

**THE NIXON REPORT: AN APPRAISAL**

**Address to the  
University of Tasmania's "Tasmania 2010" Forum:  
'The Nixon Report- What Next'**

by

**Saul Eslake  
Chief Economist  
Australia & New Zealand Banking Group Ltd**

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## Introduction

Despite having left Tasmania more than 14 years ago, I still, and will always, think of Tasmania as 'home'. That's why, as my colleagues in ANZ's economics department continually remind me, Tasmania occupies a considerably larger share of my attention than its 2% of the national economy objectively would indicate. So when ANZ's State Manager for Tasmania, Don Jeffrey, suggested late last year that the Bank should make a submission to the Commonwealth-State Inquiry into the Tasmanian Economy, it was somehow much easier to find the time to put some thoughts together than it might have been had a similar request come from another State.

For much the same reason, I'm delighted to have the opportunity to participate in this Forum which is examining the conclusions and recommendations of the Nixon Report, *Tasmania into the 21st Century*.

The Nixon Report is in some respects a rather idiosyncratic document. Peter Nixon - or (more likely) one of his staff - has gone to greater lengths than others who have conducted inquiries for governments to ensure that his report is known after its author. We speak, for example, of the Campbell Report, the Wallis Report, the Mortimer Report or even the Callaghan Report for convenience, not because these titles appeared on their respective front covers or atop virtually every page<sup>1</sup>, as is the case with the Nixon Report. This enthusiasm for eponymity has extended even to the point of re-titling ANZ's submission to the inquiry to conform with this preference<sup>2</sup>.

Similarly, I couldn't help being struck by the fact that Chapter 7 of the Main Report, dealing with 'sector-specific problems', contains 3½ pages about fly-fishing<sup>3</sup> and nothing about manufacturing; or that, after recommending the privatization of 11 State instrumentalities in addition to the HEC, and the possible privatization of 14 others, Nixon explicitly rejects privatization of the Tasmanian Grain Elevators Board without giving any reason other than that some other un-named 'investigation' has recommended against it<sup>4</sup>. In some cases, a recommendation appears to have been plucked almost out of thin air, or out of a desire to respond positively to a suggestion made to the inquiry - such as the suggestion that the State Government should provide discounted fares on the *Spirit of Tasmania* to touring rock bands<sup>5</sup> - even though Nixon recommends against the provision of any financial support to a Tasmanian AFL team<sup>6</sup>.

Then there are issues about which the Nixon Report seems curiously reluctant to make any specific recommendations at all - for example in relation to passenger transport to and from

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<sup>1</sup> These reports were officially entitled *Australian Financial System Inquiry: Final Report*; *Financial System Inquiry Final Report*; *Going for Growth - Business Programs for Investment, Innovation and Export*; and *Inquiry into the Structure of Industry and the Employment Situation in Tasmania*, respectively.

<sup>2</sup> ANZ's submission was entitled *Submission to the Commonwealth-State Inquiry into the Tasmanian Economy*. However it is formally cited on p. 56 of the 'Background Report' as ANZ's *Submission to the Nixon Inquiry*.

<sup>3</sup> Commonwealth-State Inquiry into the Tasmanian Economy, *The Nixon Report* (June 1997), Main Report, pp. 197-200.

<sup>4</sup> *The Nixon Report*, Main Report, p. 100.

<sup>5</sup> Main Report, p. 202.

<sup>6</sup> Main Report p. 197.

Tasmania<sup>7</sup> - or willing to make only vague suggestions, as in relation to workers' compensation<sup>8</sup>.

And there are some instances where it is very difficult to understand the point being made. Consider, for example, the following excerpt from the Background Report:

“A lack of Government policy direction creates uncertainty within the private sector in relation to the Government's position on issues of relevance, and creates difficulty for the public sector in delivering Government services due to the lack of clear policy objectives”<sup>9</sup>.

I think this is an appeal for greater clarity or vision in statements of Government policy: but it's hard to be sure.

These are, of course, minor quibbles. In my view, Nixon's diagnosis of Tasmania's economic problems is essentially correct; and he presents an essentially coherent strategy for dealing with them. That is not to say that I support each and every recommendation: indeed, as I'll indicate later on, there are some recommendations which I disagree with, and some areas where (in my opinion) he hasn't made the recommendations which he could have.

However the Nixon Report does present Tasmanians with a chance to strike out on a new path. Nixon is absolutely right when he says, in the Preface to his report, that 'failure to act will leave an ever-worsening economic and social situation to be resolved by, and at the expense of, the State's children and following generations'.

## The reality of Tasmania's position

20 years ago, Sir Bede Callaghan warned that Tasmania was likely to “continue its historical (economic) decline, relative to the rest of Australia”<sup>10</sup>. Callaghan's prediction was, if anything, unduly sanguine: by most measures, Tasmania's decline relative to the rest of Australia, has actually accelerated over the past two decades. Nowhere is this more starkly illustrated than in the employment statistics. In the three years following the publication of the Callaghan Report, Tasmania's trend unemployment rate averaged 6.3%, just 0.1 percentage point above that for the mainland (Chart 1). In July 1997, Tasmania's trend unemployment rate stood at 11.0%, 2.4 percentage points above the mainland.

But to a greater extent than ever before, the measured unemployment rate conceals the full story. Tasmania's 'labour force participation rate' - which measures the proportion of the civilian population aged 15 and over which is either in employment or actively seeking work (according to the Statistics Bureau's definition) - has plummeted over the past year (Chart 2), to be more than five percentage points below the mainland's in July.

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<sup>7</sup> Despite noting (p. 133) that 'the cost of airfares for tourists is an impediment to tourism'. Issues pertaining to the movement of goods to and from Tasmania are covered on pp. 129-132 of the Main Report, although even here a number of the recommendations are surprisingly vague, for example that the Commonwealth 'should proceed with action to deliver a world's best practice waterfront to Australia' (p. 132).

<sup>8</sup> Where the only recommendations are 'to ensure that the benefits provided are competitive with those available in other States' and to ensure better 'occupational health and safety and work practices in Tasmania' than other States (p. 126).

<sup>9</sup> *The Nixon Report*, Background Report, p. 148.

<sup>10</sup> B.B. Callaghan, *Inquiry into the Structure of Industry and the Employment Situation in Tasmania*, AGPS, Canberra (1977), pp. 102-103.

Had Tasmania's participation rate been the same as the mainland's, its trend unemployment rate would now be 18.3% - 2.1 percentage points higher than the equivalent measure would have been at its worst point during the recession of the early 1990s (Chart 3).

Put differently, the proportion of Tasmanians of working age actually in employment had by July fallen to 51.6% - below its previous low point in March 1993, and more than 6 percentage points below the equivalent figure for the mainland (Chart 4). This latter gap has widened progressively over the past 20 years. Only 36.7% of working age Tasmanians were in full-time employment in July, nearly 2 percentage points lower than at the trough of the early 1990s recession and 6.4 percentage points below the corresponding figure for the rest of Australia (Chart 5).

All of these figures would have been even worse but for the fact that Tasmania's population has actually stopped growing (Chart 6), for the first time since the late 1840s. That was something which, according to the Statistics Bureau, was not meant to begin until the year 2007<sup>11</sup>. It is another telling indication of the extent to which Tasmania's decline has accelerated.

So Jim Bacon is absolutely right to say that Tasmania is in 'a jobs crisis, a social crisis as well as an economic crisis'<sup>12</sup>.

And there is absolutely no indication that the crisis is likely to abate in the near future. None of the usual economic indicators suggests that the gap between Tasmania's economic performance and that of the mainland States will narrow any time soon (Chart 7). Consumer confidence is lower than in the rest of Australia, and falling; small business confidence is lower than in the rest of Australia, and falling; the number of job advertisements in Tasmanian newspapers is still trending downwards, whereas on the mainland it is rising; and the index of 'leading indicators' compiled by the National Institute of Economic and Industry Research, which is now positive for the national economy for the first time in more than two years, is in Tasmania's case still heading south.

## The importance of productivity

Many regions are 'doing it tough' in the face of the changes unleashed by globalization, new technologies, and low inflation, to name but three of the forces with which nearly all economies are contending in the 1990s.

In response to these and other forces, businesses - and especially large corporations - are increasingly focussing on their cost structures. When you can't get away with raising prices - because your competitors, your customers, or your regulators won't let you - or, indeed, when you can't get away without cutting prices, cutting costs becomes a matter of survival. New technologies and new management strategies are enabling businesses to cut costs by, among other things, making it possible to serve customers without an 'on-the-ground' presence in as many locations as were previously required, and by 'out-sourcing' to specialist providers many activities which were previously undertaken 'in-house'.

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<sup>11</sup> Australian Bureau of Statistics, *Projections of the Populations of Australia: States and Territories 1995-2001*, (catalogue no. 3222.0), 1996.

<sup>12</sup> Interview with Mike Lester, *The Mercury*, 7 August 1997, p. 19.

It is easy to see this as a major cause of the disappearance of large numbers of jobs in regional administrative and customer service facilities in Tasmania over the past few years.

However Tasmania is hardly unique in this respect. And there are other regions around Australia where the unemployment rate is below the national average, including (for example), the Murray-Goulburn region of Victoria, the Darling Downs and Far North regions of Queensland, the south-east of South Australia, the south-west of Western Australia and the Northern Territory.

What does stand out about Tasmania is its poor productivity performance. Tasmania has the second lowest *level* of productivity of any State (ahead only of Queensland); and the lowest *rate of growth* in productivity of any State (Chart 8). Although this was noted by the Nixon Inquiry<sup>13</sup>, it did not make as much of its importance as (in my view) it could and should have done. As Professor Paul Krugman puts it, ‘productivity isn’t everything, but in the long run it’s almost everything’<sup>14</sup>.

In the Australian context, there is a clear and unambiguous connection between the level of productivity and living standards, as proxied by per capita household income; and between the rate of growth of productivity and the rate of growth of per capita income (Chart 9). There is also a fairly clear connection between productivity growth and employment growth (Chart 10). It’s obvious that Tasmania fares poorly on all three counts.

Unfortunately the Nixon Inquiry did not explore in any detail the reasons for Tasmania’s poor productivity performance, other than attributing it to ‘poor growth in real output coupled with a steady increase in total hours worked’<sup>15</sup> - which, being true by definition, is hardly a penetrating insight.

Tasmania’s poor productivity performance largely reflects two other facts which Nixon did note - namely the relatively small proportion of State income devoted to investment, and Tasmania’s relatively poor educational outcomes. As the Mortimer Report to the Commonwealth Government on Business Programs noted,

“Investment is the major driver of economic growth. Investment in new equipment infuses new technology into the production process, raising the productivity of labour and creating wealth”<sup>16</sup> ;

and,

“Education and training lift the skill level of the workforce, raise its productivity and improve its adaptability to change”<sup>17</sup> .

Not surprisingly, there appears to be a clear connection between the relatively low proportion of Tasmania’s gross product devoted to investment, compared with other States, and its poor productivity performance (Chart 11); and between Tasmania’s poor education outcomes (as

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<sup>13</sup> Main Report, pp. 39-41; Background Report, pp. 57-58.

<sup>14</sup> Paul Krugman, *The Age of Diminished Expectations*, MIT Press (Cambridge, 1994), p. 13.

<sup>15</sup> Background Report, p. 57.

<sup>16</sup> Review of Business Programs, *Going for Growth* (‘The Mortimer Report’), Commonwealth of Australia (1997), p. 51.

<sup>17</sup> Review of Business Programs, p. 35.

indicated by the low retention rate to year 12, or by the relatively low educational attainments of the State's workforce) (Chart 12) and its productivity performance (Chart 13).

It follows from this that the key elements in any strategy aimed at arresting, and then reversing, Tasmania's economic decline must be focussed squarely on increasing the level of investment in Tasmania's physical and human capital. Tony Rundle obviously recognizes that: as he said in his *Directions Statement*, 'to create wealth in a modern economy you need well educated, well trained people' and, later on, 'the key to generating wealth is new investment'<sup>18</sup>.

## Empowering Tasmania to confront its problems

Many of the economic development strategies pursued by other countries or regions - of which the Nixon Report provides a useful summary - cannot be replicated by Tasmania for constitutional and other reasons. Tasmania cannot offer income or company tax concessions for new investment, exports, or R&D activities; it cannot amend foreign investment or immigration rules; it cannot establish 'free trade zones' (even if that were a good idea, which, in my view, it isn't); and it has only limited jurisdiction over labour market regulations.

However, Tasmania's debt burden represents a severe constraint on its ability to develop options which are within its constitutional purview.

As the Nixon Report points out<sup>19</sup>, based on Grants Commission estimates, Tasmania already imposes above-average levels of State taxation; yet Tasmanians receive in exchange below-average levels of State public services (Charts 14 and 15).

The difference - which amounted to \$123mn<sup>20</sup>, or nearly 20 cents in every dollar of State-sourced revenues, in 1995-96 - is absorbed by Tasmania's above-average expenditure on debt-servicing and public sector superannuation.

Thus, the State Government can improve the competitiveness of its State tax regime with those of other States, or undertake expenditures intended to improve the climate for investment in Tasmania, only by reducing spending in other areas where the level of service provision is already below average - or, as in the 1997-98 Budget, by allowing the budget deficit to increase.

That is why the ANZ, in its submission to the Nixon Inquiry, and the Nixon Report itself, have supported the complete privatization of the Hydro-Electric Corporation as a means of eliminating the State's debt and freeing Tasmania to pursue more effective and far-reaching strategies to arrest and reverse its economic decline.

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<sup>18</sup> Hon. Tony Rundle, MHA, Premier of Tasmania, *Directions Statement: Speech* (10 April 1997), p. 2.

<sup>19</sup> Background Report, pp. 81-83 and 91-92. It should be noted that, although the Grants Commission's procedures and estimates are open to criticism, they provide the basis for the higher-than-average levels of general revenue assistance which Tasmania receives from the Commonwealth Government. Tasmanians therefore pursue such criticisms at their peril.

<sup>20</sup> This figure is the sum of the additional amount of revenue raised by virtue of Tasmania's above-average State taxation revenue-raising effort, and the shortfall in expenditures attributable to Tasmania's below-average level of service provision in areas other than debt charges and superannuation.

Based on the earnings multiples on which Victorian electricity businesses have been sold, ANZ estimated that the HEC could be sold, after disaggregation, for between \$4.1bn and \$5.1bn<sup>21</sup>. This assumed that the HEC's earnings before depreciation, interest and tax would increase from \$352 mn in 1995-96 to around \$460 mn in 1999-2000.

Using the estimates set out in the Nixon Report for the HEC and Consolidated Fund debt and the HEC's unfunded superannuation entitlements<sup>22</sup> and assuming, as Nixon implicitly does, that \$300mn would be required to pay out the premium on debt carrying higher coupon rates than current market yields, sale of the HEC would yield a cash surplus of between \$350mn and \$1.35bn. This would in turn result in a net saving to the State's Budget of between \$65mn and \$125 mn per annum, after allowing for the CSOs currently provided for by the HEC and for an increase in payments by the HEC to the Budget under current arrangements to \$90 mn per annum by the end of the decade<sup>23</sup>. Note that this latter figure is \$20 mn higher than that assumed by Nixon.

ANZ's valuation compares with a range of \$3.19-\$3.75bn estimated in the Corrs-Moran Report to the Nixon Inquiry<sup>24</sup>. As Nixon notes<sup>25</sup>, sale of the HEC at the upper end of this range would produce annual savings to the Budget of around \$65mn per annum, or \$45mn if a more optimistic estimate of the HEC's contribution to the Budget is used instead.

The Corrs-Moran estimate is based on the revenues obtainable solely from within Tasmania: as the authors note, 'this value would be increased considerably if Basslink is built and Tasmanian generators can take advantage of peak prices on the mainland'<sup>26</sup>. Nixon himself also regarded the upper end of the Corrs-Moran valuation range as 'a conservative estimate which [he] believe[d] to have considerable upside potential'<sup>27</sup>.

ANZ's valuation implicitly assumed an interconnection with the Victorian electricity grid. Some idea of the value which Basslink could add to the Tasmanian electricity system can be obtained by noting that if (say) one-quarter of the HEC's current output could be sold into the Victorian grid at an average price of \$45 per MWh, compared with the current average price within Tasmania of \$30 per MWh<sup>28</sup>, the result would be additional earnings before interest and tax of around \$32 million for which a buyer might be prepared to add over \$400mn to the purchase price of the generating assets.

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<sup>21</sup> ANZ, *Submission to the Commonwealth-State Inquiry into the Tasmanian Economy* (February 1997), p. 32.

<sup>22</sup> ANZ's submission did not allow for the latter, which Nixon puts at \$240 mn (Main Report, p. 86). However, our estimate of the debt to be repaid upon privatization of the HEC was \$300mn higher than Nixon's.

<sup>23</sup> This is lower than \$130-205mn annual saving estimated in ANZ's submission to the Nixon Inquiry, for four reasons. First, our original estimate made no allowance for the cost of paying out the premium over face value of debt taken out during periods of higher interest rates. Second, Nixon's estimate of Consolidated Fund interest savings of \$160mn is \$60mn lower than that used in ANZ's submission. Third, ANZ's estimates also made no allowance for the removal of the consolidated fund deficit, which Nixon puts at \$10 mn. Finally, ANZ's original estimates, made in February also assumed then prevailing interest rates which have since fallen by around 1 pc point. The estimates reported above use Nixon's figures wherever different from those used in ANZ's submission, except (as noted in the text) for that of payments to the Budget by the HEC.

<sup>24</sup> Alan Moran & Associates and Corrs Chambers Westgarth, *The Tasmanian Electricity Industry*, Appendix 3 to *The Nixon Report*, p. 37.

<sup>25</sup> Main Report, p. 87.

<sup>26</sup> Moran and Corrs, p. 27.

<sup>27</sup> Main Report, p. 86.

<sup>28</sup> Moran and Corrs, p. 20.

Since the release of the Nixon Report, the Commonwealth Treasurer has moved to restrict the availability of income tax deductions to the purchasers of assets sold by 'tax exempt entities' such as State Governments. It has been suggested that this may reduce the sale value of assets such as electricity generating businesses by up to 20%.

I'm neither a lawyer nor an accountant. That said, my understanding is that what the Treasurer has done is to deny deductions for increased depreciation provisions arising where the purchaser 'writes up' the value of the assets acquired in the course of a privatization. There were some very substantial such write-ups in the Victorian electricity sales process. However, the written-down valuations of the HEC's assets are alternatively put at \$4.31bn, \$4.58bn and \$6.23bn<sup>29</sup> - which means that a purchaser would not need to 'write up' the value of the HEC's assets in order to take them onto its books at something consistent with the prices suggested in ANZ's estimates.

In other words, whatever the possible implications of the Treasurer's announcements for other privatizations, it is not clear that they are as damaging to the privatization value of the HEC as has been suggested.

It is possible to put some 'break-even' parameters around the possible sale of the HEC:

- assuming dividends and tax equivalent payments foregone of \$90mn rather than \$70mn, sale of the HEC would produce net annual savings to the Budget as long as the sale price exceeds around \$3.27bn.
- alternatively, assuming the HEC could be sold at the upper end of the Corrs-Moran range, one would need to be confident that the HEC could make dividend and tax equivalent payments to the State Budget of at least \$135mn per annum before concluding that its sale would leave the Budget worse off.
- if the HEC could be sold at the mid-point of the range of values previously suggested by ANZ, it would make financial sense to do so unless its annual payments to the Budget could be expected to exceed \$186mn - in which case, of course, the sale value of the HEC might well be considerably higher than the range suggested by ANZ.

Incidentally, I do not wish to criticize the State Government for seeking at this stage to sell only the transmission, distribution and retail businesses of the HEC. Indeed, it would in my view be quite wrong for Tasmania to sell the HEC's generation businesses before Basslink is in operation, or at the very least before it is clear that Basslink will be in operation by the time ownership of the generation business were to change hands. However I think Nixon is correct in asserting that 'the part-privatization of the HEC ... is an insufficient remedy for the State's problems'<sup>30</sup>.

I accept that, for many Tasmanians, the financial arguments for and against the sale of the HEC are not the only issue. Many Tasmanians worked on the construction of the HEC's roads, dams, pipelines and canals: they and their descendants feel an attachment to them which transcends financial considerations. For others, continued public ownership of electricity assets is a matter of personal or political belief.

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<sup>29</sup> Moran and Corrs, p. 37, n. 7, based on estimates in the HEC's 1995-96 Annual Report.

<sup>30</sup> Main Report, p. 84.



To Tasmanians who hold those or similar views, my argument is that the privatization about the HEC is *not* about reducing the role of government in Tasmania: it is about *changing* the role of government so that it can deal effectively with the problems which now confront the people of the State.

Putting to one side the debates of the 1970s and 1980s about the Pedder and Gordon-below-Franklin schemes, let us accept that the HEC has served the people of Tasmania magnificently. Let us also acknowledge that it almost certainly could not have done so other than in public ownership.

But let us also acknowledge that the role of the HEC has now changed.

Indeed, the very fact that the HEC is now repaying its debt, and making payments to the State government, highlights the fact that the reasons why the HEC was originally publicly-owned have changed. There are no more grand schemes to be built. While the HEC is developing some dynamic new businesses, especially through HECEC, neither those activities nor its core business of generating and selling electricity throughout Tasmania now require public ownership to be performed satisfactorily.

The question which the people of Tasmania have to ask is, is the continued investment of at least \$3¼bn, and possibly more than \$5bn, in something which could now be performed no less satisfactorily by the private sector, the best use of their money, especially when there are so many other things which need to be done by government in this State?

It is not just the so-called ‘economic rationalists’ who are asking this sort of question. Michael Egan, the Treasurer in the NSW State Labor Government, is no card-carrying ‘economic rationalist’: earlier this year he brought down the first unashamedly ‘tax and spend’ budget in Australia since those of the first Cain Government in Victoria in the early 1980s. Yet Michael Egan also says that continued public ownership of public utilities ‘does not make sense if it actually defeats our purpose of providing better and more fairly shared public services and providing new social and economic infrastructure that meets contemporary needs’<sup>31</sup>.

How much more compelling is this view in the Tasmanian context, where ‘contemporary needs’ are so much greater?

Those who believe - as I do - that Tasmania’s parlous economic and social situation demands an active, positive role for the State Government must confront the reality that such a role is virtually impossible whilst so much of the State’s capital is tied up in the continued ownership of the HEC. Privatization of the HEC is not about ideology: it’s about empowering the Tasmanian Government to deal with Tasmania’s problems.

## Policy options for a debt-free Tasmania

The Nixon Report proposes that the savings to the Budget accruing from the sale of the HEC be directed largely to reducing State taxes. Initially, he proposes that payroll tax be reduced to 5%; the current land tax scale be replaced by a flat 1% tax with a ‘shade-in’ for properties currently taxed at less than this rate; and that the statutory levy on retail electricity sales be

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<sup>31</sup> NSW Labor Party discussion paper, reported in *The Australian Financial Review*, 26 June 1997, p. 16.

removed, at a total annual cost of \$45mn, with \$20mn available for *Directions Statement* initiatives, additional infrastructure proposals and the establishment of a Tasmanian Pooled Development Fund<sup>32</sup>. Further tax reductions costing \$63mn per annum would be contingent on higher proceeds from the sale of the HEC than estimated by Corrs-Moran.

I agree with the priority given to reductions in payroll tax (assuming that payroll tax continues to be the largest single revenue source for State governments): as a debt-free State, Tasmania should aim to have the lowest payroll tax rate in Australia, which could be achieved with a rate of (say) 4 or 4½%. However, I am less convinced that reductions in land tax on residential (as opposed to business) properties, or in the levy on retail electricity sales, should be given the same priority. Abolishing taxes on financial transactions might give Tasmania a better chance of competing with South Australia to attract the ‘back-office’ processing functions of financial services firms.

I would also be less dismissive than Nixon was of the case for additional spending on education. Nixon notes that, according to Grants Commission estimates, Tasmania ‘over-spent’ on education by \$23mn in 1995-96, from which he concludes that ‘concerns in relation to education in Tasmania are not due to a lack in overall funds’<sup>33</sup>.

Closer inspection of the Grants Commission data shows that more than 70% of this ‘over-spending’ in 1995-96 is attributable to TAFE, transport of rural school-children and pre-school education, rather than to primary education (where the CGC data suggest ‘under-spending’ of \$4.4mn in 1995-96) or secondary education.

Moreover, looking at the CGC data over a five-year period does not suggest a consistent pattern of ‘over-spending’ on education (as it does, for example, for Victoria prior to 1994-95). Indeed, on average over the five years to 1995-96, Tasmania has ‘over-spent’ (by CGC benchmarks) on education by just 0.4% (or \$472,000) per annum; and that, within the education function, Tasmania has underspent on school education by an average of 2.6%, or \$9mn per annum.

I believe that a good case can be made for Tasmania to spend more than the Grants Commission benchmark on education in order to overcome the State’s historically poor educational outcomes. That is why ANZ’s submission to the Nixon Inquiry advocated the employment of additional teachers, the provision of one new personal computer for every five government school students (a suggestion which I’m delighted was taken up in the Premier’s *Directions Statement*) and the establishment of a scholarship scheme to pay the HECS charges for 1,000 Tasmanian tertiary students<sup>34</sup>.

However, the State Government also needs to pay more attention to what students are actually doing in schools. ANZ’s submission to the Inquiry noted that, in 1995, only 43.5% of Tasmanian year 12 students were taking English, maths and science - 7.5 percentage points below the national average - whereas the proportion of Tasmanian year 12 students studying ‘society and the environment’ was 5.6 percentage points above the national average<sup>35</sup> (Chart

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<sup>32</sup> Main Report, pp. 89-90 and 91-93.

<sup>33</sup> Main Report, pp. 107-108.

<sup>34</sup> ANZ, *Submission to the Commonwealth-State Inquiry into the Tasmanian Economy* (February 1997), p. 33.

<sup>35</sup> ANZ, p. 21.

18). In that context, the *Directions Statement's* emphasis on accountability for learning outcomes is a welcome development.

Considering the nearly 30 pages which the Background Report devotes to its examination of industry development programs in North America, Europe and Asia<sup>36</sup>, it is perhaps surprising that the Main Report contains so few concrete recommendations in this area, other than those pertaining to the structure and governance of TDR<sup>37</sup>. There can be little doubt that, as Nixon observes, State Government assistance to industry is poorly co-ordinated, overly bureaucratic and too often panders to local parochial interests<sup>38</sup>.

However, Tasmania needs to do more than get the organization chart right if it is to implement an effective State-level industry policy. Tasmania needs to begin with a clear vision of the industries which have the greatest scope for growth given the State's competitive advantages.

ANZ's submission identified eight such industries - horticulture and viticulture; fishing and aquaculture; food processing; wood and paper products; manufacturing activities employing advanced technology and producing for specialized markets where transport costs are not a major impediment; marine engineering, technology and research; tourism; and telecommunications services<sup>39</sup>. At least five of these have since been picked up by the Government's *Directions Statement*. One could perhaps add the creative arts and financial services 'back office' processing functions to this list.

The point of identifying industries such as these is not that they should necessarily receive targeted tax concessions or other financial incentives. Tasmania has little prospect of winning 'bidding wars' with other, larger States in order to attract investment; and provided Tasmania succeeds in establishing itself as having generally low State taxes on business activities, further specific concessions will probably not have much impact on investment decisions.

Rather, Tasmanian industry policy should be directed at identifying and removing obstacles to increased investment and employment in these industries; at assisting businesses, especially small firms, in these industries with activities such as research and development, marketing and export development which may be too costly or risky for individual firms or where there are likely to be broader 'spin-offs' for the industry as a whole; at providing infrastructure which is likely to assist the growth of these industries; and at scouring the nation and beyond to identify individuals and firms which are contemplating investments in these industries, so that the competitive strengths of Tasmania can be drawn to their attention.

There may even be merit in Tasmania appointing an 'Investment Advocate', as proposed to the Commonwealth Government by the Mortimer Report<sup>40</sup>, or, alternatively, explicitly assigning such a role to TDR.

Some of these options may well require additional expenditures. The point is that, free of its current heavy burden of State debt, Tasmania could afford to contemplate these and other possibilities.

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<sup>36</sup> Background Report, pp. 316-345.

<sup>37</sup> Main Report, pp. 116-124.

<sup>38</sup> Main Report, p. 119.

<sup>39</sup> ANZ, p. 36.

<sup>40</sup> *Going for Growth* ('The Mortimer Report'), pp. 86-87.

## ‘Governance’ issues

The Nixon Report places a good deal of emphasis on what Nixon refers to as ‘governance issues’. It is impossible to deny that Tasmania has an extraordinarily high number of politicians for its population; while Nixon (like others before him) make a good case that the structure of Tasmania’s Parliament, and in particular the lack of accountability of the Legislative Council to the people of the State as a whole, has impeded effective decision-making.

Similarly, there is a good case for reducing the number of Ministers and departments, although I note in passing that Nixon proposes eliminating three ministerial positions, one more than recommended to him by the Monash University Graduate School of Management<sup>41</sup>. The proposed Ministers for Human Services and State Development and Infrastructure will be attending a lot of Commonwealth-State Ministerial meetings!

I want to make two general observations on Nixon’s general approach to governance issues and then to comment on two specific recommendations.

The first general observation is that the main thrust of Nixon’s approach is to enhance the ability, as he puts it, ‘for its leaders to lead’<sup>42</sup>: that is, to reduce the scope for Parliament - and for various quasi-judicial tribunals - to frustrate the decision-making powers of the elected government.

I don’t dispute for one minute that some shift in that direction is necessary. However Tasmanians should also be wary of the dangers of untrammelled executive power, which have been amply demonstrated in (for example) Queensland, or in New Zealand under Muldoon. The ability of Nixon’s proposed Public Bodies and Accounts Committee to act as an effective check on the misuse of executive power is not beyond doubt, and I am not sure that the Commonwealth’s Joint Committee on Public Accounts is a completely appropriate role model.

The important thing is to strike an appropriate balance, rather than to swing from one extreme to the other.

The second general observation is that it is wrong to assume that diminishing the role of independents or minority parties in the Parliament will necessarily result in better government. After all, much of Tasmania’s general government debt - which is one of the State’s biggest millstones - was incurred by the Gray Government (a government which, in my view, was second only to the Cain Government in Victoria for fiscal incompetence during the 1980s) while it had a clear majority in the House of Assembly<sup>43</sup>.

More broadly, as ANZ observed in its submission to the Nixon Inquiry, Tasmania ought not ‘discard its consciousness of environmental values - indeed, that is increasingly part of what

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<sup>41</sup> Compare Main Report, pp. 59-63, and Monash University Graduate School of Government, *Options for the Governance of Tasmania*, Appendix 2 to the Nixon Report, pp. 8-9.

<sup>42</sup> Main Report, p. xi.

<sup>43</sup> As the Background Report implicitly acknowledges (p. 74).

marks Tasmania out as different from other places'<sup>44</sup> and has become an important source of some of Tasmania's potential competitive strengths.

Again, the important thing is to strike an appropriate balance.

There are two 'governance' recommendations which I want to address specifically. The first relates to the structure of local government. There's clearly no justification for Tasmania to have more councils for its population than any State except Western Australia.

However, Nixon's recommendation that the number of councils on the Tasmanian mainland be reduced from 27 to eight<sup>45</sup> would result in the number of councils per 100,000 population falling from 6.11 to 1.70, which would be the lowest of any State. Nixon has not made a case as to why that should be regarded as 'best practice'. I would have thought that the West Coast communities have almost as good a case as the Bass Strait islands for maintaining a separate identity. Much the same can be said for Circular Head, and perhaps also for the (Northern and Southern) Midlands. 11 councils on the Tasmanian mainland would yield 2.34 councils per 100,000 population, lower than any State except Victoria, but more in keeping with 'natural' regional boundaries within Tasmania.

The second specific recommendation to which I wish to refer is the suggestion that it be 'illegal [except in specified circumstances] for budgeted expenditures to exceed budgeted revenues'<sup>46</sup>. There would be an understandable need, were the HEC to be privatized, to erect adequate safeguards to prevent the State Government from again incurring debts on the scale which have made the sale of the HEC necessary. However Nixon's suggestion is, I think, too restrictive, especially as regards the possibility of funding future capital expenditures by borrowing under certain circumstances.

A better approach, in my view, would be to require that the State adopt accrual accounting in the presentation of its financial statements - which, after all, is what governments expect of private sector entities - and then to stipulate in legislation that the Parliament shall not, except by a majority of (say) two-thirds of the Parliament, approve a budget which provides for an *operating* budget deficit. This would provide an effective safeguard against deficit-financing of recurrent expenditure, except where both major parties agreed that it was necessary given the circumstances. I doubt that would happen very often.

## Conclusion

Perhaps inevitably, given that this is meant to be a 'critical appraisal' of the Nixon Report, I have spent more time highlighting points of difference with it than areas of agreement. In concluding, therefore, I want to correct this imbalance. The Nixon Report provides a clear and, I think, essentially accurate picture of Tasmania's economic problems. He's taken the trouble to capture, and present, the mood of the people of Tasmania, and in so doing, he shows quite convincingly that there is a willingness on the part of Tasmanians to make a break with the past. And he's set out a strategy which, without having to endorse every single detail, does indicate how that break can be made.

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<sup>44</sup> ANZ, p. 37.

<sup>45</sup> Main Report, p. 77.

<sup>46</sup> Main report, pp. 85-86.

At the risk of sounding like a Kennedy, I think that the time has come for Tasmanians to move on from looking at things as they are, and asking why; and instead to start visualizing things as they could be, and asking why not. Tasmanians may eventually look back on Tony Rundle's *Directions Statement*, and Peter Nixon's Report, as the time when they did. As someone who cares very much about the future of this State, I very much hope that they can.