't 'setting the bar' especially high.

Tasmania could reach the position where South Australia is now by 2026 if it could sustain per capita economic growth of  $\frac{3}{4}$  percentage point per annum faster than the national average – which Tasmania actually did do between 2000-01 and 2008-09. Less ambitiously, sustained growth of  $\frac{1}{2}$  percentage point per annum faster than the national average would see Tasmania reaching the same proportion of the national average per capita gross product which South Australia had in 2016-17 by 2030.

The next Tasmanian Government should consider setting a target such as this as a useful aid to calibrating the scope for improving Tasmania's economic performance, and the living standards of Tasmanians, and for gauging the progress (or lack thereof) to those ends.

## Section 8: Tasmania's regions

Tasmania is, arguably, Australia's 'most regional' State. Unlike most of the non-metropolitan areas of other States, Tasmania's regions were not settled by people 'fanning out' from the colonial centre of administration, but have their own history, independent of that of the State's capital. Regional cities are much more important 'points of entry' into (and exit from) Tasmania – for both people and products – than they are in most other States. A larger proportion of Tasmania's population lives outside of the capital city than in any other State or Territory. Partly for that reason, Tasmania's regions have more influence in Tasmania's 'power structures' than regions typically do in other States.

Many of the economic, social and other differences between Tasmania and the rest of Australia, discussed in the earlier sections of this report, can also be found to at least some extent between Hobart and other parts of Tasmania. People living in the North, the North-West, the East and West Coasts and on the Bass Strait islands are on average older, have less formal education, are less likely to be in paid employment and earn less, than people living in or close to Hobart (Table 8.1).

**Table 8.1: Tasmania's regions: selected characteristics**

Characteristic	Unit	Year	Greater Hobart	South East	Launceston & North East	North West & West
Population	000	2016	224.6	38.0	143.6	111.7
Population growth	% pa	2011-16	0.75	0.28	-0.01	-0.45
Median age	years	2016	39.7	47.4	42.7	43.7
Population aged 20-45	%	2016	32.1	24.0	28.9	27.4
Population aged 65 and over	%	2016	17.3	21.3	19.4	20.0
Median employee income	\$ pa	2016	51,298	37,494	41,266	41,456
Post-school qualifications -						
Bachelor degree or higher	%	2016	23.5	14.5	15.6	10.8
Diploma or adv. diploma	%	2016	8.7	8.7	8.0	7.8
Cert III or IV	%	2016	18.1	19.9	19.8	22.5
Working-age population employed	%	2016-17	57.9	53.2	55.1	55.9
Unemployment rate	%	2016-17	5.8	6.7	5.7	6.1
Composition of employment	% of total	2016				
Agriculture, forestry & fishing			1.9	14.7	6.3	8.4
Mining			0.3	0.5	0.8	3.1
Manufacturing			5.3	6.6	7.7	9.5
Construction			7.5	8.7	7.6	7.4
Retail trade			10.8	8.3	11.5	11.1
Accommodation & food svcs			7.8	7.8	7.6	7.2
Public admin & safety			10.7	7.0	5.4	5.0
Education & training			10.1	7.5	9.2	8.1
Health care & social assistance			14.8	11.0	14.7	13.1
Other			30.8	27.9	29.2	29.5

*Note:* Data on educational qualifications are for people aged 15-75. 'Greater Hobart' includes Sorell, Richmond and Dodges Ferry; 'South East' includes the Derwent Valley and Central Highlands. *Sources:* ABS, 2016 Census Community Profiles; Labour Force, Australia (6202.0), October 2017.

Regional Tasmania is more dependent on agriculture, forestry and fishing, manufacturing and, in the case of the North-West and West, mining; while Hobart has a much greater concentration of employment in services – and, in particular, public services where employment is typically more stable and in many cases carries higher remuneration.

Regional Tasmania has been particularly hard-hit by the decline in Tasmanian manufacturing since 2008-09. The decline in Tasmanian manufacturing output since the global financial crisis has been considerably greater than that in South Australia, while the loss of employment in Tasmanian manufacturing has been of proportionately the same order of magnitude as in South Australia – yet far more assistance (in the form of subsidies, and preferential government procurement policies) has been directed towards manufacturing in South Australia over the past year (and prospectively) than to manufacturing in Tasmania.

Of course, many Tasmanians living in regional areas would argue that the benefits of living and working where they do – many of which are difficult if not impossible to measure in monetary terms, or capture in statistical collections – offset or outweigh the disadvantages, in much the same way as it was noted in Section 4 that there are significant advantages to living and working in Tasmania that most Tasmanians see as at least partly ameliorating some of the social and economic disadvantages that have long afflicted this State.

This Report doesn't seek to dispute such contentions. It does, however, lend support to the view that there have been some significant divergences in the relative economic fortunes of different parts of Tasmania, and that there is a case for policy measures aimed at ensuring that social and economic progress is widely and fairly shared. It also suggests that these regional divergences are not simply a matter of "Hobart is doing well and everywhere else is missing out": in particular, the North-West Coast has been demonstrating considerable economic resilience.

## **Building activity**

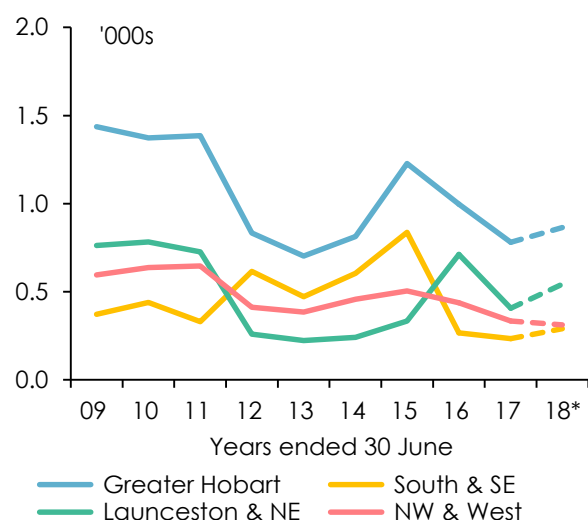
As noted in Section 1, housing activity declined significantly in Tasmania in 2016-17, with the number of new residential buildings approved by local governments falling by 28% (after a 17% decline in 2015-16), to their lowest level since 2012-13.

This decline was particularly marked in Launceston and the North-East, where the number of new dwelling approvals fell by 43% in 2016-17, after having been the only region to record an increase in 2015-16 (Chart 8.1). But dwelling approvals also fell by more than 20% in both Hobart and the North-West and West, as well as by another 12% in the South-East (a region which had accounted for a disproportionately large share of residential building activity between 2011-12 and 2013-14).

Residential building activity has weakened further in the North-West and West in the first four months of the current financial year, but has picked up modestly in Tasmania's other regions.

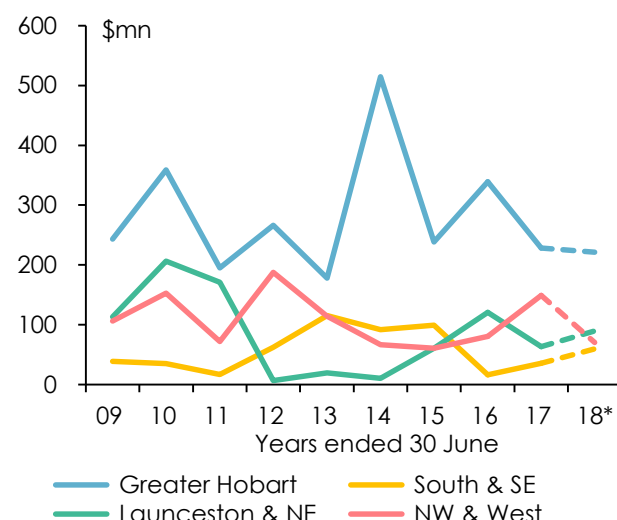


**Chart 8.1: Number of new residential buildings approved, Tasmanian regions**



Note: 2017-18 figures are for July-October 2017 expressed at an annualized rate. Source: ABS, Building Approvals (8731.0), October 2017

**Chart 8.2: Value of non-residential building approved, Tasmanian regions**



Note: 2017-18 figures are for July-October 2017 expressed at an annualized rate. Source: ABS, Building Approvals (8731.0), October 2017.

The value of non-residential building approved in the North-West and West region in 2016-17 was the highest in five years (Chart 8.2): nearly half of this was in Devonport, presumably reflecting the 'Living City' development. By contrast the value of non-residential building approved declined in Launceston and the North-East (after two years of strong increases) and in Hobart; although the level of non-residential approvals in Hobart remained high by historical standards (especially if the approval of the Royal Hobart Hospital re-development in 2013-14 is excluded), and the volume of on-going work on construction projects already under way is also historically high.

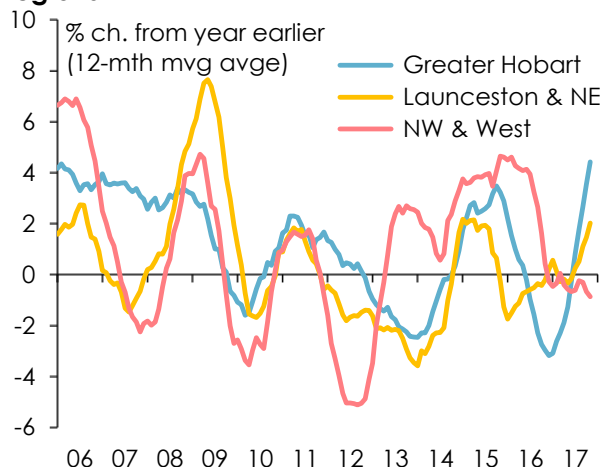
## The labour market

The turnaround in Tasmania's labour market during 2016-17, discussed in Section 2, was concentrated in Hobart, where the number of jobs increased by 8,200 over the course of the year (June 2016 to June 2017) and by 0.8%, on average, for the financial year as a whole (Chart 8.2). Employment also increased very strongly in the South-East region, by an average of 3.4% for the year as a whole, after falling by 7.1% in 2015-16<sup>46</sup>.

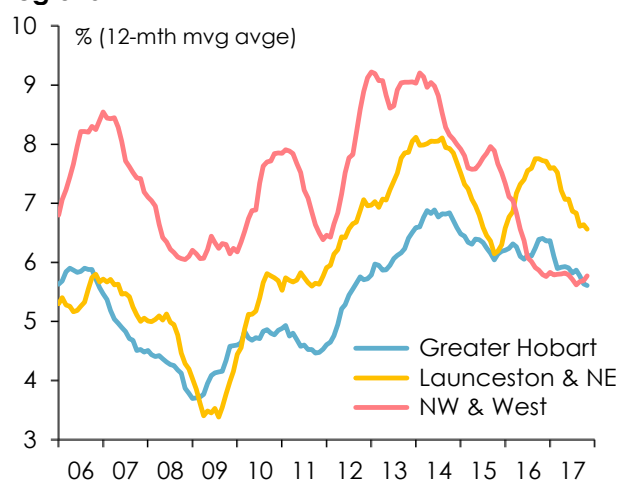
The number of jobs in Launceston and the North-East rose by 3,450 over the course of 2016-17, and by 0.2% on average for the year as a whole, after a 0.6% decline in 2015-16. By contrast, the North-West and West experienced a 0.6% decline in employment, on average, in 2016-17, after gains of almost 4% per annum in both 2014-15 and 2015-16.

<sup>46</sup> The South-East region accounts for less than 7% of total Tasmanian employment, but has contributed a much larger share of the changes in total employment over the last three years. This may reflect people moving between jobs in Greater Hobart and the surrounding areas which make up the South-East region.

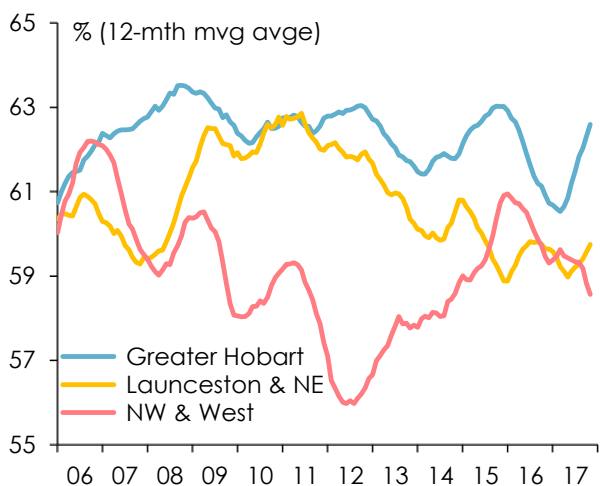
**Chart 8.3: Employment growth, Tasmanian regions**



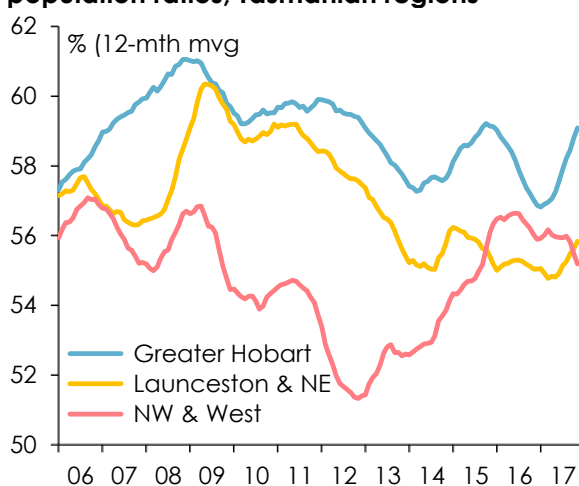
**Chart 8.4: Unemployment rates, Tasmanian regions**



**Chart 8.3: Labour force participation rates, Tasmanian regions**



**Chart 8.4: Employment-to-working age population ratios, Tasmanian regions**



Note: data are depicted as 12-month moving averages in the absence of seasonally adjusted or trend data at the regional level. Source: ANS, *The Labour Force* (6202.0), October 2017.

The rebound in employment in Hobart appears to have drawn previously discouraged job-seekers back into the labour market (as shown by the rise in Hobart's participation rate in Chart 8.3). Even so, Hobart's unemployment rate continued to edge lower, to a five-year low of 5.6% in the first few months of the 2017-18 financial year (Chart 8.2).

Unemployment fell by more than 1 percentage point in Launceston and the North-East, largely because most of the newly-created jobs appear to have gone to people already looking for work, rather than to new entrants to the labour force; nonetheless, at 6.6% on average over the year to October, Launceston and the North-East's unemployment rate remains the highest of Tasmania's major regions.

The opposite appears to have occurred in the North-West and West, where the slow-down in employment growth has been paralleled by a decline in the participation rate, so that the unemployment rate has remained steady at around 5<sup>3</sup>/<sub>4</sub>%. The 'employment rate' of people aged 15 and over is more recently once again lower than in Tasmania's other regions, as it has been for most of the past fifteen years.

## Tourism

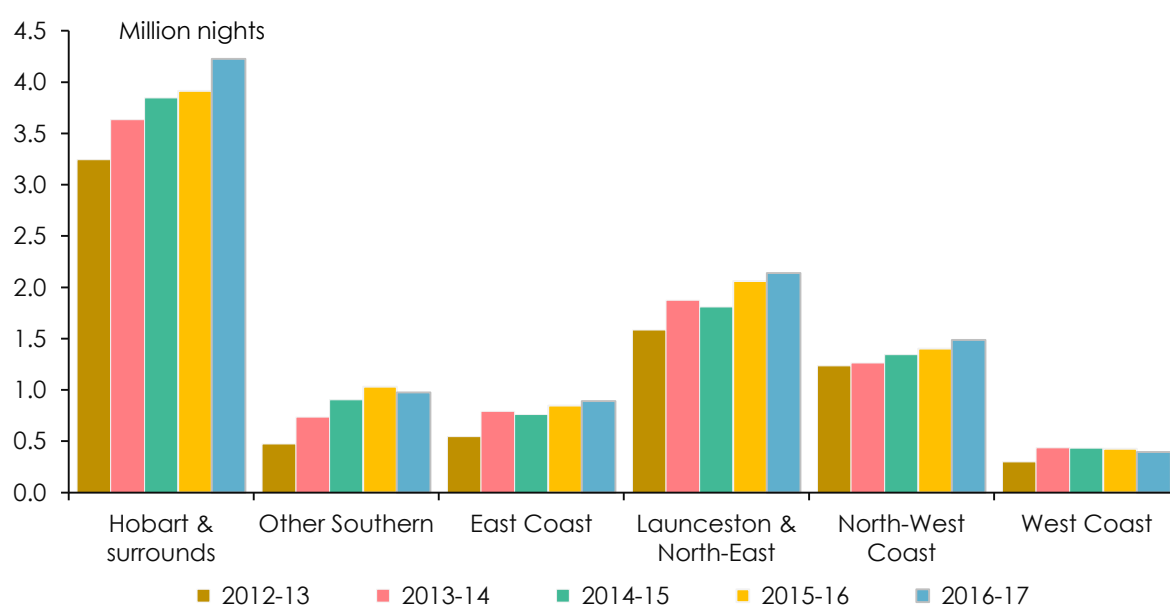
Tourism has been one of the strongest-performing sectors of the Tasmanian economy in recent years, with total visitor numbers rising by more than 48% over the five years to 2016-17 to more than 1¼ million, visitor nights rising by 38% to nearly 11 million, and total visitor spending rising by 70% to over \$2¼bn.

The epicentre of the Tasmanian tourism boom has been in Hobart, reflecting (among other things) the appeal of MONA and the growing number of cultural events in Tasmania's capital city, and the increase in the number of scheduled air services to Hobart from mainland capitals. Just over 40% of all visitor nights are spent in Hobart and its surrounds (including New Norfolk, Sorell and Richmond).

However, tourism is a mainstay of other Tasmanian regional economies, and in recent years they have been participating in the growth in Tasmanian tourism. For most of the past four years the fastest-growing destination for interstate and international visitors has been the 'other Southern' region – particularly Port Arthur and the Tasman Peninsula (aided by the opening of the Three Capes Walk), Bruny Island and Cygnet – although this growth stalled in 2016-17, partly because of a sharp drop in the number of visitor nights in Huonville (after two years of very strong growth). By contrast, Oatlands experienced a spectacular increase in visitor nights in 2016-17, with more stays than in the previous three years combined.

Growth in visitor nights spent in the North slowed in 2016-17, partly because of a decline in the number of nights in Launceston after a large increase the previous year. The stand-out in this region continues to be Derby, where visitor nights have increased five-fold over the past two years thanks to its success in attracting mountain bikers to its recently developed network of trails. Evandale has also experienced very strong growth in tourism over the past three years, partly based on the success of its cultural events.

**Chart 8.5: Visitor nights, by region, 2012-13 to 2016-17**



Source: Tourism Tasmania, *Tasmanian Visitor Survey*.

The North-West Coast has experienced slower but steadier growth in visitor numbers over the past five years. Devonport has the highest number of visitor nights of any North-West Coast destination, reflecting its status as the key entry point for visitors using the Bass Strait ferries, but its visitor night tally fell slightly in 2016-17. At either end of the North-West Coast, Sheffield and Arthur River (gateway to the Tarkine) have enjoyed strong growth in visitor numbers over the past few years.

Visitor numbers to the West Coast have now fallen for three years in a row: it now accounts for less than 4% of all visitor nights spent in Tasmania. The East Coast, a bit like the North-West, has experienced slower, but steadier, growth in visitor numbers.

Tourism is likely to continue to grow in importance as a contributor to regional economies, provided that the exchange rate remains competitive, and that Tasmania continues to develop and strengthen its reputation for premium and distinctive visitor experiences – in food and wine, arts and culture, and various forms of recreation, in particular.

The development of new international air connections (enhanced by the lengthening of the runway at Hobart Airport), and the opening of new accommodation facilities should aid further growth in tourism over the next few years, although it may prove difficult to maintain the growth rates of the past few years.

Sustained growth in tourism is also likely to require greater levels of investment in road infrastructure, especially in regional areas, and in the maintenance and upgrading of facilities in Tasmania's iconic national parks and reserves. In some areas, it is possible that capacity constraints may limit the scope for continued growth in visitor numbers.

## **Promoting regional development**

The profile of Tasmania's regions has become more nuanced over the past couple of years. It is not simply a matter of "Hobart doing well and everywhere else missing out": other parts of Tasmania have also had some experience of improving economic conditions.

That said, there is no argument that regional Tasmania faces even bigger challenges from its demographic profile, the breadth of its economic base, and its levels of educational participation and attainment than Hobart.

From a longer-term perspective, the keys to improving economic performance in regional Tasmania are the same as those to improving economic performance in Tasmania as a whole – in particular, increased participation in employment, and higher levels of labour productivity.

The Tasmanian Government's initial emphasis on offering Year 11 and 12 courses at high schools in rural centres has been an appropriate – and, thus far, effective – response to those challenges. And its commitment to extending senior secondary classes to high schools in Launceston, Devonport and Burnie (as well as in Hobart) will contribute to raising educational participation and attainment in the North and North-West regions.

The University of Tasmania's Northern Transformation Program has the potential to be a 'game changer' for both the North and the North-West – through the initial impact of the jobs created in the construction phase of these two projects, and over the longer term by the new pathways which they will provide to higher levels of educational participation and attainment, and by the way in which they change the 'face' and 'feel' of the cities of Launceston and Burnie.

As is also the case for Tasmania as a whole, the future for Tasmania's regions will not be secured by seeking to recreate their past. Tasmania's regions need to play to their existing comparative advantages, and strive to develop new ones, rather than continue to hope that industries and jobs which have departed can somehow be restored.

## Section 9: Looking forward: the 2018 election and beyond

This year's *Tasmania Report* has intentionally sought to re-iterate many of the themes identified and discussed in its two predecessors.

It has again documented that Tasmanian material living standards are, on average, lower than those of other Australians. Tasmanians are less likely to have jobs, and more likely to be reliant on some kind of government support, than other Australians. Tasmanians who do have jobs typically work fewer hours, and earn less, than their counterparts on the mainland. Tasmania's economy is more narrowly-based, more vulnerable to external shocks, and less productive than the economies of the mainland states.

There is of course more to 'well-being' than those factors to which numerical or monetary values can be assigned, such as employment or income.

There are many aspects to their 'quality of life' which Tasmanians justifiably regard as preferable to those experienced by other Australians, especially those living in large cities. But, as this Report has also shown, there are other important dimensions of well-being, not easily represented in dollar terms, where Tasmanians are less well-off than other Australians – particularly in terms of education and health.

This Report has sought to highlight many of those differences – with a view to identifying areas where improvement is possible, to calibrating *how much* improvement may be feasible, and to provide some ideas as to *what should be done* in order to bring about feasible improvements in the well-being of Tasmanians, relative to that of other Australians.

It seeks to provide those who want to achieve positive changes in Tasmania's economic and social circumstances with evidence that can be used to help make the case for those changes.

This Report does not pretend that all of the differences in economic performance, or other aspects of community and individual well-being, between Tasmania and the rest of Australia can or should be eliminated. Tasmania's comparatively small population, relative isolation, and demographic profile make it unlikely that it will ever be as well off, in a monetary sense, as other Australian states – a point highlighted by the comparisons this Report has sought to make with the non-metropolitan regions of mainland states.

Tasmania is not unique in that regard – as shown in last year's *Tasmania Report*, many other islands, in other countries around the world, share these characteristics.

However, one of this Report's key themes is that Tasmania can do better on many dimensions of economic performance than it has been doing – and that if it does, then many of the other problems which Tasmania faces are likely to be less difficult to resolve.

Indeed, the risk is that if a sustained effort is not made to improve Tasmania's economic performance, the almost inexorable forces of demographic and technological change will see the differences in living standards between Tasmania and the rest of Australia widen even further, over time.

Tasmanians go to the polls in 2018 to choose who will govern them for the next four years. This section puts forward some proposals which, if endorsed by Tasmanian voters at that election, would help to improve Tasmania's economic performance and thus help narrow the differences in living standards between Tasmania and other Australians.

These do not purport to constitute a comprehensive strategy to address all of the challenges Tasmania faces. Nor, of course, should it be interpreted as an endorsement of any particular political party.

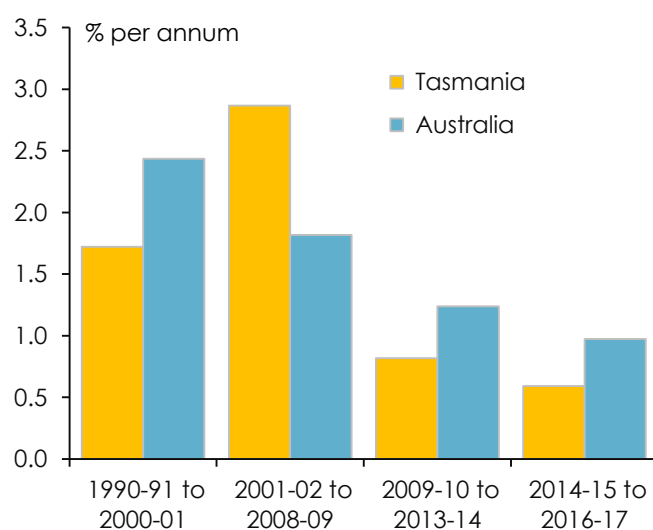
## Establish a target for economic performance

The Canadian educator and self-described 'hierarchologist' Laurence J Peter, best known for the 'Peter principle' ('in a hierarchy every employee tends to rise to his level of incompetence'), also once wrote, "If you don't know where you're going, you'll probably end up somewhere else"<sup>47</sup>.

Having a clear, measurable and achievable target for Tasmania's economic performance could assist in focussing public and government attention on what needs to be done in order to reduce the gap between Tasmanians' living standards and those of other Australians, and in assessing how much progress is being made, year by year, towards meeting that goal.

It was suggested in Section 7 that a feasible target could be to lift Tasmania's per capita gross product to the same proportion of the national average as South Australia, given that South Australia's demographic profile and many of its other characteristics are closer to Tasmania's than are those of any other state. That would imply increasing Tasmania's per capita gross product as a proportion of the national average from about 78½% to about 83½% - or by about \$3,759 per head of population (in 2016-17 dollars), an increase of about 6½%.

**Chart 9.1: Real per capita GSP growth, Tasmania and Australia**



Source: ABS, *State Accounts* (5220.0), 2016-17)

As noted in Section 7, this target could be achieved within a decade if Tasmania were able to sustain per capita growth of ¾ of one percentage point per annum faster than the national average (all else being equal).

This is *not* an implausible aspiration. Tasmania has actually done it before - between 2001-02 and 2008-09 (inclusive), when Tasmania's real per capita gross product grew at a rate 0.8 pc points per annum faster than the national average (Chart 9.1).

<sup>47</sup> Laurence J Peter, *Ideas for Our Time*, William Morrow & Co., New York, 1977, p. 125.



Admittedly, that was in circumstances which were in some respects more conducive to faster growth in the Tasmanian economy than now – in particular, the A\$ was much lower, Tasmania was receiving a larger share of GST revenues (and they were growing more rapidly), and there was a spurt of new home-building prompted by an influx of mainland immigrants.

Nonetheless, if the A\$ remains at its current reasonably competitive levels, the recent gradual improvement in net interstate immigration can be sustained, in the absence of any adverse external shocks, a repeat of that performance should not be seen as beyond reach. Even if Tasmania's per capita real growth rate exceeds the national average by ½ percentage point per annum, Tasmania's per capita gross product would reach parity with South Australia by 2030.

Of course, setting a target is only a statement of aspiration, and a measuring stick. The challenge then is to implement policies and strategies which are directed towards, and capable of, reaching the target.

## Education

A consistent theme throughout this Report and the two previous *Tasmania Reports* is that Tasmanians are, on average, less well-educated than other Australians, and that this is the most important single reason why Tasmanians are less likely to be employed by other Australians, work fewer hours and produce less for each hour they work if they are employed than other Australians, and earn less in employment than other Australians.

The comparisons made in this Report and its predecessors have also demonstrated that Tasmania's relatively lower levels of educational participation and attainment are *not* the result of Tasmania's smaller or more dispersed population, of its relatively greater proportion of low socio-economic status households, of any innate lack of capability on the part of Tasmanian students, or of insufficient levels of spending on education.

Rather, the single biggest reason for Tasmania's relatively poor educational outcomes – the most obvious difference between Tasmania's public education system and that of the rest of Australia – is the delivery of upper secondary education through a small number of separate colleges, rather than through comprehensive high schools.

If this system had been a resounding success, other states would surely have copied or adapted it – even if only for their non-metropolitan regions, with which Tasmania has more in common than the large mainland capital cities. None of them has.

On the contrary, the evidence thus far is that the current Government's program of extending Year 11 and 12 courses to high schools outside the four major population centres is having a positive impact on retention and TCE completion rates (although it is probably too early to regard the evidence as conclusive). The Government's more recent proposal to offer the same opportunities to students attending high schools in Hobart, Launceston, Burnie and Devonport to complete Year 12 where they being Year 7 is likely to have equally positive results, over time.

Ultimately, these changes should lead to the closure of the separate senior secondary colleges, and their amalgamation with or conversion into comprehensive high schools.

It is difficult to think of any other single thing which it is within the power of the Tasmanian Government to achieve, which would do more to lift Tasmania's potential economic growth rate over the longer term, than to ensure that every Tasmanian student has access to the same opportunities to gain a full and complete education, as students in every other part of Australia.

It would also bring a range of non-economic benefits, including in all likelihood that Tasmanians would make different 'lifestyle choices' which would in turn lead to better health outcomes.

## Health and community services

This report has not analysed or discussed Tasmania's health outcomes in the same degree of detail as it has the performance of its education system. However, this report and last year's have shown (as does other evidence) that Tasmanians generally experience poorer health (and have shorter lives) than other Australians (excluding Australia's Indigenous population); and that, partly as a result, they make greater use of health facilities. Some, but not all, of these differences are the result of Tasmania's population being older, on average, than that of the rest of Australia.

Reflecting this, the Commonwealth Grants Commission, as part of the analysis it undertakes each year in formulating its recommendations as to the distribution of GST revenues among the states and territories, assesses that Tasmania needs to spend more than other states and territories per head of population on health, in order to provide health services of a similar standard to the average of all states and territories<sup>48</sup>. In its most recent assessment, it concluded that Tasmania needed to spend just under \$3,000 per head on health in the 2015-16 financial year – more than any other state or territory except the Northern Territory, and \$570 per head more than the national average – in order to provide Tasmanians with a similar standard of health services to that provided by all states and territories, on average<sup>49</sup>.

There is of course no requirement that any state or government actually spend the amount assessed by the Grants Commission as being necessary to provide a similar standard of service to the national average – on health or any other area. Governments may, and do, choose to spend more than the CGC benchmark on some services, and less on others.

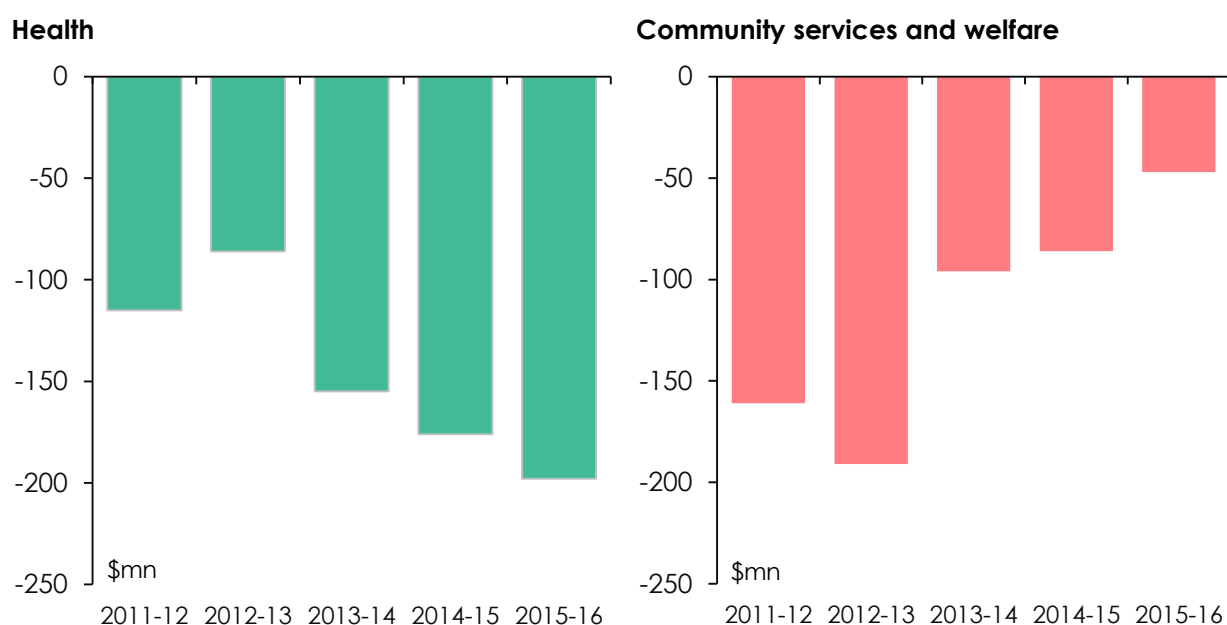
Successive Tasmanian Governments have in practice spent materially less on health, in particular, than the amounts assessed by the Grants Commission as being required to match the national average standard of services – by an average of \$146mn per annum (or 10½%) – over the five years to 2015-16 (Chart 9.2).

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<sup>48</sup> This assessment, together with similar assessments regarding most other categories of state government spending, and an assessment that Tasmania has less capacity to raise revenue than other states and territories, is why the CGC consistently recommends that Tasmania should get a larger share of the revenue from the GST than its share of the population.

<sup>49</sup> Commonwealth Grants Commission, [Report on GST Revenue Sharing Relativities - 2017 Update](#), April 2017, Supporting data, revenue and expense ratios.

**Chart 9.2: Differences between Tasmanian Government actual spending and Grants Commission assessment of spending required to provide 'national average' level of services**



Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities – 2017 Update*, Supporting data. Estimates for 2011-12 and 2012-13 are from the 2016 Update.

Successive Tasmanian Governments have also 'underspent', relative to the CGC benchmarks, on community services and welfare (Chart 9.2), justice, and transport; and 'overspent' on school education (albeit marginally), services to industry and 'other expenses' (for the most part, public service running costs).

It is theoretically possible that 'under-spending' relative to the CGC benchmark is due to greater efficiency in the delivery of services; likewise 'over-spending' could theoretically be the result of a conscious decision to provide a better-than-average standard of services. However, as noted in Section 5, Tasmania's 'over-spending' on education has not resulted in better-than-average educational outcomes; and it would be hard to believe that Tasmania's lower-than-average spending on health is the result of greater efficiency in delivering health services.

It seems likely that the next Tasmanian Government will face greater pressure for increased spending on health services. And, as noted in Section 5, the most recent State Budget provides for growth in health spending of less than 2% per annum – implying virtually no growth in real terms – which seems unlikely to be sustainable.

However, while it probably will be necessary to spend more on health services over the next four years than currently envisaged, spending more money alone will not address Tasmania's health challenges. The Productivity Commission's recently published *Productivity Review*, intended as the first of a five-yearly series, highlights the health sector Australia-wide as being in need of serious reform, to encourage a focus on patients rather than suppliers, improve co-ordination of care, facilitating experimentation and the use of new technologies and data-sharing, and addressing 'lifestyle risks'<sup>50</sup>. These reforms should be closely examined in Tasmania.

<sup>50</sup> Productivity Commission, [Shifting the Dial: 5-year productivity review](#), October 2017, pp. 44-79.

## State taxation reform

Although successive State Governments have tinkered with Tasmania's taxation system, altering rates of tax or making small changes to the base of particular state taxes, it has been a long time since any Tasmanian Government embarked upon a program of wide-ranging state taxation reforms.

Wide-ranging taxation reform is of course politically difficult, if not impossible, to implement without an electoral mandate: part of the problem has been that political parties have been unwilling to seek such a mandate, preferring to rule out any prospect of change rather than obtain voters' permission to make change.

Hence one of this Report's pleas is that those seeking to form government at the next election consider seeking an electoral mandate for reform of Tasmania's taxation system – whether it be for the purpose of raising additional revenue in order to fund additional spending on health (for example), fostering economic and employment growth by making Tasmania's taxation system more competitive with that of other states, or improving housing affordability and the efficiency of land use.

Two broad reforms which are worthy of consideration in this context are:

- Lowering the rate and broadening the base of payroll tax; and
- Replacing stamp duty on land transfers with a broadly-based land tax

Tasmania's payroll tax rate of 6.1% is the highest of any jurisdiction other than the ACT<sup>51</sup>. Tasmania tax-free threshold of \$1.25mn per annum is also the highest of any state (though the two territories have higher thresholds). In other words, Tasmania levies a higher rate of payroll tax on a narrower base than most other jurisdictions. This means that a larger proportion of small businesses are exempt from payroll tax in Tasmania than in the other states: but it also means that large businesses pay a higher rate of payroll tax than in other states (and by comparison with Victoria, Queensland and South Australia, each of whose payroll tax rate is less than 5%, much higher). This may be one reason why Tasmania does not have a large number of large businesses.

This is the opposite of what most economists regard as one of the principles of 'good tax design' – imposing the lowest possible rate across the broadest possible base, consistent with raising the required amount of revenue.

Tasmania's relatively high tax-free threshold for payroll tax means that the State Government will collect \$192mn less in 2017-18 than it would if all employers paid the 6.1% rate – equivalent to 56% of what it actually expects to collect from those employers who do pay payroll tax<sup>52</sup>.

If all employers were liable to payroll tax, the rate could be lowered to less than 4% without any net cost in terms of revenue.

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<sup>51</sup> Western Australian employers with a national payroll in excess of \$100mn per annum will pay a tax rate of 6.5% on that part of their payroll in excess of \$1.5bn per annum from 2018-19 through 2022-23.

<sup>52</sup> Tasmanian Government, *Budget Paper No 1*, 2017-18, p. 93.

Small business would, understandably enough, vociferously object to the idea that they should pay payroll tax. But there is no sound or valid economic reason why small business should receive preferential tax treatment<sup>53</sup>. And if payroll tax were to be collected by the Australian Taxation Office in the same way that PAYE income tax deductions are collected from all employers (irrespective of their size), then there would be no greater administrative burden on either employers or the Tasmanian Government than results from current payroll tax collection arrangements.

Having Australia's lowest payroll tax rate could be a significant advantage in attracting investment and employment to Tasmania. It would be more sustainable, and arguably more ethical, than cutting 'secret deals' with prospective employers to attract them to establish or expand operations in Tasmania.

If it is considered necessary to offer some kind of preferential tax treatment to some businesses in order to stimulate investment or employment, a far more sensible basis for doing so than the size of the business concerned is to give preferential treatment to new businesses – whether they are new Tasmanian businesses, or established businesses setting up in Tasmania for the first time. New businesses are much more likely than small ones to create new jobs; and they are more likely to engage in innovation than small businesses. Preferentially taxing new businesses also avoids the perverse incentives inherent in any system of preferential treatment for small businesses, prompting them to refrain from hiring the marginal employee who will push them above the tax-free threshold.

The case for replacing stamp duty with a more broadly-based land tax has been articulated on many occasions, including by the Henry Review and more recently by the Productivity Commission<sup>54</sup>. Stamp duties are among the most inefficient taxes ever devised: they add to the cost of housing, and discourage people from moving to be closer to jobs, family networks or educational opportunities. The revenue from them is volatile and unpredictable – in contrast to the revenue from land taxes. Land taxes do not distort decision-making; they are a more effective deterrent to 'land banking' and other forms of speculation; and they are almost impossible to avoid.

The Grattan Institute has estimated that replacement of stamp duties with a broadly-based land tax on a national scale would ultimately boost GDP by \$9bn annually<sup>55</sup>. Tasmania's share of that could be \$100-200mn (or ¼-½% of gross state product).

Any such reform would need to be phased in over a number of years, and be accompanied by transitional arrangements to avoid 'double taxation' of recent property purchasers. Provision would also need to be made for low-income property owners (such as pensioners), similar to those made by some local governments whereby rates can be made a charge against an estate. And consideration would need to be given to the possible impact of any such change on Tasmania's share of revenue from the GST.

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<sup>53</sup> See, for example, Richard Holden, ['Is small business really the engine room of the economy?'](#), *The Conversation*, 10 June 2016; or Dora Benedek et al, [The Right Kind of Help? Tax Incentives for Staying Small](#), IMF Working Paper No. 17/139, Washington DC, June 2017.

<sup>54</sup> Ken Henry et al. [Australia's Future Tax System - Final Report: Part 1 - Overview](#), May 2010, pp.48-50; Productivity Commission, [Shifting the Dial: 5-year productivity review](#), October 2017, pp. 149-152.

<sup>55</sup> John Daley and Brendan Coates, [Property Taxes](#), Grattan Institute, Melbourne, July 2015.

The ACT Government has already commenced this transition – and survived an election at which the alternative government campaigned against the replacement of stamp duties with a combination of higher municipal rates and a broader land tax.

The next Tasmanian Government should give consideration to a similar reform.

## **Asset sales and the financing of infrastructure investment**

As discussed in Section 5 of this report, there is a sound case for governments to borrow, especially given the current historically low interest rates at which governments can borrow for long terms, in order to invest in infrastructure projects which have been rigorously selected on the basis of their capacity to meet demonstrated economic or social needs, and which are subject to appropriate governance arrangements.

In principle, given its relatively low level of public sector debt (including the 'debt free' status of its general government sector), Tasmania should be able to do what other states (and governments in other countries) are doing, taking on more debt in order to fund investments which the private sector is unlikely to undertake, and which meet the above criteria.

However, as also discussed in Section 5, Tasmania's capacity to fund higher levels of infrastructure investment through borrowings is tightly constrained by its very large unfunded public sector superannuation liability, the servicing of which has in effect 'eaten up' all the headroom that might otherwise have been available to meet higher levels of interest payments on debt used for worthwhile infrastructure investment.

It was argued in Section 5 that the only options available for reducing this constraint were to run large budget surpluses and invest them with a view to building up a stock of financial assets sufficient to defray the superannuation liability; or to sell assets and apply the proceeds to the same end.

It is now widely recognized that previous 'privatizations' of government-owned businesses have in many cases not delivered the benefits originally promised, particularly to consumers or users of the services provided by those businesses; and in some of those, and in others, the costs of 'privatization', in terms of job losses or the withdrawal of services have been greater than initially indicated.

This Report does not seek to argue that there are any 'efficiency' gains necessarily to be had from the sale of government-owned businesses, or that there can be any credible guarantees of lower prices. However, it is possible – particularly if the primary motivation for a sale (or lease) is not to gain the highest possible price – to design regulatory structures which ensure continuing public oversight over the pricing and availability of such services, over the location of head offices, and over asset maintenance standards and similar matters.

Nor does this Report suggest that every government-owned business should be a candidate for possible sale or lease.



In particular, this Report does not advocate the sale of Hydro Tasmania, TT-Line, TasRail, Metro Tasmania, or (were it to be taken over by the State Government) TasWater (for different reasons in each case).

However, consideration could be given to the possible sale or lease of TasNetworks, Aurora Energy, the Motor Accidents Insurance Board and/or TasPorts. Similar entities have been sold or leased by governments of *both* major political persuasions in other states in recent years – in many cases to Australian superannuation funds for whom such assets provide an ideally suited income stream.

By way only of illustration, some back-of-the-envelope figuring based on recent transactions suggests that a sale or long-term lease of TasNetworks could be worth \$2-2½bn to the Tasmanian Government (depending on the conditions that were attached to any such transaction).

That would represent a significant offset to the unfunded superannuation liability of \$8½bn. A future state government which undertook such a transaction could arrange for the proceeds to be managed by the Australian Government's Future Fund, and legislate similar restrictions to those which have applied to funds transferred by previous Federal Governments to the Future Fund to prevent them from being used for any purpose other than defraying superannuation liabilities (or until those liabilities have been otherwise discharged).

Recent political history suggests that such a transaction could not be undertaken by a government which did not have an explicit mandate for it. But it also suggests that it is possible to obtain such a mandate if the case for doing so is clearly and consistently articulated to the electorate beforehand, and the electorate is convinced that the benefits – for example in terms of increased investment in infrastructure that would not otherwise be possible – outweigh the potential risks.

## Conclusion

The foregoing discussion is not intended to represent a comprehensive list of everything that could or should be done by whichever government takes office after the next state election.

The purpose is rather to assert that the economic and social challenges facing Tasmania, over the next four years and well beyond, cannot be addressed by a government which has sought a mandate for doing nothing more than 'minding the store', however competently they promise to do that.

Tasmania has made some genuine and tangible progress in recent years. There is a greater sense of optimism about what may be possible. This is a moment in Tasmania's history where those who seek to shape its future should be imaginative and bold, rather than cautious or timid. It is a time, to paraphrase Robert Kennedy, to think of what could be, and ask "why not?".