

# **EDUCATION AND THE TASMANIAN ECONOMY**

## **Address to a dinner hosted by The Smith Family**

Wrest Point, Hobart

30<sup>th</sup> April 2015

*by*

Saul Eslake

---

*Note:* The views expressed here are solely those of the author and should not be interpreted as representing those of any other entity or organization with which he is associated.

Over the Easter Break, I read a biography of Sir Douglas Copland, who, among many other things (including being Australia's first Minister to China, a High Commissioner to Canada, the foundation Vice-Chancellor of the Australian National University, and a founder of the Committee for the Economic Development of Australia) was the first Professor of Economics at the University of Tasmania in the early 1920s – a time when, as Reserve Bank Governor Glenn Stevens noted in a speech last year, “much of the genesis of modern policy economics in Australia occurred here in Hobart”<sup>1</sup>.

This biography records that Copland once said, “not merely financially, but in the moral and social field, education is the most profitable investment a community can make”<sup>2</sup>.

I couldn't have put it better myself.

There is now an enormous accumulated body of evidence demonstrating a strong correlation between educational attainment and economic outcomes – both for economies as a whole, and for individuals.

This research suggests, for example, that each additional year of schooling among the adult population boosts long-run economic growth by between  $\frac{1}{4}$  and  $\frac{3}{4}$  of one percentage point per annum – or by between 6 and 19% in the long run, after controlling for other factors that also influence long-run economic growth<sup>3</sup>.

In May last year, when 66.3% of Australians aged 15 and over had a job, and 5.8% of them were unemployed:

- 79.8% of people with a bachelor's degree or higher (13½ percentage points more than the average) had a job, and only 3.2% of them were unemployed;
- 74.7% of people with a diploma or associate diploma had a job, and only 5.0% of them were unemployed;
- 73.3% of people with some kind of post-school certificate had a job, and 6.0% of them were unemployed;
- 65.8% of those with no qualification beyond Year 12 had a job, and 6.7% of them were unemployed;
- but of those who had left school at Year 10 or earlier, only 42.2% (24 percentage points below the national average) had a job, and 9.9% of them (more than 4 percentage points above the national average) were unemployed<sup>4</sup>.

---

<sup>1</sup> Glenn Stevens, 'Economic Update', Address to the Econometric Society Australasian Meeting and the Australian Conference of Economists', Hobart, 3<sup>rd</sup> July 2014 ([www.rba.gov.au/speeches/2014/sp-gov-030714.html](http://www.rba.gov.au/speeches/2014/sp-gov-030714.html)).

<sup>2</sup> Marjorie Harper, *Douglas Copland – Scholar, Economist, Diplomat* (The Miegunyah Press, Melbourne, 2013), p. 446.

<sup>3</sup> See, eg, Robert Barro, 'Education and Economic Growth', *Annals of Economics and Finance*, Volume 14, No. 2 (2013), pp. 301-328 (<http://down.aefweb.net/WorkingPapers/w571.pdf>); Sawami Matsushita, Abu Siddique and Margaret Giles, 'Education and Economic Growth: The Case of Australia', *Review of Applied Economics*, Volume 2, No. 1 (2006), pp. 111-127.

<sup>4</sup> ABS, *Education and Work, Australia*, May 2014, catalogue no. 6227.0 (December 2014).

Not only is there a clear correlation between one's level of education and one's chance of being employed, there is also a clear correlation between one's level of education and how much he or she gets paid.

Research by Andrew Leigh – who was one of Australia's most outstanding (and prolific) academic economists before he entered the Federal Parliament at the 2010 election – shows that:

- people who complete Year 12 have lifetime earnings which are 42% higher than those who leave school at Year 10, and 64% higher than those who do not go beyond Year 9;
- the lifetime of earnings of people who complete a bachelor's degree are 45-50% higher than those whose highest educational qualification is Year 12 – while those of people with a higher degree are 66-74% higher than those of people whose highest educational qualification is Year 12<sup>5</sup>.

There is also a more recent body of research showing that the quality of education a person receives matters even more than the quantity of it.

For example a report published by the OECD in 2010 estimated that raising the average PISA scores of all OECD countries by a mere 25 points would boost the GDP of all OECD member countries by US\$115 trillion over the lifetime of the generation born in 2010, and of Australia by US\$2½ trillion. The same report estimated that bringing all OECD countries up to the average performance of Finland, which at the time had the best performing school system in the OECD based on PISA scores, would boost GDP for the OECD area as a whole by around US\$260 trillion – equivalent to an increase in long-run average real GDP growth of 0.4 pc pt per annum – and for Australia by about US\$2 trillion<sup>6</sup>.

Given all of this evidence – and I have only provided a snapshot of it here – we clearly have a big problem in Tasmania:

- only 16.9% of Tasmanians aged 15-74 have a bachelor degree or higher, compared with 24.1% of all Australians in that age range;
- 34.1% of Tasmanians aged 15-74 have never progressed beyond Year 10, compared with 22.2% of all Australians in that age range<sup>7</sup>.

And there's no reason to be confident that these gaps are narrowing.

The most recent ABS data show that Tasmania's apparent retention rate from Year 10 to Year 12 was 69.4% in 2014, more than 13 percentage points below the national average of 82.5%. This is the widest 'gap' between the Tasmanian and national figures since 1997<sup>8</sup>.

And yet retention rates only measure those who enrol at the beginning of a school year: they say nothing about whether those students successfully complete their courses.

---

<sup>5</sup> Andrew Leigh, 'Returns to Education in Australia', *Economic Papers*, Volume 27, No. 3 (September 2008), pp. 233-249 ([www.andrewleigh.org/pdf/ReturnsEducationAustralia.pdf](http://www.andrewleigh.org/pdf/ReturnsEducationAustralia.pdf))

<sup>6</sup> Eric Hanushek and Ludger Woessman, *The High Cost of Low Educational Performance* (OECD, Paris, 2010) ([www.oecd.org/pisa/44417824.pdf](http://www.oecd.org/pisa/44417824.pdf))

<sup>7</sup> ABS, *Education and Work, Australia*, May 2014, catalogue no. 6227.0 (December 2014).

<sup>8</sup> ABS, *Schools, Australia*, 2014, catalogue no. 4221.0 (February 2015).

Calculations by Eleanor Ramsay and Michael Rowan of the University of Tasmania suggest that only 43.7% of Tasmanians who were in Year 10 in 2011 had completed their TCE by 2013. As they put it, “less than half our youth are graduating from high school – by which we mean, as everywhere else in Australia, gaining their Year 12 certificate”<sup>9</sup>.

The equivalent percentage of Victorian youth is over 80%.

All too often statistics like these are ‘explained away’ by the relatively higher proportion of Tasmanian students who come from ‘low socio-economic status’ (SES) backgrounds.

Of course it is true – and regrettable – that socio-economic status affects educational participation and attainment.

But even from among Tasmanian students from high SES backgrounds, only 64% completed Year 12 in 2013, compared with 79% nationally. Among Tasmanian students from low SES backgrounds, the position is far worse – with only 39% of them completing Year 12 in 2013, compared with 68% from low SES backgrounds nationally<sup>10</sup>.

Nor can Tasmania’s poor educational participation rates and levels of educational attainment be ‘explained away’ by our more dispersed population.

Again according to Eleanor Ramsay and Michael Rowan, more than 50% of people living in regional Tasmania (that is, outside of Hobart) have no qualifications beyond Year 10, which is higher than any non-metropolitan area of Australia except for the Northern Territory beyond Darwin. In regional Victoria, only 36.6% of people have no qualifications beyond Year 10; in regional South Australia, only 35.4% of people have no qualifications beyond Year 10<sup>11</sup>.

Here in Hobart, despite a relatively high proportion of the population with PhDs (thanks to the University, the CSIRO and the Antarctic Division), 39.3% of people have no qualifications beyond Year 10 – higher than for any other State capital (Sydney 35%, Brisbane 33%, Perth 30%, Adelaide 28% and Melbourne 27%).

As Rowan and Ramsay say, “we are a community in which relatively low levels of educational attainment have become the norm” – a perception which is reinforced by the long-standing practice at government high schools of describing the social events which their students stage at the end of Year 10 as “Leavers’ Dinners”, and of course by the fact that those same high schools traditionally only go up to Year 10.

It might have been possible, in the Tasmanian economy which Robert Cosgrove and Eric Reece built – and which Robin Gray tried to preserve with borrowed money – for people to assume that a Year 10 education was sufficient to ensure a reasonably secure job at decent wages for a person’s working life.

---

<sup>9</sup> Eleanor Ramsay and Michael Rowan, ‘A note on Year 12 retention and attainment in Tasmania’ (12<sup>th</sup> July 2014).

<sup>10</sup> Productivity Commission, *Report on Government Services 2014*, Part B: Child Care, Education and Training (January 2014).

<sup>11</sup> Eleanor Ramsay and Michael Rowan, ‘Tasmanian education today: Digging around in the data’ (May 2014).

But, although many of the industries which were established in that era remain important contributors to our economy, that assumption has not been true for many years – and it will be even less valid in the Tasmanian economy of the future.

In March 2006, according to the earliest available data from the Federal Employment Department's Internet Job Vacancies survey, 39% of the job vacancies in Tasmania were for 'labourers and sales workers' – jobs for which, arguably, a Year 10 education might suffice. In March 2015, only 26% of the vacancies in Tasmania were for such jobs. Conversely, in March 2006, fewer than 19% of the vacancies in Tasmania were for 'managers and professionals'; by March 2015m almost 29% of the advertised vacancies were for those categories of worker<sup>12</sup>.

Our poor levels of educational participation and attainment are arguably the single most important reason why we remain, by a wide margin, the poorest State in Australia, with a per capita gross State product (GSP) some \$19,000 – or nearly 29% - below the national average in 2013-14<sup>13</sup>.

The "Three Ps" framework used to generate long-term economic forecasts in the Commonwealth Government's *Intergenerational Reports* can be used to explain why this is so:

- 36% of this gap – or \$6,900 per head (roughly) – is due to the fact that only 45.3% of Tasmanians had a job in 2013-14, 4.3 percentage points below the national average;
- 40% of this gap – or \$7,700 per head (roughly) – is due to the fact that those Tasmanians who did have jobs worked an average of 2.1 fewer hours per week than employed Australians, which is equivalent to about 3½ fewer weeks of work per year; and
- 24% of this gap – or \$4,600 per head (roughly) – stems from the fact that Tasmanians with jobs produced \$12.20 less by way of goods and services for each hour that they worked than the national average – that is to say, the productivity of Tasmanian workers was, on average, 15% below the national average.

Low levels of educational participation and attainment don't explain all of these differences – some of them are due to Tasmania's population being older, on average, than that of the mainland, and some are due to differences in the structure of Tasmania's economy compared with that of the rest of Australia.

But they do account for part of each of them.

The higher the level of educational attainment a person has, the more likely he or she is to have a job; the more hours he or she is likely to work, on average; and the higher his or her productivity is likely to be.

There is, in my opinion, nothing that would do more, over the long run, to narrow the gap between Tasmanians' material living standards and those of other Australians than to raise the level of educational participation and attainment of Tasmanian children and (as far as possible) adults.

---

<sup>12</sup> Australian Government, Department of Employment, *Vacancy Report* (March 2015) (<http://lmip.gov.au/default.aspx?LMIP/VacancyReport>).

<sup>13</sup> ABS, *Australian National Accounts: State Accounts 2013-14*, Catalogue No. 5220.0 (November 2014).

And for that reason there is no policy of the present State Government that I support more strongly than the policy of extending the opportunity to obtain a complete secondary education to children attending all government high schools.

However, I also want to emphasize that the below-average rates of educational participation and below-average levels of educational attainment are not the result of inadequate levels of spending on education by successive Tasmanian Governments.

In the 2012-13 financial year, the latest for which figures are available, the Tasmanian State Government spent \$12,449 per student on education<sup>14</sup>. That's \$1,533, or 14%, more than the average of mainland State and Territory Governments.

Tasmanian Government spending on school education per student has risen by 62% over the past decade, compared with an increase of 43%, on average, by mainland State and Territory Governments.

Unfortunately, this above-average spending isn't delivering above-average educational outcomes for Tasmanian students – otherwise I would be the first to applaud it.

I don't believe there's any evidence to support the idea that Tasmanian children are any less inherently capable of learning than children from other parts of Australia, and therefore need more spent on them in order to achieve results comparable with those attained by children in other parts of Australia.

On the contrary, Michael Rowan and Eleanor Ramsay's analysis of NAPLAN results suggest that Tasmania students do as well as those from South Australia, the State most directly comparable with Tasmania in most respects<sup>15</sup>.

Rather, I think it is because Tasmania spends what it spends on education inefficiently – in particular, by having a relatively large proportion of relatively small schools, reflective of an era when transport and communications possibilities were very different from what they are today.

The average Tasmanian government school has 295 students – a figure which has risen by just 4 over the past decade. By contrast, the average government school on the mainland has 362 students – a figure which has risen by 35 over the past decade<sup>16</sup>.

Whether a school has 295 students or 362, it will still have one principal, probably two assistant principals, the same number of finance and administration staff, the same number of librarians, and probably the same number of cleaning and grounds staff.

Hence the Tasmanian government school system employs 19% more non-teaching staff per 100 students than mainland government school systems do, on average.

---

<sup>14</sup> ABS, *Government Finance Statistics, Education, Australia, 2012-13*, Catalogue no. 5518.0.55.001 (May 2014); *Schools, Australia, 2014*, Catalogue no. 4221.0 (February 2015).

<sup>15</sup> Eleanor Ramsay and Michael Rowan, 'Tasmanian education today: Digging around in the data' (May 2014).

<sup>16</sup> Calculations based on data published in ABS, *Schools, Australia, 2014*, Catalogue no. 4221.0 (February 2015).

The Tasmanian government school system also has 7.8% more teaching staff per 100 students than mainland systems – despite there being no evidence that, within the ranges that we are talking about here, smaller class sizes make any difference to student outcomes<sup>17</sup>.

So, the answer to the problems of low educational participation and attainment in Tasmania is not emore spending on education.

Rather, the answers lie, I believe, in no small part in:

- cultural change within Tasmanian households, and across the Tasmanian community more broadly; and
- organizational change within the Tasmanian education system, so that we get better outcomes for what is spent.

It is beyond my competence and capability to spell out what form that organizational change should take. I leave that to people far more knowledgeable about such matters than I can ever hope to be.

But I want to say this about the need for cultural change. It is not going to happen, in the places where it needs to happen most – in the Tasmanian households where social, economic and educational disadvantage has become entrenched across multiple generations – without intervention and support for these households and the people living in them.

This is where programs such as those which The Smith Family administers can make a difference.

And while organizations like The Smith Family can attract investment and support from interstate to help this cause, we here in Tasmania need to look at what support we can provide directly or through our individual, organizational and collective influence, to help them strengthen and diversify their support base in this State.

This may not necessarily mean financial assistance – it might mean help with profile-building, volunteering, in-kind or *pro bono* support.

But whatever form it takes, there needs to be more of it.

That's why this is a program that I am going to support personally. And it is why I hope that some of you will want to do likewise.

---

<sup>17</sup> Ben Jensen, *Investing in Our Teachers, Investing in Our Economy*, The Grattan Institute (Melbourne, November 2010), pp. 8-10.