

## What South Australia needs to do

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For all but one of the last forty months, journalists haven't need to say, when reporting on the latest employment figures, that 'South Australia has the highest unemployment rate of any mainland state' – the qualifier that journalists (and others) all too often use when they know that Tasmania has the highest, lowest, shortest or longest whatever, but think that Tasmania's island status somehow disqualifies it from consideration.

Instead, South Australia's unemployment rate has been the highest of any State or Territory, mainland or not, since November 2014 – except for the past four months when it's shared that dubious honour with Queensland and Western Australia.

South Australia's persistently above-average unemployment rate is just one consequence of its persistently below-par economic performance, something which goes back decades.

Over the past 25 years, South Australia's economy has grown at an average rate of 2.3% per annum – a full percentage point per annum less than the national average. That's partly the result of the slower growth rate of South Australia's population – although that is, in turn, partly a consequence of South Australia's poor economic performance, as well as a cause of it.

But even in per capita terms, South Australia's economy has grown at an average annual rate of 1.6%, 0.3 pc points per annum below the national average.

At first glance, that might not seem like a very large difference.

But if South Australia *had* matched the national average per capita economic growth rate over the past twenty-five years, South Australia's economy would have been worth an additional \$6,000 for every South Australian in the 2016-17 financial year.

Instead, South Australia's per capita gross state product has slipped from \$2,000 or 9% below the national average 25 years ago, to almost \$12,000 or 13½% below the national average in 2016-17.

And while South Australian households are, to some extent, shielded from the effects of this persistently poor economic performance by the national income tax and social security systems – and by the way in which the revenue from the GST is carved up among state and territory governments – the average South Australian's disposable income is now more than \$4,400 below the national average, a gap that's four times larger than it was in the early 1990s.

So why is South Australia's per capita gross state product nearly 14% below the national average, and lower than that of any other state or territory except Tasmania?

There are three reasons.

First, only 47.7% of South Australians are working (using the average for the 2016-17 financial year, the latest for which we have data on gross state product). That's a lower proportion than for any other state or territory except Tasmania, and 1.9 percentage points below the national average.

This below-average rate of participation in employment is only partly due to South Australia's above-average unemployment rate. It also reflects the fact that 17.7% of South Australia's population is aged 65 or over – 2.5 percentage points more than the national average. South Australia's population is older, and ageing more rapidly, than that of any other state or territory except (again) Tasmania. And this means that the proportion of South Australians who are working is likely to decline more rapidly than in the rest of Australia over the years and decades ahead. All else being equal, that means that the gap between South Australia's economic performance (as measured by per capita gross state product) and that of the rest of Australia (except Tasmania) will continue to widen.

Second, those South Australians who do have jobs work an average of 55 minutes per week less than the national average. That might not sound like very much: but over the course of an entire year, it's the equivalent of a week and a half's less work than that done by other Australians. One of the main reasons for it is that 36.5% of South Australian jobs are part-time – 5 percentage points more than across Australia as a whole.

Third, for each hour that employed South Australians do work, they produce \$7.17 less by way of dollar value of goods and services the average for all Australians. Labour productivity in South Australia is actually marginally higher than in Victoria or Queensland, and higher again than in Tasmania, but it's 8½% below the national average.

One of the main reasons for South Australia's below-average labour productivity is that fewer than 8% of employed South Australians work in high-productivity industries – that is, industries where, across Australia as a whole, labour productivity is above the average for all industries. Those industries include mining; financial services; utilities; rental, hiring and real estate services; and information, media and telecommunications services. By contrast, across the country as a whole, more than 12% of all employed Australians work in industries with above-average levels of labour productivity.

At the other end of the spectrum, 55% of working South Australians are employed in industries where productivity is less than 60% of the national average for all industries – 11 percentage points more than the corresponding figure for Australia as a whole.

One of those 'low-productivity industries' is manufacturing. Almost 10% of all employed South Australians work in manufacturing, compared with 7% of the national workforce. But labour productivity in Australian manufacturing is 28% below the average for all industries. And labour productivity in South Australian manufacturing is 15% below the Australia-wide average for manufacturing.

So it's hard to understand why South Australians attach so much importance to slowing, halting or reversing the long-term decline in the share of employment or economic activity represented by manufacturing.

It would be far more effective in narrowing the gap in economic performance between South Australia and the rest of Australia if, instead of putting so many eggs in the manufacturing basket, efforts were focussed instead in boosting industries with intrinsically high levels of productivity (those five mentioned earlier), or industries where South Australian labour productivity is higher than the national average (such as agriculture, wholesale trade, health services, and education).