

Tasmania's post-Covid economy: What's out there?

**Address to the first session of the
Multicultural Economic Participation Forum**

by

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Good morning; ni-hao; ohayō gozaimasu; buổi sáng tốt lành; selamat pagi; kālai vanakkam; καλημέρασς; доброе утро; labas rytas; jó reggelt kívánok; buongiorno, buenos días; guten Morgen et bonjour ...

Thank you Dr Jade Li for inviting me to talk to this Multicultural Economic Participation Forum, and for your kind introduction.

As Jade mentioned, we're meeting today on the traditional lands of the Muwinina people, so let me also acknowledge the *palawa* people of *lutruwita*, and pay my respects to their elders, past, present and emerging.

It's important that we have a forum like this here in Tasmania because, although Australia is one of the most multi-cultural countries in the world – and one of, if not the most, successful countries at building a peaceful, liberal (in the European sense of that word) and democratic society anywhere in the world – Tasmania is, by quite a wide margin, the *least* multi-cultural part of Australia.'

According to the most recent (2016) [Census](#) of the Australian population, only 19.3% of Tasmanians were born overseas, compared with 33.3% of all Australians; and only 14.5% of Tasmanians are children of parents who were both born overseas, compared with 34.4% of all Australians. Only 6.5% of Tasmanians speak a language other than English at home, compared to 22.2% of all Australians.

These of course aren't the only ways in which we Tasmanians differ significantly from other Australians – ways which make it harder for us (and in particular for some of us) to participate as fully in a range of economic activities as other Australians.

In particular, we're less well-educated than other Australians. Fewer than 24% of us have a university degree or diploma, or something equivalent – compared with almost 31% of all Australians.

Conversely, more than 28% of us have no education beyond Year 10 of high school, whereas fewer than 20% of all Australians have never progressed beyond that point in their education.

We're [older](#) than other Australians – our median age is 39.9 (that is, half of us are younger than that, and half of us older), three years more than the national average. 20% of us are aged 65 or over (that is, are above the traditional retirement age), compared with just under 16% of all Australians.

Partly for those two reasons (ie, that we're less well educated, and that more of us are past retirement age), only 58% of us were in [paid employment](#) (before Covid-19 struck), compared with 63% of all Australians of working age (that is, 15 or older).

And partly for those two reasons, and for others as well, 32% of us rely on government pensions and benefits for our main source of income, 10 percentage points above the national average.

For this reason, and because those of us who do work earn [wages or salaries](#) which are on average more than 16% below the national average, the average Tasmanian [household disposable income](#) (in 2017-18) of \$922 per week was 13% below the national average of \$1,022 per week (after allowing for differences in average household size).

And the average Tasmanian household's net worth (the difference between what it owns, by way of physical or 'real' and financial assets, and what it owes by way of mortgage or other debt) is \$313,000 or 31% below the national average.

There are of course many things about living in Tasmania which are difficult or impossible to quantify in terms of dollars, but which for many of us offset some of these measurable disadvantages – although that certainly doesn't hold true for all of us. 32.2% of Tasmanians are in [the most disadvantaged 'quintile'](#) (one-fifth) of the Australian population, a higher proportion than in any other state or territory; while only 8.4% of Tasmanians are in the least disadvantaged 'quintile' of the national population, a substantially lower proportion than in any other state or territory.

After a rather rocky start (which was partly due to 'bad luck'), Tasmania has done well in containing the spread of [Covid-19](#) – although the other 'small' states (Queensland, Western Australia and South Australia) and the two territories have done better.

Our economy has taken a big hit from the measures that our state and the federal governments have deemed necessary to minimize the risks to the health and lives of our citizens posed by the virus. [State final demand](#), which is the broadest measure we have of economic activity in each three-month period at the state or territory level, shrank by almost 7½% in the June quarter – less than in NSW or Victoria (in each of which it fell by about 8½%), but rather more than the 5¾-6% declines recorded in the other three states, and more again than the declines experienced in the two territories.

There are a number of particular risks facing the Tasmanian economy as we try to chart a path out of the economic 'hole' into which we've fallen over the past six months.

First, we have become very *dependent* on tourism as a driver of economic activity and employment over the past decade. According to [Tourism Research Australia](#), 11% of our gross state product, and 17½% of our employment, is directly or indirectly attributable to tourism – compared with 6½% and 8%, respectively, for Australia as a whole.

That's been of considerable benefit over the past five years when the number of both interstate and international visitors to Tasmania has been growing rapidly. It's been quite a boon to the large businesses which operate hotel chains across Tasmania, the medium-sized businesses which operate tourist attractions or provide transport to visitors to our state, to a large number of restaurants, retailers, artisans and crafts people who have been able to cater to the appetites of visitors for our food and beverages, and for the fruits of our creative talents, and to the very large number of individual Tasmanians who have been able to supplement their incomes by renting out rooms or properties to short-stay visitors, often by more than they could by renting to locals.

And of course it has created jobs: [tourism-related employment](#) grew by 12,500, or more than 40%, over the five years to 2018-19.

But many of these jobs are low-paid; part-time; highly seasonal; and offer little prospect for promotion or career development.

And of course this substantial increase in the proportion of total employment which depends directly or indirectly on tourism (from less than 12% in 2011-12 to almost 17½% in 2018-19) has turned out to be rather less of a blessing when confronted with a situation in which the restrictions on the movement and gathering of people required to minimize the risks to people's health and lives have a larger adverse impact on tourism, and for a longer period, than on any other sector of the economy.

The important point here however is not so much that tourism *has* suffered more from these restrictions than any other sector (even though that's undeniable); rather it is that this impact is likely to continue for much longer after restrictions are eased than it will for any other sector, and that there is a significant chance that tourism will *never* return to the heights which it had scaled prior to the onset of the pandemic.

In other words, perhaps we need to ask ourselves a question which has become almost unspeakable in recent years: have we in Tasmania allowed ourselves to become *too dependent* on tourism as a driver of economic and employment growth? Let me hasten to assure Luke Martin (among others) that I am *not* saying, at least not for now, that the answer to that question is unequivocally yes: just that we might need to be asking it.

A second potential area of risk stems from the fact that Tasmania's economy is also much more dependent on [agriculture, forestry and fishing](#) than that of any other state or territory. It accounts for 9.5% of our gross state product and 6.5% of total employment – well above the corresponding national averages of 2.3% and 2.8%, respectively.

Let me hasten to add that this is in no sense a Bad Thing. We are *good* at agriculture and fishing in Tasmania: we produce some of the world's best meat, fruit, wine, seafood, wool and other primary products right here. We sell it to some of the world's most discerning customers at premium prices, that allow our producers to overcome the cost disadvantages inherent in producing at a small scale, in a location remote from most of the world's major markets. Labour productivity in Tasmanian agriculture is almost double the national average: agriculture, forestry and fishing is one of only five industries (out of 19) in which labour productivity in Tasmania is more than the national average at all (let alone nearly double it).

But our primary industries face an increasing risk, through absolutely no fault of their own, as a result of their great success in penetrating the Chinese market in particular.

As everyone in this room will be aware, the political relationship between Australia and China, which seemed to be going so well during Chinese President Xi Jinping's visit to Australia (and Tasmania) in November 2014, has all of a sudden turned pear-shaped.

I'm not going to go into the reasons for that here (although anyone interested in my views on that subject can read them [on my website](#) or in this article on [The Conversation](#) website).

But what is important in this context is that, all of a sudden, our prized agricultural and seafood exports to China are at risk from Chinese retaliation against anything that the Australian Government says or does which the Chinese Communist Party wishes to characterize as having "offended the feelings of the Chinese people" (to use their phrase).

China has no real alternative, at least not in the next few years, to Western Australia's iron ore or Queensland's metallurgical (steel-making) coal. But, irrespective of whether we think our meat, fruit, wine, seafood, wool and other products are the best in the world, China can pretty readily obtain acceptable substitutes (not that their people really have any say in it anyway) from plenty of other places in the world, including from those whose governments are more than willing to abide by whatever conditions the Chinese Government wants to impose on their access to China's markets.

None of which is to say that we should, of our own volition, simply walk away from the Chinese market. But I think it does mean that we should be trying harder to sell our prime products in other markets as well, and not to have so many of our eggs in the one basket (not that we actually export a lot of eggs, but you know what I mean).

Third, we in Tasmania are very dependent on *government*. I mentioned earlier that a much higher proportion of our population is dependent on government pensions or benefits than that of any other state or territory. 21½% of all Tasmanians in employment [work for the public sector](#), more than in any other state (though not the territories), and 5½ percentage points more than the national average.

Again, I'm not saying that's necessarily a Bad Thing: apart from anything else, the [need](#) for income support and public services is objectively greater in Tasmania than in any other jurisdiction except (in some instances) the Northern Territory, largely because of the demographic and economic differences between Tasmania and the rest of Australia that I mentioned at the beginning of this talk.

But it does represent a particular risk in current circumstances, and (I would argue) in the post-Covid world that awaits us, because of a fourth risk, that we (and in particular our state government) are especially dependent on the *Federal government*.

61% of the Tasmanian Government's 'operating revenue' [comes from the Federal Government](#), in the form of our share of revenue from the GST, or as 'specific purpose' grants. And, importantly in this context, what the Tasmanian Government gets from Canberra each year is completely beyond its influence, let alone control.

The revenue which the Tasmanian Government gets from the GST each year depends on the size of the GST 'pool' – the amount of revenue collected from across Australia from the GST – and the way in which that 'pool' is divided up among the states and territories, which is determined by the Commonwealth Grants Commission.

The size of the GST pool depends almost entirely on the level of consumer spending on those items which are subject to the GST – which in turn depends on fluctuations from year to year in the overall level of household spending, and both longer-term trends and short-term fluctuations in the proportion of household spending on items which are either subject to, or exempt from, the GST.

What happens to consumer spending in Tasmania doesn't matter a hill of beans (as Humphrey Bogart's Rick Blaine said to Ingrid Bergman's Ilsa Lund in [Casablanca](#)) as far as Tasmania's share of GST revenue is concerned, since Tasmania accounts for less than 2% of total consumer spending. It's what happens to consumer spending in New South Wales and Victoria (which between them account for 60% of total consumer spending) that matters.

By way of illustration, the Federal Government's forecast of (cash) GST receipts in the current (2020-21) financial year has been progressively revised down from \$73.7bn in the [2018-19 Budget](#), to \$70.2bn in the [2019-20 Budget](#), to \$67.7bn in the [2019-20 Mid-Year Economic and Fiscal Outlook \(MYEFO\)](#), and then to \$60.1bn in the [July 2020 Economic and Fiscal Update](#) – a cumulative downward revision of \$13.7bn or 18.6% in 26 months. Abstracting from changes in Tasmania's share of GST revenue, this equates to a loss of revenue of \$504mn – or 8% of the total revenue which the Tasmanian Government had forecast for 2020-21 in its 2018-19 Budget. While downward revisions to total GST revenue collections also adversely affect the budgets of other states, because they are less reliant on the GST than Tasmania, the impact on them is smaller.

And given the unprecedented 12.1% decline in (real) total household consumption spending in the June quarter (reported in this past Wednesday's [June quarter national accounts](#)), the forecast for total GST revenue in 2020-21 is bound to be revised down even further, when the delayed 2020-21 Federal Budget is presented on 6th October.

Over the longer term, as the Commonwealth Parliamentary Budget Office has [recently pointed out](#), GST revenues are likely to continue to decline as a share of national GDP (which will have a proportionately bigger impact on Tasmania's budget than that of other states), as a result of demographic factors (older people, who are becoming a larger share of the population, devote a larger proportion of their spending to items which are exempt from the GST than younger people); relative price changes (the prices of items which are subject to GST have either fallen, or risen by less than the prices of items which are exempt from GST); and other factors which have reduced taxable household spending as a proportion of GDP.

And as we also know, Tasmania's share of the GST – which, formally, is determined by the recommendations of the Commonwealth Grants Commission in its [annual reviews](#) of the revenue-sharing 'relativities' – the framework within which the Grants Commission makes its recommendations is determined by the Federal Treasurer, who is in turn subject to influence by the governments of other states who have far more seats in the House of Representatives, and hence on the thinking of the Federal Treasurer and his colleagues, than Tasmania can ever hope to exert.

So the Tasmanian Government's capacity to shape its own Budget, and through that the contours of Tasmania's economic future, is more circumscribed by forces which it cannot control or influence than that of any other jurisdiction except the Northern Territory.

Fifth, Tasmania's economic performance has come to depend more on *immigration* – from both the mainland and from overseas – than it has done for a very long period of time.

Again, this is *not* a Bad Thing, in and of itself. The fact that since 2015 Tasmania has no longer been a 'net exporter' of people (and especially of people in the prime of their working and family-forming lives) to the mainland, as we had been in 23 of the 33 preceding years, is a Good Thing, as is the fact that between mid-2017 and the end of 2019 Tasmania attracted more than 1% of the national migration intake for the first time since 1985. Both trends represent a 'vote of confidence' on the part of people living on the mainland, or in other countries, in the long-term future of Tasmania. Likewise, the decline in the number of Tasmanians choosing to move permanently to the mainland is an expression of greater confidence in the future of this state.

And this significant increase in migration to Tasmania – which has seen our [population growth rate](#) pick up from less than 0.3% per annum (by a wide margin the slowest in Australia) in 2014, to more than 1% per annum (still below the national average, but faster than Western Australia, South Australia and the Northern Territory) in 2018 and 2019, accounted for fully one-third of the acceleration in Tasmania's [economic growth rate](#) from an average of 1.2% per annum over the four years to 2016-17, to 3.5% over the two years to 2018-19.

But from a different perspective, this increased reliance on immigration, whether from the mainland or from overseas, as a driver of population and hence economic growth, has magnified Tasmania's exposure to factors totally beyond our control. 79% of the growth in Tasmania's population during 2019 came from beyond our island's shores (28 percentage points from the mainland, 51 percentage points from overseas): by contrast, only 60% of Australia's total population growth came from net immigration.

As a result of the closure of Tasmania's borders, the level of interstate migration to Tasmania will be much less in the current financial year than it was in either of the two preceding years. (Of course, so too will be the level of emigration from Tasmania to the mainland, but since that has been smaller than the level of immigration from the mainland, the net effect of the closure of our borders on the level of net immigration has been negative).

It would be nice to think that when our borders are re-opened – hopefully in line with the Premier's previous indication on 1st December – the flow of people wanting to move to Tasmania will pick up again, to a level no less than it was when the curtains came down in March. And maybe that will be the case – at this stage we cannot know.'

But we do know that Australia's borders are likely to remain closed at least until the middle of next year – which in turn means that there will be no overseas migration to Tasmania (which, remember, accounted for almost two-thirds of our total migration intake in 2019) until then. And it will probably be the case that, when our international borders are re-opened, to migrants as well as tourists, that the Federal Government won't allow the annual migration intake to return to its pre-pandemic levels, because of the large number of Australians who are likely still to be unemployed as at the middle of last year, and for some time thereafter.

So one of the key drivers of Tasmania's better-than-average economic performance in the period immediately before the onset of the pandemic isn't going to be there, at least in the immediate post-Covid period, and possibly not for a considerable period beyond that.

More generally, history tells us that the fact that Tasmania's economy was, on most indicators, [doing better than the rest of Australia](#)'s leading into the Covid-induced recession, is no guarantee that we will come out of that recession sooner, or faster, than the rest of Australia.

In fact Tasmania went into *each* of the last three recessions – those of the early 1980s, the early 1990s, and the one following the global financial crisis of 2008-09 (which for Tasmania was a recession, even though by the most commonly-used definition Australia didn't have one then) – with employment growing at a faster rate than the national average, and indeed into the global financial crisis with an unemployment rate below the national average. Yet in each of those three recessions, unemployment in Tasmania rose by more, to a higher level, and took longer to return to its pre-recession level, than it did for Australia as a whole.

Likewise employment in Tasmania fell by more and for longer, and took longer to return to its pre-recession level, than it did for Australia as a whole. Indeed, in the aftermath of the global financial crisis, following which employment in Tasmania fell by 5% over the ensuing five years (cf. a decline of just 0.1% in Australia-wide employment), it took seven years and eight months for the level of employment in Tasmania to return to its pre-GFC peak, something which the rest of Australia managed to achieve in less than six months. Indeed, nearly 12 years on from the onset of the global financial crisis, the level of *full-time* employment *still* hasn't returned to where it was at the pre-GFC peak in September 2008.

While some of this relatively poor economic performance on Tasmania's part during and after recessions reflects policy mistakes by the Tasmanian governments of the time – either at the time (in the case of the early 1980s recession and, arguably, the post-GFC recession), or by earlier governments which their successors had to 'clean up' (which was the case after the recession of the early 1990s), Tasmania's greater difficulties in emerging from recessions are for the most part an inevitable consequence of having a smaller and more narrowly-based economy than that of most other states.

So what options may be open to the Tasmanian Government, the Tasmanian business community and more broadly the people of Tasmania to build a sustainable recovery from the Covid recession?

Let me acknowledge up front that I make no pretence to have all the answers. I want to think that the [Premier's Economic and Social Recovery Advisory Council](#), which includes some of Tasmania's finest thinkers from across a broad spectrum of the Tasmanian community, will come up with a lot more solutions than I can.

But nonetheless I want to suggest a few things that I believe could be helpful: some of which are not new at all, as people who know me well will immediately recognize. But I would argue that some of the things which I have been advocating, not very successfully, for many years have acquired even greater urgency in the post-Covid world.

The first of these is that we should be striving to improve our young people's access to education, and the quality of the education which they receive. I've been saying this for [at least 23 years](#), without having had much success in terms of persuading people who are in a position to engineer change to take up some of my suggestions – but, hey, I've been arguing against cash grants to first home owners and for the abolition of negative gearing for a lot longer than that, with no greater success, so at least no-one can say I'm not persistent.

The sad fact is that only 73% of Tasmanian Year 10 students [go on to enrol in Year 12 two years later](#) – compared with 83% of Year 10 students nation-wide; and that only 59% of Tasmanian Year 10 students go on to attain a Year 12 certificate, compared with 79% of Year 10 students nation-wide.

I want to acknowledge that the current state government, far more than any previous Tasmanian Government, recognizes that this is a serious problem, and has sought to address it by promising, and delivering on its promise, to extend all of Tasmania's high schools to Year 12. Indeed in my view this is the current Government's single most important achievement during its term in office, although the fruits of it are yet to become fully apparent – in part, because the Government has so far been unwilling to do the 'other part' of what I have long urged, namely, to close the separate colleges.

I have never suggested that Tasmania's colleges do a poor job of educating the students who attend them. On the contrary, some of them do a stellar job.

But what I do argue is that their very existence, separate from high schools, creates barriers to students smoothly transitioning from Year 10 to Years 11 and 12, which simply don't exist anywhere in Australia, and, perhaps unintentionally, creates perverse incentives for students to 'drop out' at the end of Year 10, which also don't exist anywhere else in Australia. (And yes I am aware that the ACT has a system of separate colleges, and has the highest year 12 retention and completion rates in Australia: but Canberra is so different, economically and socially, from Tasmania that it might as well be Mars for all that its experience in this context is relevant to us).

If Tasmania's system of separate senior secondary colleges was really as good as its advocates and supporters continue to assert, how come no other jurisdiction (with the irrelevant, for the reason just mentioned, exception of the ACT) copied it? Why aren't the diaries of Tasmania's Education Department bureaucrats filled with appointments with their counterparts from mainland states, eager to learn how Tasmania's system delivers superior outcomes for Tasmanian students, so that they can take those lessons back to their home states and apply them – if not in their much bigger metropolitan centres, then at least in their rural and regional areas.

The answer to those questions is, of course, that people from other states, including Ministers with whom I've spoken, are gob-smacked that Tasmanian public high schools until very recently stopped at Year 10, that people who ceased their education at that point were celebrated at "Leavers' Dinners", and that the minority of students who wanted to continue on to Year 12 had to 'start again' at a separate institution, often requiring them (if they didn't live in one of the four cities where the colleges are located) to either commute long distances every day, or live away from home, in order to do so.

In every other state, students are able to finish Year 12 where they start Year 7 (or Year 8, in those states where primary school finishes at Year 7): and students in Years 7 through 10 can see, every day, as role models to whom they can look up and aspire to emulate when they reach the same age, students going through all of the trials and tribulations of Year 12. In Tasmania, by contrast, the long standing message which 'the system' has sent to successive generations of students is, "schooling finishes where my school finishes".

You might think that if Tasmania does senior secondary education one way, as we have done since the 1960s, and every other state does it a different way, and none of them show the slightest interest in copying us, that it might occur to some people that it could be possible, just possible, that the other states are right and we're wrong. And indeed that *has* occurred to some people – including Ministers in the current government. But no-one seems prepared to 'bite the bullet' – and I readily acknowledge that, politically, it is a tough bullet to bite – and bring our system into line with the self-evidently far more successful systems in operation in every other state.

Second, as I suggested earlier I think we need to start asking ourselves whether we might not have become more dependent on tourism as a driver of economic activity and employment than makes sense in the post-Covid world.

In posing that question, I am *not* criticizing those who have, in the past, seen tourism as a good way to promote 'jobs and growth', and to capitalize on some of Tasmania's inherent strengths. In the pre-Covid world, that did by and large make sense. But if we are to be honest with ourselves, we need to ask whether it still makes sense in the post-Covid world.

Since I know I am going to cop a rhetorical belting for raising such an heretical question, let me leave it there and move on.

Third, turning to a subject which exposes me to far less reputational risk than questioning the continuing primacy of tourism as a growth driver, Tasmania's inherent advantages in the production of *renewable energy* should play a key role in shaping our post-Covid recovery. In this, I have absolutely no disagreement with the current Government's objectives and strategy. The Government's [200% renewable energy target](#) by 2040 is a challenging but feasible and eminently desirable goal. We can do it: and we should.

At a minimum, completion of [Project Marinus](#) – the construction of two new electricity interconnectors between North West Tasmania and Victoria – offers the opportunity for Tasmania to earn significant amounts of additional income by exporting renewable energy to consumers in Victoria and other mainland states. It provides an incentive for the construction of additional wind and solar generation in Tasmania, as well as for additional 'pumped hydro' generation. It will enable Hydro Tasmania to provide 'firming' for mainland-based wind and solar energy generators, allowing them to bid more competitively to supply mainland markets, and assisting Australia's transition to a zero-carbon economy which, sooner or later, it will have to make.

In bringing these possibilities to reality, it will probably be necessary for the Tasmanian Government, and Tasmania's representatives in the Federal Parliament, to re-iterate time and again that "anything Snowy (2.0) can do, Tasmania can do cheaper": and to be on guard for the possibility that the Federal Government, because of its vested interest arising from its 100% ownership of Snowy 2.0 and the billions of dollars it has already put into it, may improperly favour its own scheme over Tasmania's.

Beyond that, the Government's renewable energy target potentially lays the foundation for the emergence of new businesses and industries which can be sustainable in the post-Covid world, including data centres (for which Tasmania's climate is also increasingly an attraction) and hydrogen-based activities. All this is a Good Thing, provided that we don't see it as a way of re-creating the ultimately unsustainable economy which former Premiers Sir Robert Cosgrove and Eric Reece built in a world which was very different from today's, let alone tomorrow's, and which Robin Gray tried, but failed dismally, to preserve with borrowed money, leaving Tasmania with a legacy of debt (and social division) from which it took more than a decade to recover (if indeed we ever fully did).

Fifth, we need to think seriously about reform of our system of state taxation.

That may not have been so important in a world where we could rely on the federal government for more than half – indeed nearly two-thirds – of the revenue our state government needs to pay for the services that we want it to provide. But as I've tried to argue earlier, that world may be receding into history.

As I'm going to lay out in more detail in a paper which will be released in a couple of weeks' time, Tasmania raises a larger share of the revenue which it does collect from its own taxes from two taxes which are almost universally regarded as 'bad taxes' – namely, stamp duty on land transfers and taxes on insurance premiums – than any other state or territory except Victoria.

And we raise a smaller share of total state taxation revenue from what nearly all economists – if not people without the insights that training in economics provides – regard as ‘good taxes’, namely payroll tax and land tax – than any other state or territory except Queensland. (I’m including payroll tax as a ‘good tax’, contrary to what most people think, because as I will show in the paper to be released in a couple of weeks’ time, in reality there’s not much difference between payroll tax and the GST, which most business people at least readily acknowledge is a ‘good tax’, so much so that many of them think that the GST should be broadened or raised in order to pay for the abolition or reduction of other taxes, including payroll tax, without realizing how similar in practice payroll tax and the GST actually are).

What we should be doing is raising more revenue from ‘good taxes’ – taxes which are ‘fairer’ (in terms of what they require people in similar and different positions to contribute to the cost of providing public services) and ‘more efficient’ (in terms of doing less to distort the choices which people and businesses make about the way they live, or how they allocate their capital). And we should be raising less revenue from ‘bad taxes’.

This is something which we in Tasmania *can* do, without running foul of the Australian Constitution and the way in which its words have been interpreted by the High Court.

It is something we can do without requiring financial assistance from the Federal Government (although if the Feds were serious about wanting to encourage states to undertake productivity-enhancing reforms, they could certainly lend a hand, or more, to assist the process).

And it is something we can do without having to wait for other, bigger states to do it first.

In other words, we in Tasmania could actually be a *leader* in the process of state tax reform. And if we did it well, we could say to people and businesses in other states, “come to Tasmania, and you won’t have to pay stamp duty”, or “come to Tasmania, and you will pay less in payroll tax than in six out of the seven other states and territories”.

We might even be able to say, both to Tasmanians who want to start up a new business, or to mainland or foreign businesses considering where to locate a new operation or start up a new one, “come to Tasmania and no matter how big you get, you won’t pay any payroll tax for five years”.

I’m going to say more about what this means in practice later this month.

But it does bring me to my last suggestion, which is that we should think about moving away from preferentially treating *small* businesses, solely because they are small and for no other reason, and instead preferentially treating *new* businesses – which, if we did actually make that choice, we could do far more generously than we currently preferentially treat all small businesses, simply on the grounds that they are small.

Saying this flies, as I know only too well, of the widely- and in many places fervently-held belief that small business is 'the engine room of the economy', in Tasmania no less than anywhere else – something which my forthcoming paper will show actually isn't true at all. Indeed, in many respects Tasmania's state tax system gives more generous preferences to small business (something which of course we trumpet), and conversely treats larger businesses more harshly (something which we rarely if ever acknowledge) than that of any other state. For example Tasmania has the highest payroll tax rate of any state (excluding the temporary surcharge which WA is currently on businesses with very large national payrolls until 2022): but we also have the highest tax-free threshold for payroll tax of any state.

The question we never seem to ask is, "what do we get as a result of all this?"

The answer is, not very much at all.

Shocking as it will be to those who truly believe that small business is the 'engine room of the economy', and especially of Tasmania's economy, [employment at small businesses \(those with fewer than 20 employees\) in Tasmania](#) fell by 11.6% between June 2007 and June 2009 – more than double the national average of 5.4%, and in marked contrast to the net increases of 1.2% in Victoria and 3.2% in New South Wales – despite the fact that those two states have much lower tax-free thresholds for payroll tax than Tasmania.

By contrast, employment at medium-sized enterprises (those with between 5 and 199 employees) in Tasmania grew by 43.8% over the 12 years to June 2019, while employment at large enterprises (those with 200 or more employees) grew by 39.3% - despite these firms paying the second-highest rate of payroll tax in Australia.

Even over the most recent five years (from June 2014 to June 2019), during which employment at small businesses in Tasmania *did* rise, by 3.9%, that growth was substantially outpaced by both medium businesses (at which employment grew by 15.8%) and large businesses (at which employment grew by 7.2%).

Put differently, even during the past four years – a period during which small business confidence in Tasmania, as measured by the Sensis Business Survey (2019), has been at record highs – small businesses accounted for only 13% of the total increase in private sector employment, as against 52% by medium businesses (many of whom would have been subject to payroll tax) and 34% by large businesses (all of whom would have been subject to payroll tax).

The [most recent Tasmanian state Budget Papers](#) show that the state government expected to forego \$166 million in revenue in the 2019-20 financial year – 44% of the amount which it actually expected to collect from payroll tax – by exempting employers with annual payrolls of less than \$1¼mn from payroll tax altogether, and taxing those employers with payrolls of between \$1¼mn and \$2mn at 2 percentage points less than those employers with payrolls of \$2mn or more – who, as noted above, in Tasmania pay a higher rate of payroll tax than employers in any other jurisdiction except Western Australia (temporarily) and the ACT

Foregoing such a large amount of potential revenue – just \$3mn less than the last state budget provided for spending on housing and community amenities – might be regarded as “money well spent” if it actually created a lot of jobs. But, as the data I quoted a moment ago shows, it hasn't, and it doesn't.

And it's not even as if exempting small businesses, however you define them, from payroll tax seriously relieves them of an 'administrative burden' that they are ill-equipped to bear.

All businesses, whether they have just one employee or 100,000 employees, are required by federal law to deduct PAYG income tax deductions from the wages or salaries paid to their one, or 100,000 employees; they are required to make compulsory superannuation contributions on behalf of their one, or 100,000 employees to their nominated fund, or the default fund; in some cases they are required to deduct and forward child support payments and student loan repayments; and they are also required by state law to pay workers' compensation premiums which are usually expressed as a percentage of payrolls. So being exempted from having to pay payroll tax hardly represents a major reduction in the compliance burden upon small businesses. Indeed, if the state government required *all* businesses, irrespective of the number of employees they had, to pay payroll tax and contracted out the collection process to the Australian Taxation Office, it could all be accomplished with almost no increase in administrative burden through the ATO's 'Single Touch Payroll' system which is now used by over 80% of all businesses.

Rather than preferentially taxing *small* businesses, for no reason other than that they are small – which as I have showed produces nothing by way of tangible benefit in terms of job creation – Tasmania should consider instead preferentially taxing *new* businesses, that is, businesses in the first (say) three or five years after their establishment.

There are at least four reasons why this would be a Good Thing.

First, new businesses are more likely to be started up in sectors which have better long-run economic prospects: whereas small businesses are usually in the sector which they're in because that's the sector they were in when the proprietor's great-grandfather, or whoever it was, started the business. Preferencing new businesses rather than small ones would thus improve the 'dynamism' of the economy, and facilitate growth-enhancing structural change.

Second, new businesses are more likely to create new jobs than small businesses (which as we have seen, in aggregate haven't created *any* new jobs in Tasmania over the past decade). New businesses need new employees to get things done: whereas small businesses usually already have the staff they think they need.

Third, new businesses are more likely to innovate than small ones. Indeed, the desire to bring to market a new product or service, or to produce an existing product or service in a new or better way, is often the main motive for starting a new business.

By contrast, [ABS figures](#) show (contrary to what most people seem to believe) that small businesses are *less* likely to introduce a new good or service, or engage in any kind of product or process innovation, than medium-sized or large businesses.

Fourth, at any point in time there will always be far fewer new businesses than there are small ones: so the cost in terms of revenue foregone by offering them tax exemptions or concessions will be (much) less; and/or the concessions can be made more generous than if they are extended to all small businesses.

Of course most new businesses will also be small: but the overwhelming majority of small businesses are old. And from a Tasmanian perspective a 'new' business need not always be a small one.

If an existing mainland-based or foreign company were to set up a branch or division in Tasmania, or indeed to transfer its entire operations to Tasmania, as far as Tasmania and Tasmania's tax system is concerned, it's a 'new' business, and could be offered preferential tax treatment, as a matter of right, without the need for Tasmania to enter into the sort of futile, 'race-to-the-bottom' bidding wars with other states and territories which the [Productivity Commission](#) rightly condemned way back in 1996 as having "little or no positive effect on the welfare of Australians", usually entailing "secrecy ... which creates a potential conflict of interest for publicly accountable officials", is "often supported by [the] misuse of evaluation techniques" and "at best shuffles jobs between regions and at worst reduces economic activity".

Finally, there is no way that new businesses can prevent themselves from becoming older ones, and hence automatically ceasing to be eligible for preferential tax treatment – other than by going out of business altogether. Hence there are no perverse incentives for businesses to cease growing at just below the point at which they are no longer 'small' enough to be eligible for on-going tax breaks for small businesses, as there are with (for example) payroll tax thresholds.

Of course, there would need to be safeguards to prevent 'phoenixing' – that is, when a new company is created to continue the business of an existing one that has been deliberately liquidated in order to avoid paying taxes, employee entitlements or other creditors, or in this case to continue to access preferential tax treatment. But both the [Australian Taxation Office](#) and the [Australian Securities and Investments Commission](#) have already got mechanisms in place to guard against those risks: and the introduction of [director ID numbers](#) which has already been legislated and is expected to commence in mid-2021 will further strengthen those safeguards.

One further reason for preferencing new rather than small businesses which is particularly relevant to this audience is that, at least [in the United States](#), immigrants are more likely to start new businesses than 'natural born' Americans – that they play "out-sized roles in US high-growth entrepreneurship" – and that as a result, they "create jobs" (for other Americans) more than they "take jobs" (from other Americans).

There's no reason to think that the situation is materially different, in this respect, in Australia. If so, then it would follow that a tax regime which deliberately sought to encourage new businesses – as opposed to what we have at the moment, which is one which (at both the federal and state level) gives tax preferences to small businesses simply because they are small, and for no other reason – could do a lot to enhance the participation of migrants in our economy. Which would in turn be good for migrants, and good for our economy as well.

So my point is that in order to shape a sustainable post-Covid economy here in Tasmania, we need not only to understand how Covid will change our economy, but also to be willing to do things differently (and in some cases very differently) from how we did them in the pre-Covid world.

Xie-xie; arigatō gozaimashita; cảm ơn bạn; terima kasih banyak; nanri; ευχαριστώ; спасибо; labai ačiū; köszönöm; grazie; graças; vielen Dank; merci beaucoup; and thank you.