TCCI
Invigorating Business

Tasmania Report 2016

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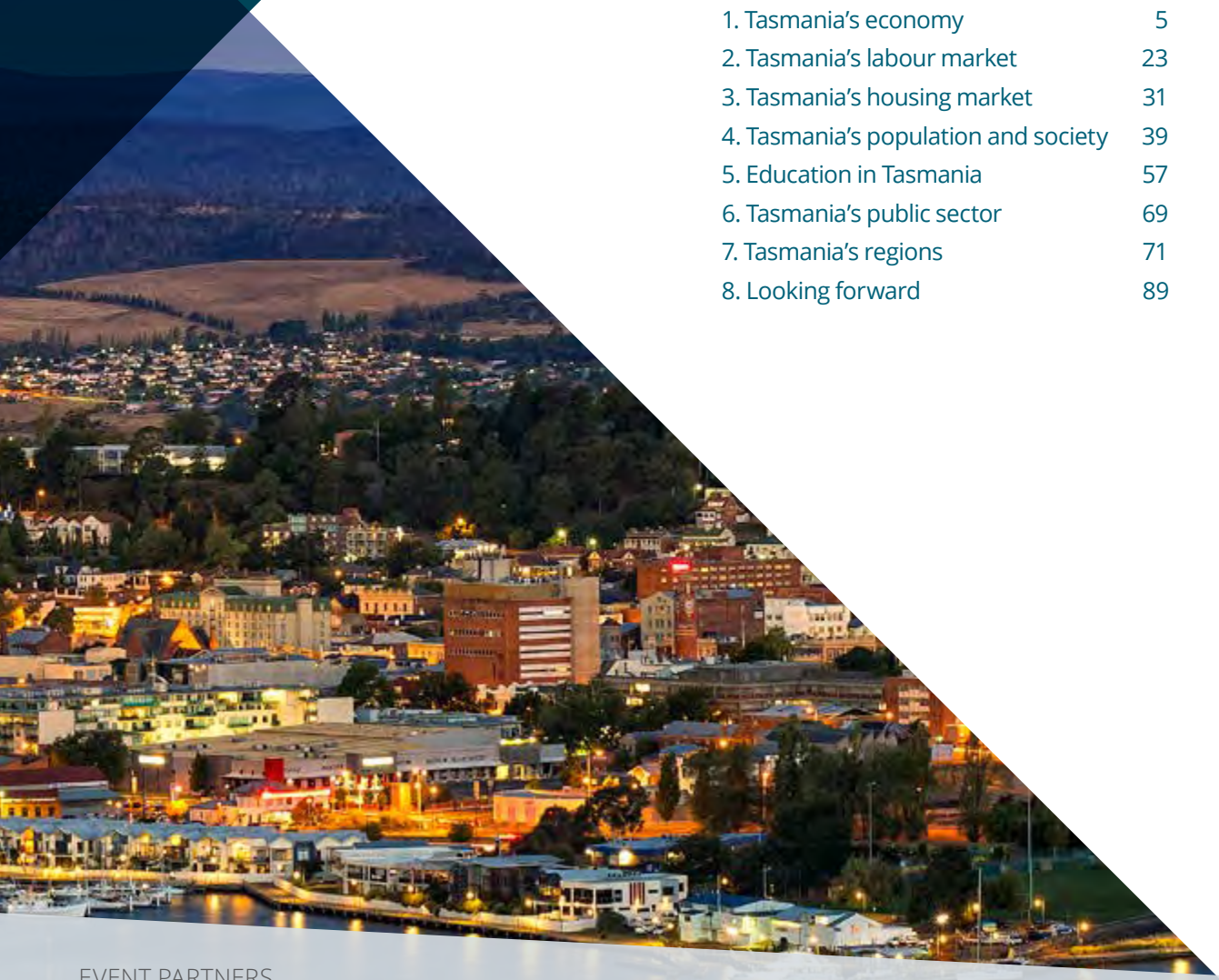

TCCI CHAIR'S REPORT

Susan Parr

It is with great pleasure and pride that I introduce this second TCCI Tasmania Report to you. It is remarkable both in the quality of the data and the themes identified as well as the unique partnership that makes the funding of the report possible. The idea that the TCCI and TasCOSS together with B&E Personal Banking, Chartered Accountants Australia and New Zealand, the Federal Group and Southern Cross Television could combine in a partnership that provides all of us with key data, disrupts conventional attitudes around likely partnerships formed for the benefit of all Tasmanians.

As engaged Tasmanian leaders you all know the significance of accurate data in measuring and managing key objectives and the benefits of positive relationships with stakeholders who join with us in striving to achieve a better Tasmania for all and who recognise that prosperity and wellbeing are intrinsically linked at an individual and community level.

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

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

Consider, what could be achieved if we saw these 'deficits' as challenges and opportunities.

Because we have the oldest population in Australia, there is an opportunity to bring the needs and wishes of older people into new business and service models that could lead the whole country. Developing sustainable models of services for older Tasmanians in all parts of the state presents opportunities for training and employment, redirection of funds from an increasingly expensive sickness model to more proportionate and seamless wellbeing model of health. Not only is our aging demographic a spur to the development of new services, it is also a largely untapped consumer group. Businesses and communities that create age-friendly experiences, services and consumables will meet this burgeoning market opportunity. Let's not forget that this cohort still has many productive years which can be mobilised by a fresh look at training opportunities for those who are over 50.

Traditionally, business has not examined the qualitative indicators of Tasmania's success such as housing, education and health. The TCCI believes that the true measure of a successful Tasmania must include improved achievements in these areas as well as the quantitative indicators of employment, infrastructure development, levels of taxation and the costs of doing business in an island state with a static population and limited transport options.

It is pleasing to see that following the publication of last year's Tasmania Report we have seen a state wide debate about education. Whatever the stakeholder sentiment, it is gratifying to see the engagement and the passion that has fanned the debate. We congratulate the state government on its education reform program and local media for keeping the debate vigorous and Education Ambassadors for continuing to provide additional data.

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

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

Susan Parr
Chair - Tasmanian Chamber of Commerce and Industry

ABOUT THE AUTHOR

Saul Eslake

Saul Eslake worked as an economist in the Australian financial markets for more than 25 years, including as Chief Economist at McIntosh Securities (a stockbroking firm) in the late 1980s, Chief Economist (International) at National Mutual Funds Management in the early 1990s, as Chief Economist at the Australia & New Zealand Banking Group (ANZ) from 1995 to 2009, and as Chief Economist (Australia & New Zealand) for Bank of America Merrill Lynch from 2011 until June 2015.

He has now established his own independent economics consultancy business, based in Tasmania, and also has a part-time appointment as a Vice-Chancellor's Fellow at the University of Tasmania.

Saul has been a non-executive director of Hydro Tasmania, the energy business owned by the Tasmanian state government since March 2008. He is also on the Board of Housing Choices Australia Ltd, a not-for-profit provider of affordable rental housing in three states, including Tasmania; and is Chair of the Board of Ten Days on the Island, Tasmania's biennial multi-arts festival.

Saul has a first class honours degree in Economics from the University of Tasmania, and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. In December 2012 he was awarded an Honorary Doctor of Laws degree by the University of Tasmania. He has also completed the Senior Executive Program at Columbia University's Graduate School of Business in New York.

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TASCOSS SOCIAL FORWARD - 2016

TasCOSS CEO

TasCOSS is the peak body to the Tasmanian non-government community services sector and represents low-income, disadvantaged and vulnerable Tasmanians that the sector serves and supports. As highlighted in this report, the output of the health care and social assistance sector now represents almost 9% of Tasmania's total gross product, making it the state's second largest sector after agriculture, forestry and fishing.

As this year's TCCI Tasmania Report shows, there is some progress in maximising opportunities in areas of our competitive advantage such as tourism, but there are many challenges still to be tackled. Employment needs to remain our priority with the number of people employed in Tasmania in October 2016 still (1.8%) lower than it was in October 2008, and over the last four years there has been no net growth even in part-time employment. Meanwhile, the proportion of unemployed Tasmanians who have been out of work for more than two years has continued to increase, to its highest level in almost a decade. Unemployment is unhealthy even where good support systems are in place, but where support systems are inadequate, it can be devastating.

We must remember that these statistics represent real people, real lives, real families. In 2013-14, 14.2% of Tasmanians—15.3% of Tasmanians living outside Hobart—were living in poverty.[1] That is 72,600 people. They are our neighbours. They are our community. And for approximately 15,000 children in Tasmania—the 16% of our children who live below the poverty line, 4% above the national average—opportunity is what happens for someone else.

We are seeing more and more clearly the emergence of two Tasmanias. In 2013-14, the mean equivalised weekly disposable household income for the lowest income quintile in Tasmania was $379. For the highest income quintile, it was $1529 – roughly 4 times the lowest quintile's income. The gap between them was $1150, roughly 3 times the lowest quintile's income. The lowest quintile had 9.2% of income, but the highest quintile had 37.1%.[2]

Economic inequality brings with it other inequalities, such as inequalities around health outcomes. If you are from a low-income area in Tasmania, for example, you are more likely to have fair or poor self-assessed health; to have high or very high levels of psychological distress; to die younger and of more avoidable causes; and to put off going to a doctor or buying medication due to financial reasons.[3] And it brings inequalities of the 'social capital' that this report rightly celebrates.

These facts and figures suggest that Tasmania is not immune to the political disruption that we've seen in the UK and US this year. There as here, jobs, industries and services have been disappearing from communities, leaving incomes stagnating and feeding the inequality that has resulted in many feeling marginalised. As the promise of prosperity grows through tourism, our unique cultural

[1] *ACOSS (2016), Poverty in Australia: state breakdown, based on ABS 6541.0.30.001, Survey of Income and Housing.*
[2] *ABS 6523, Household Income and Wealth, Australia, Table 21.1 Equivalised disposable household income: Tasmania.*
[3] *PHIDU Social Health Atlases of Australia: Quintiles of Socioeconomic Disadvantage of area. http://phidu.torrens.edu.au/social-health-atlases/data*

offerings and boutique food and wine industry, we must work hard to bridge the two Tasmanias.

Globally, the value of tapping in to the power of communities—whether geographic or demographic—is gaining traction. Citizens are increasingly recognised as the "protagonists in a new innovation age … people who cooperatively invent, enhance and manage innovative solutions for new ways of living."[4]

The desire for self-determination was reflected in consultations TasCOSS undertook this year in communities around Tasmania. The common views we heard were that decision-makers don't have a "real-life idea" of the problems that communities are facing, or of community priorities. Participants believed that Tasmanian communities have little or no input into creating solutions and that there are very few opportunities for co-design of state or local government programs.

We have a choice in how we respond to our complex social and economic challenges: we can muddle through looking to the past for the same old responses that we've tried before, or we can open ourselves up to new ways of thinking and forge new paths.

The will for new ways of doing things is there. The will from communities to determine their own future is there. TasCOSS believes we need to work together – government, community sector, employers, schools, communities and families – to create a unifying social vision in which Tasmanians are participating fully in all aspects of life – economic, social and political.

Kym Goodes
Chief Executive Officer
TasCOSS

[4] *https://www.researchgate.net/publication/263844836_From_engaging_to_empowering_people_a_set_of_co-design_experiments_with_a_service_design_perspective*

SECTION 1

Tasmania's economy

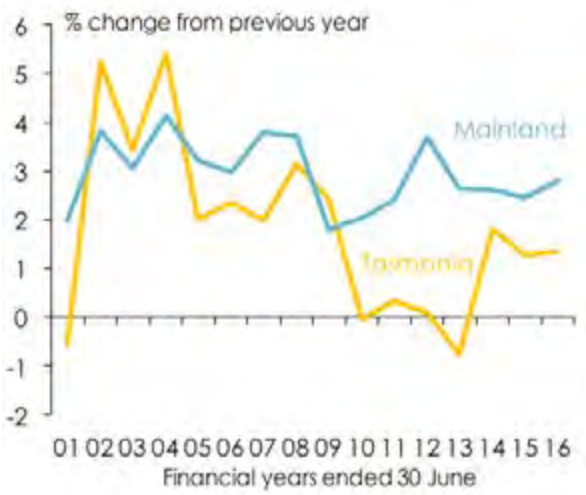
1. Tasmania's economy

Economic growth in the 2015-16 financial year

Tasmania's economy – as measured by chain-volume or 'real' gross state product (GSP)[1] – grew by 1.3% in 2015-16, the same as in 2014-15 (for which economic growth had previously been reported as 1.6%), but well below the estimate in this year's state Budget of 2½%. Over the past three years, Tasmania's economy has grown at an average annual rate of 1.5%, after contracting at an average annual rate of 0.1% over the preceding three years.

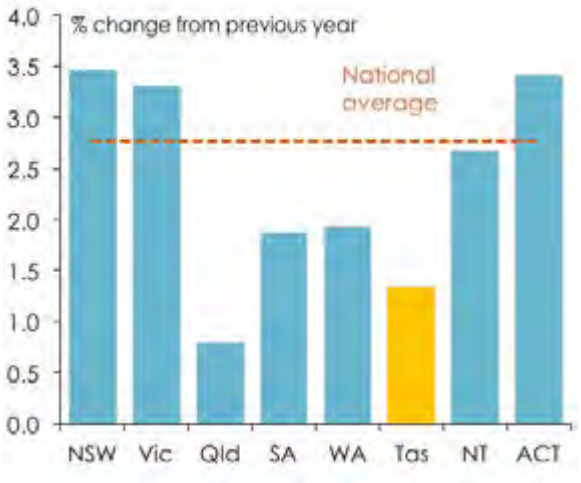
Tasmania's growth rate in 2015-16 was less than half that of the rest of Australia (Chart 1.1), and slower than that of any other state or territory except Queensland (Chart 1.2).

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



Source: ABS, state Accounts (5220.0), 2015-16.

Chart 1.2: Growth in real gross state product, 2015-2016



Source: ABS, state Accounts (5220.0), 2015-16.

Taking into account the slower growth rate of Tasmania's population, Tasmania's per capita gross product grew by 0.9% in 2015-16, down slightly from 1.0% in 2014-15, and below the national average of 1.4% - but faster than both Queensland and Western Australia, each of which recorded per capita GSP growth of 0.7% in 2015-16. (Chart 1.3).

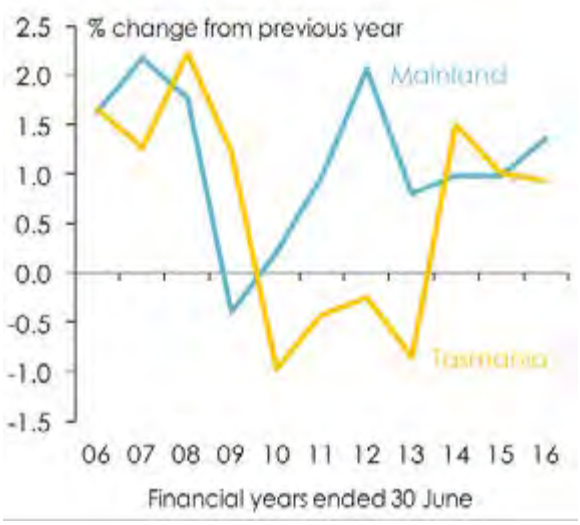
On average over the past three years, Tasmania's per capita economic growth rate of 1.1% pa has matched the national average, in marked contrast to the preceding three years when Tasmania's per capita GSP shrank at an average annual rate of 0.5%, while the rest of Australia's increased by 1.3% per annum (Chart 1.4).

[1] *For a more detailed explanation of what GSP measures and how it is derived, see ABS, Australian System of National Accounts: Concepts, Sources and Methods, 2015 (5216.0), Chapter 21, pp. 468-523, or the explanatory notes to ABS, Australian National Accounts: state Accounts 2015-16 (5220.0). The Tasmanian Treasury continues to harbour significant reservations about the 'reliability and volatility' of ABS estimates of GSP and other key data for Tasmania (see Tasmanian Government, Budget Paper No. 1, May 2016, p. 25). Nonetheless, the ABS data provide the only basis for analysing the performance of the Tasmanian economy over time, and for making comparisons between Tasmania's economic performance and that of other states and territories, and hence are used throughout this Report.*

Chart 1.3: Growth in real gross state product per capita, 2015-16

Source: ABS, state Accounts (5220.0), 2015-16.

Chart 1.4: Growth in real GSP per capita, Tasmania and mainland



Source: ABS, state Accounts (5220.0), 2015-16.

Tasmania's economic performance in 2015-16 was materially affected by the severe drought which gripped the state between September last year and April this year, the extensive fires which broke out in January and continued through February, and the widespread floods which followed the breaking of the drought at the end of April. These weather events were a major contributor to the 8.2% decline in the output[2] of the **agriculture, forestry and fishing** sector – which accounts for about 9% of Tasmania's total gross product – the largest decline in a decade. This detracted 0.4 pc pts from Tasmania's real GSP growth in 2015-16.

The severe drought also resulted in a substantial decline in hydro-electricity generation, which combined with the outage of the Basslink cable between 20th December 2015 and 13th June 2016 necessitated the importation and installation of 220MW of temporary diesel generation (equivalent to about 20% of average electricity demand) and the extended running of the (more expensive) gas-fired Tamar Valley Power Station[3]. These were major factors in the 8.2% decline in the output of the **electricity, gas, water and waste services** sector – which represents just over 5% of Tasmania's total gross product – and which in turn detracted another 0.4 pc pts from Tasmania's real GSP growth in 2015-16.

As part of the response to the energy supply situation resulting from the extended drought and Basslink outage, Tasmania's four major industrial electricity consumers (who between them normally consume about 60% of Tasmania's electricity) agreed to a series of voluntary load reductions, amounting at their peak to more than 100MW of reduced load on a sustained basis. The resulting temporary reductions in production by these major power consumers contributed to a 1.7% reduction in the output of the **manufacturing** sector – which represents about 7% of Tasmania's total gross product – in 2015-16. And this, in turn, detracted a further 0.1 pc pt from overall real GSP growth in 2015-16.

[2] *Or, more strictly, 'chain-volume gross value added'.*
[3] *For more details see Hydro Tasmania,* Annual Report 2015-16*, pp. 3, 11-12, 15 and 29-32.*

Chart 1.5: Change in real gross value added by industry, Tasmania, 2015-16

Source: ABS, state Accounts (5220.0), 2015-16.

The declines in output in these three sectors reduced Tasmania's overall growth rate in 2015-16 by just over 0.9 pc point. Put differently, had these contractions not occurred, and all else been equal, Tasmania's economy might have grown by around 2¼% in 2015-16 – which would have been the best outcome since 2008-09.

The economic growth which was actually recorded in 2015-16 was largely attributable to four other sectors:

- The output of the **construction** sector increased by 5.0% in 2015-16, contributing 0.3 pc points to overall GSP growth. The increase in construction activity was largely driven by strong growth in non-residential building.
- The output of the **retail** sector increased by 5.6% in 2015-16, contributing another 0.3 pc points to overall GSP growth. It is likely that at least part of this growth in retailing was attributable to increased spending by tourists and students.
- The output of the **health care and social assistance** sector – which now represents almost 9% of Tasmania's total gross product, making it the state's second largest sector after agriculture, forestry and fishing – increased by 2.8% in 2015-16, contributing just over 0.2 pc point to overall GSP growth.
- The output of the **rental, hiring and real estate services** sector increased by 9.6% in 2015-16, the largest increase of any sector, contributing just under 0.2 pc point to overall GSP growth despite being one of the smaller sectors of the state's economy (representing about 2% of GSP). Some of the growth in rental and hiring services is likely to have been attributable to the increase in tourist arrivals.

Other sectors recording strong growth in 2015-16 – though making a relatively small contribution to overall economic growth on account of their relatively small share of the state's economy – include **information, media and telecommunications services** (7.4%), **wholesale trade** (4.9%) and **art and recreation services** (3.1%).

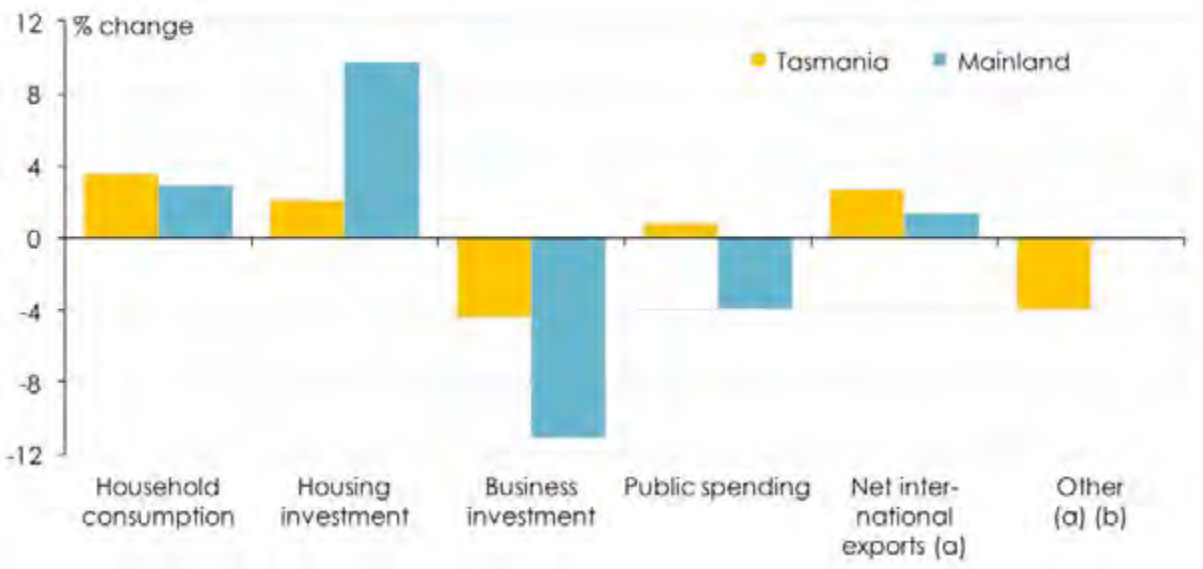
From an expenditure perspective, the largest contribution to growth in Tasmania's economy in 2015-16 came from **household consumption spending**, which rose by 3.5% in real terms, the largest increase since 2006-07, and a larger increase than in any other state (Chart 1.6).

This increase was fairly broad-based, with alcoholic beverages and tobacco, and hotels, cafes and restaurants being the only categories of consumer spending which declined in real terms in 2015-16. Household spending on health, communications and recreation and culture rose particularly strongly. There was also a significant decline in net interstate consumer spending (after a very large increase in 2014-15), which presumably reflects a combination of lower spending by Tasmanian households interstate (including on goods and services purchased over the internet) and increased spending in Tasmania by mainland visitors.

The strong growth in Tasmanian consumer spending in 2015-16 occurred despite only modest growth in household disposable income (of only 2.3% in nominal terms, down from 6.2% in 2014-15), and thus appears to have been driven by a fall in the household saving ratio, reversing a large increase in apparent household saving in 2014-15. This probably reflects the fact that more than half the increase in household income in 2014-15 came from small business income (and, within that, most likely from farm income), with a large proportion of that being initially saved, before being drawn down in 2015-16.

By contrast, **housing investment** rose by only 2.1% in 2015-16, much less than in the rest of Australia (although the mainland result was due to very large increases in New South Wales, Victoria and Queensland), and well down on the 13.4% increase recorded in 2014-15. As noted in last year's Tasmania Report, previously foreshadowed declines in the 'First Home Builder Boost' for contracts signed after the end of 2014, and again at the end of 2015, likely encouraged a 'bringing forward' of new residential building that would otherwise have taken place at a later date.

Chart 1.6: Change in major expenditure components of chain-volume gross product, Tasmania and mainland, 2015-16



Note: (a) Pc point contribution to change in gross product. (b) Includes net interstate exports and change in stocks. Source: ABS, state Accounts (5220.0), 2015-16.

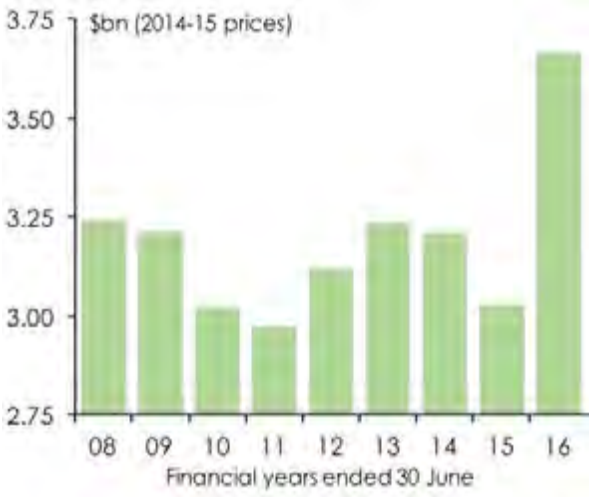
Business investment fell by 7.4% in real terms in 2015-16, after a 7.4% increase in 2014-15. As noted earlier, private non-residential building increased by 6.7%, to its highest level since 2008-09, but engineering construction fell by 19.3%, while investment in machinery and equipment fell by 4.5%. The 11.1% decline in business investment on the mainland reflects the ongoing decline in resources-related investment, concentrated in Western Australia, Queensland and the Northern Territory. Business investment rose by 1.5% in both New South Wales and Victoria in 2015-16.

Public spending rose by 0.8% in 2015-16, after a 1.4% decline in 2014-15, and compared with a 3.9% decline on the mainland. This was driven by increases in consumption spending (principally on public sector wages and salaries) by both the Commonwealth and state and local governments, together with increased capital works spending by Commonwealth GBEs (most likely NBN Co) and state and local governments, offset by a large decline in capital spending by state and local GBEs.

Tasmania's **international exports** rose by 20.2% in 2015-16, the largest increase in a single year since 1997-98, and following two consecutive falls in 2013-14 and 2014-15. Tasmania's was by far the largest increase in international exports of any state or territory in 2015-16: international exports from the mainland as a whole rose by 6.5%.

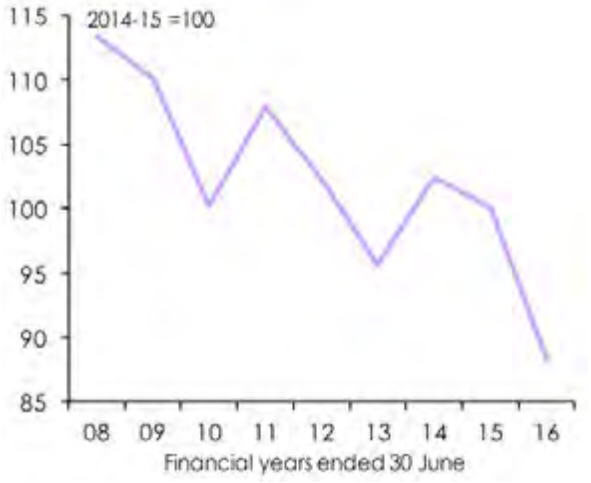
The *volume* of Tasmania's international exports of **goods** rose by 21.1% in 2015-16: however, the average *prices* of Tasmania's exports of goods appear to have fallen by almost 12%, so that the dollar *value* of Tasmania's overseas merchandise exports rose by a more modest 6.8% (Charts 1.7 and 1.8). Based on the limited information available publicly[4], the main drivers of the strong growth in Tasmanian goods export volumes in 2015-16 appear to have been base metals and ores, fruit and vegetables and (possibly) dairy products, though the first and third of these would also have been affected by declining prices.

Chart 1.7: Volume of Tasmania's international exports of goods



Source: ABS, state Accounts (5220.0), 2015-16.

Chart 1.8: Average prices of Tasmania's international exports of goods



Source: ABS, state Accounts (5220.0), 2015-16.

It is possible that errors in the measurement of export prices have resulted in an over-statement of the increase in the volume of Tasmania's international exports of goods in 2014-15. To the extent that this has been the case, those errors are offset via the outsized 'balancing item' in the state accounts for 2015-16, as noted below.

Tasmanian exports of **services** rose by 14.9% in real terms in 2015-16, following on from a 17.2% increase in 2014-15, while the average price of services exports rose by 0.9%. Nearly all of the increase in Tasmanian services exports was attributable to increased spending by overseas students and other foreign visitors to Tasmania.

Tasmania's direct international **imports** rose by 1.4% in 2015-16, so that, as shown in Chart 1.6 above, Tasmania's net international trade added 2.7 pc points to the growth rate of real GSP in 2015-16.

In practice, a large share of Tasmania's imports come via the mainland, just as a proportion of Tasmania's exports leave Australia via the mainland. These transactions, together with Tasmania's exports to and imports from the rest of Australia and changes in the level of business inventories – none of which are directly measured – are implicitly captured in the 'balancing item' on the expenditure side of the ABS state Accounts[5]. In 2015-16, the 'balancing item' detracted 4.0 pc points from Tasmania's gross state product, the largest since 2004-05. As noted above, this unusually large 'balancing item' could also have resulted, at least in part, from an over-statement of the decline in the average prices of Tasmania's overseas exports.

[4] The ABS publishes state-level data on exports by destination, but not by category (see ABS, International Trade in Goods and Services, Australia (5206.0), Table 36f. The Tasmanian Treasury provides some limited data on Tasmanian exports by category in its commentaries on Economic Data Releases for Tasmania.

[5] Formally, the 'balancing item' and 'statistical discrepancy' arise from differences between the sum of the different expenditure components of GSP and 'the' measure of GSP derived as the average of the expenditure- and production-based estimates; and also from differences between the sum of the GSPs of all the states and territories and GDP for Australia as a whole: see ABS, Australian System of National Accounts: Concepts, Sources and Methods, 2015 (5216.0), pp. 501-2.

Near-term prospects for Tasmania's economy

As noted in the previous section, Tasmania's economic fortunes during the 2015-16 financial year were materially adversely affected by weather-related events (droughts and floods) and by the Basslink cable failure.

While important parts of Tasmania's economy have always been susceptible to weather-related events – and the frequency and magnitude of those events may increase over time as a result of climate change – it seems reasonable to expect that the above-average rainfall over the past winter and spring will have a net positive impact on economic growth in the current financial year.

Likewise, the substantially higher inflows into Hydro Tasmania's storages – which at the time of writing were around 45% full, some 20 pc points higher than at the time of the initial Basslink failure in December 2015 – means that Tasmania is much better-placed to withstand another cable outage, were that to occur.

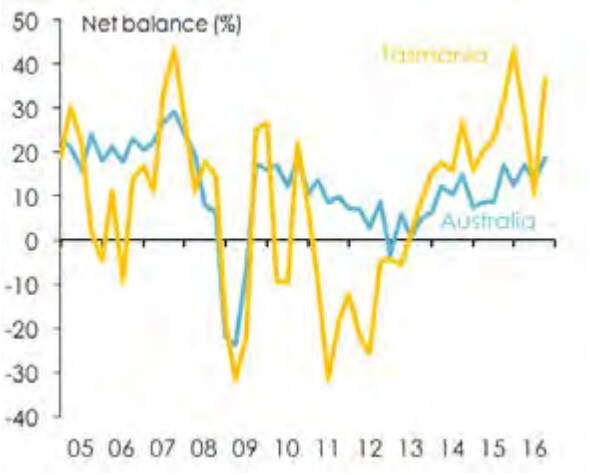
All else being equal, it would therefore be reasonable to expect that Tasmania's economy will record a somewhat faster growth rate in the current financial year and in 2017-18 than it did in 2015-16.

Of course, all else probably won't be equal. The Tasmanian economy is facing other headwinds, including the consequences of the damage done, particularly to farms, but also to some road infrastructure, by the floods earlier this year; the impact of the large reductions in prices paid to dairy farmers by major milk processors, including their retrospective effect (although there is now some prospect of a rebound in dairy prices); the possible impact of the on-going uncertainty over the income tax treatment of foreign back-packers on the availability of labour for fruit-picking and other seasonal tasks in the agriculture sector; and more general uncertainties pertaining to some of Tasmania's key export markets (such as China and Europe).

Conversely, some other developments are likely to have a positive impact on the Tasmanian economy – including higher prices for many of Tasmania's key commodity exports (wool, dairy products, iron ore, aluminium and especially zinc); the commencement of new air freight links to China[6], increased shipping services from Bell Bay to overseas markets and, potentially, new direct overseas and interstate shipping links from the Port of Burnie[7]; and the possibility that the Australian dollar could resume the downward trend against other currencies which was partially reversed during 2016, if US interest rates rise during 2017 as financial markets have begun to anticipate since the US elections in early November.

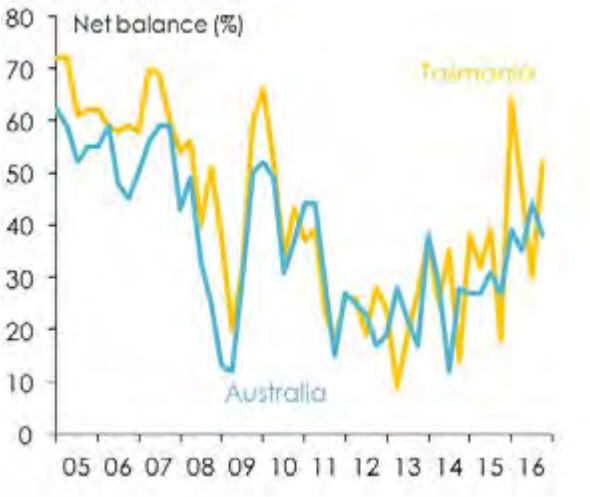
Domestically, measures of business confidence have recovered from the reverses experienced earlier in 2016, which were almost certainly related to concerns over the security of electricity supplies (Charts 1.9 and 1.10). Confidence among Tasmanian small-to-medium enterprises is once again above the national average, after falling sharply earlier in the year.

Chart 1.9: Expected business conditions, Tasmania and Australia



Source: National Australia Bank, Quarterly Business Survey, September 2016.

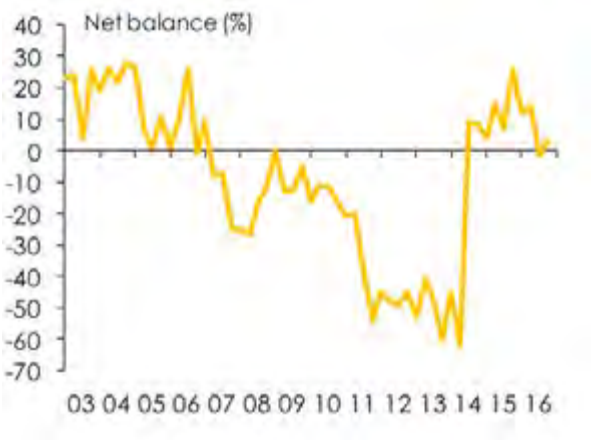
Chart 1.10: SME business confidence, Tasmania and Australia



Source: Sensis Business Index., September 2016.

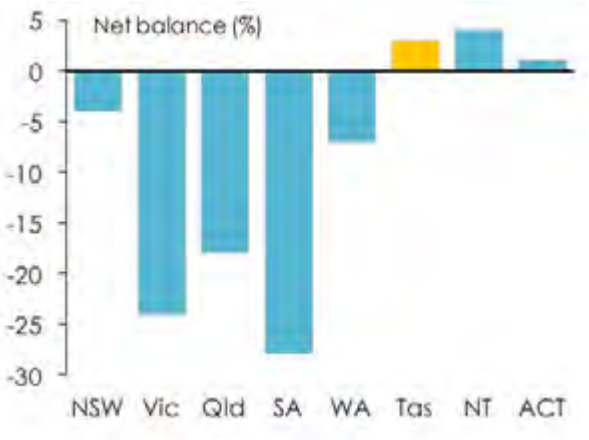
[6] *Roger Hanson,* 'Qantas signs up to freight 50,000 litres of Tasmanian moo juice into China each week for VAN milk', *The Mercury, 25th November 2016.*
[7] *Sean Ford,* 'DP World's Burnie freight terminal plans moving forward', *The Advocate, 26th October 2016.*

Chart 1.11: SME approval of Tasmanian government policies towards business



Source: Sensis Business Index.

Chart 1.12: SME approval of state/territory government policies, September 2016



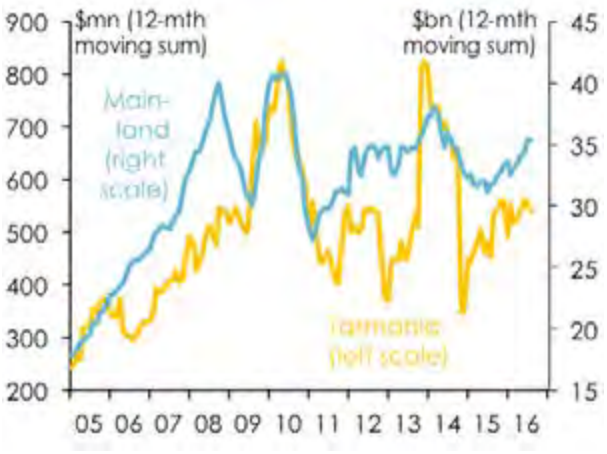
Source: Sensis Business Index, September qtr 2016.

Although Tasmanian SMEs are less supportive of state government policies than during 2015 (Chart 1.11), their approval remains higher than in any other part of Australia aside from the Northern Territory (which experienced a change of government in August).

The underlying upward trend in business confidence evident in Chart 1.10 augurs well for prospects for business investment in Tasmania, although the timing of new major investments remains (as always) subject to high levels of uncertainty. In an economy as small as Tasmania's, the advancement, deferral or cancellation of a single large project can have a major impact on reported levels and growth rates of business investment.

That said, there are good grounds for expecting the recent strength in non-residential building to continue. The level of new approvals has continued to move upwards since early 2015 (Chart 1.13); while the 'pipeline' of work to be done on projects yet to be completed, or on projects approved but yet to be commenced, in Tasmania is larger relative to the amount of work done in the past financial year than in any other state or territory (Chart 1.14).

Chart 1.13: Value of non-residential building approved



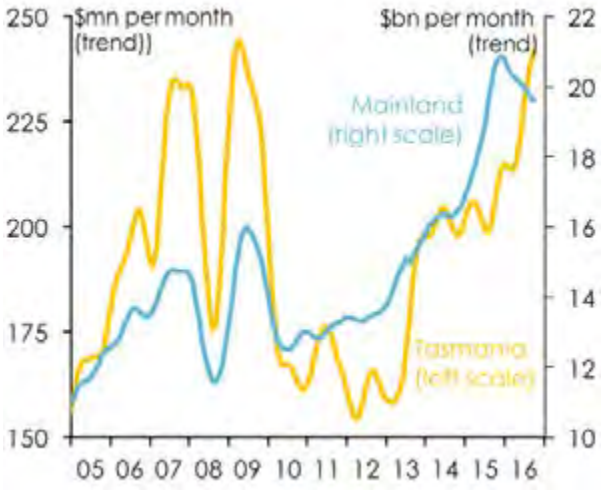
Source: ABS, Building Approvals (8731.0), Sep 2016.

Chart 1.14: 'Pipeline' of non-residential building work as at June 2016

Source: ABS, Building Activity (8752.0), June qtr 2016.

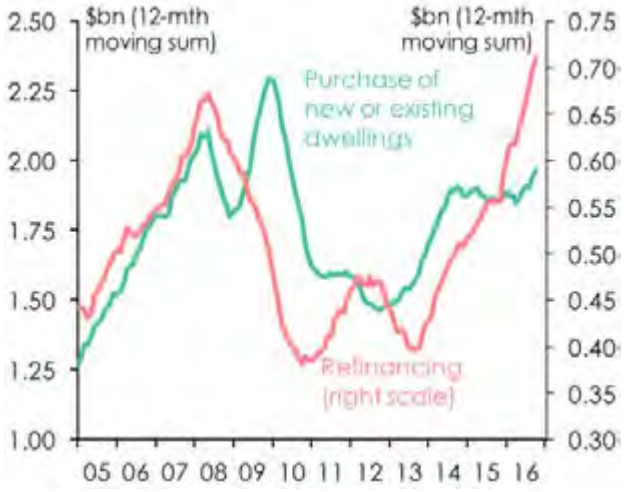
The outlook for residential investment is less clear. In principle, the doubling of the First Home Builder Grant (to $20,000) for contracts entered into before 30 June 2017, announced in the 2016-17 state Budget, should prompt some increase in new home construction into the 2016-17 (albeit at the expense of construction in subsequent years). However, while there has been a significant increase in housing finance commitments to owner-occupiers in Tasmania over the past year, especially in comparison to the trend on the mainland (Chart 1.15), more than half of that has been to refinance existing loans (presumably at lower interest rates) as opposed to for the purchase of existing (or, more importantly, new) homes (Chart 1.16).

Chart 1.15: Housing finance commitments to owner-occupiers, Tasmania and mainland



Source: National Australia Bank, Quarterly Business Survey, September 2016.

Chart 1.16: Housing finance commitments to owner-occupiers, Tasmania, by purpose



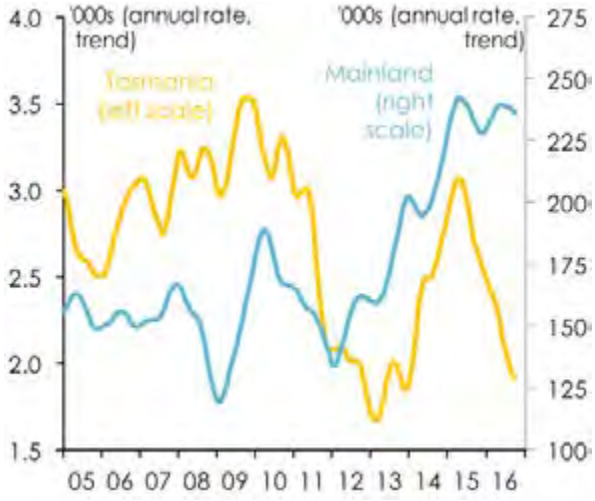
Source: ABS, Housing Finance (5609.0), Sep 2016.

This largely explains why the increase in housing finance commitments in Tasmania has not, so far, translated into an upturn in residential building approvals (Chart 1.17).

Another factor is likely to be that Tasmania has not attracted much interest in residential real estate development from foreign investors, in marked contrast to the three larger eastern states (in particular).

This may not be a wholly unwelcome development, given some of the risks associated with large-scale foreign investment in apartment developments in Melbourne, Brisbane and Sydney[8]. However, it nevertheless also means that the near-term outlook for housing activity remains subdued, despite state government stimulus measures.

Chart 1.17: Residential building approvals, Tasmania and mainland

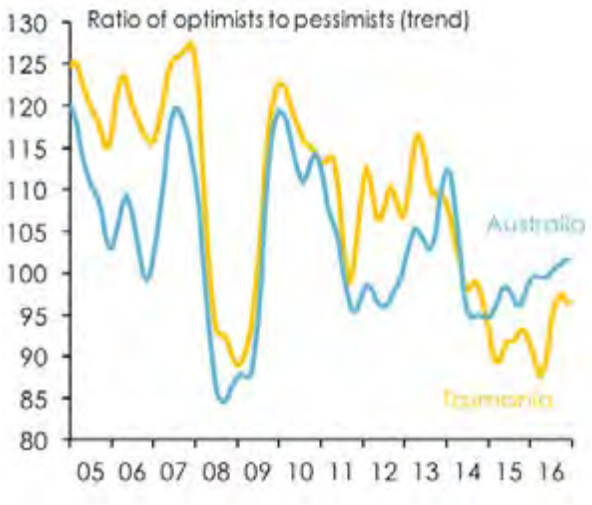


Source: ABS, Building Approvals (8731.0), Sep 2016.

[8] *See, eg, Reserve Bank of Australia, Financial Stability Review, October 2016, pp, 20-21 and 25-28.*

As noted earlier, the strength in consumer spending during 2015-16 owed much to an apparent decline in the household saving rate – which seems unlikely to be repeated – and to strong growth in the number of overseas students and tourists visiting Tasmania. Confidence among Tasmanian consumers has improved since March (with the passing of concerns over the security of electricity supplies) but remains below the national average (Chart 1.18); while monthly growth in trend retail sales has been below the national average since July, pulling the annual growth rate of Tasmanian retail sales back down towards the national average (Chart 1.19).

Chart 1.18: Consumer confidence, Tasmania and Australia



Source: Westpac-Melbourne Institute.

Chart 1.19: Retail sales, Tasmania and mainland

Source: ABS, Retail Trade (8501.0), Sep 2016.

The outlook for consumer spending over the next couple of years will likely depend on developments in the labour market – both employment growth and average wages – and on whether the recent strong growth in the number of visitors to Tasmania is maintained. On balance, it seems likely that growth in consumer spending will probably be a little more subdued than it was in 2015-16.

Allowing for a rebound in activity in the sectors most affected by weather-related events and concerns over the security of electricity supplies during 2015-16, it seems reasonable to expect that Tasmania's economy will grow by 2% per annum in 2016-17 and 2017-18, broadly in line with the forecasts and projections underlying this year's state Budget.

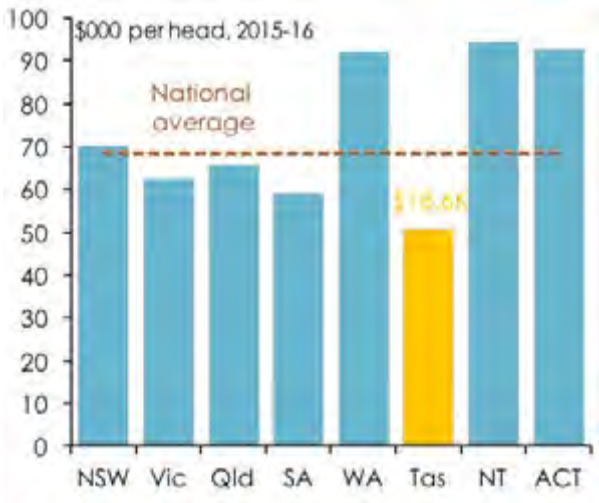
That would represent a distinct improvement in Tasmania's economic performance by comparison with the period since the onset of the global financial crisis, during which Tasmania's economy has grown at an average annual rate of just 0.6%. However, it falls short of the growth rate recorded over the preceding decade (of 2.8% per annum). And it is barely enough to prevent an ongoing decline in Tasmania's per capita GDP relative to the rest of Australia – let alone to reverse it.

For Tasmanians to have any confidence that their material living standards will not continue to decline relative to those enjoyed by other Australians, Tasmania needs to aspire to, and achieve, a sustained stronger pace of economic growth.

The sources of Tasmania's poor long-term economic performance

Tasmania's per capita gross state product was $18,572 or 26.9% below the national average in the 2015-16 financial year (Chart 1.20). Although this represents an improvement on the previous four years, the 'gap' in material living standards between Tasmania and the rest of Australia remains considerably larger than before the onset of the financial crisis, and indeed greater than at any other time in the last 25 years (Chart 1.21).

Chart 1.20: Gross state product per head of population, 2015-16



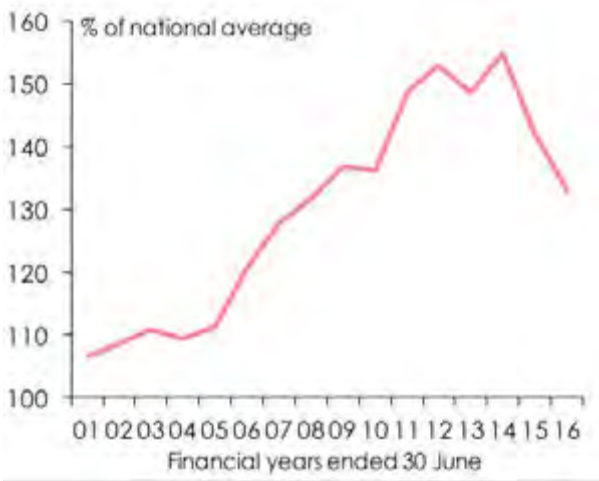
Source: ABS, state Accounts (5220.0), 2015-16.

Chart 1.21: Tasmania's gross state product per head as a pc of national average

Source: ABS, state Accounts (5220.0), 2015-16.

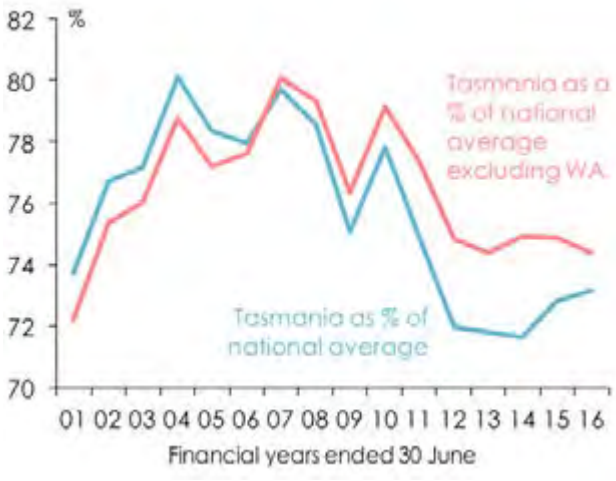
The deterioration in Tasmania's per capita GSP relative to the national average between 2003-04 and 2013-14 was partly – but only partly – a corollary of the extraordinary increase in the relative position of Western Australia over this decade, as a result of the commodities boom (Chart 1.22)[9].

Chart 1.22: Western Australia's GSP per head as a pc of national average



Source: ABS, state Accounts (5220.0), 2015-16.

Chart 1.21: Tasmania's gross state product per head as a pc of national average



Source: ABS, state Accounts (5220.0), 2015-16.

[9] *And which in turn is the underlying reason for the decline in WA's share GST revenue over this period, about which the WA state government and federal politicians from WA complain so much.*

Conversely, however, the apparent improvement in Tasmania's per capita gross product relative to the national average since 2013-14 has been largely driven by the decline in Western Australia's position over the past two years, as commodity prices have retreated from their earlier peaks. Indeed, expressed as a proportion of the national average excluding Western Australia, Tasmania's per capita GSP has been little changed since 2011-12, at just under 75%. (Chart 1.21).

As set out in last year's Tasmania Report, per capita gross state product can be disaggregated into three separate components:

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

or, alternatively:

GSP per capita = employment rate x average hours worked x productivity

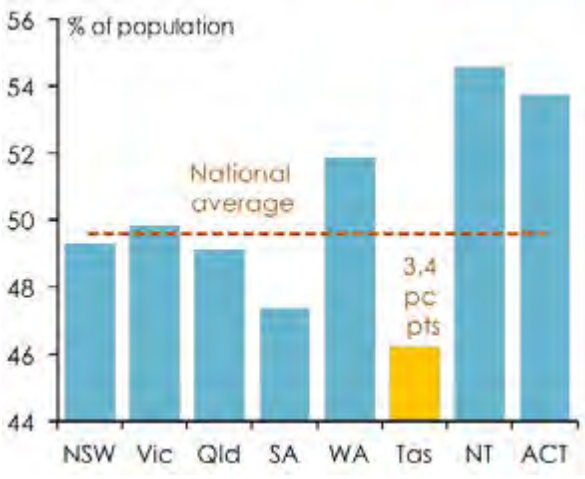
These three components can then be used to identify and calibrate the reasons for the difference in per capita GSP between Tasmania and Australia as a whole.

Below-average employment participation

46.2%, on average, of Tasmania's population were employed during the 2015-16 financial year – a smaller proportion than for any other state or territory, and 3.4 pc points below the national average (Chart 1.22). This represents a slight deterioration from 2014-15, but is still a significant improvement over the preceding three years, and over the early 2000s (Chart 1.23).

About two-thirds of the difference between Tasmania's 'employment rate' (defined here as employment as a percentage of the total population) and the national average is an almost unavoidable consequence of Tasmania's older-than-average population. 18.9% of Tasmania's population was aged 65 and over in 2015-16, compared with 15.2% of Australia's.

Chart 1.22: Employment as a pc of population, states and territories, 2015-16

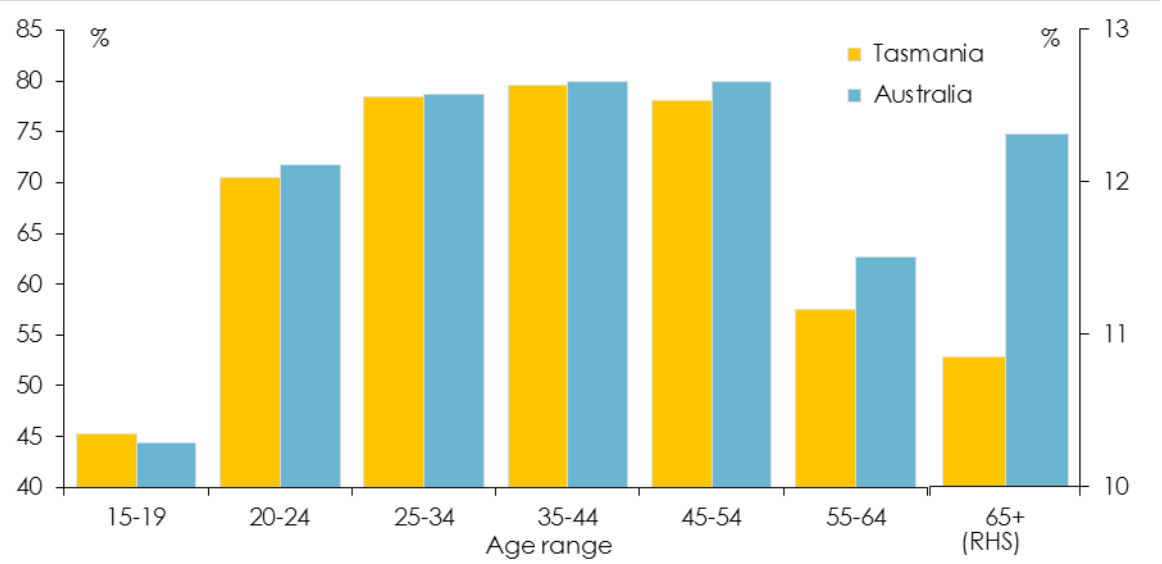


Source: ABS, state Accounts (5220.0), 2015-16 and Labour Force (6202.), October 2016.

Chart 1.23: Employment as a pc of population, Tasmania and Australia

Source: ABS, state Accounts (5220.0), 2015-16 and Labour Force (6202.0), October 2016.

Chart 1.24: Employment as a pc of population, by age, 2015-16 – Tasmania and Australia



Source: ABS, The Labour Force (6202.0), September 2012, Data Cube GM1.

For obvious reasons, the proportion of people aged 65 and over who are in employment, in Tasmania or elsewhere, is significantly below that of people aged 15 to 64. Even if the 'employment rate' of Tasmanians aged 15-64, and 65 and over, had been the same as the corresponding national averages, the fact that a larger proportion of Tasmanians are aged 65 or over would mean that Tasmania's overall 'employment rate' would have been 47.6% - or 2.0 pc points lower than the national average.

The other one-third of the 3.4 pc point difference between Tasmania's 'employment rate' and the national average stems from the fact that Tasmania's 'employment rates' were below the national average for every age group in 2015-16, except for those aged 15-19 (Chart 1.24) – reflecting a combination of lower labour force participation rates (for every age group except for 15-19 year olds) and higher unemployment rates (for every age group except 35-44 and 55-64 year olds) in Tasmania than for Australia as a whole[10].

[10] *The above-average labour force participation and employment rates for Tasmanian teenagers, compared with the national average, reflects the fact that a below-average proportion of Tasmanian teenagers are in upper- or post-secondary education than teenagers in other states and territories – a factor which contributes to the lower participation and employment rates of Tasmanians in older age groups, compared with the corresponding national averages.*

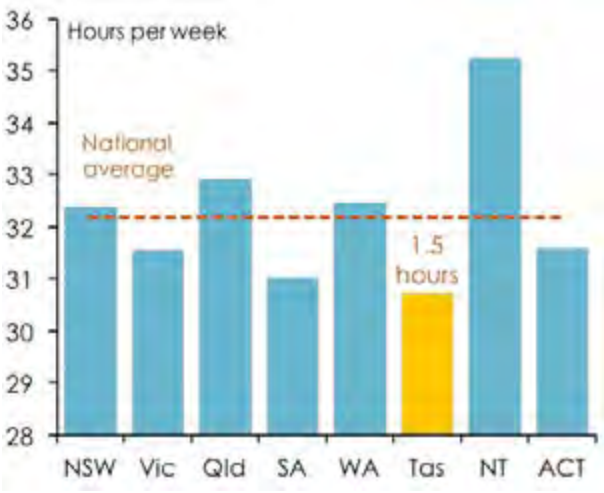
Below-average hours worked

Those Tasmanians in employment worked an average of 30.7 hours per week during 2015-16 – fewer than those employed in any other state or territory, and 1.5 hours per week less than the national average (Chart 1.25).

Over a full year, this difference in average hours worked is equivalent to almost 2½ weeks' less work by Tasmanian workers – or an additional twelve days of public holidays – than the national average.

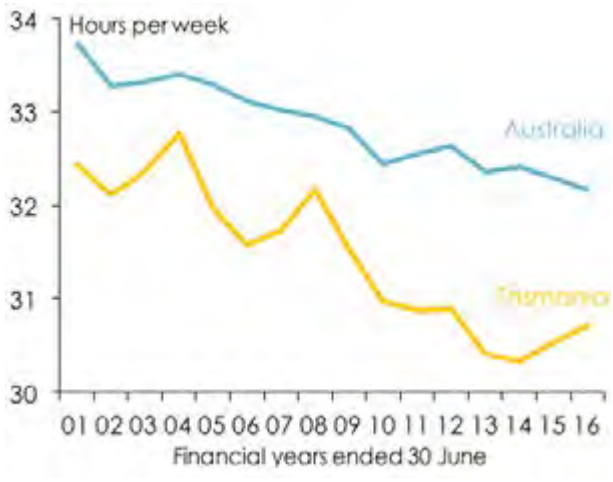
The gap has narrowed since 2013-14, when it was more than 2 hours per week, as a result of an increase in average hours worked by Tasmanian workers of 0.4 hours per week, as against a decline of about 0.3 hours per week, on average, by mainland workers – but remains wider than for most of the previous decade (Chart 1.26).

Chart 1.25: Average hours worked, states and territories, 2015-16



Source: ABS, Labour Force (6202.0), October 2012.

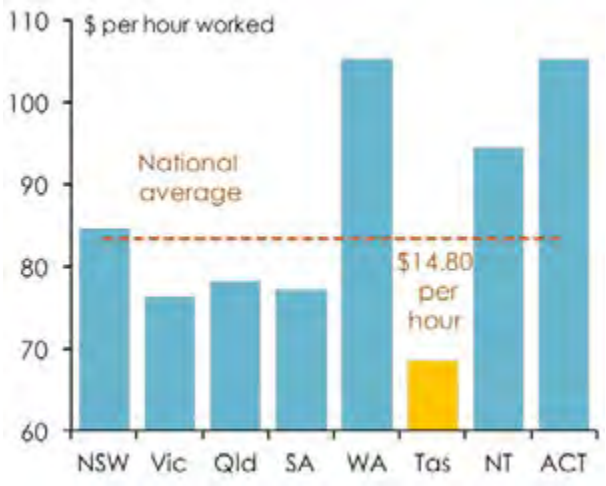
Chart 1.26: Average hours worked, Tasmania and mainland



Source: ABS, Labour Force (6202.0), October 2012.

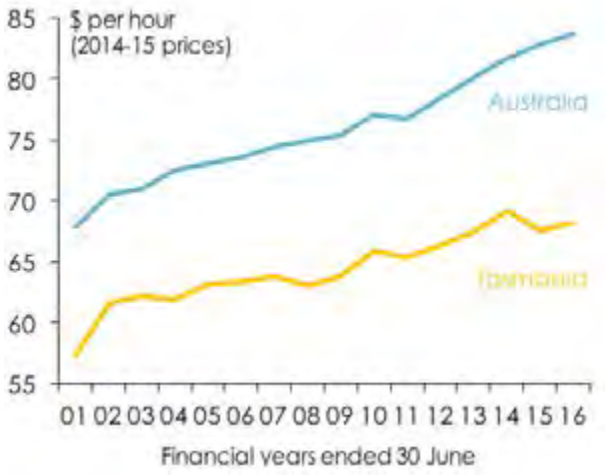
The lower number of hours worked by Tasmanian workers partly reflects the fact that 35.0% of employed Tasmanians work part-time, 3.8 pc points above the national average of 31.2% in 2015-16. And this is not by choice: 10.3% of employed Tasmanians were 'under-employed' in 2015-16 – that is, were either usually employed full-time but were working part-time for 'economic reasons', or were part-time workers who were willing and able to work more hours – compared with the national average of 8.5% (see section 2 for further discussion).

Chart 1.27: Output per hour worked, states and territories, 2015-16



Source: ABS, state Accounts (5220.0), 2015-16 and Labour Force (6202.), October 2016.

Chart 1.28: Output per hour worked, Tasmania and Australia



Source: ABS, state Accounts (5220.0), 2015-16 and Labour Force (6202.0), October 2016.

Below-average labour productivity

Finally, for each hour that Tasmanians in employment worked in 2015-16, they produced, on average, $14.80 (or nearly 18%) less by way of value of goods and services than the average for the entire Australian employed workforce (Chart 1.27).

The labour productivity gap between Tasmania and the rest of Australia has widened steadily over the past 13 years, with Tasmanian labour productivity falling to the equivalent of 81.5% of the national average in 2014-15 and 2015-16, from a most recent peak of 87.7% in 2002-03 (Chart 1.28).

Tasmania's persistently below-average levels of labour productivity are the result of two separate but related influences:

- Tasmania has a below-average share of intrinsically high-productivity industries; and

A substantial majority of Tasmanian value-added is produced by, and a substantial majority of Tasmanians work in, sectors where labour productivity is below the corresponding national sector average.

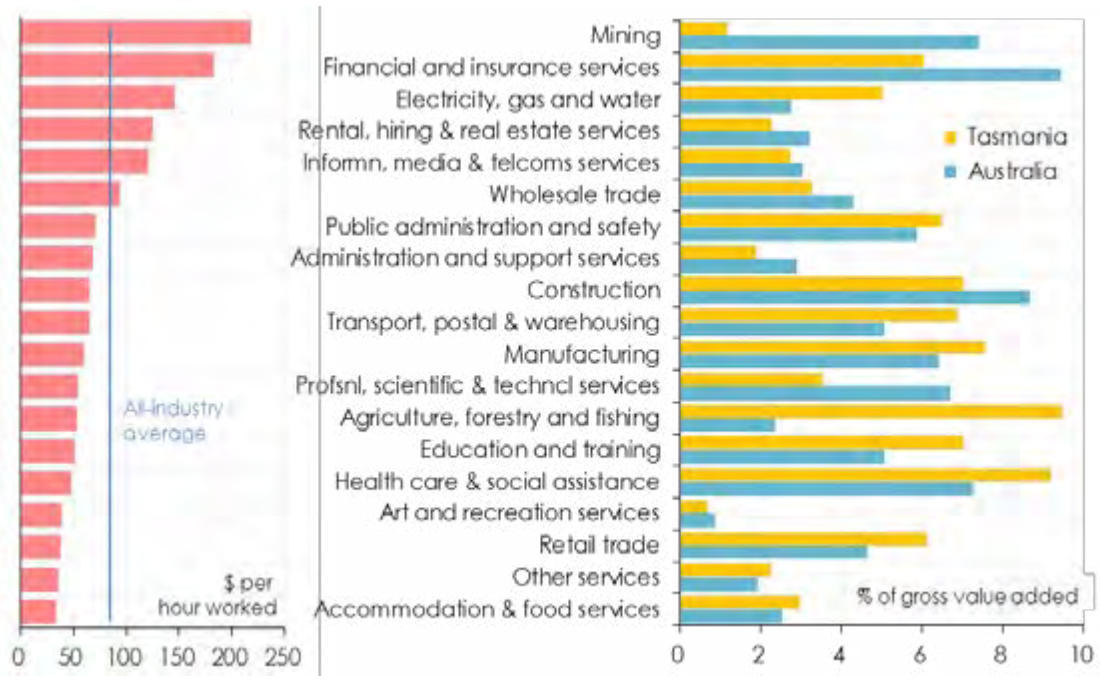
As a general rule, highly capital-intensive industries such as mining or financial services have inherently higher levels of labour productivity than more labour-intensive industries such as retailing or hospitality.

Chart 1.29 shows (necessarily) rough estimates of the national average level of labour productivity in 2015-16 for each of the 19 different industry sectors into which the Australian Bureau of Statistics divides the Australian economy, ranked from highest to lowest[11], and the proportions which each of these industry sectors represent of the Tasmanian and national economies, respectively.

[11] These estimates are derived by dividing gross value added for each industry by an estimate of hours worked in each industry, which is in turn obtained by multiplying the average number of hours worked in the reference week for the middle month of each quarter during 2015-16 by 52, and then by the average number of people employed in the middle month of each quarter (that being the frequency with which these data are published). These estimates of hours worked by industry are, at best, approximations, and usually do not sum to the estimates of hours worked for Australia as a whole, or for each individual state. Note that estimates of gross value added and hours worked are sourced from different surveys (of employers and households, respectively). Finally it should also be noted that estimates of gross value added for the public administration and defence, education and training, and health care and social assistance sectors are based largely on estimates of labour input, so that the resulting estimates of labour productivity for these sectors are not especially meaningful. Hence, the discussion based on these estimates should be regarded as suggestive, rather than conclusive.

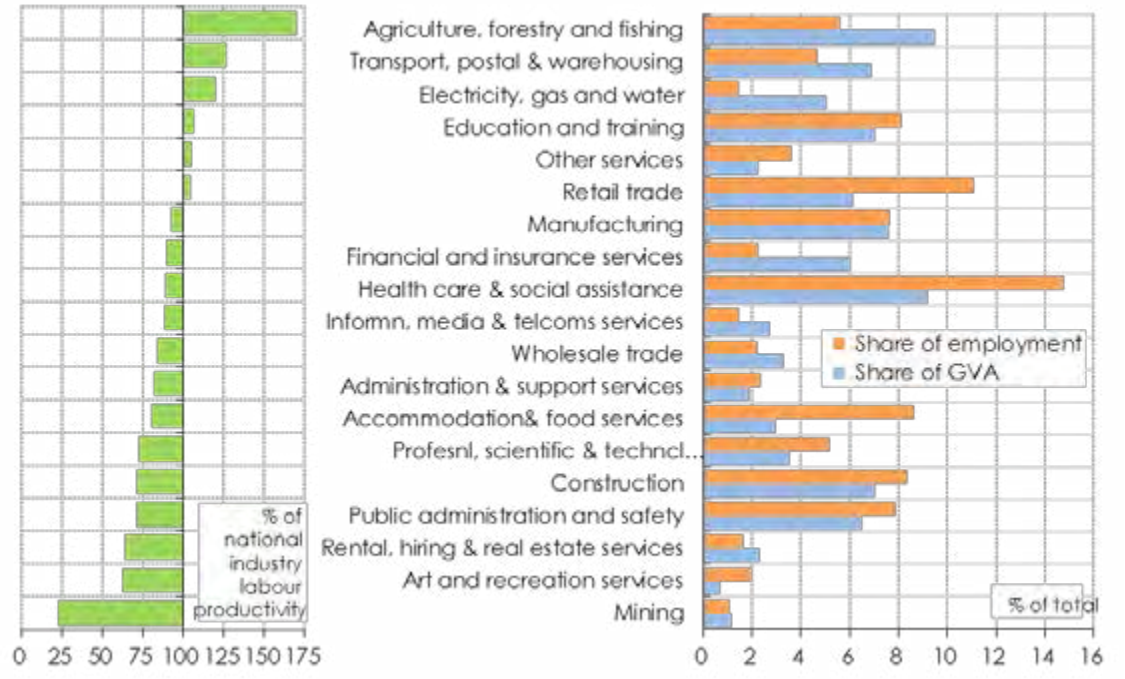
As shown in Chart 1.29, only one of the six industries in which Australia-wide labour productivity is above the all-industry average – electricity, gas, water and waste services – accounts for a larger share of the Tasmanian economy than it does of the national economy. In total, the six industries in which labour productivity nationally is above the all-industry average accounted for 21% of total Tasmanian gross value added in 2015-16, as against 30% of the national economy (and, for that matter, 10% of Tasmanian employment, compared with more than 16% of employment nationally). Conversely, the nine industries in which labour productivity nationally is less than 60% of the all-industry average accounted for 49% of total Tasmanian gross valued (and 67% of Tasmanian employment), compared with 38% of national gross value added (and 56% of national employment) in 2015-16.

Chart 1.29: Industry sectors ranked by Australia-wide labour productivity, and shares of the Tasmanian and Australian economies, 2015-16



Sources: ABS, state Accounts (5220.0), 2015-16, and Labour Force, Detailed, Quarterly (6291.0.55.003), August 2016.

Chart 1.30: Industry sectors ranked by Tasmanian labour productivity as a pc Australia-wide averages, and shares of Tasmanian gross value added and employment, 2015-16



Sources: ABS, state Accounts (5220.0), 2015-16, and Labour Force, Detailed, Quarterly (6291.0.55.003), August 2016.

Chart 1.30 shows the share of each of the 19 sectors in Tasmania's total gross value added and employment in 2015-16, ranked by labour productivity in each industry sector in Tasmania as a percentage of the corresponding national average for that industry.

Chart 1.30 indicates that there were only six industry sectors in which labour productivity in Tasmania exceeded the corresponding national average in 2015-16: and these accounted for 37% of Tasmanian gross value added, and 35% of Tasmanian employment. Conversely, the twelve industry sectors in which labour productivity in Tasmania was more than 10% below the corresponding industry average accounted for 47% of Tasmanian gross value added, and 58% of Tasmanian employment, in 2015-16.

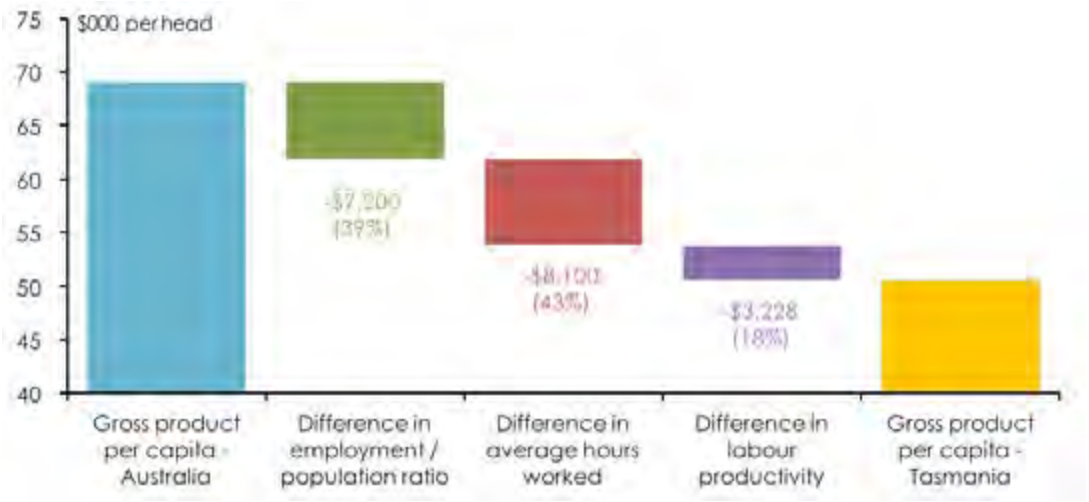
Summing up the reasons for Tasmania's below-average per capita GSP

Drawing together the foregoing analysis, the difference of nearly $18,600 or 27% between Tasmania's per capita gross state product and the national average in 2015-16 can be attributed as follows:

- about $7,200 (or 39%) was due to the **employment participation gap** – that is, to the fact that the proportion of Tasmania's population with a job was 3.4 pc points below the national average in 2015-16;
- about $8,100 (or 43%) was due to the **hours worked gap** – that is, to the fact that Tasmanians in employment worked about 1.5 fewer hours per week (or nearly 12 days per year) than the national average in 2015-16; and
- about $3,300 (or 18%) was due to the **labour productivity gap** – that is, to the fact that employed Tasmanians produce, on average, nearly $15 (or 18%) less for each hour that they work than the average for the Australian workforce as a whole.

This 'factor analysis' is depicted in Chart 1.31.

Chart 1.31: Decomposition of the sources of the difference in per capita gross product between Tasmania and Australia, 2015-16



Sources: ABS, ABS, state Accounts (5220.0), 2015-16; and Labour Force (6202.0), October 2016.

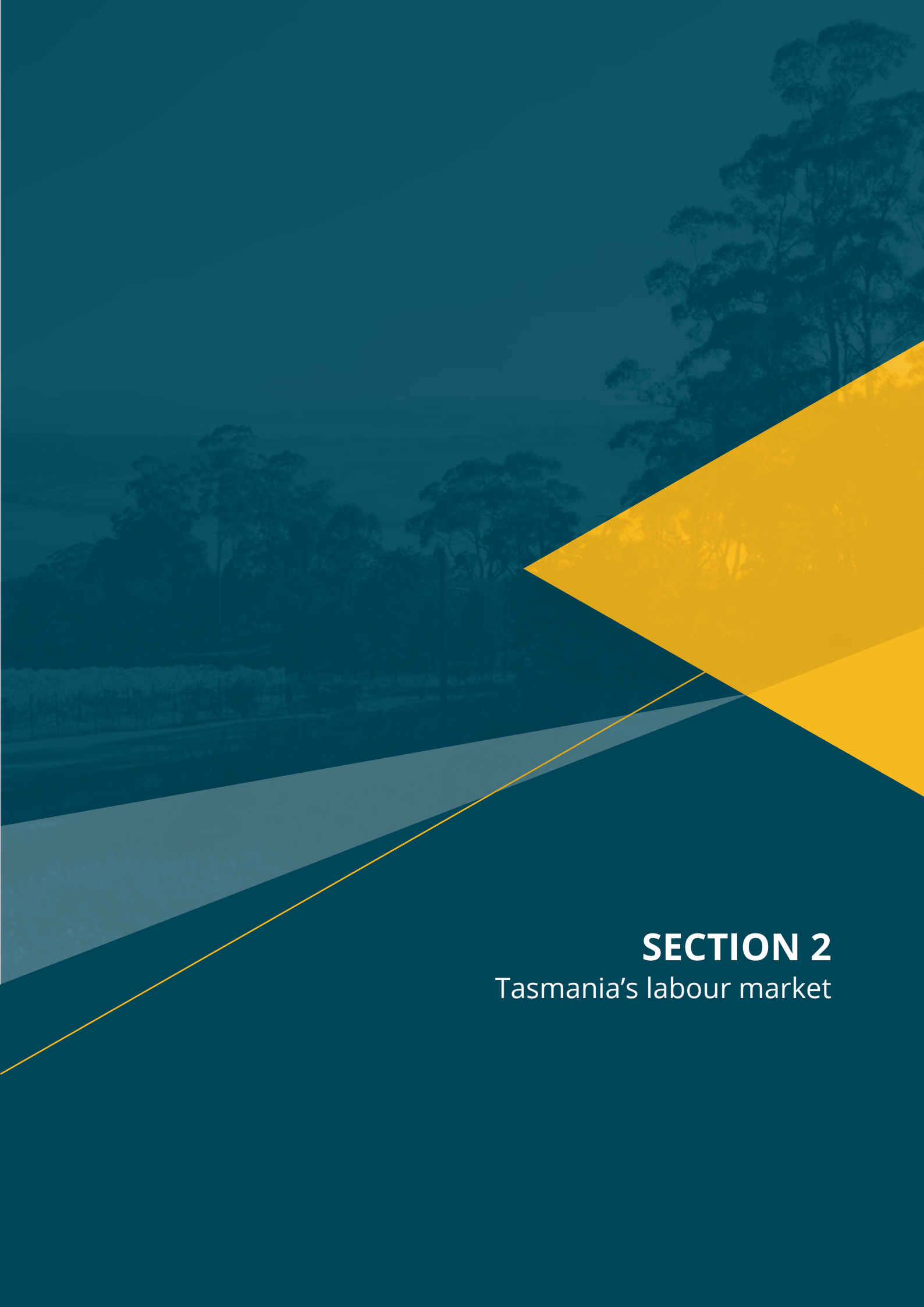
It bears repeating that the gap between Tasmania's per capita gross product and the national average can *only* be reduced by narrowing one or more of these three gaps.

None of these gaps can be narrowed easily, or rapidly. Indeed, as demonstrated in more detail in Section 4 of this report, Tasmania's rapidly ageing population profile will, if not offset by other factors, result in an inexorable widening in the employment participation gap over the next two or three decades, and will also tend to widen the hours worked gap.

Similarly, shifting the composition of Tasmanian economic activity and employment towards intrinsically higher-productivity industry sectors is almost impossible to achieve quickly, and difficult to attain slowly, even given the political will to implement the changes in policy settings most likely to be conducive to such an outcome.

The largest potential opportunities are likely to be found in strategies aimed at increasing productivity across each industry, encouraging a gradual shift in the structure of economic activity and employment towards higher-productivity industry sectors, and seeking to enable more people in each age group actively to seek and find employment.

There is no 'magic bullet' which can deliver immediate results in any of these areas. However, as stressed at length in the 2015 Tasmania Report, and again in this Report, the one strategy which is most likely to produce better outcomes in each of these dimensions is the pursuit of higher levels of educational participation and attainment.



SECTION 2

Tasmania's labour market

2. Tasmania's labour market

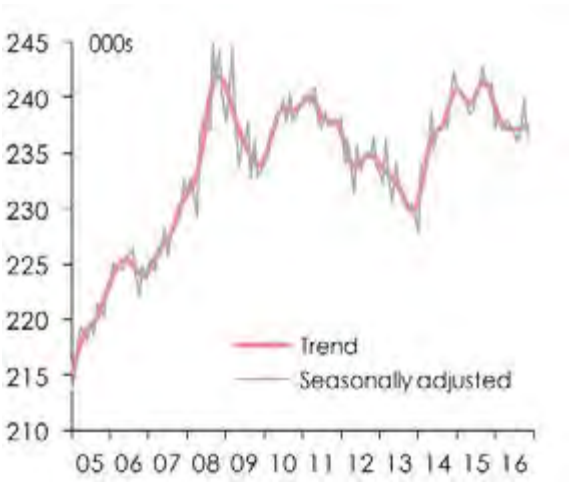
Economic growth in the 2015-16 financial year

After increasing by 2.9% in 2014-15 – more than double the national average – **employment** in Tasmania fell by 0.2% in 2015-16 – the fourth decline in the past five financial years. Tasmania was the only state or territory to have recorded a decline in employment in the 2015-16 financial year (Chart 2.1) – despite having recorded stronger growth in real gross product than Queensland, and only slightly slower growth in real gross product than South Australia (refer back to Chart 1.2).

Chart 2.1: Employment growth, states and territories, 2015-16

Source: ABS, The Labour Force (6202.0), Oct 2016.

Chart 2.2: Employment, Tasmania – monthly



Source: ABS, The Labour Force (6202.0), Oct 2016.

Taken at face value, the monthly labour force data (shown in Chart 2.2 above) suggest that Tasmania experienced a surge in employment (of more than 11,000 jobs, an increase of 4.8%) between October 2013 and December 2014; that employment then remained more or less steady until September 2015; after which it then fell by almost (4,300 or 1.8%) over the next ten months, before again levelling out during the first half of the current financial year.

Both the timing and magnitude of these apparent fluctuations in the level of employment in Tasmania are hard to reconcile with other data on the performance of the Tasmanian economy.

The more detailed industry-level data on employment in Tasmania casts further doubt on the veracity of the impression conveyed by the monthly employment series.

It's hard to believe, for example, that employment in public administration and safety increased by 3,700 or 25% between November 2013 and November 2014, given the reductions in state public sector employment which were occurring over that period. Similarly, it seems implausible that employment in both the electricity, gas and water and wholesale trade sectors really rose by almost 50% over the twelve months to November 2014, and then fell by 26% and 48%, respectively, over the following twelve months – accounting for nearly all of the decline in total employment in Tasmania over that latter period.

However, while there may be grounds for doubting whether the ABS labour force data accurately depict the trajectory of employment growth in Tasmania over the past two or three years, what is far less debatable is that there has been no net growth in employment in Tasmania since the onset of the global financial crisis – in marked contrast to the rest of Australia.

The level of employment in Tasmania in October 2016 (the latest available at the time of writing) was still 4,300 or 1.8% lower, in trend terms, than it was in October 2008, the month in which the Wall Street investment bank Lehman Brothers collapsed. By contrast, employment on the mainland was more than 11% higher in October 2016 than it had been in October 2008 (Chart 2.3).

Chart 2.3: Employment levels – Tasmania vs mainland

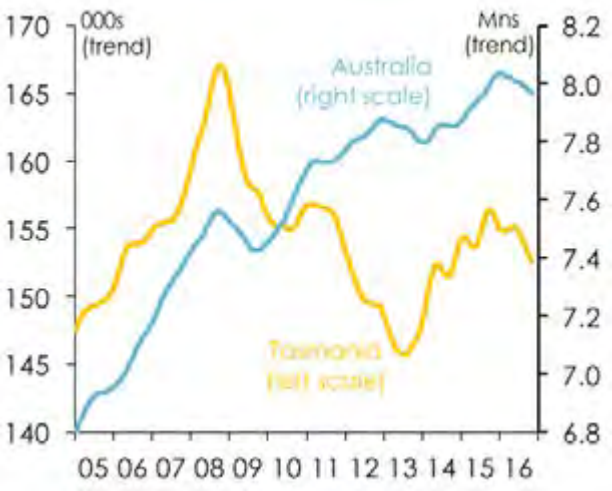
Note: Left and right axes are scaled to be of equal proportions.
Source: ABS, Labour Force (6202.0).

If employment in Tasmania had grown at the same rate over the past five years as it has on the mainland, there would now be an additional 31,200 jobs in Tasmania (equivalent to another Devonport).

Even if employment had grown at the same rate as in South Australia over the past eight years, there would have been an additional 12,150 jobs in Tasmania (almost equivalent to another Ulverstone).

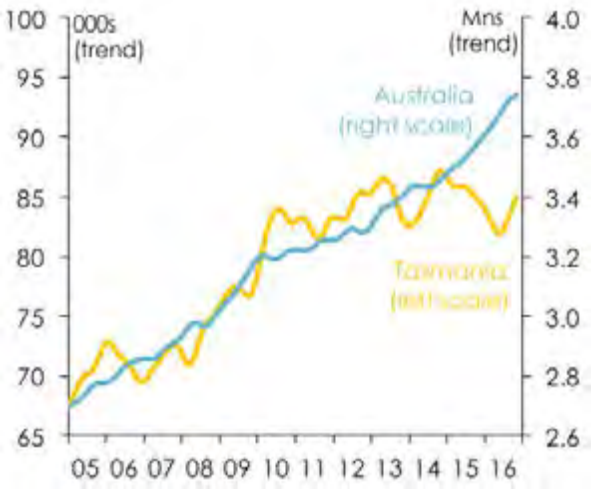
And while the overall level of employment has stagnated since the financial crisis, there has been a significant shift from full-time to part-time employment (Charts 2.4 and 2.5).

Chart 2.4: Full-time employment – Tasmania vs mainland



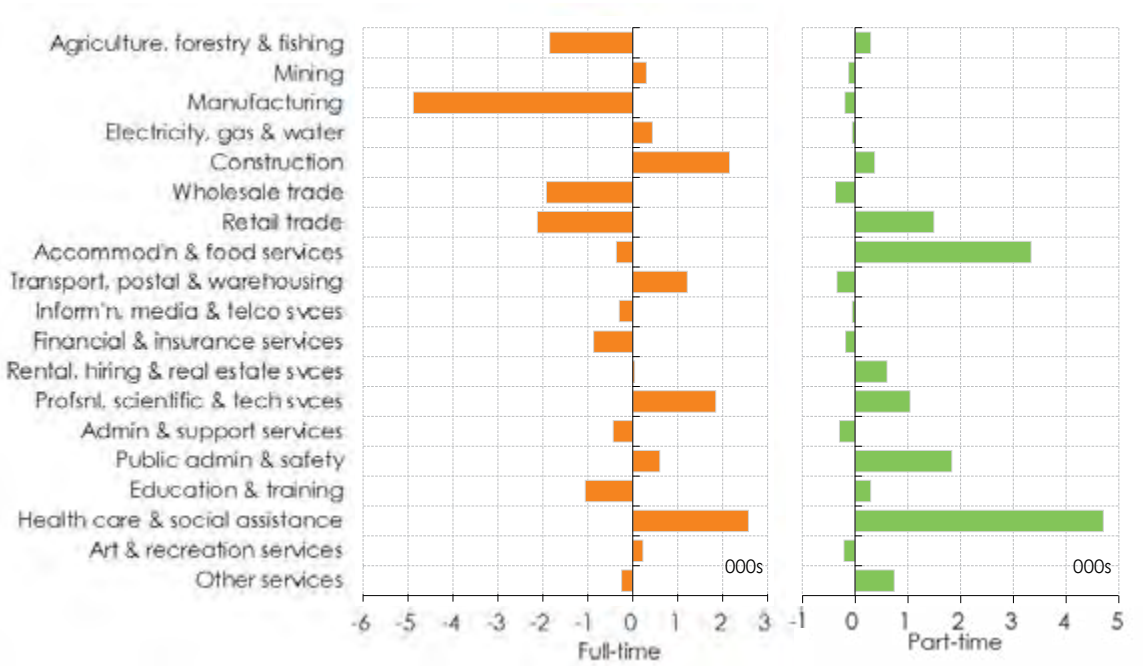
Note: Left and right axes are scaled to be of equal proportions.
Source: ABS, Labour Force (6202.0).

Chart 2.5: Part-time employment – Tasmania vs mainland



Note: Left and right axes are scaled to be of equal proportions.
Source: ABS, Labour Force (6202.0).

Chart 2.6: Change in full-time and part-time employment in Tasmania by industry sector, 2008-09 to 2015-16



Note: Employment figures for 2008-09 and 2015-16 are the averages of original data for August, November, February and May.
Source: ABS, The Labour Force, Australia, Detailed, Quarterly (6291.0.55.003), August 2016.

Full-time employment in Tasmania has fallen by 14,400 or 8.6% (in trend terms) since October 2008, compared with an increase of 5.5% on the mainland over this period. Part-time employment in Tasmania has risen by 13,400 or 10.0% over the past five years, compared with an increase of 25.1% on the mainland. However, all of this increase in part-time employment in Tasmania occurred between October 2008 and October 2012 – presumably driven in large part by people moving from full-time to part-time employment. There has been no net growth even in part-time employment in Tasmania over the past four years.

As shown in Chart 2.6, the decline in full-time employment in Tasmania since the global financial crisis has been concentrated in manufacturing, in particular, and to a lesser extent in agriculture, forestry and fishing, wholesaling and retailing. These losses have been partly offset by increases in full-time employment in health care and social assistance; construction; professional and technical services; and transport, postal and warehousing services. Growth in part-time employment has been dominated by health care and social assistance, accommodation and food services, retailing, and public administration and safety.

Over the past two years (ie, between 2013-14 and 2015-16), the construction and health care sectors have between them accounted for nearly three-quarters of the net increase in full-time employment, with most of the remainder in public administration and safety, professional and technical services, and transport. Health care and social assistance, and accommodation and food services, have contributed the lion's share of the gains in part-time employment over the past two years.

Unemployment and under-employment

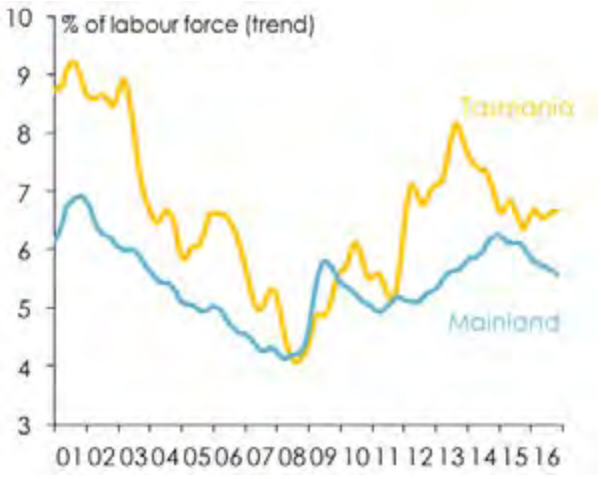
As a direct corollary of the apparent decline in employment since September 2015, Tasmania's (trend) **unemployment rate** has drifted up from a most recent low of 6.4% in August, September and October 2015 to 6.7% in September and October 2016 (the latest available data at the time of writing) (Chart 2.7).

Since September, Tasmania once again has the highest unemployment rate of any state or territory, after 20 consecutive months when that dubious title was instead held by South Australia. Despite its upward drift since mid-2015, Tasmania's unemployment rate remains well below the peak of 8.2% reached in August 2013.

As is often the case during periods of weakness in the Tasmanian labour market, the increase in Tasmania's unemployment rate would have been higher but for a renewed decline in the **labour force participation rate**, from 61.0% in August 2015 to 59.7% from April through October 2016, only just above the low reached during the recession of 2012-13 (Chart 2.8).

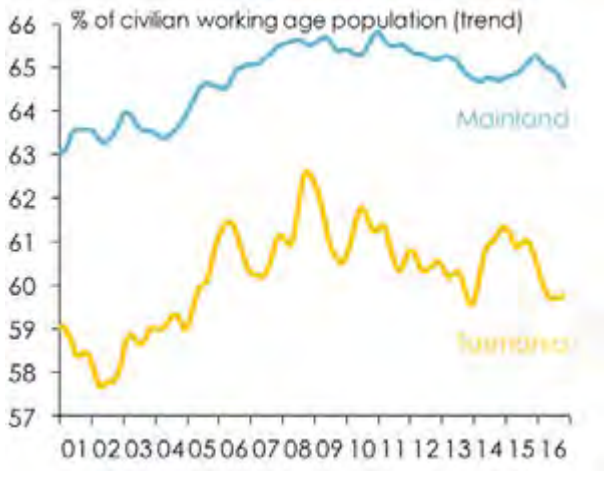
Had the labour force participation rate remained at its August 2015 level, then all else being equal, recorded unemployment rate would have reached 8.6% (above the August 2013 peak).

Chart 2.7: Unemployment rate, Tasmania and mainland



Source: ABS, The Labour Force (6202.0), Oct 2016.

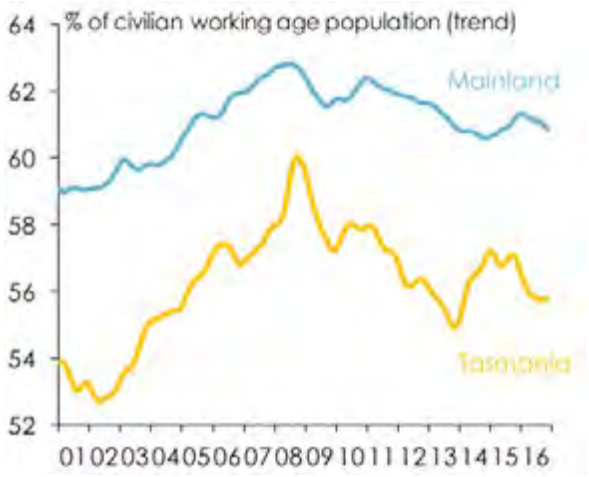
Chart 2.8: Labour force participation rate, Tasmania and mainland



Source: ABS, The Labour Force (6202.0), Oct 2016.

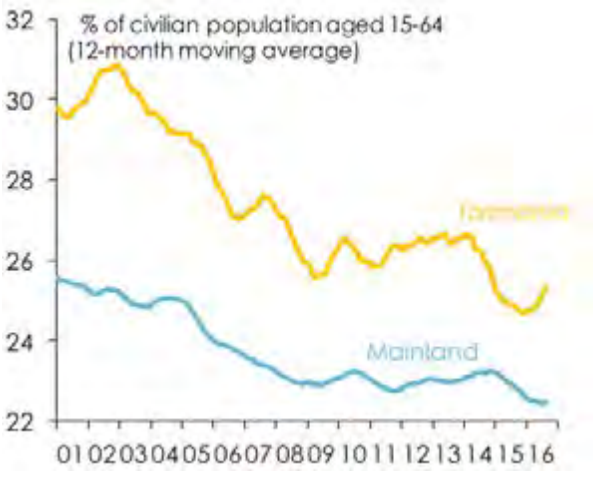
Reflecting both the increase in the measured unemployment rate and the decline in the participation rate, Tasmania's **'employment rate'**[12] has fallen to 55.7-55.8% since April 2016, down from a most recent peak of 57.1% in September 2015, and 5¼-5½ pc points below the mainland figure, the widest margin since the recession of 2012-13 (Chart 2.9).

Chart 2.9: 'Employment rate', Tasmania and mainland



Source: ABS, The Labour Force (6202.0), Oct 2016.

Chart 2.10: 15-64 year olds not in the labour force, Tasmania and mainland



Source: ABS, The Labour Force, Detailed – Electronic Delivery (6290.0.55.001), October 2016.

As explained in Section 1, about two-thirds of the difference between Tasmania's 'employment rate' and that of the rest of Australia is the result of a larger proportion of Tasmania's 'working age' (15 and over) population being 65 or over, and hence far less likely to be actively participating in the labour market.

However, the other one-third is the result of lower labour force participation rates among all age groups in Tasmania, other than 15-19 year-olds, than on the mainland. After declining for much of the past 15 years, the proportion of Tasmanians aged 15-64 who are neither in employment nor actively looking for work (that is, 'not in the labour force') has been rising again since mid-2015, in contrast to the continuing downward trend on the mainland (Chart 2.10).

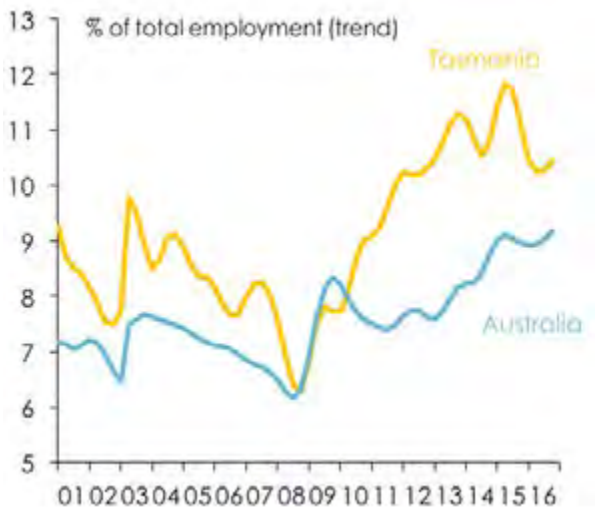
This suggests that the incidence of 'hidden unemployment' in Tasmania is also increasing again.

Another dimension of **'hidden unemployment'** is the increasing number of people who, though having a job (and thus not counted as 'unemployed'), are nonetheless working fewer hours than they would like to. This has been an Australia-wide experience since the onset of the global financial crisis, but it has been more acutely felt in Tasmania than anywhere else in Australia (except, in the past year, in South Australia).

In August 2016, 10.5% of employed Tasmanians reported that they were working fewer hours than they were willing and available to – down from a peak of 11.8% in February 2015[13], but nonetheless higher than in any other state or territory except South Australia, and 1.3 pc points above the national average (Chart 2.11).

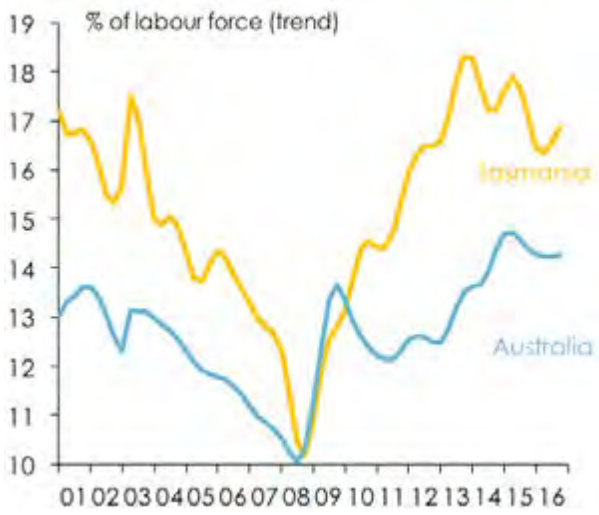
[12] Defined here as the proportion of the working-age population (that is, the civilian population aged 15 and over) who are employed. This differs from the 'employment rate' concept used in Section 1, in which the denominator was the total population (ie, including those aged under 15, and defence personnel), in order to demonstrate the relationship between the proportion of the population in employment and per capita gross product.
[13] Seasonally adjusted and trend data on labour force 'under-employment' and 'under-utilisation' are only available for the middle month of each quarter, although the ABS has been publishing monthly data on an unadjusted basis since July 2014.

Chart 2.11: 'Under-employment ratio', Tasmania and Australia



Source: ABS, The Labour Force (6202.0), Oct 2016.

Chart 2.12: Labour force 'under-utilisation rate', Tasmania and Australia

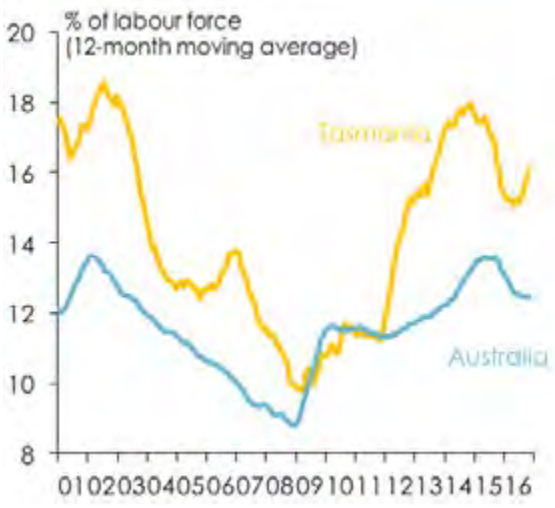


Source: ABS, The Labour Force (6202.0), Oct 2016.

When this 'under-employment' rate is combined with the conventional unemployment rate, what the ABS refers to as the '**labour force under-utilisation rate**' for Tasmania stood at 16.9% in August 2016 – down from the peak of 18.3% in August and November 2013, but up slightly from 16.3% in February 2016. Tasmania's 'under-utilisation' rate was higher than for any other state or territory except South Australia, and 2.6 pc points above the national average (Chart 2.12).

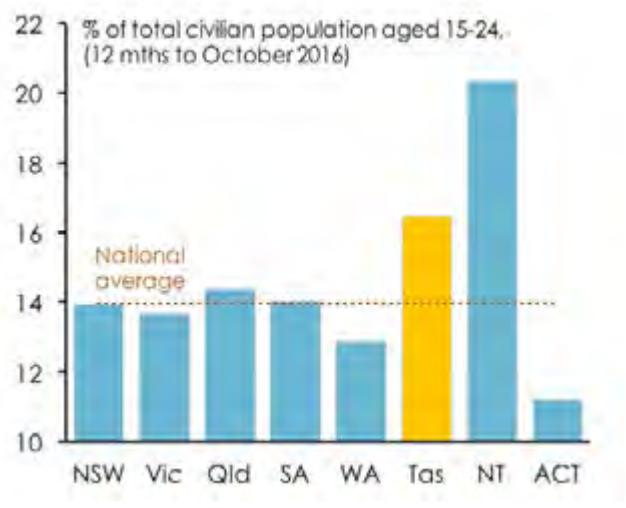
Tasmania continues to suffer from very high **youth unemployment**. The unemployment rate of Tasmanians aged 15-24 has risen by 1 pc point, to an average of 16.1% over the twelve months ended October 2016, since earlier this year (Chart 2.13) and remains higher than in any other state or territory. Tasmania also has a higher proportion of people aged 15-24 who are neither in employment nor attending full-time education, than any other jurisdiction except the Northern Territory (Chart 2.14).

Chart 2.13: Youth (15-24) unemployment rate, Tasmania and Australia



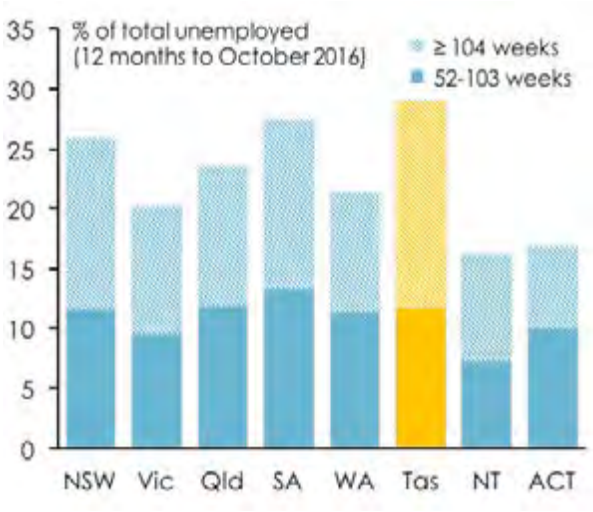
Source: ABS, The Labour Force (6202.0), Oct 2016.

Chart 2.14: 15-24 year olds in neither employment nor full-time education



Source: ABS, The Labour Force (6202.0), Oct 2016.

Chart 2.15: Long-term unemployment, states and territories, year to October 2016



Source: ABS, The Labour Force, Detailed – Electronic Delivery (6290.0.55.001), October 2016.

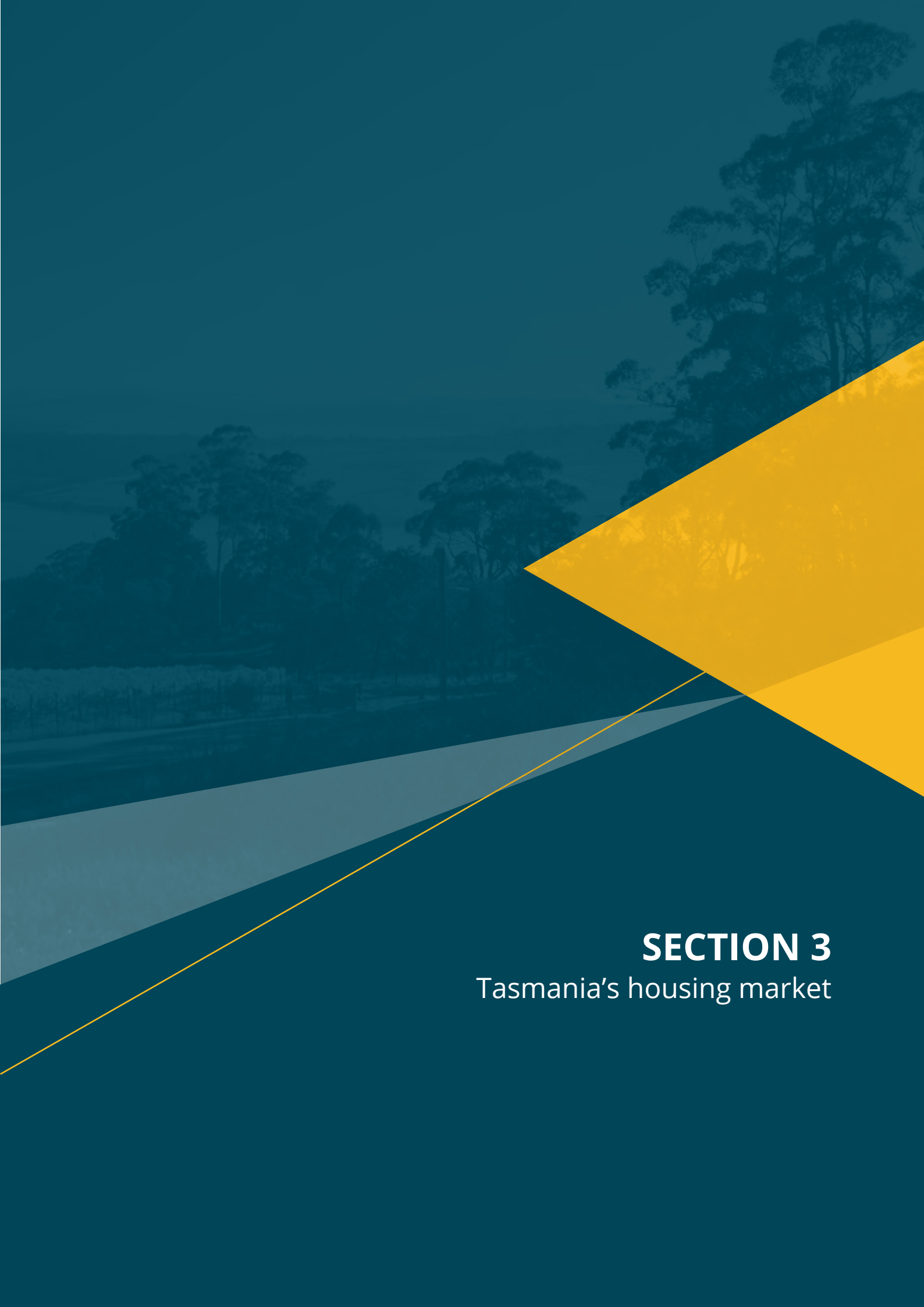
Chart 2.16: Very long-term unemployed, Tasmania and mainland

Source: ABS, The Labour Force, Detailed – Electronic Delivery (6290.0.55.001), October 2016.

These high rates of youth unemployment, and of youth disengagement from the education system (which is also reflected in Tasmania's relatively low rates of participation in, and completion of, upper secondary school education), are almost certainly a major reason for Tasmania's continuing experience of a higher incidence of **long-term unemployment** than any other state or territory (Chart 2.15).

Although the proportion of unemployed Tasmanians who have been looking for work between one and two years has fallen significantly over the past two years, the proportion who have been out of work for more than two years has continued to increase, to its highest level in almost a decade (Chart 2.15).

The very high incidence of long-term unemployment in Tasmania is, in turn, a major reason for Tasmania having a much higher proportion of households assigned to the lowest socio-economic status (SES) quintiles, an indicator of entrenched poverty, than any other state or territory, (as discussed in Section 4).



SECTION 3

Tasmania's housing market

3. Tasmania's housing market

Tasmania's housing market is typically less vibrant than that of most other states or territories, as might be expected given Tasmania's slower population growth and economic growth rates and lower average incomes.

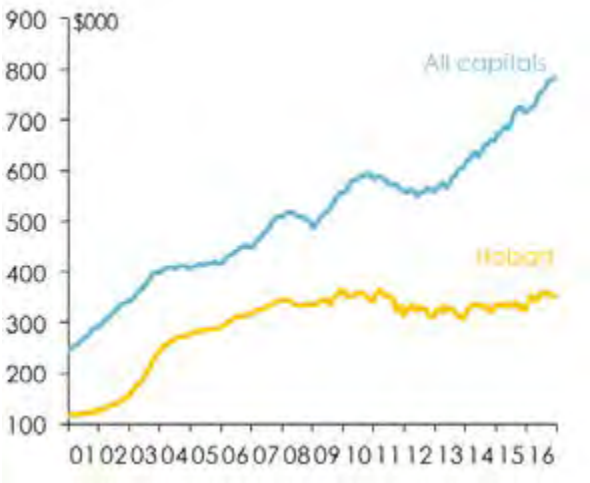
While the property market has been less of an escalator for household wealth in Tasmania than in other parts of Australia, the other side of this coin is that housing affordability has not deteriorated – at least for would-be home-buyers – as much as in other states, and the home ownership rate in Tasmania has actually risen slightly over the past two decades, in contrast to the declines experienced in every other state.

On the other hand, rents in Tasmania are typically not as low relative to the mainland as property prices are, so that low-income Tasmanian households face similar problems with regard to the affordability of rental housing as their counterparts in other parts of Australia.

Residential property prices

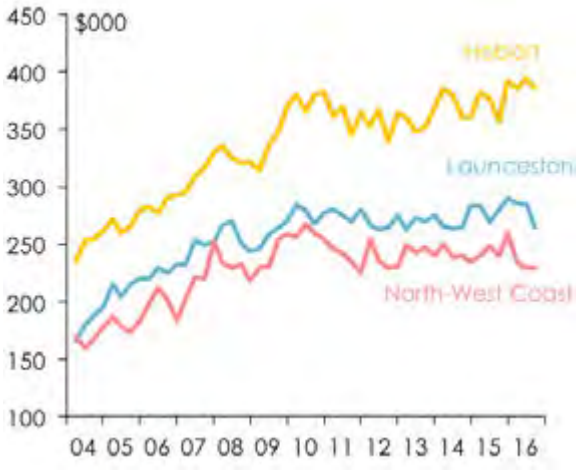
Hobart dwelling prices rose by 8.5% over the twelve months to November 2016, according to the 'hedonic' (quality-adjusted) series compiled by CoreLogic RP Data, the third largest increase of any of the state or territory capital cities behind only Sydney (13.1%) and Melbourne (11.3%). Hobart residential property prices have now finally surpassed their pre-financial crisis peak – the last capital city to do so – having fallen by 14.6% between February 2008 and their trough in October 2012 (much more than the all-capitals average of 4.3%). Since then, Hobart prices have risen by 13.9% - much less than the all-capitals average of 32.3% (Chart 3.1). The all-capitals average largely reflects outsized gains in Sydney (67.3%) and Melbourne (46.3%) from their post-crisis troughs. By contrast, residential property prices in Perth and Darwin have fallen by 9.2% and 5.8%, respectively, from their mining boom peaks.

Chart 3.1: Residential property prices – Hobart and all-capitals average



Source: CoreLogic RP Data, Hedonic Home Value Index.

Chart 3.2: Median house prices – Tasmanian population centres



Source: Real Estate Institute of Tasmania, Quarterly Property Report.

Chart 3.2 shows median house prices for the major Tasmanian population centres as compiled and published by the Real Estate Institute of Tasmania. They present a similar picture for Hobart to that depicted by the CoreLogic measure, with median prices for Hobart houses in the September quarter of 2016 being 7.8% higher than a year earlier, taking the moving annual median price to a record high of $389,000.

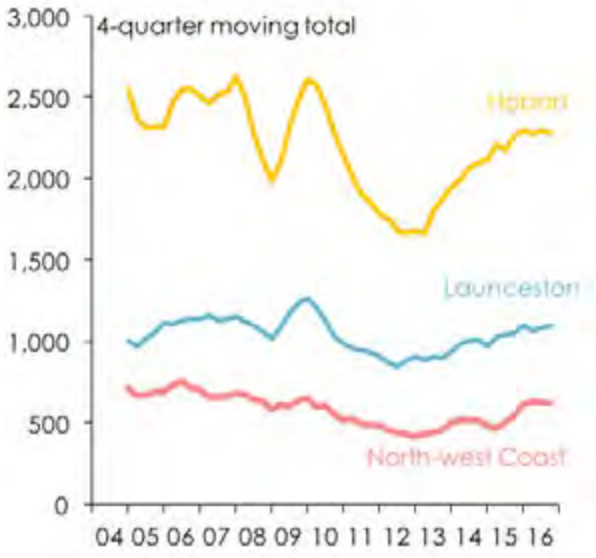
Property market conditions in Tasmania's other population centres have moved in the opposite direction to Hobart over the past year. Median house prices in Launceston fell by 5.4% over the year to the September quarter, while prices along the North-West Coast fell by 4.2%. The moving annual median for Launceston of $281,500 is still close to its most recent high, but the corresponding figure for the North-West Coast of $238,750 is down more than 8% from the peak of five years previously.

The upturn in the Hobart market reflects gradually strengthening demand, evident in the upward trend in the volume of sales since 2013, which have now recovered more than half the decline experienced between 2009 and 2012.

Taking account of the increase in average prices, the total value of residential property sales in the South of the state in the 2015-16 financial year, of $1.78bn, was very close to the record high set in 2009-10.

By contrast, sales volumes in the North and the North-West have grown more modestly, having not experienced as large a down-turn in the early years of this decade. The growth in sales on the North-West Coast was sufficient to set a new record for the value of sales, of $478mn in 2015-16.

Chart 3.3: Volume of residential property sales, Tasmanian population centres



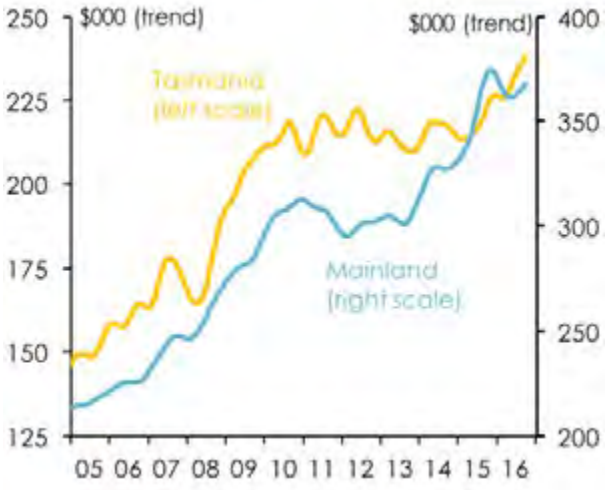
Housing finance

As noted earlier in Section 1, the value of housing finance commitments to owner-occupiers in Tasmania has picked up quite strongly since the middle of 2015, in contrast to the declining trend evident on the mainland (refer back to Chart 1.15), largely driven by pronounced falls in Western Australia and the Northern Territory, more recently joined by New South Wales and Victoria.

This pick-up in the value of housing finance commitments to Tasmanian home-buyers largely reflects an increase of almost 10% in the size of the average new mortgage, from $215,600 in the 2014-15 financial year to $236,600 in the first quarter of the current financial year (Chart 3.4).

The increase in the number of new finance commitments has been more modest, from an average of about 940 per month in both 2014-15 and 2015-16 to just over 1,000 per month thus far during the current financial year (Chart 3.5).

Chart 3.4: Average new mortgage, owner-occupiers, Tasmania and mainland



Source: ABS, Housing Finance (5609.0), September 2016.

Chart 3.5: No. of finance commitments to owner-occupiers, Tasmania and mainland

Source: ABS, Housing Finance (5609.0), September 2016.

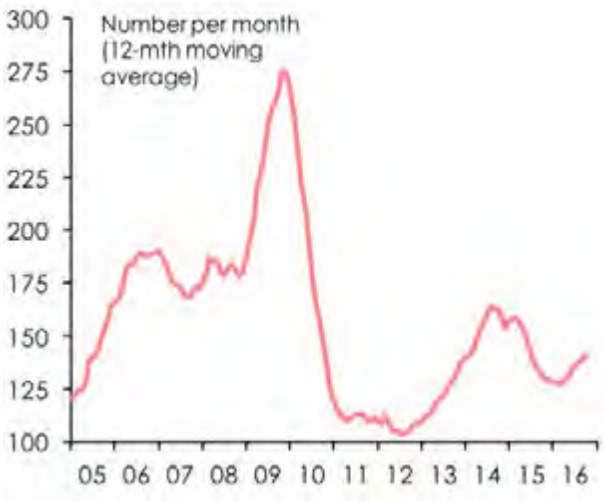
Another notable feature of this recent upswing in lending to Tasmanian home-buyers is that a larger-than-usual share of it has been for the re-financing of existing loans, as distinct from the purchase of a new or existing home (see Chart 1.16 in Section 1, and Chart 3.6 below). This presumably reflects an increasing proportion of Tasmanian home-owners judging that interest rates are about as low as they are likely to get, and seeking to insure against possible future rate increases. It also implies, however, that a smaller proportion of this increase in lending to Tasmanian home-buyers will be reflected in an increased volume of real estate transactions.

There has been only a modest increase in lending to first-home buyers, despite the back-dated extension of the First Home Builder Grant announced in the 2016-17 state Budget (Chart 3.7). To the extent that this does induce an increase in purchases by first home buyers in 2016-17, it is likely to be at the expense of transactions in subsequent years (as with similar measures in the past).

Chart 3.6: Refinancing as a share of total finance commitments, Tasmania

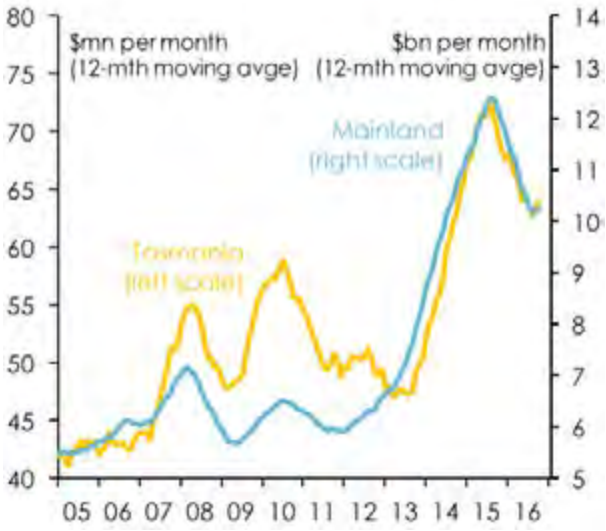
Source: ABS, Housing Finance (5609.0), September 2016.

Chart 3.7: Housing finance commitments to first home buyers, Tasmania



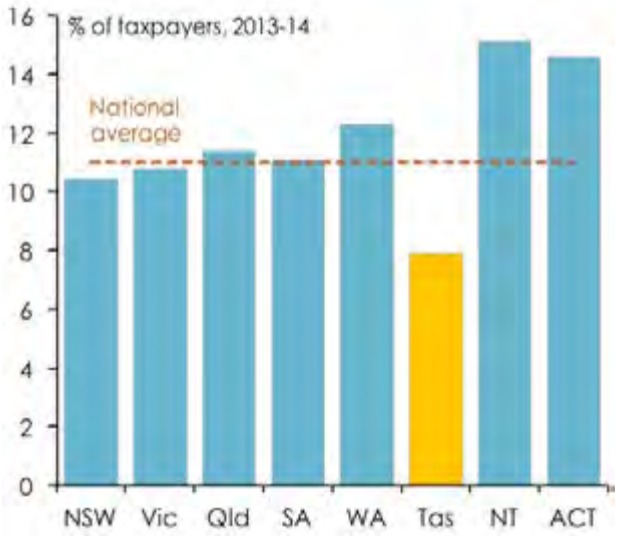
Source: ABS, Housing Finance (5609.0), September 2016.

Chart 3.8: Housing finance commitments to investors, Tasmania and mainland



Source: ABS, Housing Finance (5609.0), September 2016.

Chart 3.9: Negatively-geared landlords, states and territories, 2013-14



Source: Australian Taxation Office, Taxation Statistics, 2013-14, Table 4.

Housing finance commitments to Tasmanian investors have declined by 11.4% from the peak in the twelve months ended July 2015, in the wake of the tightening in lending standards to property investors instigated by the Australian Prudential Regulatory Authority (APRA) from the beginning of 2015 (Chart 3.8). The decline in lending to Tasmanian property investors over this period has been less pronounced than in any other state or territory, largely because the upswing over the preceding 4½ years had been much more modest (33%, compared with an increase of 111% on the mainland).

Investors have historically played a smaller role in the Tasmanian property market than elsewhere in Australia, in part because home ownership has been more readily attainable in Tasmania than in other states, and hence the demand for private rental accommodation has been relatively lower. Investors accounted for only 22% of total lending for the construction or purchase of housing in Tasmania over the decade to 2015-16, well below the national average of 34%.

Another reason may be that Tasmanians aren't as wealthy, on average, as other Australians and thus have less capacity to undertake investment in property (or other assets). Reflecting that, fewer than 8% of Tasmanian personal taxpayers report net losses on rental property investments, less than in any other state or territory and well below the national average of 11% in 2013-14, the most recent year for which data are available (Chart 3.9).

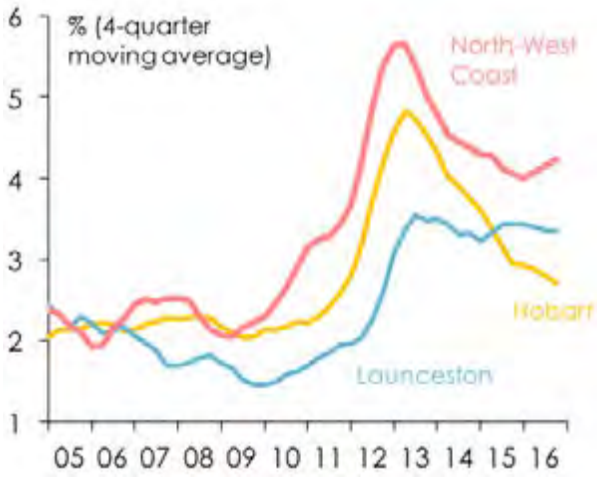
Along with slower population growth (and hence slower growth in the 'underlying' demand for housing), and the absence of any pronounced shortfall in housing supply relative to demand, the comparatively low profile of investors (both domestic and foreign) in the Tasmanian housing market has been a reason for the more subdued trajectory of residential property prices in Tasmania compared with, in particular, mainland capital cities. Arguably, however, that also leaves the Tasmanian market less exposed to some of the downside risks to property prices potentially facing the more expensive mainland markets.

The rental market

As noted in the introduction to this section, while rents are typically lower in Tasmania than in other states and Territories, they aren't lower by as large a margin as property prices are. Thus, for example, while median Hobart dwelling prices are currently just under half the average for all capital cities (according to CoreLogic data), the median rent for a three-bedroom house in Hobart is 'only' 18%, and for a two-bedroom unit 'only' 28%, below the corresponding average for all capital cities (according to REIA data).

Given that per capita household disposable income in Tasmania is about 14% below the national average, this means that renting a home is not conspicuously more affordable in Tasmania (especially for families with children, who are more likely to require a house rather than an apartment) than it is elsewhere in Australia – in contrast to the housing affordability situation facing home-buyers in Tasmania.

Chart 3.10: Rental vacancy rates – Tasmanian population centres

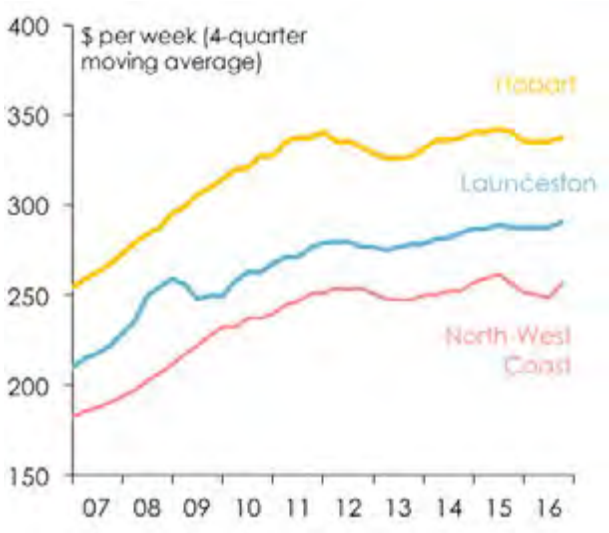


Source: Real Estate Institute of Tasmania,

The Hobart rental market has continued to tighten during 2016, with the vacancy rate falling to just 2.4% in the September quarter. In Launceston, the vacancy rate has remained at around 3% since mid-2012, while the vacancy rate along the North-West Coast has levelled out at around 4%, after declining from a peak of 5¾% in early 2013.

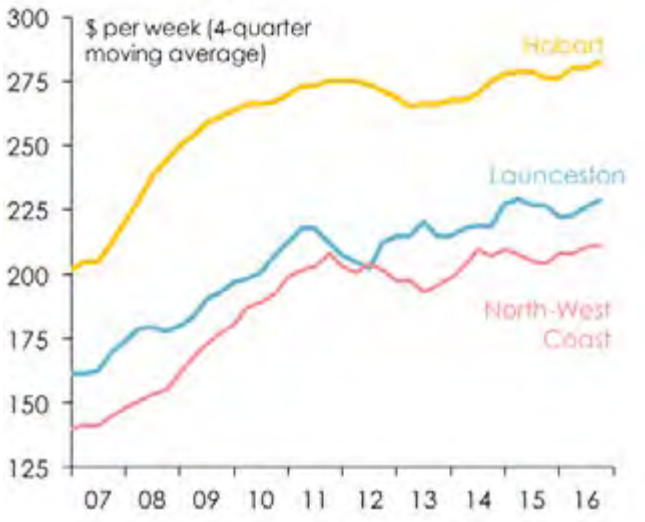
Despite the decline in vacancy rates, median rents for 3-bedroom houses in Hobart have remained stable over the past two years, although rents for 2-bedroom units have risen by about 6% (Charts 3.11and 3.12).

Chart 3.11: Median rents, 3-br houses



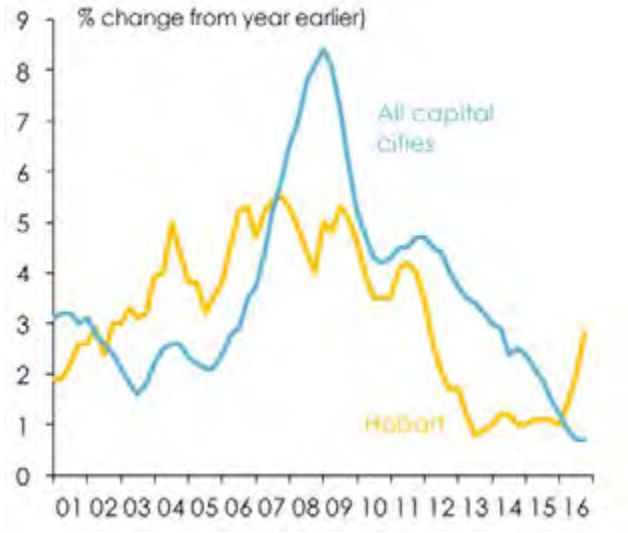
Source: Real Estate Institute of Tasmania

Chart 3.12: Median rents, 2-br units



Source: Real Estate Institute of Tasmania

Chart 3.13: Rents in the CPI – Hobart and all capital cities



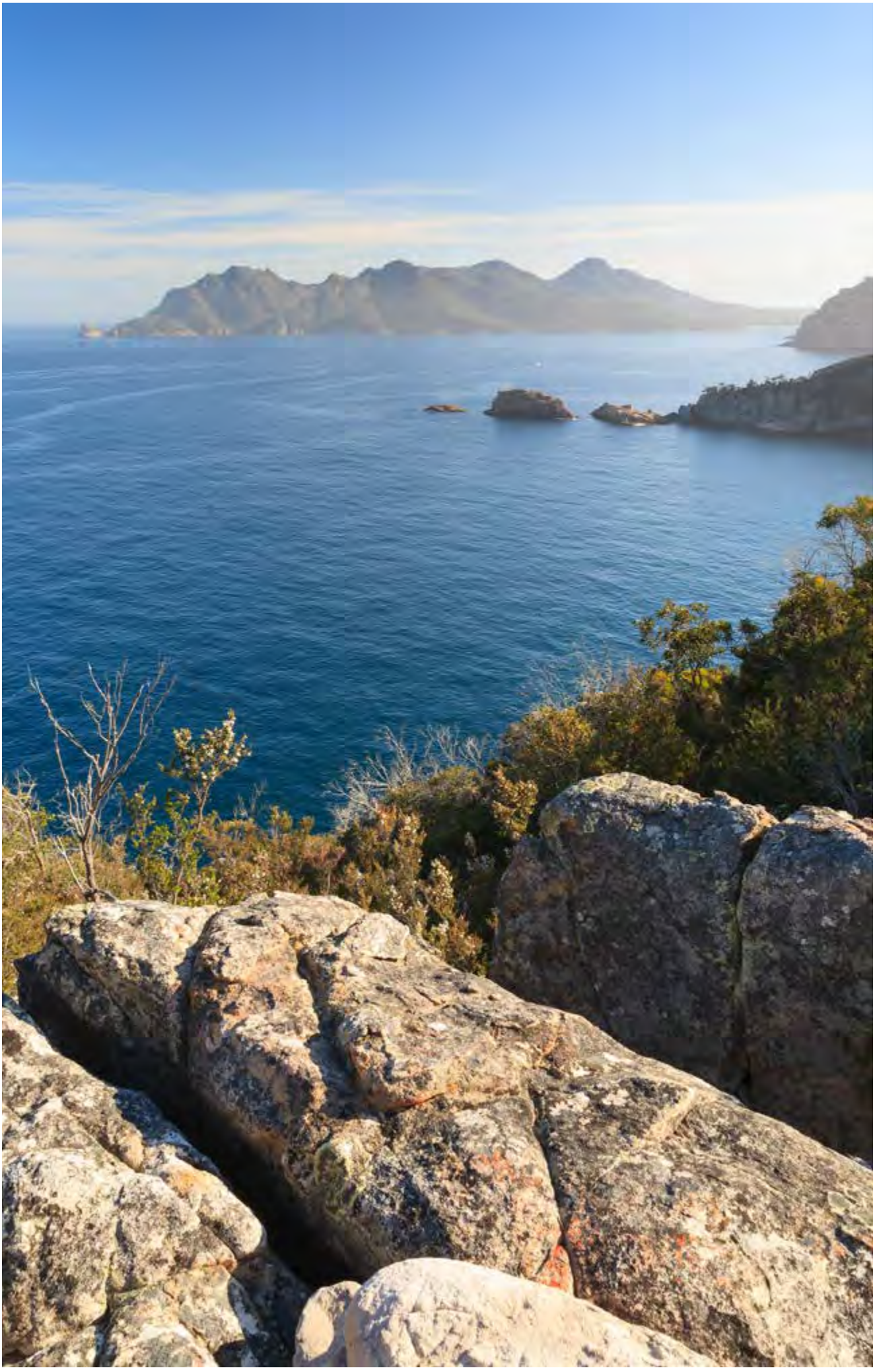
Source: ABS, Consumer Price Index (6401.0), September quarter 2016.

The measure of rents included in the consumer price index for Hobart rose by 2.8% over the year to the September quarter 2016, a significant acceleration from the pace of the three previous years, and in marked contrast to the ongoing decline in the rate of rent inflation across all capital cities, on average (Chart 3.13).

The pronounced slowing in the rate of rent inflation in the all-capitals average CPI over the year to the September quarter largely reflects falls of 6.4% in Perth and, to a lesser extent, 7.7% in Darwin, in line with the rapid change in rental market conditions in those cities as the mining boom has unwound.

If Tasmania's, and in particular Hobart's, population were to begin to grow more rapidly, upward pressure on rents in Tasmania would almost certainly continue.

(Note: recent trends in and prospects for dwelling construction are discussed in Section 1).



SECTION 4

Tasmania's population and society

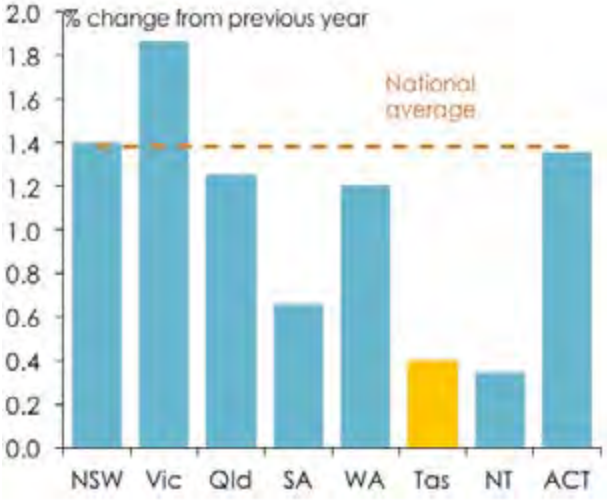
4. Tasmania's population and society

This section examines trends in the growth rate and composition of Tasmania's population, both in the recent past and prospectively; and various indicators of the well-being, both material and in other respects, of Tasmania's population.

Population growth

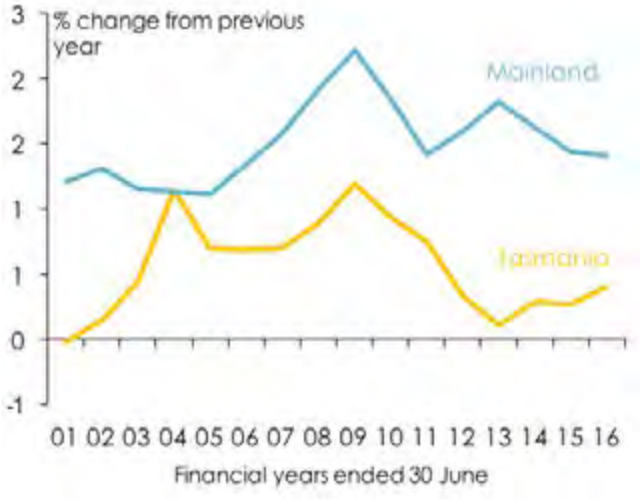
Tasmania's population grew by 0.4% in the 2015-16 financial year, as usual the slowest of any state, although for the second year in a row Tasmania's population grew faster than that of the Northern Territory (Chart 4.1). Tasmania's population growth rate in 2015-16 was the fastest in any financial year since 2010-11, while the national population growth rate was the slowest since 2005-06 (Chart 4.2).

Chart 4.1: Population growth, states and Territories, 2015-16



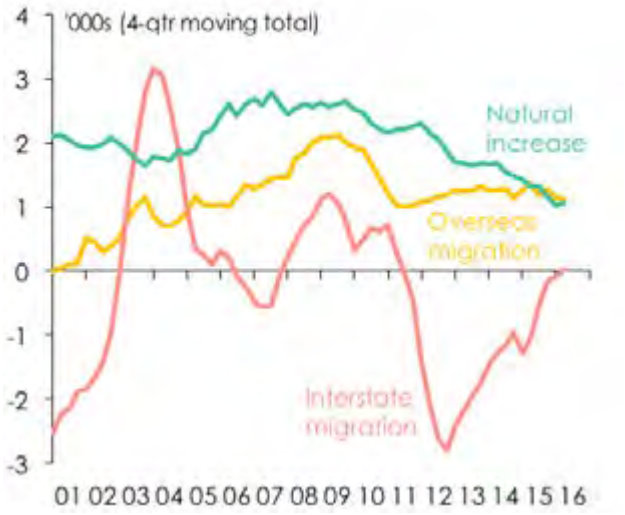
Source: ABS, state Accounts (5220.0), 2015-16.

Chart 4.2: Population growth, Tasmania and mainland



Source: ABS, state Accounts (5220.0), 2015-16.

Chart 4.3: Components of Tasmania's population growth



Source: ABS, Australian Demographic Statistics (3101.0), March 2016.

The gradual pick-up in Tasmania's population growth over the past four years reflects a decline in **net interstate emigration**, to the point where, in the four quarters ended March 2016, more people moved south across Bass Strait than in the other direction for the first time in five years (Chart 4.3). Almost 11,100 people moved from the mainland to Tasmania in the year ended March 2016, the highest number in more than four years; while just over 11,000 people moved from Tasmania to the mainland, down from a most recent peak of almost 13,000 in the year ended June 2012.

The reversal in the flow of net interstate migration since 2013 has largely offset a slow but steady decline in the **'natural' rate of increase** in Tasmania's population, which has more than halved over the last five years, from 0.5% pa to 0.2% (compared with a much smaller decline, from 0.7% to 0.6%, in the 'natural' rate of increase in the national population). As explained in more detail below, this is a direct result of Tasmania's more rapidly ageing population profile.

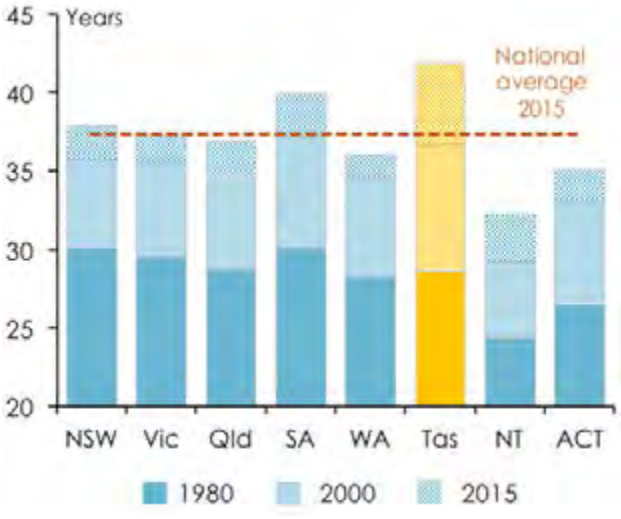
Overseas immigration to Tasmania has slowed marginally, from a most recent high of just over 1,300 in the year ended September 2013, to just over 1,100 in the year ended March 2016. Over the same interval the national immigration intake has dropped by nearly one-quarter, largely as a result of very large falls in immigration to Queensland, Western Australia and the Northern Territory following the peak in the mining boom, partly offset by increased immigration to New South Wales and Victoria.

The age structure of Tasmania's population

Tasmania's population is **older**, and **ageing more rapidly**, than that of any other state or territory.

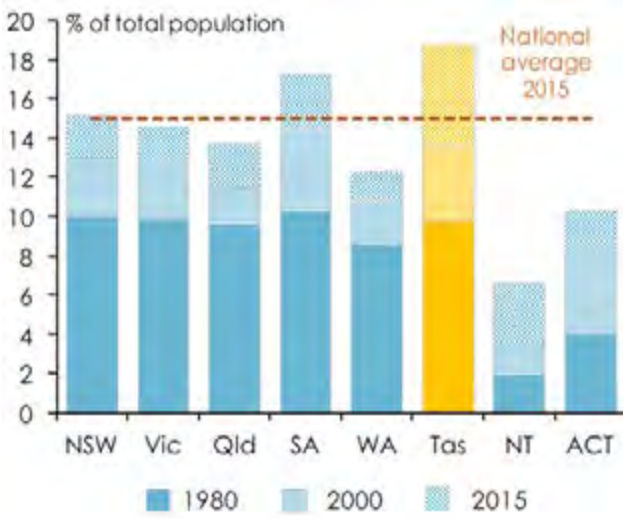
In June 1980, the median age of Tasmania's population was, at 28.6 years, almost a year younger than the national average (Chart 4.4), while the proportion of Tasmania's population aged 65 and over was, at 9.7%, about the same as that of Australia's as a whole (Chart 4.5). By June 2000, Tasmania's median age had risen by 8 years, to 36.7 years, which was more than a year above the national figure; while the proportion of Tasmania's population aged 65 or over had risen to 13.5%, more than 1 pc point above the national average. By June 2015, Tasmania's median age had risen by another 5.2 years, to just under 42, some 4½ years above the national average, which rose by only 2 years (to just over 37 years) between 2000 and 2015. The proportion of Tasmania's population aged 65 and over rose by another 4.8 pc points, to 18.3%, between 2000 and 2015, 3.3 pc points above the national average.

Chart 4.4: Median age, states and territories, 1980, 2000 & 2015



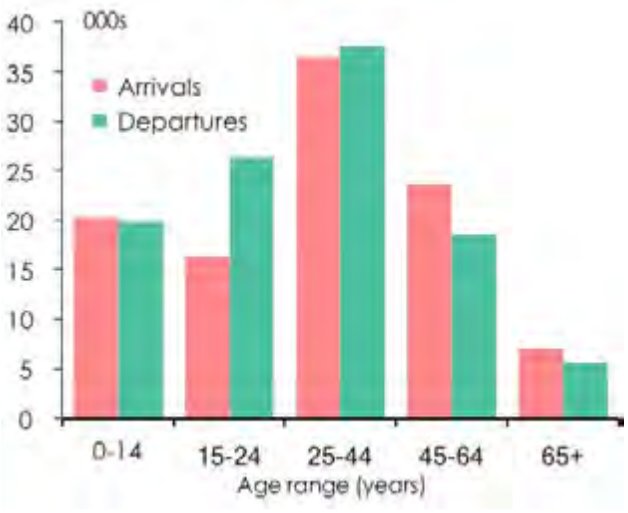
Source: ABS, Australian Demographic Statistics (3101.0), March 2016.

Chart 4.5: Pc of population aged 65 and over, states and territories, 1980, 2000 & 2015



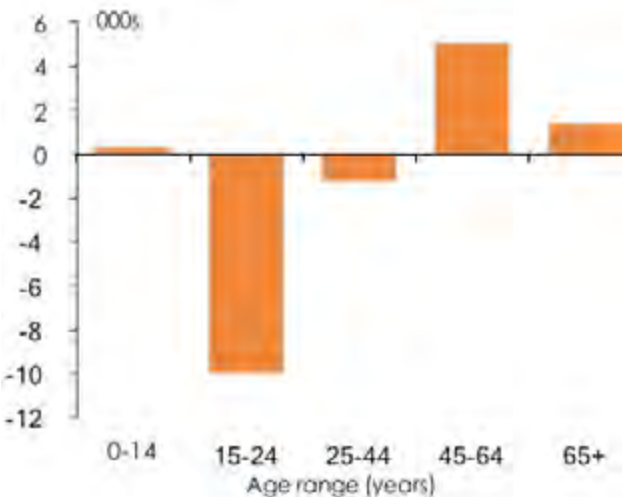
Source: ABS, Australian Demographic Statistics (3101.0), March 2016

Chart 4.6: Interstate migration to and from Tasmania by age, 2006-07 to 2014-15



Source: ABS.Stat, Regional Internal Migration Estimates (RIME).

Chart 4.7: Net interstate migration to and from Tasmania by age, 2006-07 to 2014-15



Source: ABS, ABS.Stat, Regional Internal Migration Estimates (RIME).

While population ageing in most economically 'advanced' societies around the world, and also in a number of 'developing' economies (such as China) is the inevitable result of declining birth rates and longer life expectancies, the rate at which Tasmania's population is ageing has been exacerbated by the pattern of migration between Tasmania and the mainland.

Over the past decade, just under 108,000 people have moved from Tasmania to the mainland, while almost 103,600 people have moved in the opposite direction – a net 'loss' of just under 4,400 people.

But the age structure of people moving south across Bass Strait has been quite different from that of people moving north.

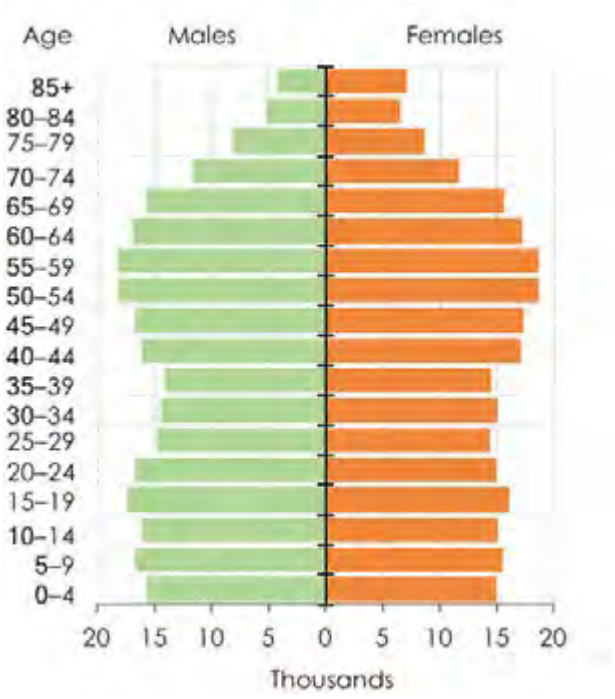
Between 2006-07 and 2014-15, 26,270 people aged 15-24 left Tasmania for the mainland, almost 10,000 more than the number of 15-24 year olds who moved from the mainland to Tasmania (Charts 4.6 and 4.7). More than 37,650 people aged 25-44 moved from Tasmania to the mainland during this period, 1,260 more than moved from the mainland to Tasmania.

On the other hand, the number of people aged 45-64 moving south across Bass Strait exceeded the number in the same age range moving in the opposite direction by more than 5,000; while Tasmania gained 1,400 people aged 65 or over from the mainland than it lost to the mainland.

Even in those years where the total number of people moving to Tasmania from the mainland exceeded the number leaving (such as from 2007-08 to 2009-10), Tasmania still recorded a net outflow of people aged 15-24.

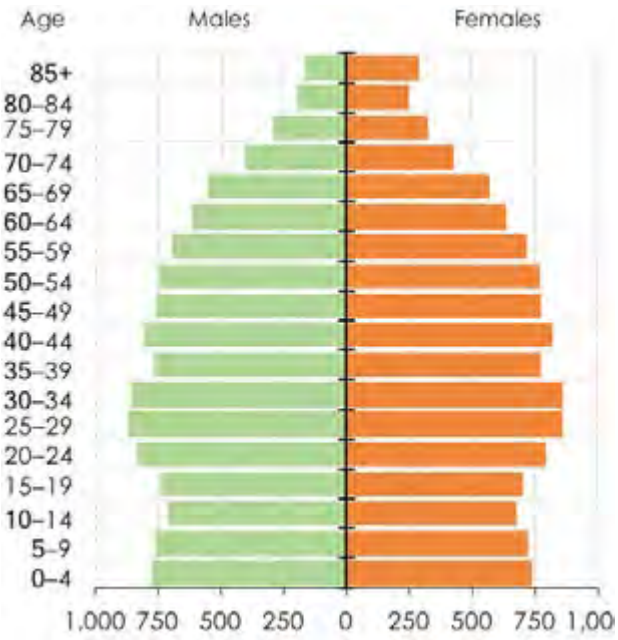
In simple terms, Tasmania has been a 'net exporter' of teenagers and young adults – who, anecdotal evidence strongly suggests, are pursuing educational, employment and other opportunities that they believe are more plentiful on the mainland (or beyond) than in Tasmania – and a 'net importer' of middle-aged and older people – attracted by Tasmania's 'lifestyle', cheaper housing, and other things besides.

Chart 4.8: Age structure of Tasmania's population, June 2015



Source: ABS, Australian Demographic Statistics (3101.0), March 2016.

Chart 4.9: Age structure of the mainland's population, June 2015



Source: ABS, Australian Demographic Statistics (3101.0), March 2016.

The results of this are more profound than Tasmania simply having a higher proportion of people aged 65 and over than the rest of Australia. The entire age profile of Tasmania's population now looks very different from that of the mainland's (Charts 4.8 and 4.9 above).

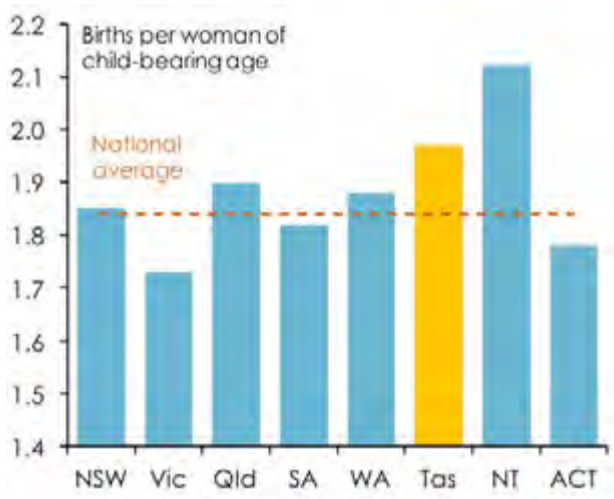
And this is in turn affecting the 'natural' growth rate of Tasmania's population, in a way that re-inforces the effect of interstate migration on Tasmania's demographic profile.

In particular, although Tasmania's total fertility rate (the number of children a woman can expect to give birth to over the course of her lifetime) is higher than in any other part of Australia except the Northern Territory (Chart 4.10), Tasmania's 'crude birth rate' (the number of births per 1.000 people) is the lowest in Australia (Chart 4.11), because the number of women of 'child-bearing age' as a proportion of the total female population has declined more rapidly in Tasmania than in the rest of Australia.

Tasmania's below-average 'crude birth rate' detracts from the state's population growth rate, compared with the rest of Australia, and contributes (at the margin) to Tasmania's more rapid rate of population ageing.

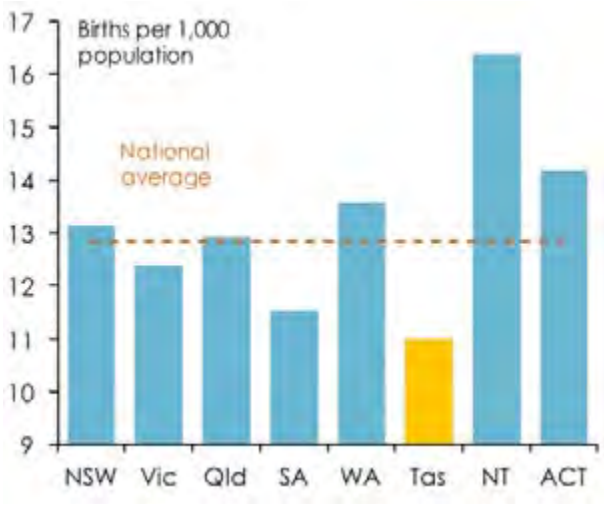
Tasmania's 'crude death rate' (the number of deaths per 1,000 people) is significantly higher than anywhere else in Australia (Chart 4.12), partly as a result of a higher age-specific death rate (Chart 4.13), which reflects the fact that, as discussed later in this section, Tasmanians are in general more susceptible to a range of adverse health conditions than most other Australians; and partly because its population is older, on average, than the rest of Australia's. This higher death rate also detracts from Tasmania's overall population growth rate.

Chart 4.10: Total fertility rates, states and territories, 2015



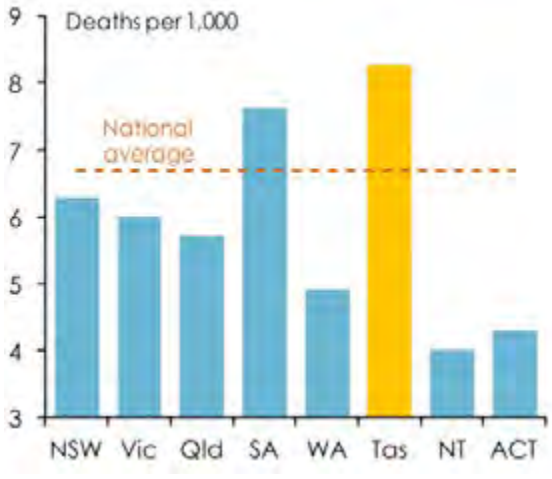
Note: The 'total fertility rate' is the number of children a woman would have if she experienced current age-specific fertility rates at each age of her reproductive life. Source: ABS, Births, Australia, 2015 (3301.0).

Chart 4.11: Crude birth rates, states and territories, 2015



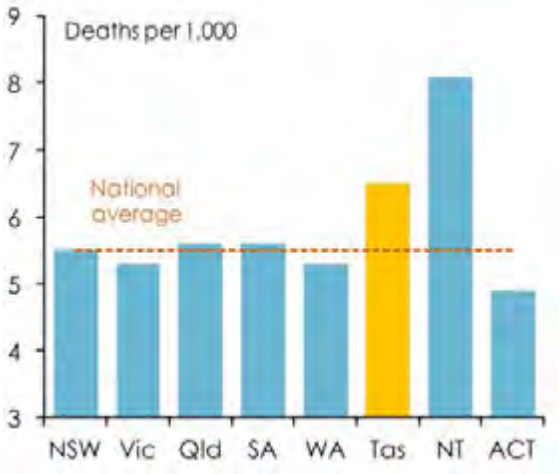
Note: The 'crude birth rate' is the number of live births registered during the calendar year per 1,000 estimated resident persons at 30 June. Source: ABS, Births, Australia, 2015 (3301.0).

Chart 4.12: Crude death rates, states and territories, 2015



Note: The 'crude death rate' is the number of live deaths registered during the calendar year per 1,000 estimated resident persons at 30 June. Source: ABS, Deaths, Australia, 2015 (3302.0).

Chart 4.13: Standardised death rates, states and territories, 2015



Note: The 'standardised death rate' is the death rate (per 1000) which would have resulted if each state & territory had the same age-specific death rate as the national average. Source: ABS, Deaths, Australia, 2015 (3302.0).

[14] *See ABS, Population Projections, Australia, for details of the assumptions underlying these projections.*

The economic implications of Tasmania's ageing population

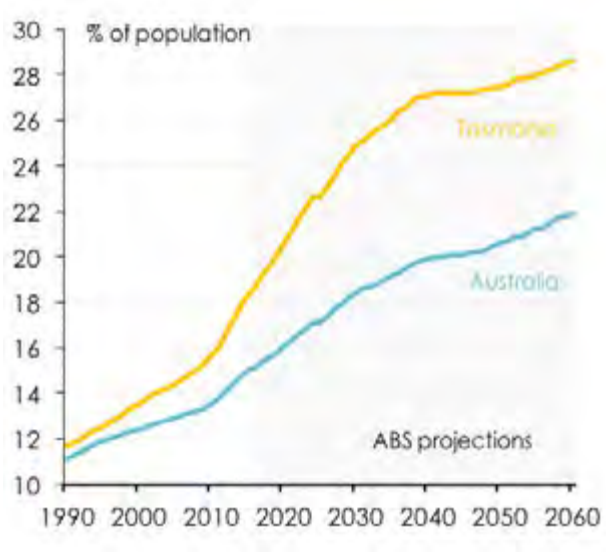
Forward projections of Tasmania's population by the Australian Bureau of Statistics, based on the results of the 2011 Census[14] suggest that Tasmania's population will continue to age more rapidly than that of the rest of Australia. The gap between Tasmania's median age and the national average, currently 4½ years, is expected to widen to 5 years by 2027, and to 5.9 years by 2047, after which the gap is projected to narrow as the rest of Australia begins to 'catch up' with Tasmania.

The proportion of Tasmania's population aged 65 and over, which as noted earlier was 3.3 pc points above the national average in 2015, is projected to rise to 22.6%, 5½ pc points above the national average, by 2025; and to 23.5%, nearly 7¼ pc points above the national average, by 2040 (Chart 4.14 on page 45).

Conversely, the proportion of Tasmanians aged between 15 and 64, which in 2015 was just under 2¾ pc points below the national average at 63.5%, is projected to decline to 59.7%, almost 4½ pc points below the national average, by 2025; and to 56.6%, more than 6 pc points below the national average, by 2040 (Chart 4.15 on page 45).

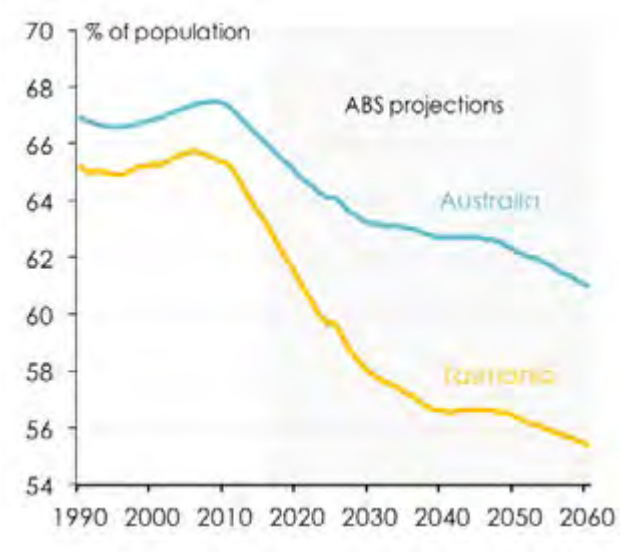
These projected changes in Tasmania's demographic profile relative to that of the rest of Australia will, if realised, have significant adverse consequences for Tasmanians' material living standards, relative to those of other Australians.

Chart 4.14: Proportion of population aged 65 & over, Tasmania and Australia



Source: ABS, Population Projections, Australia, 2012 (base) to 2101 (3222.0).

Chart 4.15: Proportion of population aged 15-64, Tasmania and Australia



ABS, Population Projections, Australia, 2012 (base) to 2101 (3222.0).

Suppose, purely for the purpose of keeping the arithmetic simple, that the proportions of people aged 15-64, and 65 and over, who are in employment, in both Tasmania and the mainland, remain unchanged at their 2015-16 averages (of 69.8% and 10.4%, respectively, for Tasmania, and 72.2% and 13.1% for the mainland[15]) - that is, that there is no change in either age-specific labour force participation rates or in unemployment rates, either in Tasmania or on the mainland.

The changes in the age structure of Tasmania's population depicted in Charts 4.14 and 4.15 would then imply that the proportion of Tasmania's total population who are employed will decline from 46.2% in 2015-16 to 43.8% in 2025-26, and to 42.3% by 2040-41. The corresponding decline in the proportion of mainland Australia's population who are employed will be much more gradual, from 49.7% in 2015-16 to 48.3% in 2025-26 and to 47.9% by 2040-41.

[15]These percentages are derived from the same source as those shown in Chart 1.24 in Section 1.
[16]An assumption which ignores the fact that average hours worked would probably decline more rapidly in Tasmania than on the mainland, all else being equal, as a direct result of the more rapid ageing of Tasmania's population.

In other words, the gap between Tasmania's 'employment rate' and the mainland's will widen from 3.5 pc points in 2015-16, to 4.5 pc points in 2025-26 and to 5.6 pc points in 2040-41 (Chart 4.16).

It was shown earlier in Section 1 that the 'employment gap' between Tasmania and the rest of Australia accounted for about $7,200 or 39% of the almost $18,600 (or 27%) difference in per capita gross product between Tasmania and the national average.

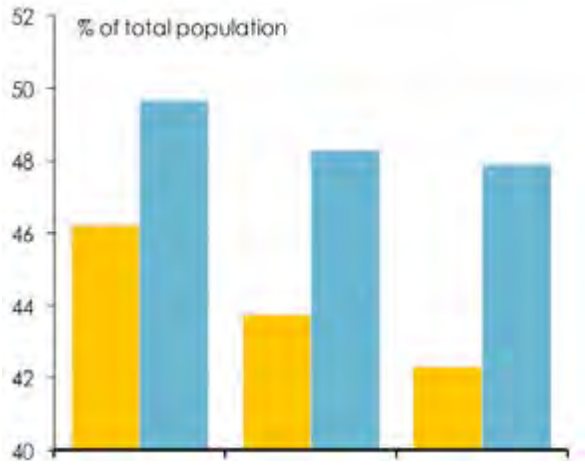
Assume for illustrative purposes that average hours worked by Tasmanian and mainland workers remain at their 2015-16 levels (of 30.7 and 32.2 hours per week, respectively)[16]; and that labour productivity (real gross product per hour worked) grows at the same rate in Tasmania and on the mainland as it has done over the past decade (that is, by 0.74% pa and 1.30% pa, respectively).

The economic consequences of the much faster decline in Tasmania's employment rate, compared with that of the mainland, can then be derived using the analytical framework set out in Section 1:

GSP per capita = employment rate x average hours worked x productivity

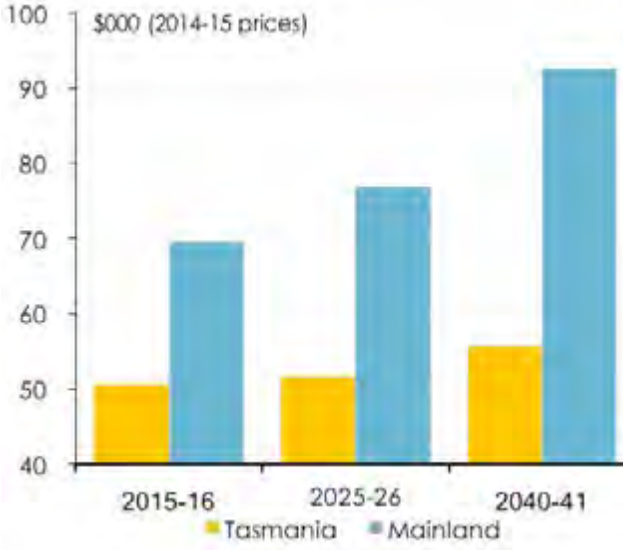
Given all of these assumptions, Tasmania's per capita gross product would fall from 73% of the mainland average in 2015-16 to 67.5% of the mainland average in 2025-26 (a difference of over $25,000 per head in 2014-15 dollars), and to 60.7% of the mainland average in 2040-41 (a difference of almost $37,000 per head in 2014-15 dollars) (Chart 4.17).

Chart 4.16 Projected employment rates, Tasmania and mainland



Sources: ABS, state Accounts, 2015-16 (5220.0); The Labour Force (6202.0), September 2016; and Population Projections, Australia, 2012 (base) to 2101 (3222.0); and author's calculations.

Chart 4.17: Projected levels of real per capita GSP, Tasmania and mainland



Sources: ABS, state Accounts, 2015-16 (5220.0); The Labour Force (6202.0), September 2016; and Population Projections, Australia, 2012 (base) to 2101 (3222.0); and author's calculations.

In order to mitigate or prevent this on-going decline in Tasmania's per capita gross product relative to the mainland, Tasmania would need to achieve some combination of:

- higher labour force participation rates in each age cohort of the population and/or lower unemployment rates in each age cohort;
- an increase in average hours worked; and
- faster rates of growth in labour productivity.

For example, if Tasmania were able to lift its labour productivity growth rate to that of the mainland, and to steadily eliminate the difference in average hours worked between Tasmania and the mainland, then Tasmania's per capita gross product would (all else being equal) remain unchanged at 73% of the mainland average, despite the faster decline in its employment rate, instead of declining to less than 61% of the mainland average.

Alternatively, if Tasmania were able to find some way of slowing the rate at which its population is otherwise set to age, relative to that of the mainland, then the decline in Tasmania's relative per capita GSP could be mitigated with less need for Tasmanian workers to work longer hours, or to achieve higher levels and rates of growth in labour productivity. That would presumably require some combination of slowing the rate at which young Tasmanians move to the mainland, or at which older people move from the mainland to Tasmania; or alternatively attracting more younger people to move from the mainland to Tasmania.

Tasmania's 'ageing problem' is not unique

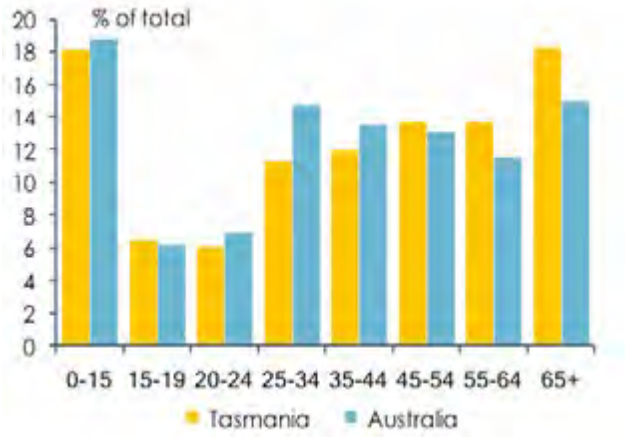
While Tasmania's population is ageing much more rapidly than the rest of Australia, Tasmania is by no means unique in this regard.

Indeed, Tasmania's demographic experience is quite common among island populations. Charts 4.18-4.23 shows the age structure of six different islands compared with their adjoining 'mainlands'. With the conspicuous exception of Ireland (whose demographic profile has for the purpose of this exercise been compared with that of England), a higher proportion of the population of the islands depicted in these charts is aged 55-64, and 65 and over, than of the corresponding 'mainland'; while, conversely, a smaller proportion of their population than of their corresponding mainland's is aged 20-24 (including Ireland's, in this case) or 25-34.

This is probably because most islands face challenges similar to those long faced by Tasmania in retaining their young adult populations, or in attracting young adults from elsewhere. It appears to be an almost universal instinct among young adults – especially those who are, in some way or another, highly talented or motivated – to seek out challenges and opportunities that are often hard to find in small, relatively isolated communities.

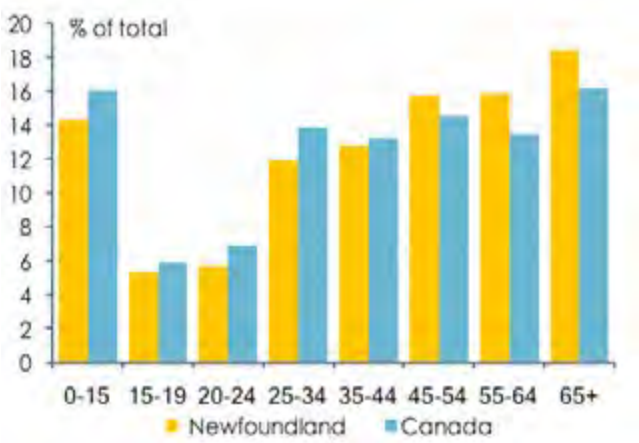
It would not, in general, be in those young adults' best interests, for the communities in which they've grown up to prevent them from pursuing their dreams.

Chart 4.18: Age profile – Tasmania and Australia, 2015



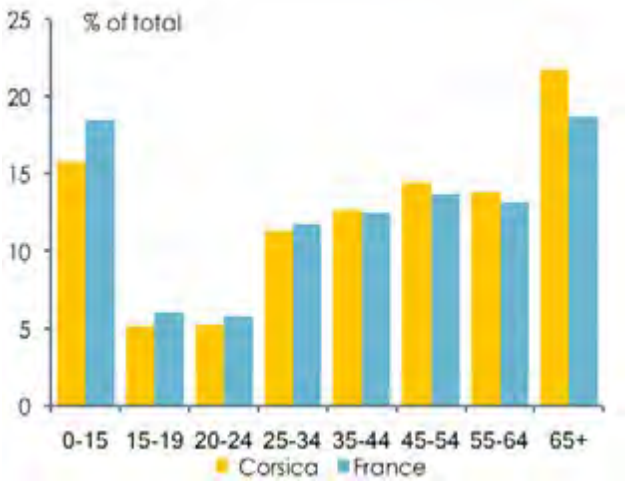
Source: ABS.

Chart 4.19: Age profile – Newfoundland (& Labrador) and Canada, 2015



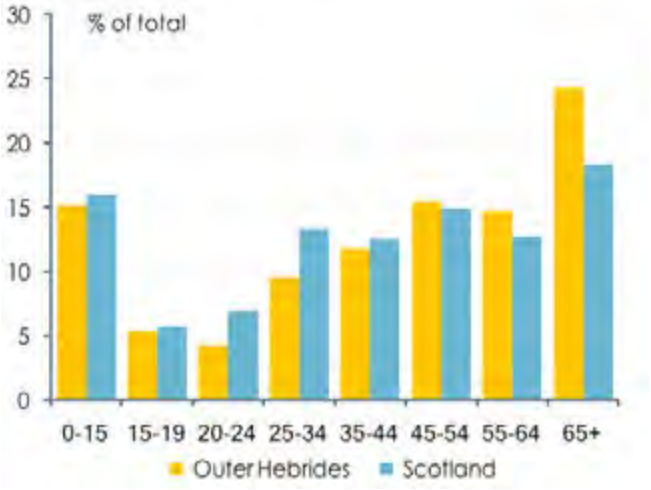
Source: Statistics Canada.

Chart 4.20: Age profile – Corsica and France, 2015



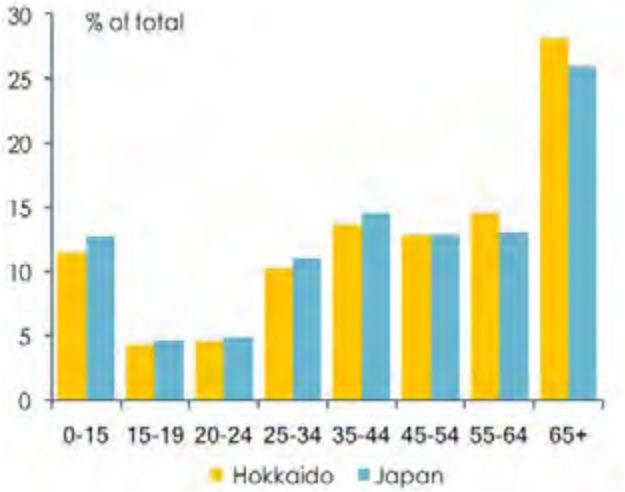
Source: Institute National de la Statistique et des Études Économiques.

Chart 4.21: Age profile – Outer Hebrides and Scotland, 2015



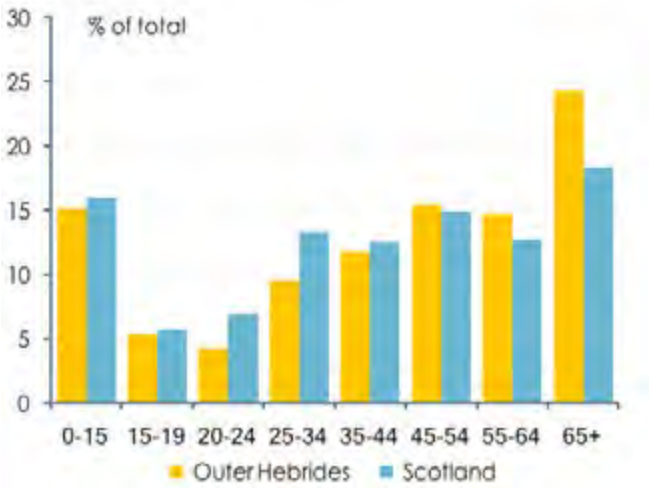
Source: UK Office for National Statistics (ONS).

Chart 4.22: Age profile – Hokkaido and Japan, 2014



Source: Statistics Japan.

Chart 4.23: Age profile – Ireland and England, 2015



Source: Ireland Central Statistical Office; UK ONS.

Rather, the objective should ideally be to find improved ways of keeping the 'diaspora' of young adults connected with the communities in which they grew up; to offer them persuasive reasons to return at a later stage of their lives (for example, when they start families of their own, when their own children have become adults, or when they are contemplating retirement), enriching their original community with the skills and experiences they have acquired whilst 'away'; and enticing people, especially young people, to move in the opposite direction, again enriching and diversifying the island communities which they join.

Ireland's apparently greater success (than other islands) in retaining or attracting young adults (despite temporarily losing older teenagers to England or beyond) may well be the result of its long-term success in creating one of Europe's most vibrant, prosperous economies, and more recently its capacity to rebound from the severe economic damage it suffered during the global and European financial crises.

Of course, as a sovereign nation, Ireland has been able to use policy instruments (for example, to attract foreign investment) which are not as readily available to islands which are subsidiaries of other political entities. Even so, the Irish experience suggests that 'getting the economy right' will make it easier to ameliorate many of the difficulties that may otherwise be posed by rapid demographic change.

Household income and wealth

Tasmanians are poorer, on average, than other Australians. They earn less from working than other Australians; although more of them own their own homes, those homes are on average worth less than homes in other parts of Australia; and Tasmanians have fewer other assets (investment properties, superannuation savings, shares and the like) than other Australians. Tasmanians are more likely to be reliant on social security payments than other Australians.

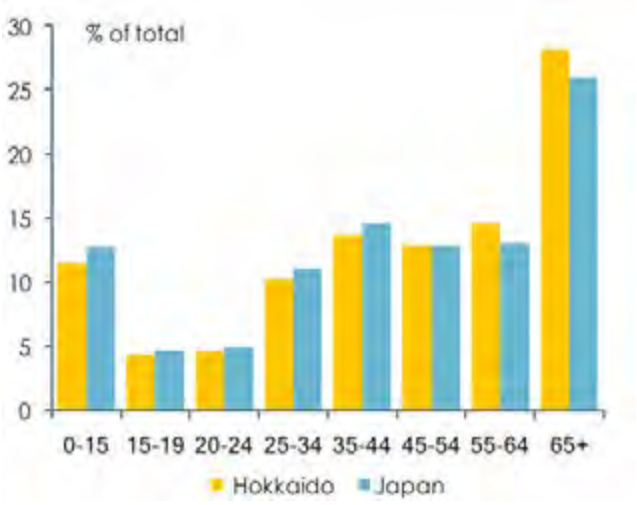
Tasmanians' gross (or 'primary') household incomes – that is, before taking into account (in particular) the effects of income tax payments and social security benefit payments – averaged out to about $91,700 per household in 2015-16, which was $43,600 per household or 32% less than the national average of almost $135,300 per household (Chart 4.24). (Tasmanian gross household income per head was 'only' 28% below the national average in 2015-16, because the average Tasmanian household is slightly smaller than the national average, another consequence of an older population).

By far the largest single reason for Tasmanians' lower-than-average household incomes is that Tasmanians earn less from working than other Australians.

'Employee compensation' (wages, salaries and fringe benefits) per household averaged out to just under $57,500 in 2015-16, nearly $29,500 or 34% below the corresponding national average of $86,950 per household (Chart 4.24). There are three reasons for this:

- first, that (as discussed in Section 1) only 46.2% of Tasmanians worked in 2015-16, compared with 49.6% of all Australians;
- second, that (as also discussed in Section 1) those Tasmanians who did work, worked an average of 1½ fewer hours per week (or almost 12 days a year) less than the Australia-wide average; and
- third, working Tasmanians were paid an average of $32.46 per hour in 2015-16 $8.28 per hour or 20.7% less than the national average.

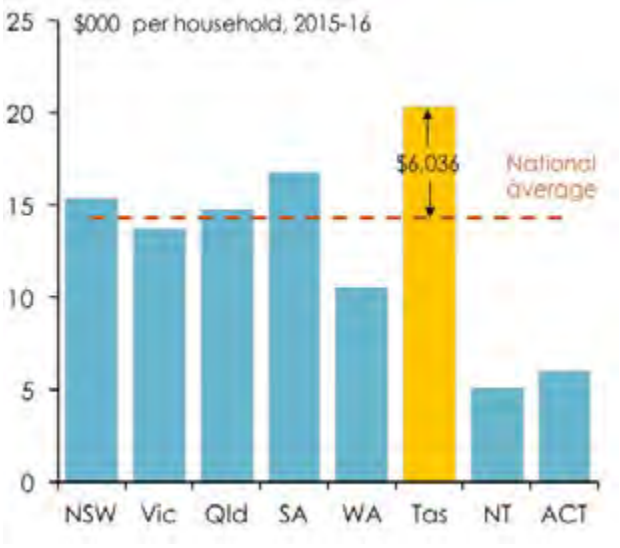
Chart 4.24: Gross household income per household, by source, states and territories, 2015-16



Note: 'Other' is gross operating surplus of dwellings.
Sources: ABS, state Accounts (5220.0). 2015-16; Household and Family Projections, Australia (3236.0).

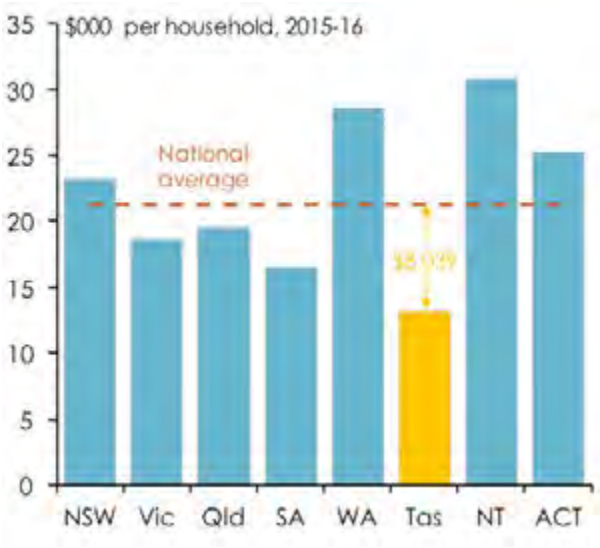
[17] *These figures are for 2013-14, and were discussed in last year's Tasmania Report. The next update, from the 2015-16 Survey of Income and Housing, is due to be published in September 2017.*

Chart 4.25: Social security payments per household, states and territories, 2015-16



Sources: ABS, state Accounts (5220.0). 2015-16; Household and Family Projections, Australia (3236.0).

Chart 4.26: Income tax payments per household, states and territories, 2015-16



Sources: ABS, state Accounts (5220.0). 2015-16; Household and Family Projections, Australia (3236.0).

The main reason for the difference in hourly pay is that (as discussed in Section 1), Tasmanian workers produce $14.80 (or 18%) per hour less by way of dollar value of goods and services than the national average. Taking this into account, Tasmanian unit labour costs (employee compensation per dollar value of goods and services produced) were only 80c (or 2.8%) below the national average in 2015-16.

This highlights the point that Tasmanians' lower participation, working hours and productivity doesn't just affect the broader economy, or business: it directly affects their incomes as well.

In addition to their lower labour incomes, Tasmanian households earned about $4,900 less than the national average from investment income (interest, rent and dividends) in 2015-16. This is a direct result of the fact that the average net worth of Tasmanian households was, at last count, some $245,000 or 30% less than the national average[17]. The lower average value of Tasmanian real estate is also reflected in the lower 'gross operating surplus of dwellings' imputed to Tasmanian households.

Finally, Tasmanian households earned an average of $2,800 or 18% less than the national average by way of income from unincorporated businesses (including farms) in 2015-16.

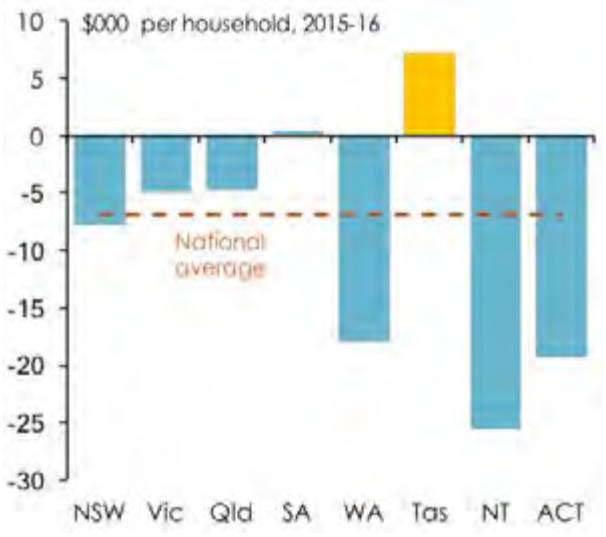
The large disparity in average gross household incomes between Tasmania and the rest of Australia is substantially ameliorated by the operation of the national personal income tax and social security systems.

Tasmanians pay a smaller proportion of their (lower) gross incomes in tax than the people of any other state or territory: whilst a higher proportion of Tasmanian households are reliant on government pensions and allowances as their main source of income than in any other state or territory.

As a result, Tasmania is the only state or territory, apart from South Australia, whose households receive more by way of social security benefits (Chart 4.25) than they pay in personal income taxes (Chart 4.26); and Tasmanians receive considerably more per head of population by way of benefits less taxes than South Australians (Chart 4.27).

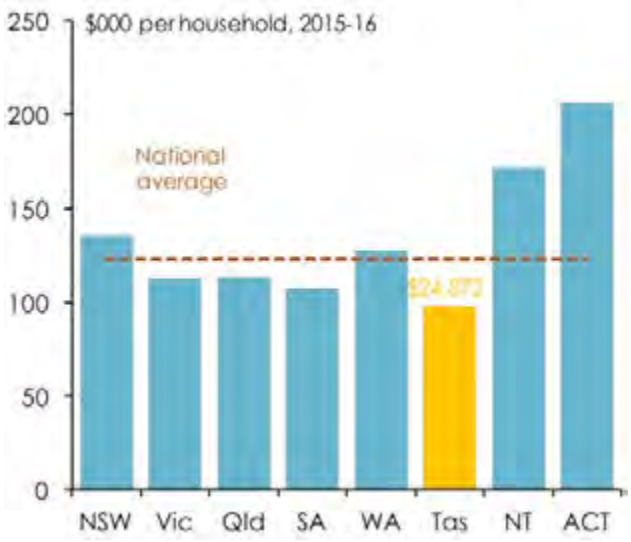
The net effect of this redistribution of income is to reduce the margin between Tasmanian household disposable income per household and the national average to just under $25,000 per head (or about 20%) (Chart 4.28), considerably less than the $43,600 (or 32%) difference in 'market income' per household.

Chart 4.27: Social security payments less income tax payments per household, states and territories, 2015-16



Sources: ABS, state Accounts (5220.0). 2015-16; Household and Family Projections, Australia (3236.0).

Chart 4.28: Household disposable income per household, states and territories, 2015-16



Sources: ABS, state Accounts (5220.0). 2015-16; Household and Family Projections, Australia (3236.0).

In effect, the national tax-transfer system absorbs about 57% of the difference in household incomes between Tasmania and the rest of Australia that would otherwise have existed.

This is of course entirely consistent with the way that a progressive income tax system and a targeted social security system are intended to operate, in redistributing income from rich households (of which Tasmania has comparatively few) to poorer households (of which Tasmania has an above-average share compared with the rest of Australia).

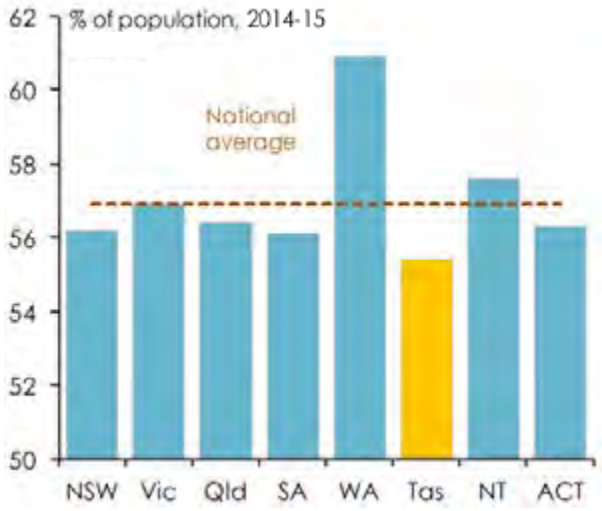
However it may inadvertently have the effect of shielding Tasmanian households from the full consequences of Tasmania's on-going poor economic performance, and thus reducing the appetite or incentive to pursue, advocate or accept changes which might be conducive to improving the state's economic prospects.

That's not intended as an argument for making changes to either the taxation or social security systems, but rather as adding to the importance of clearly communicating the reasons for Tasmania's poor economic performance and helping people to feel that they can be part of the solutions to Tasmania's economic difficulties, rather than part of the problems themselves.

Health and disability

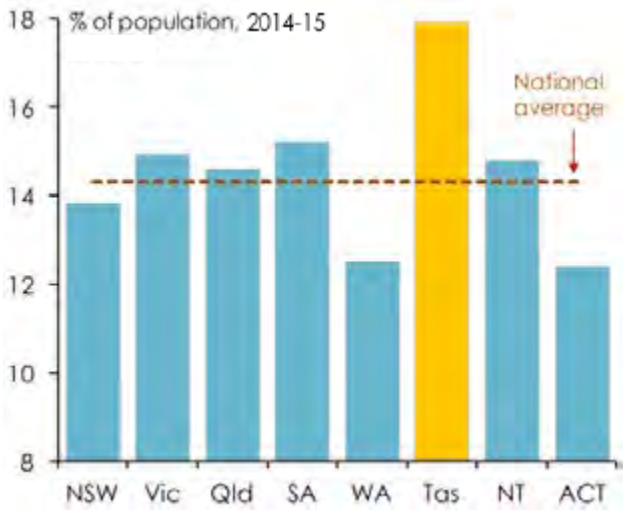
Tasmanians typically experience more adverse health outcomes than other Australians. There are of course many dimensions of health, but according to the most recent ABS National Health Survey conducted in 2014-15, a lower proportion of Tasmanians describe themselves as enjoying 'excellent' or 'very good' health, and higher proportion describe themselves as experiencing 'fair' or 'poor' health, than in any other state or territory (Charts 4.29 and 4.30) – results which hold even when adjusted for differences in the age structure of each state or territory's population.

Chart 4.29: Health status self-assessed as 'excellent' or 'very good', 2014-15



Note: results are age-standardized.
Source: ABS, National Health Survey: First Results, 2014-15 (4364.0.55.001).

Chart 4.30: Health status self-assessed as 'fair' or 'poor, 2014-15



Note: results are age-standardized.
Source: ABS, National Health Survey: First Results, 2014-15 (4364.0.55.001).

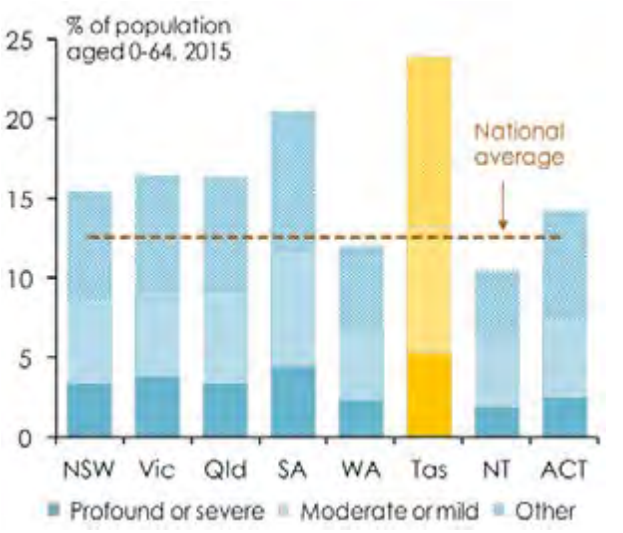
Of the 16 **'long-term conditions'** covered by the ABS National Health Survey, Tasmanians have the highest incidence of any state or territory's population of eight – arthritis, asthma, blindness, chronic obstructive pulmonary (lung) disease, heart and vascular diseases, hypertension, kidney disease and 'mental and behavioural problems' (including those related to drugs and alcohol). An above-average proportion of Tasmanians also suffer from back problems, deafness, hay fever and allergic rhinitis, and long-sightedness.

Note that these are 'age-standardised' results – that is, they allow for the fact that Tasmania's population is older, on average, than that of any other state or territory. Without making that allowance, Tasmania has the highest incidence of eleven of these 16 conditions, and an above-average incidence of all but two of them (short-sightedness and cancer).

Of twelve **'lifestyle risk factors'** covered by the National Health Survey, Tasmanians have the highest incidence of any state or territory of six – severe or very severe bodily pain, high or very high psychological distress, obesity, exceeding NHMRC alcohol consumption guidelines on single occasions, inadequate fruit consumption, and high blood pressure. 19.3% of Tasmanians are daily smokers, only marginally less than the figure for the Northern Territory, and well above the national average of 14.7%. In addition, an above-average proportion of Tasmanians exceed NHMRC lifetime alcohol consumption guidelines, and undertake no or 'low' levels of exercise. Again note that these results are 'age-standardised'.

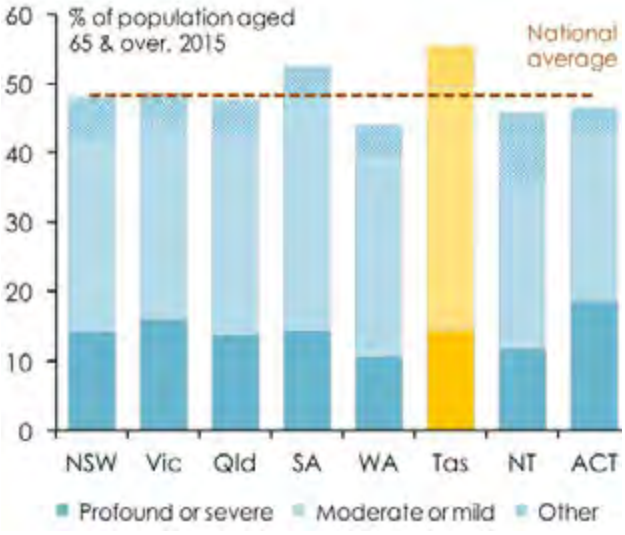
Tasmanians also experience a much greater incidence of **disabilities** than people in other states and territories. Although this is partly age-related, 17.1% of Tasmanians under the age of 65 experience some form of disability, a larger proportion than in any other part of Australia, and well above the national average of 12.5% (Chart 4.31). In addition, 55.4% of Tasmanians aged 65 or over experience some form of disability, once again more than in any other state or territory, and above the national average of 48.2% (Chart 4.32).

Chart 4.31: Disability status, persons aged 0-64 years, states and territories, 2015



Source: ABS, Disability, Ageing and Carers, Australia – Summary of Findings, 2015 (4330.0).

Chart 4.32: Disability status, persons aged 65 years and over, states & territories, 2015



Source: ABS Disability, Ageing and Carers, Australia – Summary of Findings, 2015 (4330.0).

Socio-economic status

The end result of Tasmanians being older, sicker, affected more by disability, less likely to have a job, earning less (if employed) and having less by way of real or financial assets than other Australians is that Tasmania has greater concentrations of social and economic disadvantage than any other state or territory (and, for that matter, fewer concentrations of social and economic privilege than any other state or territory).

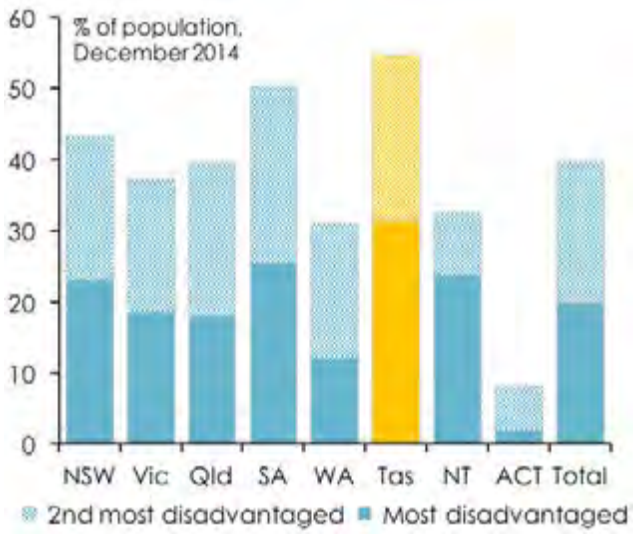
Chart 4.33 below shows that 54.6% of Tasmanians are in the most- or second-most disadvantaged categories of socio-economic status (SES) – 15 pc points more than would be the case if socio-economic advantage or disadvantage were equally distributed across states and territories.

Out of 2.2% of Australia's total population, Tasmania has 3.5% of Australia's most socio-economically disadvantaged people, and they constitute 31.5% of Tasmania's population. Tasmania also has 2.6% of the total number of Australians in the second-most socio-economically disadvantaged quintile, and they represent 23.3 % of Tasmania's population.

Conversely, Chart 4.34 shows that only 24.2% of Tasmanians are the most- or second-most advantaged socio-economic status categories – 16 pc points less than would be the case if socio-economic advantage or disadvantage were equally distributed across states and territories.

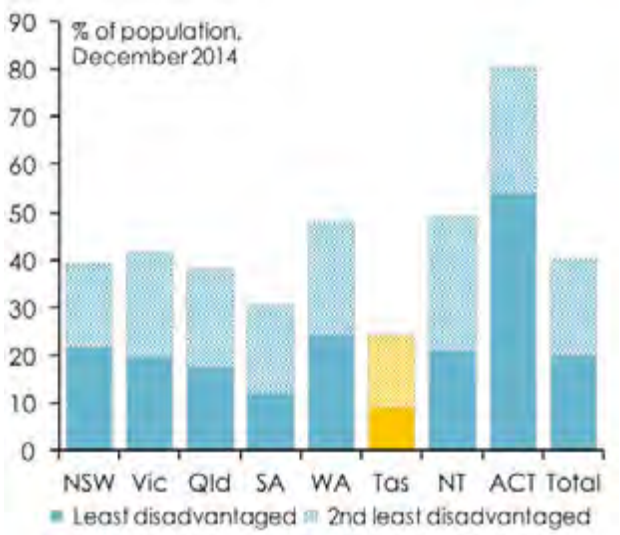
Only 1.0% of Australia's most socio-economically advantaged people live in Tasmania, and they account for less than 9% of the state's population. Indeed, there are 5,500 more people in the most socio-economically advantaged quintile of the national population living in the Northern Territory than in Tasmania (even though the Northern Territory's total population is less than half of Tasmania's); while the ACT has more than 4½ times as many people in the highest SES category despite having only three-quarters as many people in total as Tasmania.

Chart 4.33: Low SES status as a pc of population, states and territories, 2014



Source: Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities – 2016 Review.

Chart 4.34: High SES status as a pc of population, states and territories, 2014



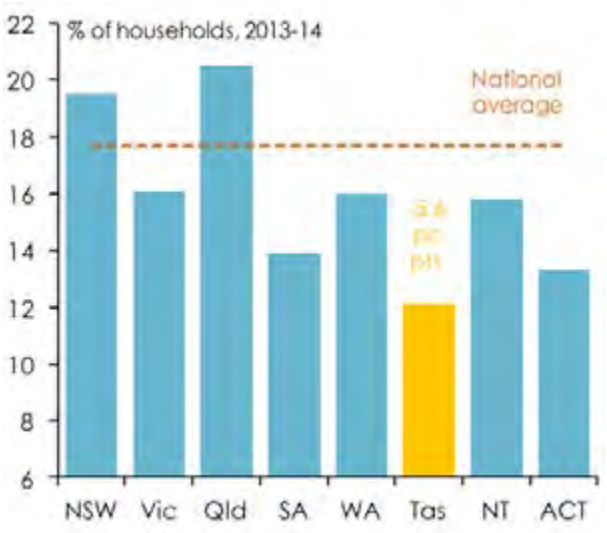
Source: Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities – 2016 Review.

Other indicators of well-being

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

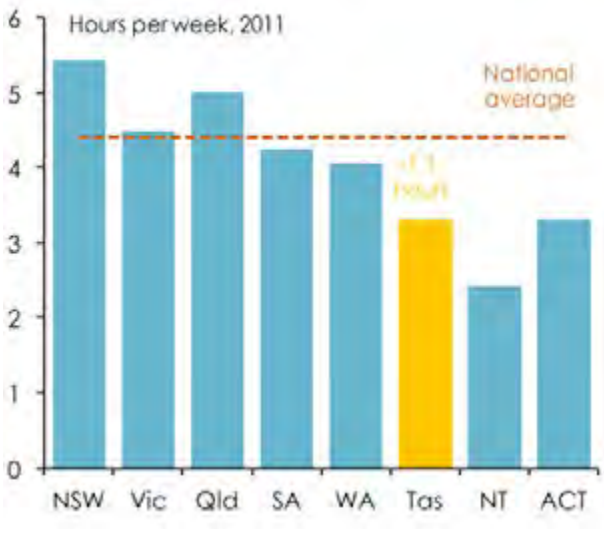
Among the aspects of life which many Tasmanians do appreciate are the lower levels of stress involved in acquiring a home (Chart 4.35) and in commuting to or from work or study (Chart 4.36).

Chart 4.35: Households spending more than 30% of income on housing, 2013-14



Source: ABS, Housing Occupancy and Costs, 2013-14 (4130.0).

Chart 4.36: Average time spent travelling to work or study, 2011



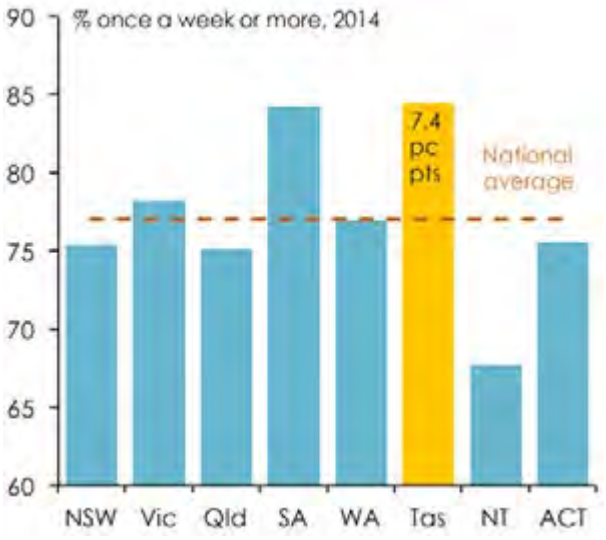
Source: Infrastructure Australia, state of Australian Cities 2014-15.

Tasmanians also appear to have higher levels of

many aspects of what is sometimes referred to as **'social capital'**.

For example, the proportion of Tasmanians who report that they have face-to-face contact with family or friends outside their immediate household more than once a week is higher than in any other state or territory, and almost 7½ pc points above the national average (Chart 4.37).

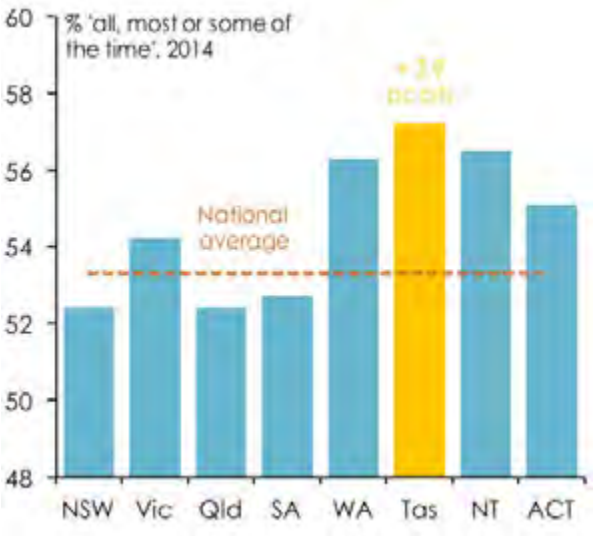
Chart 4.37: Frequency of face-to-face contact with family/friends outside household, 2014



Source: ABS, General Social Survey (4159.0), 2014.

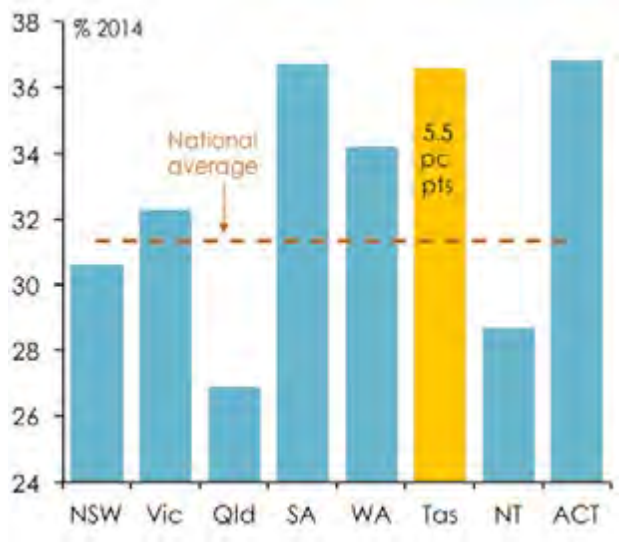
In similar vein, Tasmanians feel that they are 'more able to have a say' on important issues some, most or all of the time than people in any other state or territory (Chart 4.38) – which may be a result of Tasmania's relatively high number of federal and state politicians, the Hare-Clark system for electing members of the House of Assembly (which dictates that there are no 'safe seats' in the lower house of the state Parliament), or the relatively small size of local government in Tasmania. And Tasmanians are more likely to volunteer their time than most other Australians (Chart 4.39).

Chart 4.38: Proportion of population 'able to have a say' on important issues, 2014



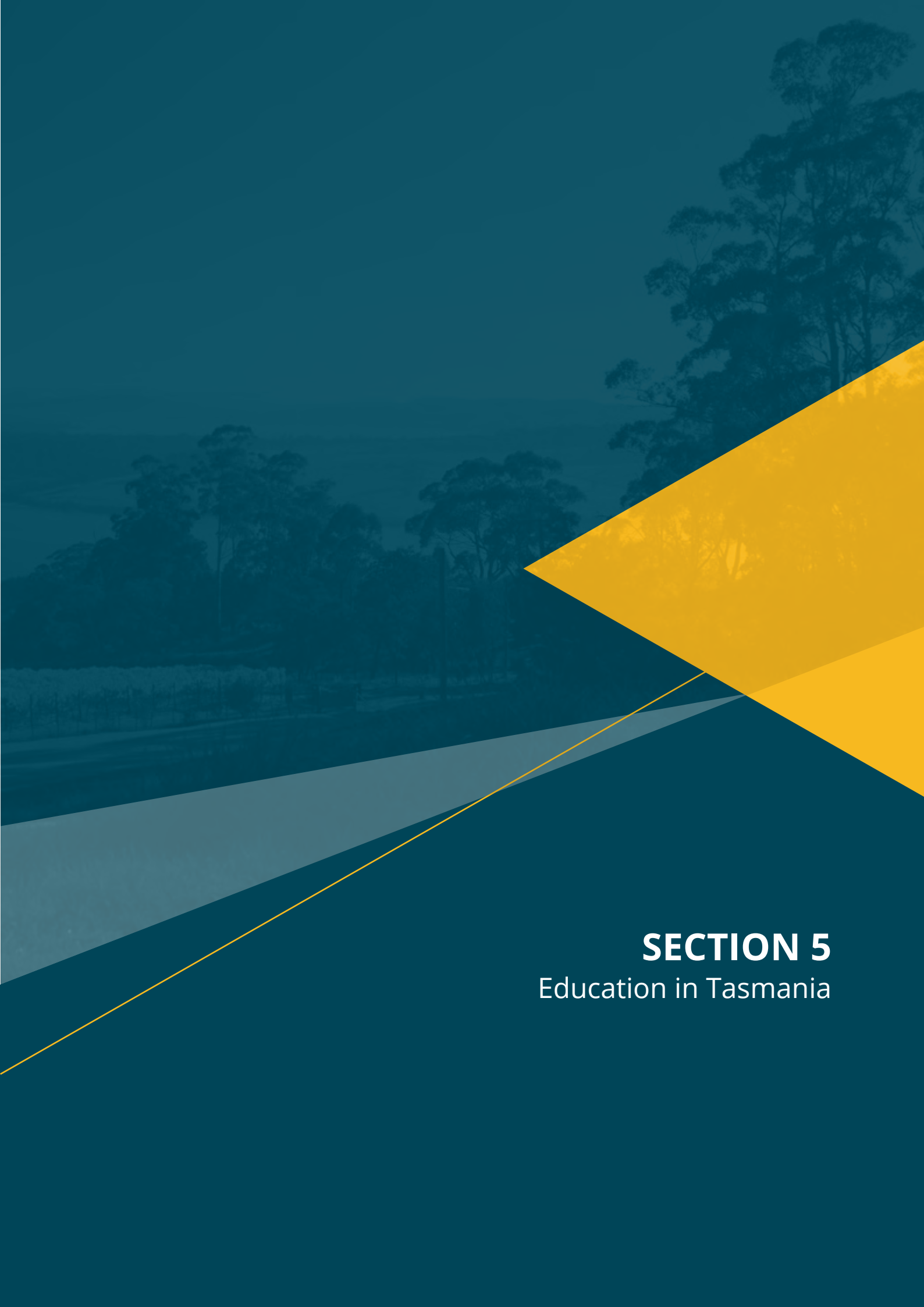
Source: ABS, General Social Survey (4159.0), 2014.

Chart 4.39: Proportion of population doing voluntary work in past 12 months, 2014



Source: ABS, General Social Survey (4159.0), 2014.

These are attributes that most Tasmanians would not want to sacrifice in the pursuit of higher levels of material well-being – and nor should they need to.



SECTION 5

Education in Tasmania

5. Education in Tasmania

Last year's Tasmania Report summarised the Australian and international evidence demonstrating the clear and unambiguous causal connections between educational participation and attainment, on the one hand, and individual and societal objectives such as labour force participation and employment, productivity and economic growth on the other[18]. That evidence remains as valid and persuasive as it was last year, but is not recapitulated here.

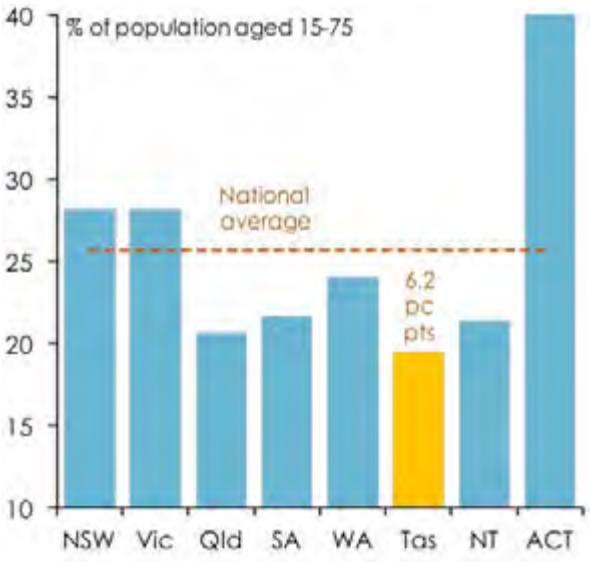
This section updates the analysis provided last year on the performance and funding of Tasmania's education system.

Educational participation and attainment

In almost every respect, levels of educational participation and attainment are lower in Tasmania than anywhere else in Australia – with the exception, in most instances, of the Northern Territory.

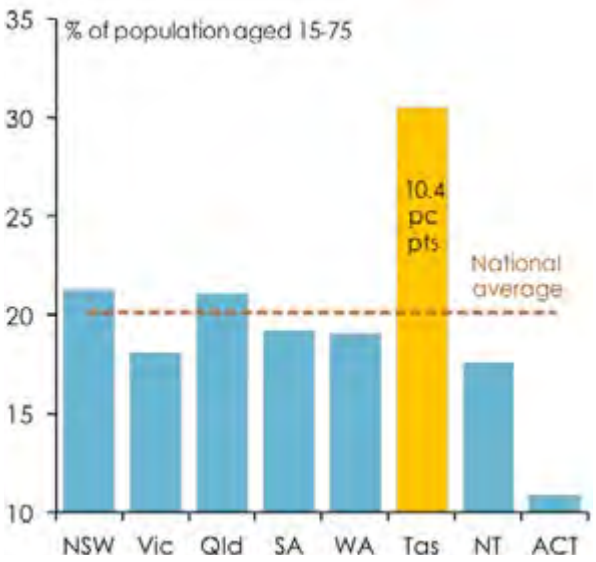
Only 19.5% of Tasmanians aged between 15 and 75 have a bachelor's degree or higher qualification, lower than in any other state or territory, and 6.2 pc points below the national average of 25.7% (Chart 5.1). Conversely, 11.1% of Tasmanians aged 15-75 – more than in any other state or territory, and 2.9 pc points above the national average – left school at or before Year 9, and have no other educational qualifications; while a further 19.4% of Tasmanians aged 15-75 – again more than in any other state or territory, and 7.9 pc points above the national average – left school at Year 10 and have not obtained any further educational qualifications. In all, 30.5% of Tasmanians aged 15-75, 10.4 pc points more than the national average, have no educational qualification beyond Year 10 of high school (Chart 5.2).

Chart 5.1: Proportion of population aged 15-75 with bachelor degree or higher, states and territories, May 2016



Source: ABS, Education and Work, Australia (6227.0), May 2016.

Chart 5.2: Proportion of population aged 15-75 with no qualification beyond Year 10, or lower, states and territories, May 2016



Source: ABS, Education and Work, Australia (6227.0), May 2016.

[18] *Tasmanian Chamber of Commerce & Industry, The Tasmania Report, 2015, p. 34.*

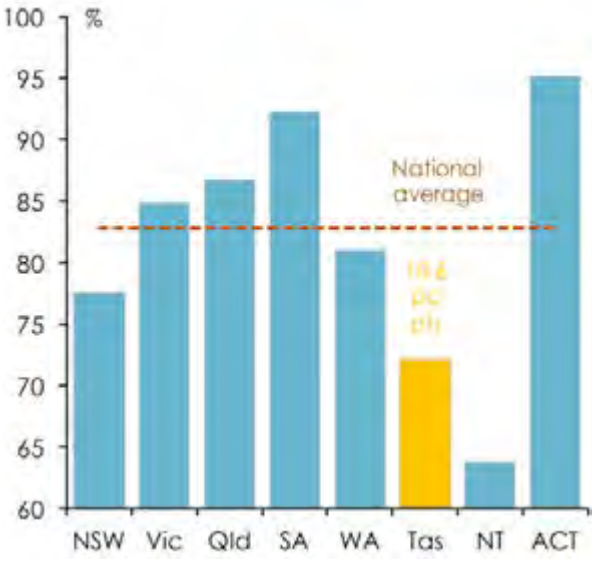
These figures do however appear to have improved over the past two years. Compared with 2014, the proportion of Tasmanians aged 15-74 with a bachelor's degree or higher has risen by 2.6 pc points (compared with a 1.6 pc point increase in the corresponding figure for Australia as a whole), while the proportion with no qualification beyond Year 10 has fallen by 3.6 pc points (compared with a 2.1 pc point fall in the national average)[19].

The below-average proportion of Tasmanians with university degrees, and the above-average proportion with no qualifications beyond Year 10 of high school, partly reflects the patterns of interstate migration discussed in the previous section.

However, it is also the legacy of persistently below-average school retention rates from Year 10 to Year 12, and Year 12 completion rates.

The proportion of Tasmanian Year 10 students continuing on to Year 12 – the so-called 'retention rate' – is lower than in any other part of Australia except the Northern Territory (Chart 5.3)[20]. Tasmania's retention rate from Year 10 to Year 12 has improved significantly since 2013, and even more so from the low point reached in 2009, but remains well below the levels achieved between 2002 and 2005, and in 2016 was still nearly 11 pc points below the national average (Chart 5.4).

Chart 5.3: Year 12 retention rates, states and territories, 2015



Source: ABS, Schools, Australia (4221.0), 2015.

Chart 5.4: Year 12 retention rates, Tasmania and Australia, 2000-15

Source: ABS, Schools, Australia (4221.0), 2015.

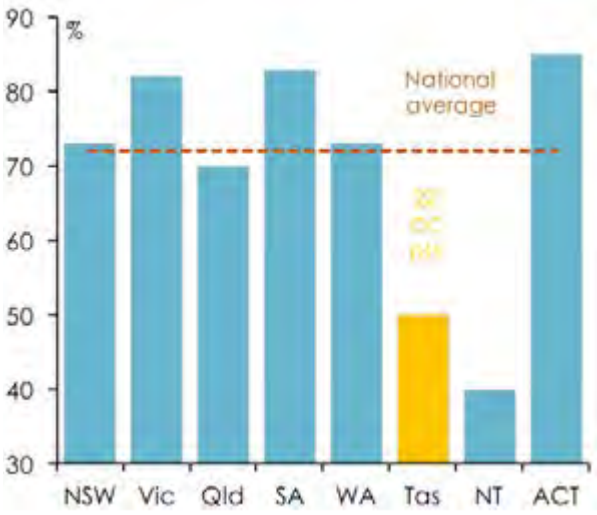
Retention rates are based on enrolment figures – that is, the number of students enrolled in (in this case, Year 12) courses at the beginning of each school year. They do not convey any information about the extent to which students successfully complete the courses in which they enrol.

[19] Prior to 2014, the survey sample for the ABS Education and Work bulletin was people aged 15-64, so the results for 2014 through 2016 are not directly comparable with those for earlier years.

[20] Year 12 retention rates for Tasmania are inflated by a relatively large number of older part-time students who were not part of the Year 10 cohort two years earlier. In other words, the retention rate 'gap' is likely larger than suggested by these figures.

The *completion* rate for Tasmanian Year 12 students – defined as the number of students who meet the requirements of a Year 12 Certificate or equivalent expressed as a percentage of the potential Year 12 population (in turn defined as one fifth of the population aged 15-19) – was just 50% in 2014 (the latest year for which data are publicly available), lower than in any other part of Australia except the Northern Territory (Chart 5.5).

Chart 5.5: Year 12 completion rates, states and territories, 2014

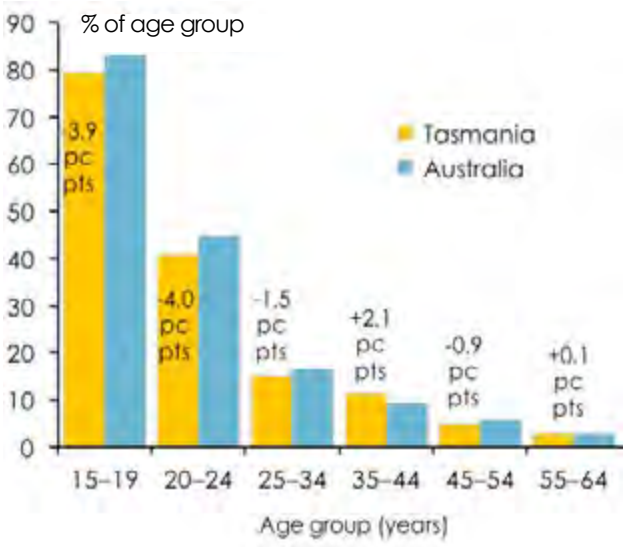


Source: Productivity Commission, Report on Government Services 2016, Volume B, Child care, education and training, Chapter 4A. Table 4A.124.

Again, this represents some improvement over the years since the introduction of the Tasmanian Certificate of Education (TCE) in 2009[21], when the completion rate ranged between 42 and 47%.

Nevertheless, Tasmania's Year 12 completion rate in 2016 was still 22 pc points below the national average.

Chart 5.6: Proportion of population engaged in some form of study, May 2016



Source: ABS, Education and Work, Australia (6227.0), May 2016

It has been asserted that published retention and completion rate data for Tasmania do not properly account for Tasmania's relatively large number of part-time students[22].

However this assertion is difficult to reconcile with ABS data showing that a smaller proportion of Tasmanians in every age group, except for 35-44 year olds and people aged 65 and over, are enrolled in some form of study is lower than the corresponding nation-wide average, as shown in Chart 5.6. The proportion of Tasmanians aged between 15 and 25 who are enrolled in some form of study is conspicuously below the national average.

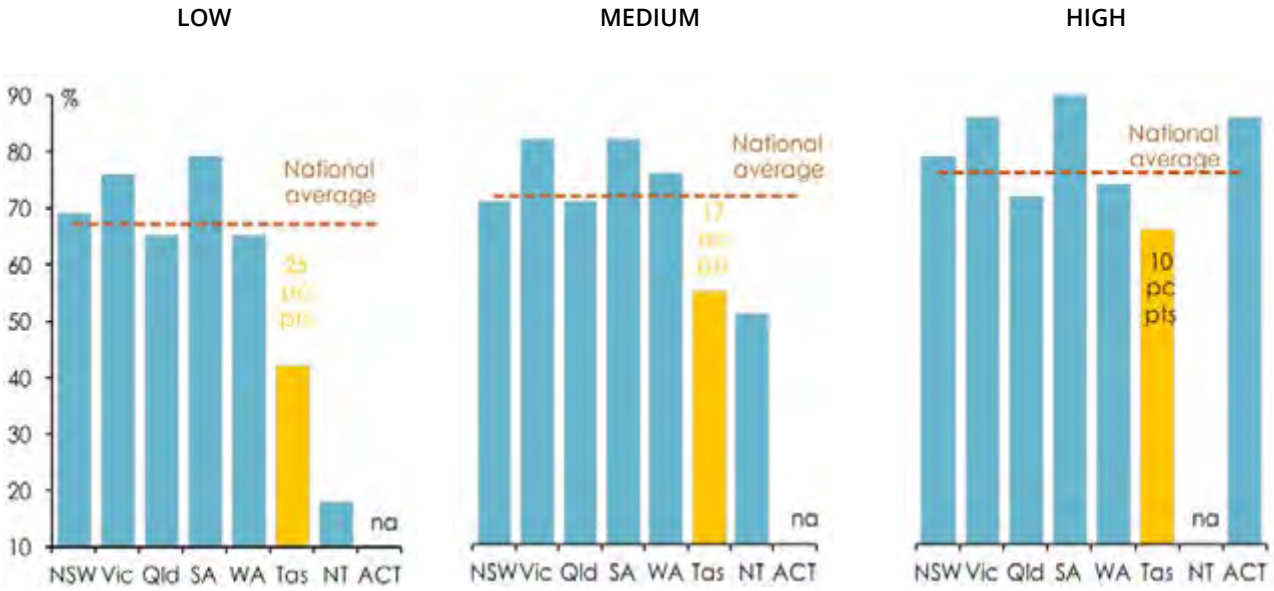
It is also sometimes asserted that Tasmania's low retention and completion rates are an inevitable by-product of the fact that a higher proportion of Tasmanian students come from low socio-economic status (SES) backgrounds than students in other parts of Australia.

It is correct that an above-average proportion of Tasmanian students come from low SES backgrounds, as was documented in the previous section. However, data compiled by the Productivity Commission show that Tasmanian students have lower Year 12 completion rates than their peers in other jurisdictions (with the exception of the Northern Territory) irrespective of their SES backgrounds, as shown in Chart 5.7.

[21] Since 2009 the TCE has required students to meet a set of standards for achievement, everyday adult reading, writing, mathematics and use of computers. In previous years the TCE was awarded to students completing at least one senior secondary course. Tasmania is the only state with an ICT requirement for its Year 12 Certificate; on the other hand, Tasmania is the only state without any specific study pattern requirements (eg, units in English).
[22] See, eg, Peta-Maree Revell, 'Tassie school failure just a myth', The Mercury, 18th November 2016.

Indeed, Chart 5.7 shows that students from high SES Tasmanian backgrounds are less likely to complete Year 12 than students from low SES backgrounds in other states.

Chart 5.7: Year 12 completion rates by socio-economic status, states and territories, 2014



Note: Low socioeconomic status is the average of the three lowest deciles, medium socioeconomic status is the average of the four middle deciles and high socioeconomic status is the average of the three highest deciles. 'na' means population too small for statistical purposes. Source: Productivity Commission, Report on Government Services 2016, Volume B, Child care, education and training, Chapter 4A. Table 4A.124.

Indeed, it is at least as likely that the 'causation' runs the other way round – that is, that Tasmania's historically low levels of educational participation and attainment are an important reason (albeit not the only one) why a higher proportion of Tasmanian households than of households in other states are classified as being of low socio-economic status.

Certainly, it is difficult to envisage how young people from low-SES backgrounds can significantly improve their life chances and experience without higher levels of educational participation and attainment: and to use the greater preponderance of low SES households as an 'excuse' for low Year 12 retention and completion rates seems tantamount to accepting that Tasmania will always have a disproportionately large number of disadvantaged households.

The same holds for the equally common contention that Tasmania's below-average Year 12 retention and completion rates are a consequence of the more dispersed nature of Tasmania's population, with a smaller proportion living in the capital city and a larger proportion living in rural and regional areas than other states.

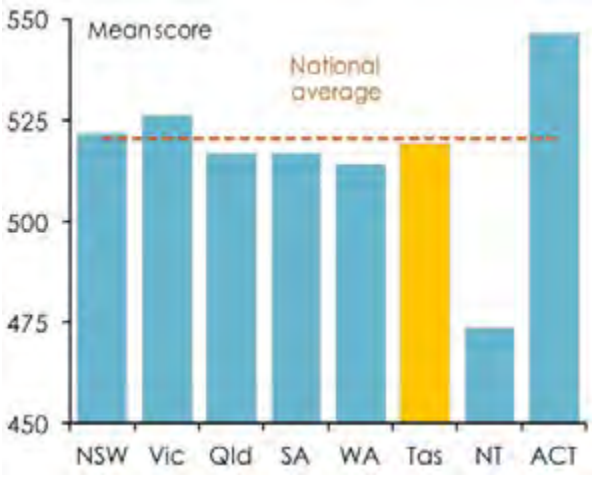
Professors Michael Rowan and Eleanor Ramsay of the University of Tasmania have compared the 2014 Year 12 completion rates of eleven of the most remote high schools on the mainland with those of 22 Tasmanian schools (including the 8 public colleges, 10 public high schools and 4 private schools), and found that in seven of these eleven schools, a higher proportion of students gained their senior secondary certificates than at three of Tasmania's public colleges, while only two of them had lower senior secondary certificate attainment rates than three other Tasmanian public colleges[23].

Nor is there any evidence to support the sometimes-made proposition that Tasmania's historically low Year 12 retention and completion rates, and the below-average rates of acquisition of tertiary qualifications by young Tasmanians, are attributable either to a lack of innate ability on the part of Tasmanian school students, or to poor teaching standards in Tasmanian primary or secondary schools. On the contrary, the available evidence speaks reasonably highly of the quality of teaching in Tasmanian schools (at least, relative to Australia).

[23] *Michael Rowan and Eleanor Ramsay, 'Benchmarking Tasmanian NAPLAN and Year 12 attainment rates', Education Ambassadors Tasmania, 26th July 2016. The remote mainland schools studied were in Coober Pedy, Leigh Creek and Ceduna (SA), Norseman (WA), Balranald, Bourke, Condoblin, Lightning Ridge and Wilcannia (NSW), Longreach (Qld) and Alice Springs (NT), all of which are arguably more 'remote' than anywhere in Tasmania except, possibly, the Bass Strait islands.*

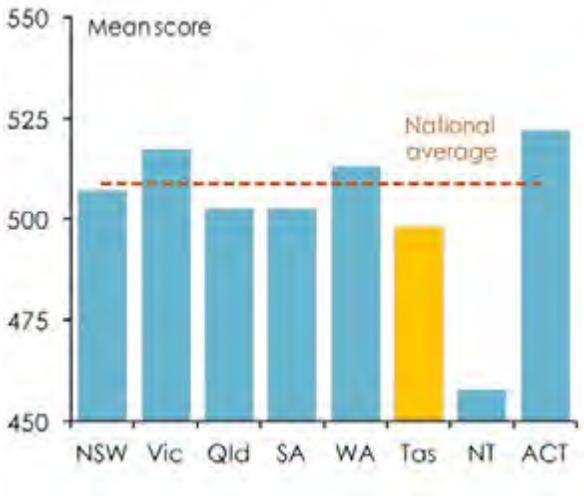
For example, the recently-released 2015 results of the Trends in International Maths and Science Study (TIMSS), though disappointing for Australia in an international context[24], show Tasmanian Year 4 students performing ahead of three other states and the Northern Territory, and very close to the national average (Chart 5.8); and Tasmanian Year 8 students, though recording mean scores below students in the other states and the ACT, by margins that were not considered statistically significant other than by comparison with Victoria and the ACT (Chart 5.9).

Chart 5.8: TIMMS mean scores, Year 4 maths and science, 2015



Source: TIMMS 2015 – A first look at Australia's results.

Chart 5.9: TIMMS mean scores, Year 8 maths and science, 2015

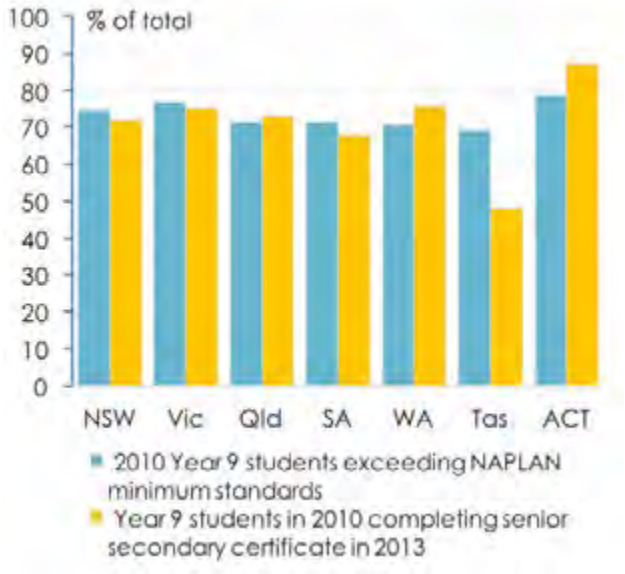


Source: TIMMS 2015 – A first look at Australia's results.

Michael Rowan and Eleanor Ramsay undertook a detailed comparison of Year 9 NAPLAN results and senior secondary school certificate (TCE and its equivalents) attainment rates for Year 12 (as a percentage of Year 10 students from two years earlier) between a group of 22 Tasmanian schools and 202 mainland schools having similar readings on the Index of Community Socio-Economic Advantage (ICSEA) used by the Australian Curriculum and Reporting Authority (ACARA) to identify schools which can fairly be expected to have the same performance on NAPLAN tests[25].

They found that, whereas students at the Tasmanian schools achieved average Year 9 NAPLAN results which were not significantly different from those achieved by students at similar schools in other states, the proportion of the Tasmanian students who attained their TCE three years later was substantially below the corresponding proportion of students from similar schools in other states (Chart 5.10).

Chart 5.10: Conversion of above NAPLAN minimum standard results to Year 12 certificate



Source: Michael Rowan and Eleanor Ramsay, Submission to Tasmania Years 9-12 Education Review, September 2016.

[24] *Sue Thomson, Nicole Wernert, Elizabeth O'Grady and Sima Rodrigues, TIMSS 2015 - A first look at Australia's results, Australian Council for Educational Research, November 2016.*
[25] *Michael Rowan and Eleanor Ramsay, Submission to the state of Tasmania Years 9-12 Education Review: Attachment 1, Australian Council for Educational Research, September 2016.*

All of this suggests that the single most important reason for Tasmania's persistently low Year 12 completion rates is 'structural break' which the Tasmanian public school system, uniquely in Australia (with the exception of the ACT) erects between Year 10 and Years 11-12.

That is not to say that the Tasmanian colleges don't do a good job of educating those students who attend them. The problem is that too many Year 10 students don't progress to the colleges (or stay at them for the time required to attain their TCE).

It is difficult to avoid the conclusion that the fact that students in Years 7 through 10 at Tasmanian government high schools, don't see Year 11 and 12 students, every day, as 'role models' to whom they look up and seek to emulate, and who do not have the same 'natural progression' from Year 10 to Year 11 that students in other states enjoy, are not major reasons for a smaller proportion of Tasmanian students attaining the highest level of school accreditation than in any other jurisdiction (aside from the Northern Territory). If a 'structural break' between Years 7-10 and Years 11-12 was such a good idea, surely one must wonder why no other jurisdiction – with the exception of the socially, geographically, culturally and economically distinctive ACT – has followed Tasmania's 'lead', despite having had 50 years in which they could have done so?

The Hodgman government's policy of offering Year 11 and Year 12 courses at rural and regional high schools implicitly recognizes that the long-standing 'structural break' at Year 10 poses a formidable barrier to many students in these areas. This policy may well be partly, or even largely, responsible for the apparent improvement in retention rates to Year 12 over the past two years – and is much to be commended for that.

However, it remains the case that a majority of Tasmanian high school students reside, and attend schools located in, the four major population centres – and for many of them, the 'structural break' at the end of Year 10 appears to be as formidable an obstacle to them completing a full secondary education as it is for students living in other parts of Tasmania.

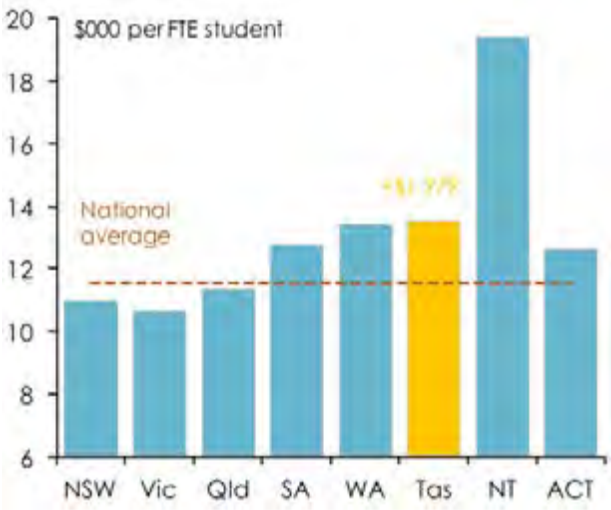
Ultimately, a future state government may come to the conclusion that the secondary education structure which has produced evidently superior results for successive generations of students in every other state works 'better' than the structure which Tasmania has maintained for five decades. Needless to say, however, the political, logistical and financial implications of such a conclusion mean that it is not going to be reached lightly, or quickly.

Education funding

Tasmania's below-average levels of educational participation and attainment cannot be attributed to insufficient or inadequate total levels of government spending on schools.

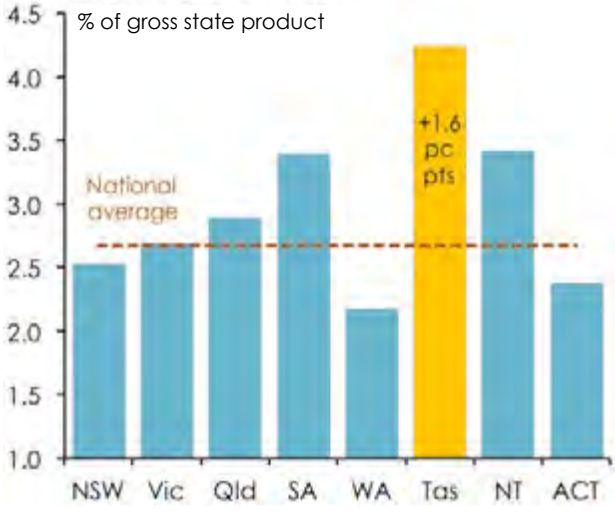
In the 2014-15 financial year, the Tasmanian government spent just over $13,500 per full-time equivalent student on school education, almost $2,000 per FTE student (or 17%) more than the average for all states and territories, and more than any other jurisdiction except the Northern Territory (Chart 5.11). This was equivalent to 4.2% of Tasmania's gross state product in 2014-15, more than for any other state or territory and some 1.6 pc points above the average for all states and territories (Chart 5.12).

Chart 5.11: Spending on school education, per FTE student, 2014-15



Sources: ABS, Government Finance Statistics, Education, (5518.0.55.001); Schools, Australia (4221.0),

Chart 5.12: Spending on school education, as a pc of GSP, 2014-15



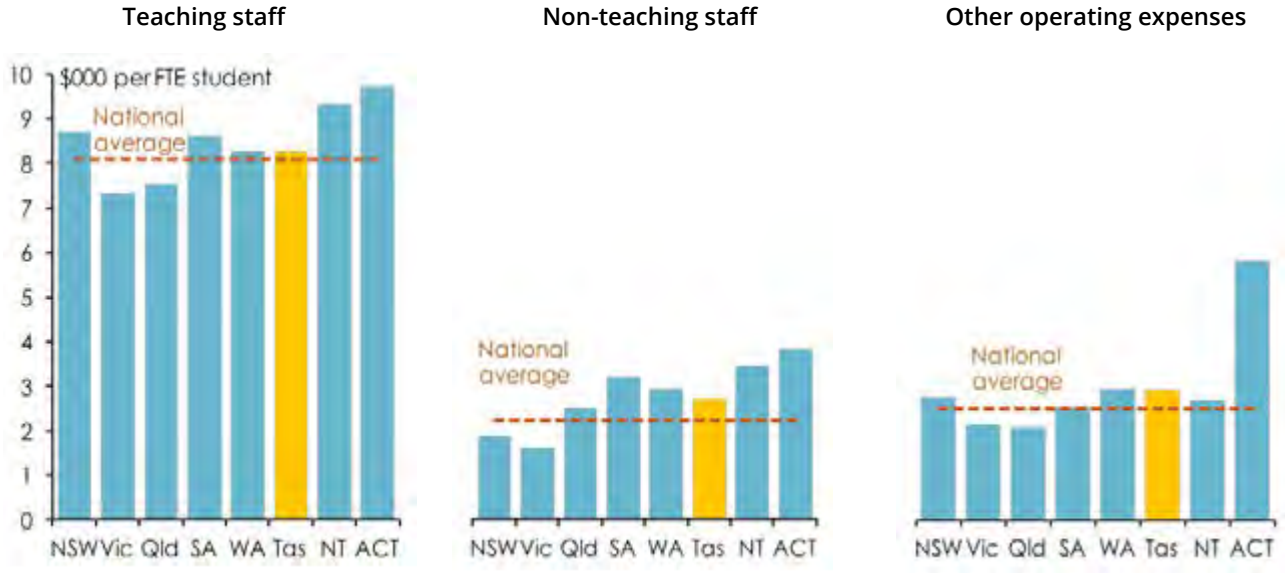
Sources: ABS, Government Finance Statistics, Education, (5518.0.55.001); state Accounts (5220.0).

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

In the 2013-14 financial year, Tasmania spent only $177 (or 2.2%) more per student than the national average on teachers in government schools, but it spent $483 (or 22%) per student more on non-teaching staff, and $457 (or 17%) per student more on other operating expenses than the national average (Chart 5.13)[26].

[26] *The estimates of schools expenditure published by the Productivity Commission in its annual Report on Government Services include depreciation and a 'notional user cost of capital', which are not included in the ABS figures used in Charts 5.11 and 5.12, and referred to in the accompanying discussion.*

Chart 5.13: Spending per FTE student on government school education, by type, 2013-14

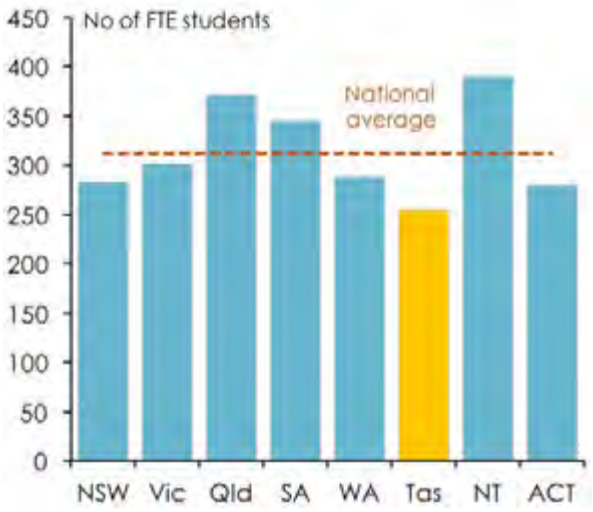


Source: Productivity Commission, Report on Government Services 2016, Volume B, Child care, education and training, Chapter 4A. Tables 4A.10 and 4A.14

The most likely reason for Tasmania's above-average per student spend on non-teaching staff and other 'operating costs' is the relatively smaller size of Tasmanian schools, on average:

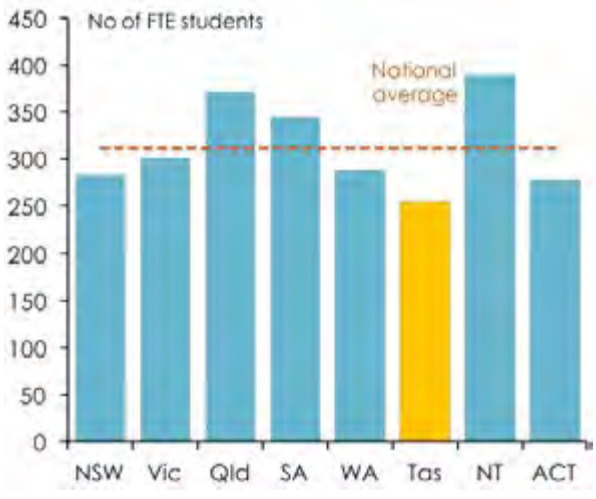
- The average Tasmanian government primary school has 279 FTE students, 58 (or 19%) less than the average government school on the mainland. This is not because Tasmania has a disproportionately large number of small primary schools (it doesn't), but rather because fewer than 10% of Tasmanian government primary schools have more than 400 pupils, compared with around 28% of government primary schools on the mainland (Chart 5.14).
- The average Tasmanian government secondary school has 675 FTE students, 214 (or 24%) less than the average mainland government secondary school. Tasmania has relatively more government secondary schools with fewer than 300 students than the national average (16.7% as against 10%), and relatively fewer secondary schools with more than 800 students (25%, as against 45%) (Chart 5.15).

Chart 5.14: Government primary schools, average enrolment, 2014



Source: Productivity Commission, Report on Government Services 2016, Volume B, Child care, education and training, Chapter 4A. Table 4A.1),

Chart 5.15: Government secondary schools, average enrolment, 2014



Sources: Productivity Commission, Report on Government Services 2016, Volume B, Child care, education and training, Chapter 4A. Table 4A.1),

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

It seems likely that one of the main reasons for the smaller enrolments at Tasmanian government secondary schools, on average, than at government secondary schools elsewhere in Australia, is the separation within the Tasmanian government school system between Years 7-10 and Years 11-12, which requires the duplication of facilities, administrative and student support structures and senior staff roles in a way that is not required in other states.

This would in turn also help to explain why Tasmania spends more per student on school education than most other states, but yet gets inferior results, at least as measured by Year 12 completion rates – although there is insufficient information publicly available on the costs of running individual schools (or the colleges as a group) to be able to verify this conclusively.

Nonetheless, it seems clear that the shortcomings in the Tasmanian education system will not be remedied simply by spending more money on it – since Tasmania is already doing that, to little obvious benefit. Rather, Tasmania should be spending what it spends on education more effectively, in order to ensure that all Tasmanian students have at least the same educational opportunities as are available to students in other parts of Australia.

The difficulties which the current Tasmanian government encountered during 2016, in seeking to bring the 'starting age' for entry into primary school into line with that of other states and territories indicate that the sort of changes likely to be required will not be easily accomplished.

The role of the University of Tasmania

The University of Tasmania plays an important and, by comparison with other states, distinctive role not only in the Tasmanian education system, but in the Tasmanian economy.

The number of students attending the University has increased by nearly 50% over the past five years, to more than 35,000 (excluding offshore international students) in 2015. Adjusted for the growth in the number of part-time students, this translates into a 27% increase in the full-time equivalent student load over the past five years, to almost 19,000 (Chart 5.16).

Chart 5.16: University of Tasmania student load, 2001-2015

Source: University of Tasmania

Within these totals, the number of onshore international students has increased by more than one-third, to over 4,300 (or, in FTE terms, by more than one-quarter, to just under 3,000), over the past five years. This represents a direct contribution to Tasmania's export income, and is estimated to have created some 1,300 jobs in Tasmania.

The University employs just over 2,400 full-time equivalent staff, making it one of the state's largest employers outside of the state government and its agencies, and is estimated to contribute about $930mn of gross value added annually to Tasmania's economy (equivalent to about 3½% of gross state product)[27].

[27] *University of Tasmania, Impact statement 2016-17.*

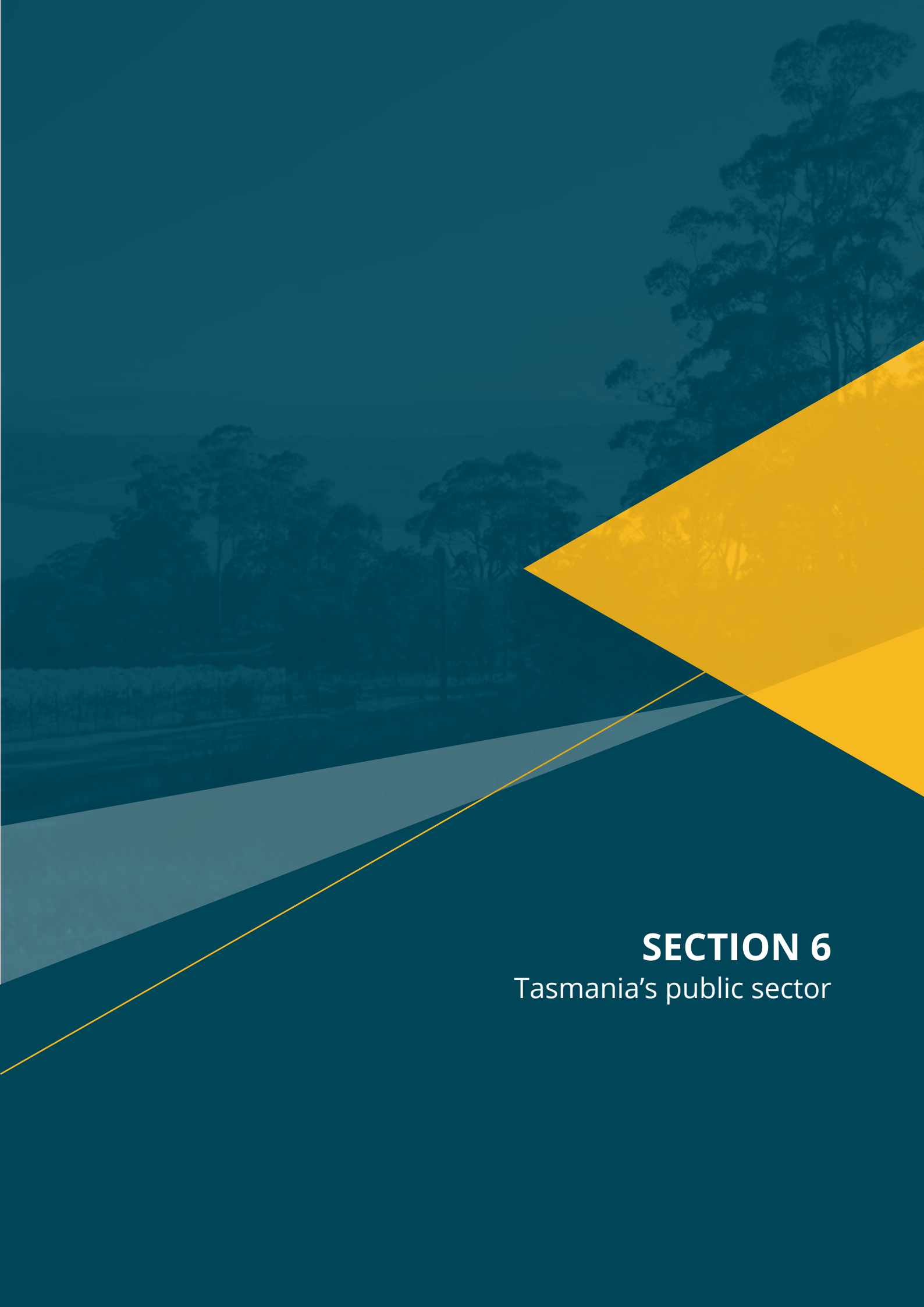
This figure excludes the impact of the University's research funding. The University of Tasmania is Australia's ninth largest in terms of research funding and output, a considerably higher ranking than its 21st in terms of student numbers. In 2016, the University of Tasmania became the first institution outside the 'Group of Eight' largest universities to secure $100mn in research funding.

The University is seeking to make a substantial contribution towards lifting Tasmania's level of educational attainment – and, in the short term, to the state's economy – through the Northern Transformation Project. This is a $300mn investment, in partnership with the Commonwealth, state and local governments, TasTAFE and the Cradle Coast Authority, to build new campuses in central Launceston and Burnie, with a view to bringing 12,000 more students into higher education in northern and north-western Tasmania through the offering of shorter, more flexible and industry-focussed associate degrees. These associate degrees, in addition to opening up new pathways to employment, are also expected to assist in the progression of more students to full bachelor degrees, and beyond.

The University's business case for this project estimates that it will create 265 new academic and other full-time jobs (paying an additional $38mn in wages and salaries annually), plus an additional 185 permanent jobs indirectly, boosting Tasmania's economy by $428mn per annum (equivalent to about 1½% of 2015-16 gross state product). The construction phase is expected to provide 480 jobs directly and 2,180 indirectly, worth about $1.1bn to Tasmania's economy.

If the targets for increased student enrolments are met, the University's Northern Transformation Project will go a long way towards reducing the long-standing gaps in educational attainment between regional Tasmania and Hobart, and between Tasmania as a whole and other states. For those targets to be achieved, of course, the proportion of Tasmanian secondary school students completing Year 12 will also need to be brought much closer to that of students in other parts of Australia – although it may be that the availability of the new University courses will provide an incentive to continue on to Year 12 that many students feel is lacking at the present time.

The Northern Transformation Project could also make a substantial positive contribution to the vibrancy of the cities of Launceston and Burnie, in a manner analogous to the impact that MONA has had on Hobart, by bringing thousands of students into the heart of these cities.



SECTION 6

Tasmania's public sector

6. Tasmania's public sector

Tasmania has a relatively large state public sector. At the end of the 2015-16 financial year, Tasmania's state non-financial public sector owned assets were valued at the equivalent of 90% of Tasmania's gross state product – more than in any other state or territory (albeit only marginally so by comparison with Queensland and the Northern Territory), and well above the average of 73% for all states and territories (Chart 6.1). During the 2015-16 financial year state non-financial public sector spending amounted to 30% of Tasmania's GSP, once again more than any other state or territory, and nearly double the average for all states and territories (Chart 6.2).

Chart 6.1: State non-financial public sector assets, 30 June 2016

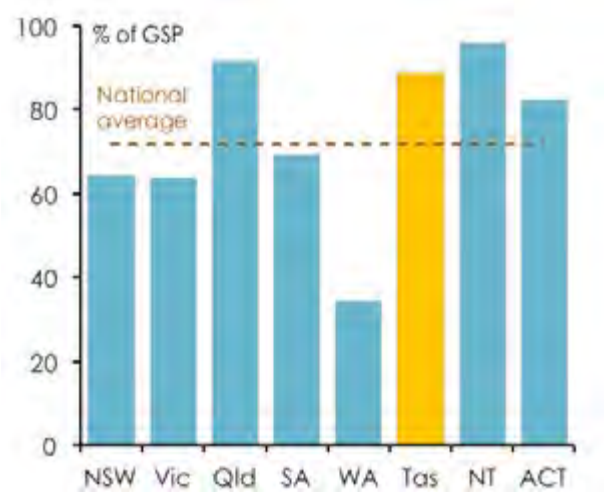


Chart 6.2: State non-financial public sector operating expenses, 2015-16

Sources: state and Territory Treasurers' Annual Financial Reports, 2015-16, except for Queensland & South Australia (which are yet to release their reports for 2015-16), 2016-17 Budget Papers; and ABS, state Accounts 2015-16 (5220.0).

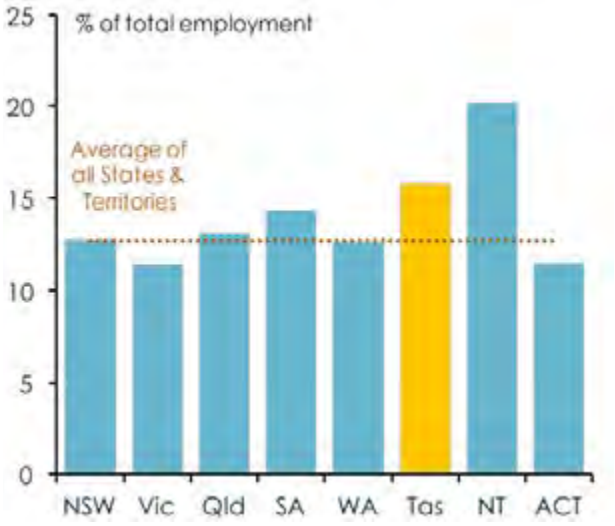
The principal reason for Tasmania's larger-than-average state public sector is the relative importance of its **government business enterprises** (GBEs), whose assets were valued at the equivalent of 41% of GSP as at 30 June 2015, and whose operating expenses amounted to just under 12% of GSP in 2015-16 (in each case well above the averages for all states and territories of 28% and 3.6%, respectively).

However, Tasmania's core state 'general government' sector is also larger than in most other states, with assets equivalent as at 30 June 2016 to 68% of gross product and operating expenses in 2015-16 equivalent to 20.5% of gross product (compared with averages for all states and territories of 64% and 13.6%, respectively)[28].

[28] *'General government' assets were larger, as a percentage of gross product, in Queensland, the Northern Territory and the ACT than in Tasmania as at 30th June 2016; while general government operating expenses were also larger as a proportion of gross product in the Northern Territory in 2015-16 than in Tasmania.*

The **Commonwealth Government** also has a proportionately larger presence in Tasmania than in the other states, with Commonwealth general government consumption spending in Tasmania equivalent to 8.7% of the state's gross product in 2015-16, more than in any other state, although less than the corresponding figures for the Northern Territory and (especially) the ACT.

Chart 6.3: State public sector employment as a pc of total, June 2015



Source: ABS, Schools, Australia (4221.0), 2015.

The public sector is also a large **employer** in Tasmania. state public sector accounted for 15.8% of total employment as at June 2015, a larger share than in any other jurisdiction except the Northern Territory, and compared with an average of 12.7% for all states and Territories (Chart 6.3)[29].

Commonwealth public sector employment accounted for 2.1% of total employment in Tasmania in June 2015, again a larger share than in any other state, although smaller than in either the Northern Territory or (especially) the ACT.

Tasmania's public sector financial performance

Tasmania's public sector is in most respects a reasonably strong position, compared with other states and territories – the glaring exception being the extent of Tasmania's unfunded public sector superannuation liabilities (on which more later in this section).

In particular, Tasmania is the one of only two states where the 'general government' sector is a net creditor (the other being New South Wales, temporarily, as a result of the lease of its electricity distribution assets during the 2015-16 financial year), and the only one expected to remain so over the four years to 2019-20.

Tasmania's GBEs do have a lot of debt: relative to the size of the state's economy, more than in any other jurisdiction except Queensland (although as noted above, Tasmania's GBEs also have considerably more by way of assets relative to the size of its economy than any other state or territory).

Even so, after deteriorating significantly during and after the global financial crisis, Tasmania's total non-financial public sector **net debt** is now lower, as a proportion of GSP, than for any other state or territory except New South Wales (Chart 6.4).

Moreover, with New South Wales' net debt projected to more than double over the next four years, primarily as a result of the forecast increase in its infrastructure spending program, and most other jurisdictions' (with the exception of Victoria's) debt levels also expected to increase over the next four years, Tasmania is currently forecast to have the lowest ratio of non-financial public sector debt to gross product of any jurisdiction (Chart 6.5).

[29] *Public sector employment data for 2016 were not due to be published until after the completion of this report.*

Chart 6.4: General government and non-financial public sector debt, 30 June 2016

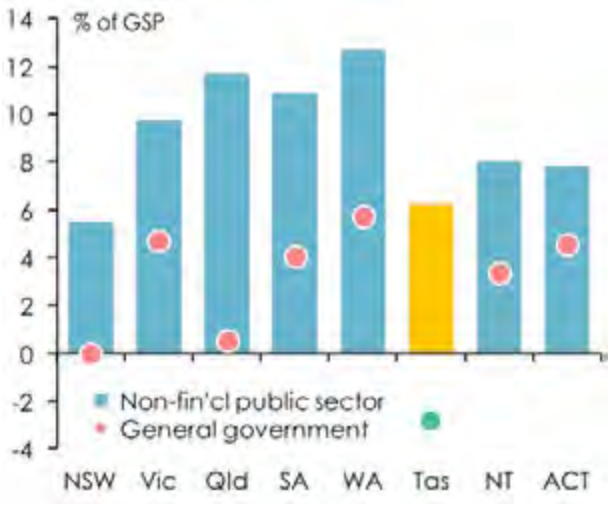
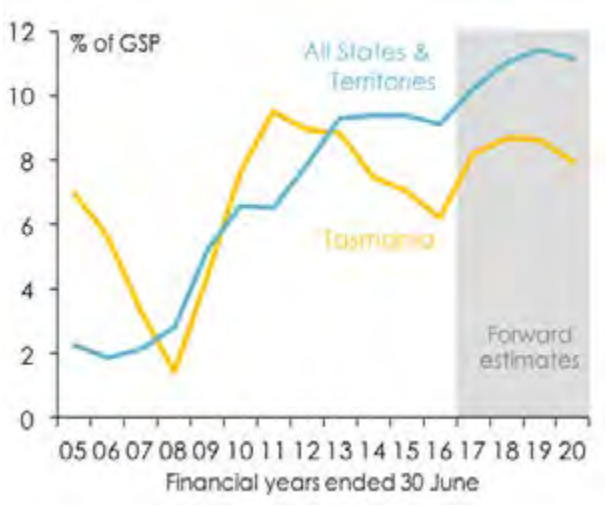


Chart 6.5: Non-financial public sector debt, Tasmania and national average



Sources: State and Territory Treasurers' Annual Financial Reports, 2015-16, except for Queensland & South Australia; 2016-17 Budget Papers; and ABS, state Accounts 2015-16 (5220.0).

The improvement in Tasmania's financial position over the past four years is the result of more stringent control of **recurrent spending** than during the preceding eight years, combined with stronger growth in **revenue** from state taxation (especially stamp duties) and an increase in Tasmania's share of the GST, partly offset by a decline in specific purpose grants from the Commonwealth and lower revenue from state GBEs (Chart 6.6).

General government 'operating expenses' grew at an average annual rate of more than 6½% per annum over the eight years to 2011-12, almost 2 pc points per annum faster than the growth rate of 'operating revenues'. Over the four years since then, growth in spending has been held to just 2.5% per annum, some 1¼ pc points per annum below the growth rate of total revenues.

Chart 6.6: General government revenue and expense growth, 2003-04 to 2019-20

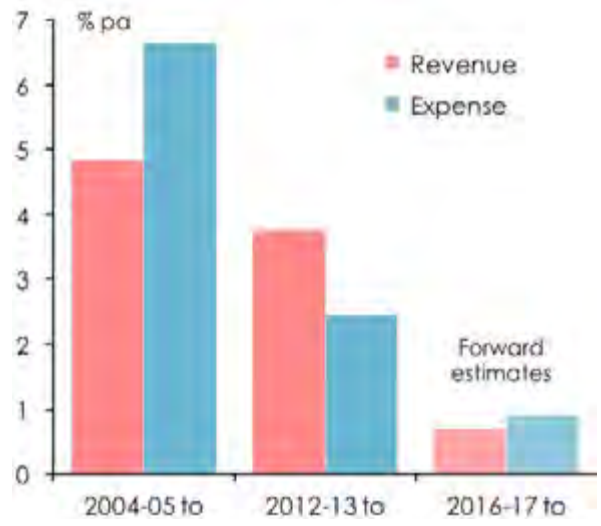
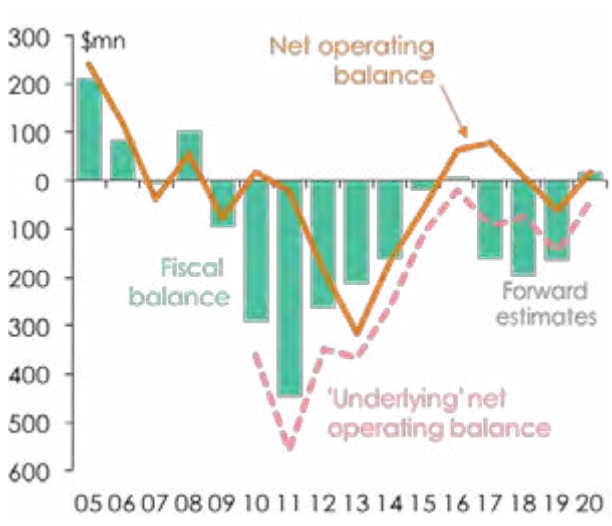


Chart 6.7: General government 'operating' and fiscal balances



Note: The 'underlying' operating balance excludes one-off Commonwealth grants for capital purposes. The fiscal balance includes net purchases of non-financial assets. Sources: Tasmanian Treasurer's Annual Financial Report and Budget Paper No. 1, 2004-05 through 2016-17.

As a result, the 'underlying' operating deficit has been cut from $557mn in 2010-11 to just $19mn in 2015-16; including one-off grants from the Commonwealth government for various capital expenditure programs (which under the accounting framework used by state governments is recorded as 'operating revenue') this has been sufficient to allow a 'headline' operating surplus to be recorded in 2015-16 (Chart 6.7).

The 2016-17 state Budget projects even slower growth in operating expenses, of less than 1% per annum, over the four years to 2019-20, based on growth of just 1½% per annum in employee expenses, and outright falls in spending on 'consumables' and in interest expense.

Maintaining such a low rate of growth in recurrent spending will require strict adherence to the government's wages policy (of constraining pay increases to no more than 2% per annum), and may also entail some further decline in public sector employment (presumably through natural attrition). It also leaves little room for spending initiatives ahead of the 2018 state election.

The 2016-17 Budget forward estimates envisage even slower growth in revenues over the next four years, reflecting slower growth in taxation revenues (and in particular, a decline in stamp duty revenues from their elevated level in 2015-16), much smaller increases in Tasmania's share of revenue from the GST, and a decline in revenues from GBEs (in particular, Hydro Tasmania).

Hence, the most recent state Budget envisages some renewed deterioration in the 'underlying' operating balance over the next three years. Combined with a projected significant increase in capital expenditures (including on the Royal Hobart Hospital redevelopment), this implies larger fiscal deficits over the next three years (Chart 6.7), ahead of a return to a small fiscal surplus in 2019-20 when, on current projections, capital spending will decline sharply.

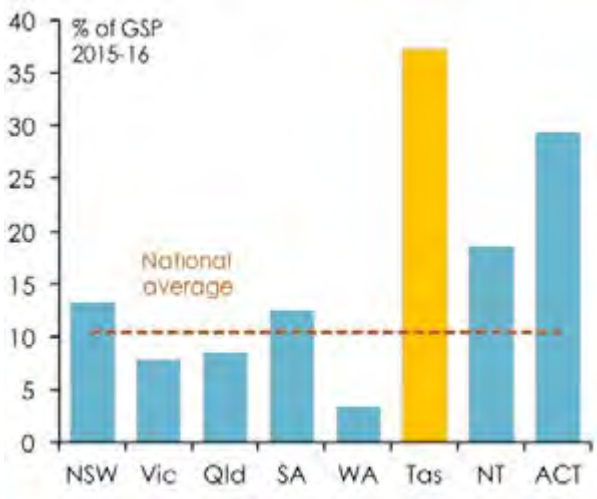
There are clearly upside risks to the forward estimates for spending – as noted, for example, by Moody's in downgrading Tasmania's credit rating from Aa2 to Aa1 in Augus[30]. Nonetheless, adjusted for differences in population growth both Western Australia and the Northern Territory are projecting slower growth in operating expenses than Tasmania over the next four years.

Arguably, there are also upside risks to the forward estimates of revenues. The 2016-17 Budget projections for stamp duty revenue could prove conservative. And Tasmania's share of revenue from the GST may not decline as much as assumed in the 2016-17 Budget, given the rapid slowing in the growth rate of both Western Australia's and the Northern Territory's populations, and (if sustained for any length of time) the recovery since February in iron ore and coal prices (which will have the effect of slowing the expected increase in Queensland's and Western Australia's shares of GST revenue, and hence the projected decline in Tasmania's share).

Tasmania's public sector superannuation problem

As noted earlier in this section, one major exception to Tasmania's generally sound public sector financial position is the magnitude of its unfunded superannuation liability in respect of current and future generations of public sector employees. This stood at $8.8bn for the 'general government' sector as at 30 June 2016, equivalent to almost 34% of Tasmania's annual gross product. Including a further $900mn of unfunded liabilities in respect of GBE employees, and the total non-financial public sector superannuation liability totalled $9.7bn – equivalent to more than 37% of Tasmania's annual gross product. This is significantly higher than for any other jurisdiction, and more than 3½ times the average for all states and territories (Chart 6.8).

Chart 6.8: Unfunded superannuation liabilities, state non-financial public sectors, June 2016



Sources: State and Territory Treasurers' Annual Financial Reports, 2015-16 and 2016-17 Budget Papers; and ABS, state Accounts 2015-16 (5220.0).

[30] *Moody's Investor Service,* Moody's downgrades Tasmania's rating to Aa2 from Aa1, outlook changed to stable, *18th August 2016.*

In the early 2000s, the then state government applied some of its budget surpluses to the accumulation of financial assets in a Superannuation Provision Account (SPA), with the intention of fully offsetting the unfunded superannuation liability by 1 July 2018. This target date was pushed out to 2033 in the 2006-07 Budget, and abandoned altogether (and the SPA closed) in the 2012-13 Budget. The liability is not now expected to be extinguished until the late 2070s.

70% of the increase in the value of Tasmania's superannuation liability over the past five years has been directly attributable to changes in financial assumptions – in particular, to the decline in the discount rate used to determine the present value of future liabilities, in line with the decline in long-term bond yields.

The rise in long-term interest rates since the end of August, and in particular since the US Presidential election in early November, will if sustained result in some reduction in the actuarially assessed value of the unfunded superannuation liability.

Movements in the discount rate do not affect the actual cash cost to the Budget of meeting superannuation obligations to retired and retiring employees, which are now projected to increase from 4.7% of general government operating cash receipts in the current financial year to a peak of 5.9% in 2024-25 (½ pc point higher and a year earlier than forecast in the 2015-16 state Budget), before declining over the following two decades.

Tasmania's large unfunded superannuation liability is perhaps the single most important reason why its otherwise superior net debt position, relative to that of other states and territories, isn't reflected in a higher credit rating. More importantly, it is a meaningful constraint on Tasmania's ability to borrow in order to fund higher levels of infrastructure spending, something which might otherwise contribute to improved long-term economic growth prospects for Tasmania.

To that end, there would seem to be some merit in giving consideration to selling or leasing assets for which there is no compelling case for retention in public ownership – such as, following the examples recently set by governments of both major political persuasions in New South Wales and Victoria, electricity transmission and distribution businesses or ports – in order to reduce Tasmania's superannuation liability, and thereby create 'headroom' for borrowing to fund increased investment in productive infrastructure[31].

Such a course would of necessity require an explicit electoral mandate, and thus it is important that any political party contemplating such a strategy take the time and trouble to articulate the case for doing so ahead of an election.

[31] Note that there is no suggestion made here that the sale or lease of Tasmania's energy generating assets should be contemplated, or that any asset sales or leases should be undertaken for the purpose of paying down debt.

Tasmania's infrastructure investment

As noted earlier in this section, Tasmania's general government infrastructure spending will increase over the next two years, in part as a result of ongoing work on the Royal Hobart Hospital redevelopment project.

Even so, the projections in the 2016-17 Budget imply that, as a proportion of Tasmania's gross product, general government infrastructure spending will decline from 2.0% in 2016-17 to 1.0% in 2019-20, by which time it will be smaller as a percentage of gross product than in any jurisdiction except Western Australia and the ACT (Charts 6.9 and 6.10).

Chart 6.9: General government purchases of fixed assets, states and territories

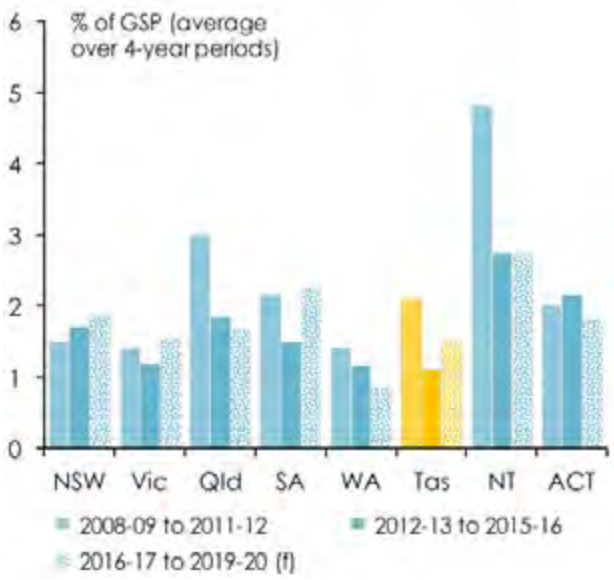


Chart 6.10: General government purchases of fixed assets, Tasmania vs all states

Sources: State and Territory Budget Papers, 2016-17; ABS, state Accounts 2015-16 (5220.0).

International agencies have in recent years increasingly emphasised the contribution that well-targeted and appropriately governed public infrastructure investment can make to fostering stronger short- and longer-term economic growth.

The International Monetary Fund, for example, has argued that 'for economies with clearly identified infrastructure needs and efficient public investment processes and where there is economic slack … there is a strong case for increasing public infrastructure investment', and that 'evidence from advanced economies suggests that an increase in public investment that is debt financed would have larger output effects than an increase that is budget neutral'[32].

Similarly former Reserve Bank Governor Glenn Stevens has said, on more than one occasion, that "it would be confidence-enhancing if there was an agreed story about a long-term pipeline of infrastructure projects, surrounded by appropriate governance on project selection" and that "it is perfectly sensible for some public debt to be used to fund infrastructure that will earn a return"[33].

Observations such as these seem no less applicable to Tasmania than anywhere else.

Tasmania could usefully invest more in school education infrastructure (especially if it were in support of an intention to create a secondary school system similar to those which exist in other states, and which produce better educational outcomes for a larger proportion of students than Tasmania's present system does), health infrastructure, roads (especially in areas of high tourism value), national parks, water and sewerage, and urban public transport. These are all areas in which there appears to be a prima facie case that appropriately targeted and governed investments could produce significant economic and/or social returns over the longer term, as well as creating jobs in the short term.

Ultimately, an appropriate constraint on the level of public debt Tasmania can sustainably carry would be a requirement that the general government operating balance remain in surplus (on average), given that the operating balance includes net interest expense and provisions for depreciation. This requirement is not expected to be met, under current policy settings, over the next three years – which underscores the point that other actions (such as reducing the recurring cost of Tasmania's public sector superannuation obligations) are required in order to create more 'headroom' for a higher level of infrastructure investment.

Tasmania's vulnerability to changes in federal-state relations

Tasmania has traditionally 'done well' out of Federal-state financial relations, primarily as the result of the application by the Commonwealth Grants Commission of 'horizontal fiscal equalisation' principles (which take account of the differences in each state and territory's capacity to raise revenues from its own resources, and in the demand for and cost of providing public services) in determining the distribution of general revenue grants from the federal government and, since 2000, of the revenue from the GST.

Chart 6.11: Commonwealth payments to states and territories per capita, 2015-16

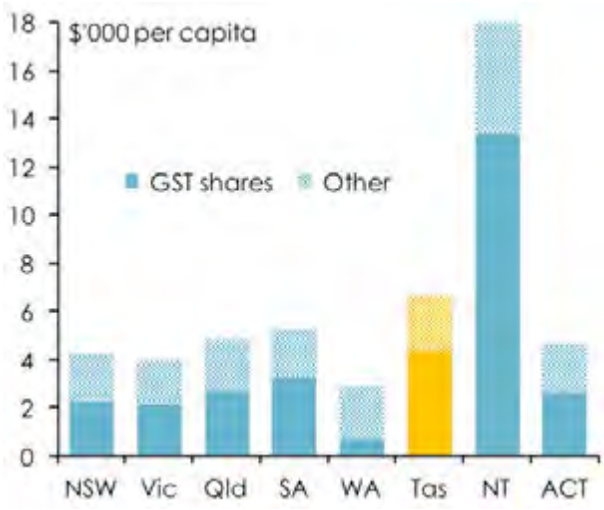
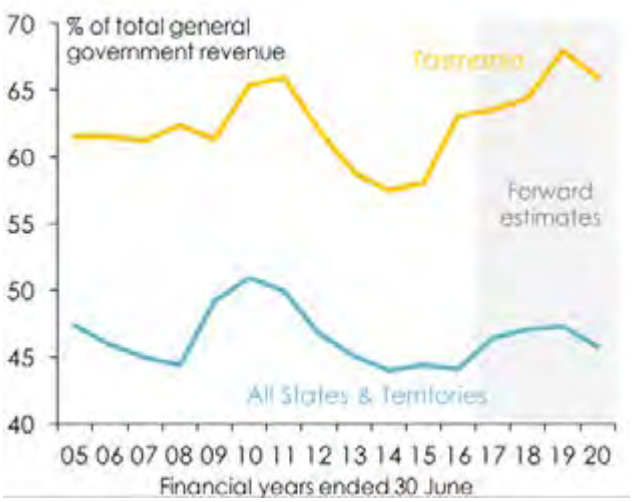


Chart 6.12: Commonwealth payments as a pc of total general government revenue



Sources: Australian Government, Final Budget Outcome, 2015-16; State and Territory 2016-17 Budget Papers.

[32] *IMF, 'Is it time for an infrastructure push? The macro-economic effects of public investment', World Economic Outlook, October 2014, Chapter 3, p. 89.*
[33] *Glenn Stevens, 'Economic Conditions and Prospects: Creating the Upside', Address to an Economic Society of Australia luncheon, Brisbane, 10th June 2015.*

Tasmania received a total of $6,618 per head of population by way of payments from the Commonwealth in the 2015-16 financial year, of which just under two-thirds was Tasmania's share of revenue from the GST (Chart 6.11). Payments from the Commonwealth constituted 63% of Tasmania's total general government operating revenue in 2015-16, a higher proportion than for any other jurisdiction except the Northern Territory, and well above the national average of 42% (Chart 6.12).

The 'good deal' (as other states see it) which Tasmania gets from the carve-up of GST revenues enabled the Tasmanian government to spend just over $1,000 per head more in 'operating expenses' than the average of all state and territory governments in 2015-16 (Chart 6.13), whilst collecting about $1,100 per head less in state taxation than the average of all state and territory governments (Chart 6.14).

Chart 6.13: General government 'operating expenses' per capita, 2015-16

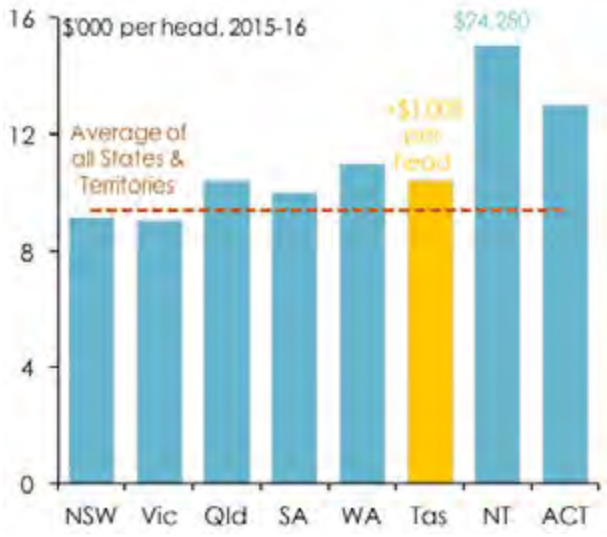
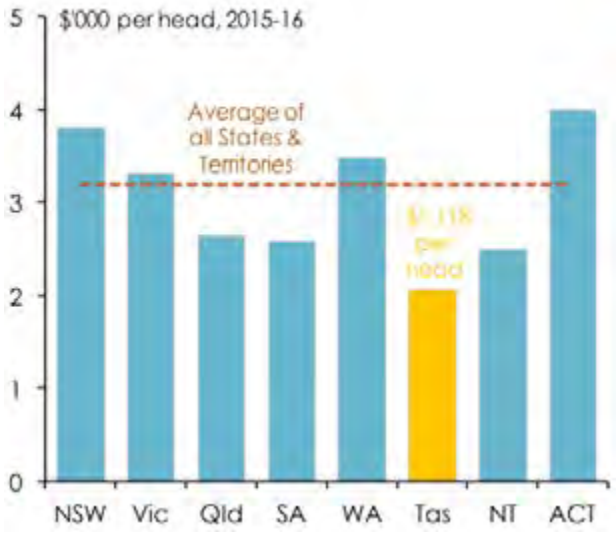


Chart 6.14: Taxation revenues per capita, 2015-16



Sources: State and Territory Treasurer's Annual Financial Reports, 2015-16, except for Queensland and SA, 2016-17 Budget Papers; ABS, state Accounts 2015-16 (5220.0). Note that 'taxation revenue' does not include mineral royalties or dividends from GBEs.

In this sense, successive Tasmanian state governments have been 'insulated' to a significant extent from the relatively poor performance of the Tasmanian economy, in much the same way as the operation of the national personal income tax and social security systems have shielded Tasmanian households from the consequences of the state's poor economic performance being fully reflected in their disposable incomes, relative to those of other Australians (as discussed in Section 4).

These figures also highlight Tasmania's vulnerability to any major change in the way in which revenues from the GST are distributed among state and territory governments, as have long been sought by New South Wales and Victoria, and over the past decade even more vociferously by Western Australia.

By way of illustration, had the GST revenue been distributed among states and territories on an equal per capita basis in 2015-16 – as the Western Australian government and others implicitly assert it 'should' be when they bewail the loss of 'their' GST revenue to other states and territories[34] – the Tasmanian government would have lost over $1 billion in revenue (Charts 6.15 and 6.16).

That would have been equivalent to 19% of Tasmania's total actual revenue in 2015-16 – a proportionately larger loss than the notional gain of $4.4bn to Western Australia (equivalent to 16½% of its total revenue in 2015-16).

[34] *It is in fact not possible to determine how much GST is collected within each state or territory, as a moment's contemplation of how the GST payable when (for example) a resident of Perth makes an on-line flight booking, or a Tasmanian orders a case of wine from a vineyard in South Australia, will reveal.*

In order to offset that loss of revenue, the Tasmanian government would have had to double the level of state taxation revenue, cut spending by almost 20%, or some other combination of tax increases and spending cuts, in order to achieve the same budget 'bottom line'.

Chart 6.15: Actual per capita distribution of GST revenues in 2015-16 compared with a notional equal per capita distribution

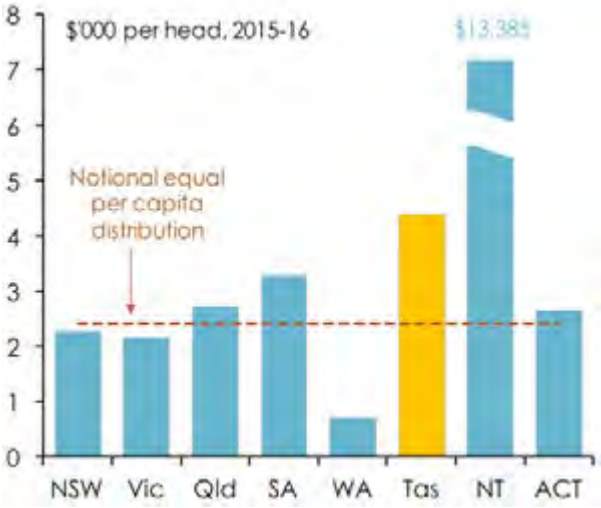


Chart 6.16: Impact on general government revenue in 2015-16 of hypothetical shift to equal per capita distribution of GST

Sources: Australian Government, Final Budget Outcome, 2015-16; 2015-16 State and Territory Treasurers' Annual Reports and 2016-17 Budget Papers; author's calculations.

It is thus vitally important for Tasmania's representatives in the Federal Parliament to continue to advocate strongly for the retention of the current system for distributing GST revenues among the states and territories.

However, it would also be very much in Tasmania's longer-term interests for the state government to pursue economic and other strategies aimed at improving Tasmania's economic performance and its resilience to shocks, so that over time it would be less reliant on revenue from the Commonwealth, and less vulnerable to demands from other states for changes in the way that revenue is distributed.

Tasmania's taxation and spending strategies

The fact that Tasmania spends more, and raises less in state taxation, than most other states and territories (whether measured in per capita terms or as a proportion of gross product) is not purely the result of deliberate policy choices by successive state governments.

It also reflects the fact that, for a variety of economic, demographic, geographical, and other reasons, Tasmania has less capacity to raise revenue than other states, and in many instances also faces a higher unit cost of providing public services, greater relative demand for public services, or both. These are of course precisely the factors which the Grants Commission explicitly takes into account in its annual Update Reports on the relativities used to determine the distribution of GST revenues among the states and territories.

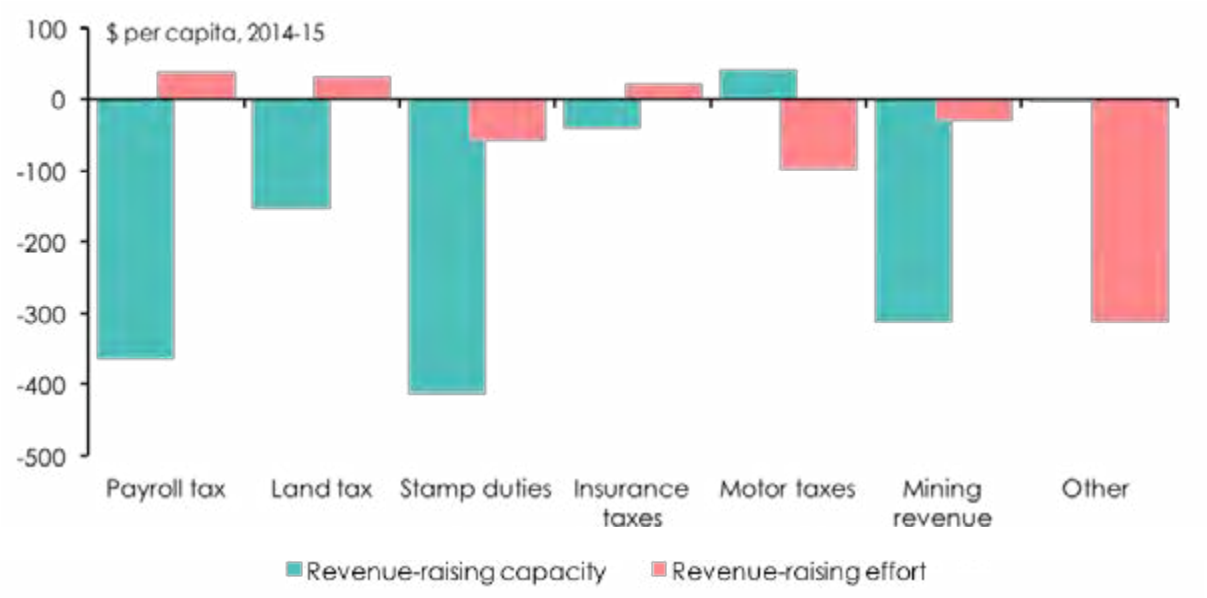
The Grants Commission's most recent assessment is that if Tasmania had imposed taxes, charges and mineral royalties at the same rate as the average of all states and territories in the 2014-15 financial year, it would only have raised just over 75% of the revenue that would have been raised by all states and territories if they levied the same rates.

That reflects, in particular, Tasmania's limited capacity, relative to other states and territories, to raise revenue from payroll tax (given lower average wages and a smaller proportion of the population in employment), stamp duties (given Tasmania's lower property values and lower volume of property transactions) and mineral royalties (given Tasmania's small mining sector) (Chart 6.16).

By contrast, the Grants Commission estimates that Western Australia could have raised 42% more revenue, per head of population, than the average of all states and territories by levying taxes, charges and royalties at the same rate as the average of all states and territories, largely on account of its much greater capacity to collect mining royalties, but also reflecting its relatively high wages and low unemployment. Similarly, New South Wales has an above-average capacity to raise revenue (albeit not to the same extent as Western Australia), largely because of its relatively high property values.

Tasmania actually chooses to raise less about 11% revenue per head of population than it notionally could have in 2014-15, had it imposed taxes, charges and royalties at the same level as the average of all states and territories, according to the Grants Commission's assessment (also shown in Chart 6.17).

Chart 6.17: Commonwealth Grants Commission's assessment of Tasmania's revenue-raising capacity and revenue-raising effort, relative to the average of all states and territories, 2014-15



Note: 'Revenue-raising capacity' is the difference between the revenue (per capita) which a government would notionally raise if it imposed taxes, charges and royalties at the same rates as the average of all governments ('assessed revenue') and the per capita revenue actually raised by all governments ('average revenue'). 'Revenue-raising effort' is the difference between the revenue actually raised by a government and the 'assessed revenue'. The CGC does not make an assessment for 'other revenues' so all of the difference between actual and average revenue is attributed to 'revenue-raising effort' – however no particular meaning should be ascribed to this specific difference. Source: Commonwealth Grants Commission, 2016 Update Report.

That reflects, in particular, lower revenue from stamp duties and motor vehicle taxes than Tasmania could notionally have collected had its tax rates been equivalent to the average of all states and territories, partly offset by slightly higher revenues from payroll tax, land tax and insurance taxes.

It makes sense for Tasmania to have a below-average 'revenue-raising effort' – that is, to have somewhat less 'severe' state taxes and charges than other states and Territories, on average, so as to offset some of the cost disadvantages (especially to businesses, who pay the majority of states taxes) arising from Tasmania's small scale and greater distance from major markets. Hence, successive governments have had, as part of their fiscal strategies, keeping Tasmania's 'tax severity ratio' (as determined by the Grants Commission) below 100% - and it's appropriate that this remain a key objective.

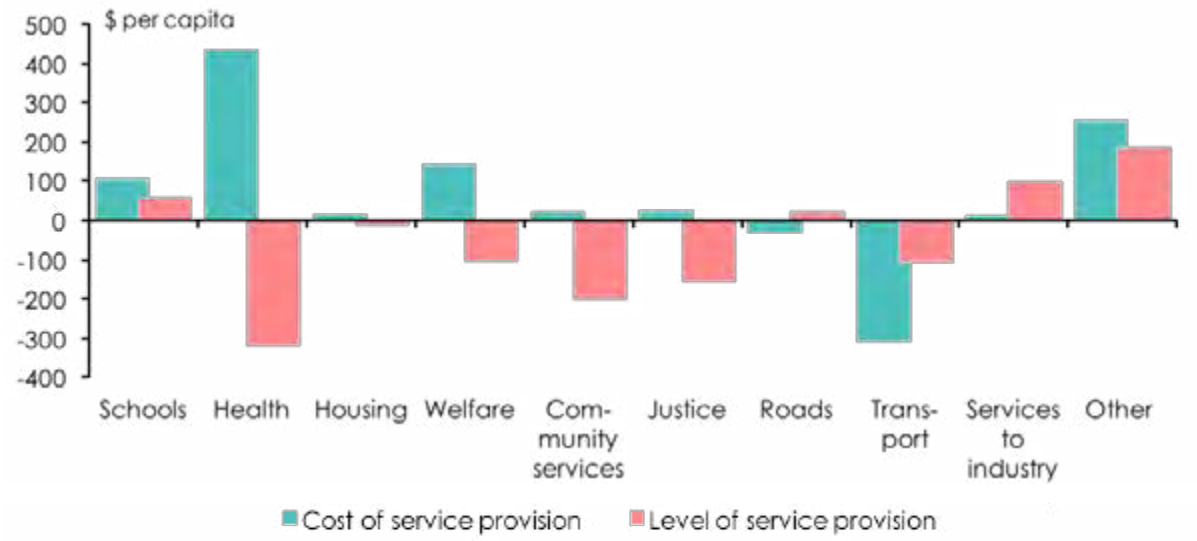
However, it is open to question whether the existing structure of Tasmanian state taxation might not be capable of being improved. For example, Chart 6.16 above suggests that Tasmania is actually raising slightly more from payroll tax than it would if its payroll tax regime were in line with the average of all states and Territories. That presumably reflects the fact that Tasmania's payroll tax rate of 6.1% is higher than anywhere else except the ACT, albeit that Tasmania's payroll tax threshold is also higher than anywhere else except the two Territories. It may be that a lower rate of payroll tax, paid by a higher proportion of Tasmanian employers (ie, with a lower threshold) could have a positive impact on employment and investment in Tasmania.

Similarly, Tasmania could usefully explore whether replacing stamp duties with a more broadly-based land tax (over time, and with appropriate transitional arrangements to avoid 'double taxation' of recent property purchasers), as suggested recently by Federal Treasurer Scott Morrison[35], could be beneficial.

On the expenditure side of the budget, the Grants Commission's assessment is that the Tasmanian government needs to spend about $700 per head, or 7½%, more than the average of all state and territory governments in order to provide Tasmanians with a similar range and quality of public services as all Australians, on average – having regard to differences in the relative need for, and cost of providing, different services in Tasmania compared with other states and territories.

This arises from, in particular, greater demands for and higher costs of providing health and welfare services, and to a lesser extent school education, partly offset by a lower requirement for subsidies for urban public transport (Chart 6.18).

Chart 6.18: Commonwealth Grants Commission's assessment of Tasmania's cost and level of service provision, relative to the average of all states and territories, 2014-15



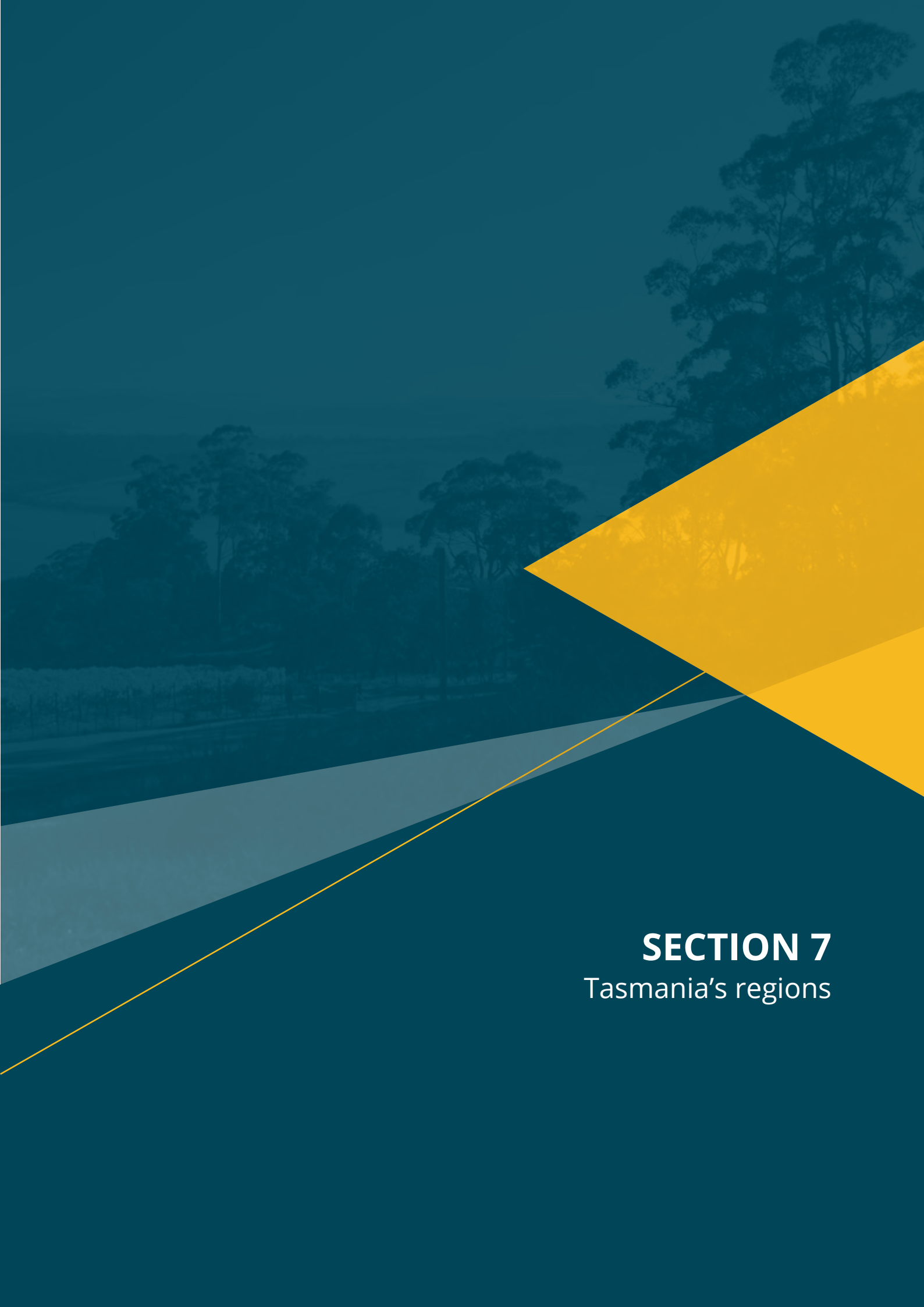
Note: 'Cost of service provision' is the difference between the level of spending per capita notionally required to provide the Australian average level of services ('assessed expenses'), and average per capita spending by all governments ('average expenses'). 'Level of service provision' is the difference between a government's actual per capita spending and 'assessed expenses'. Source: Commonwealth Grants Commission, 2016 Update Report,

In practice, Tasmania spent about $630 per capita (or around $325mn in total) less than required, in the Grants Commission's assessment, in order to provide the same level of services to Tasmanians as the average provided by all state and territory governments to their citizens. As illustrated in Chart 6.18, most of this apparent shortfall is in health, but relative to Grants Commission benchmarks Tasmania may also be underspending to some extent in community services, justice, welfare and public transport.

Needless to say, any decision to reduce these apparent shortfalls in spending could not be considered independently of the objective of keeping Tasmania's 'tax severity ratio' below 100%.

Ultimately, however, the more sustainable path to funding higher recurrent spending on (for example) health services, if that were thought desirable, is to strengthen Tasmania's economic performance and hence lift the state's revenue-raising capacity' (in the Grants Commission's terminology) – which would then enable more revenue to be raised without needing to increase the state's 'tax severity ratio'.

[35] *Phillip Coorey,* 'Treasurer Scott Morrison backs housing tax switch but says it's up to the states', *Australian Financial Review, 6th November 2016.*



SECTION 7

Tasmania’s regions

7. Tasmania's regions

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

Many of the economic, social and other differences between Tasmania and the rest of Australia, discussed in the earlier sections of this report, can also be found to at least some extent between Hobart and other parts of Tasmania. People living in the North, the North-West, the East and West Coasts and on the Bass Strait Islands are on average older, have less formal education, are less likely to be in paid employment and earn less, than people living in or close to Hobart (Table 7.1).

Table 7.1: Tasmania's regions: selected characteristics

CHARACTERISTIC	UNIT	YEAR	GREATER HOBART	SOUTH EAST	LAUNCESTON & NORTH EAST	NORTH WEST & WEST
Population	000	2015	221.0	37.9	143.9	113.8
Population growth	% pa	2010-15	0.58	0.40	0.11	-0.01
Median age years	2014	39.6	46.1	42.1	42.7	
Population aged 20-35	%	2015	19,6	12.4	17.1	15.7
Population aged 65 and over	%	2015	16.8	20.8	19.1	19.4
Median employee income	$ pa	2013	45,766	38,846	42,086	42,427
Post-school qualifications						
Bachelor degree or higher	%	2011	22.9	15.5	13.0	10.6
Diploma or adv. diploma	%	2011	7.9	7.3	7.3	6.8
Cert III or IV	%	2011	18.5	21.0	20.9	23.5
Working-age population employed	%	2015-16	57.9	52.0	55.3	56.6
Unemployment rate	%	2015-16	6.1	6.1	7.5	6.1
Composition of employment	**% of total 2011**					
Agriculture, forestry & fishing			1.6	15.3	5.6	7.1
Mining			0.3	0.6	0.9	4.0
Manufacturing			6.4	7.9	10.1	12.2
Construction			7.5	8.6	7.5	7.7
Retail trade			11.4	8.8	11.6	11.5
Accommodation & food services			7.1	7.9	7.5	7.0
Public admin & safety			12.2	7.8	6.5	6.0
Education & training			9.6	7.0	9.1	8.0
Health care & social assistance			12.8	10.4	11.9	10.8
Other services			31.1	25.7	29.3	25.7

Note: Data on educational attainment and employment by industry are derived from Census data and hence will not be updated until results from the August 2016 Census are published. 'Greater Hobart' includes Sorell, Richmond and Dodges Ferry; 'South East' includes the Derwent Valley and Central Highlands. Sources: ABS, Population by Age and Sex, Regions of Australia (3235.0); National Regional Profile 2010-14 (1379.0.55.001); Labour Force, Australia (6202.0), October 2016.

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

Regional Tasmania has been particularly hard-hit by the decline in Tasmanian manufacturing – of 24.2% measured by real gross value added and 23.5% in terms of employment since 2008-09. The decline in Tasmanian manufacturing output since the global financial crisis has been considerably greater than that in South Australia, while the loss of employment in Tasmanian manufacturing has been of proportionately the same order of magnitude as in South Australia – yet far more assistance (in the form of subsidies, and preferential government procurement policies) has been directed towards manufacturing in South Australia over the past year (and prospectively) than to manufacturing in Tasmania.

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

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

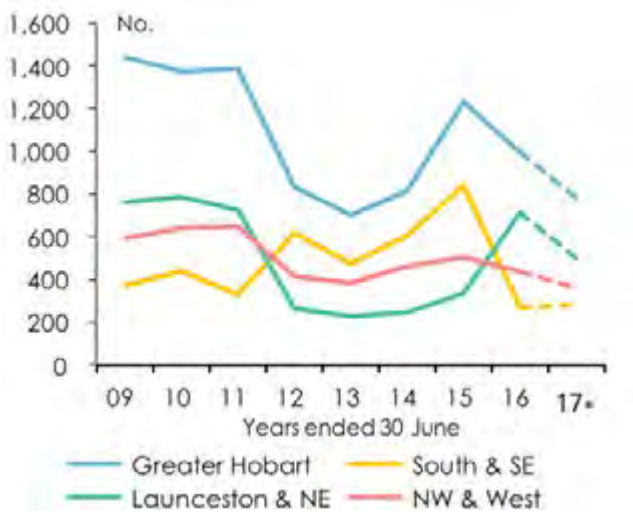
Building activity

As noted in Section 1, housing activity increased much more modestly in Tasmania than on the mainland during the 2015-16 financial year, and the number of new residential buildings approved by local governments declined by 17%, after a 37% increase in 2014-15.

This decline was concentrated in Greater Hobart, where the number of new residential building approvals fell by 19% after increasing by more than 50%in 2014-15, and in the South-East, where approvals fell by 68% following four years in which more new dwellings had been approved in this region than in either the North and North-East or the North-West and West, despite the South-East's considerably smaller share of the state's population (Chart 7.2).

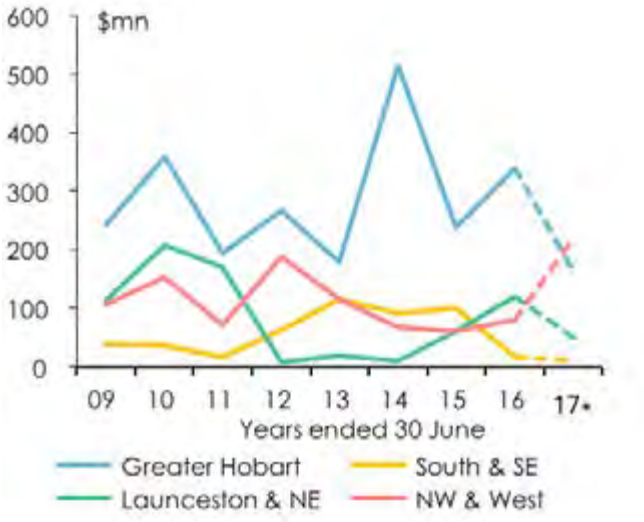
By contrast, new residential building approvals in Launceston and the North-East rose by 39% in 2015-16, to their highest level in five years. Approvals on the North-West and West Coasts fell by 18%, after double-digit gains in the preceding two years.

Chart 7.2: Number of new residential buildings approved, Tasmanian regions



Note: 2016-17 figures are for July-October 2016 expressed at an annualized rate. Source: ABS, Building Approvals (8731.0), October 2016

Chart 7.3: Value of non-residential building approved, Tasmanian regions



Note: 2016-17 figures are for July-October 2016 expressed at an annualized rate. Source: ABS, Building Approvals (8731.0), October 2016.

Residential building approvals have declined in all but the South-East this far in 2016-17.

Nearly two-thirds of the value of non-residential building approved in Tasmania over the three years to 2015-16 has been in the Greater Hobart area. However there was a significant increase (albeit from a very low base) in non-residential approvals in Launceston and the North-East in 2015-16, to the highest level in five years. There was also a somewhat smaller rise in non-residential building approvals on the North-West Coast in 2015-16, which has been followed by a much larger increase thus far in the current financial year. Indeed, in the first four months of 2016-17 a higher value of non-residential building has been approved in the North-West and West than in any other region in Tasmania (including Hobart).

The labour market

The North-West and West was the only region to register an increase in employment in the 2015-16 financial year, with a net gain of over 2,000 jobs (an increase of 4%) after a gain of 1,900 in 2014-15. On a monthly basis employment in the North-West and West peaked in late 2015, and has since fallen back by a little over 2%. Nonetheless, the North-West and West is the only Tasmanian region where employment is higher than it was prior to the onset of the financial crisis.

By contrast, the average level of employment fell by almost 1,000 (0.9%) in Greater Hobart, and by 370 (0.6%) in Launceston and the North East in 2015-16, partially erasing the gains made in 2014-15. By the first four months of the current financial year, employment in Greater Hobart had fallen back to roughly where it had been three years earlier, and was 2% below its level in the four months to October 2008 (ie, just before the onset of the financial crisis). Employment growth has also remained weak in Launceston and the North-East, and in the first four months of the current financial year was still 6% lower than in the four months to October 2008.

Chart 7.4: Employment growth, Tasmanian regions

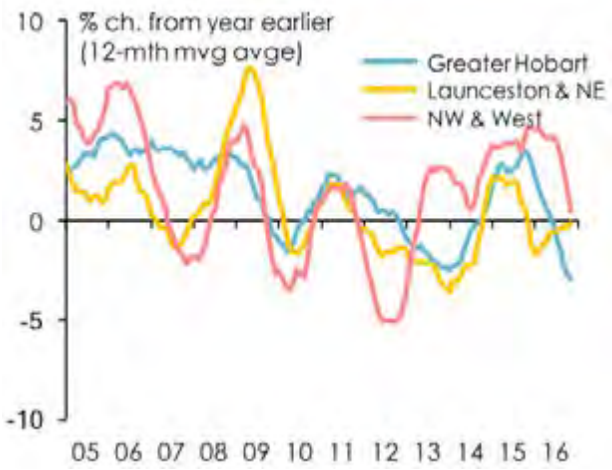


Chart 7.5: Unemployment rates, Tasmanian regions

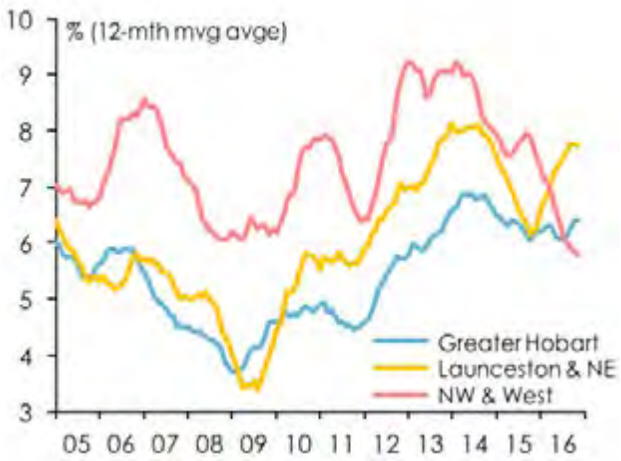


Chart 7.6: Labour force participation rates, Tasmanian regions

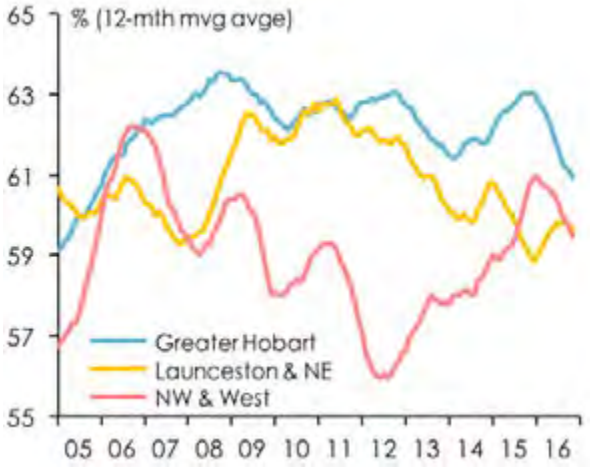
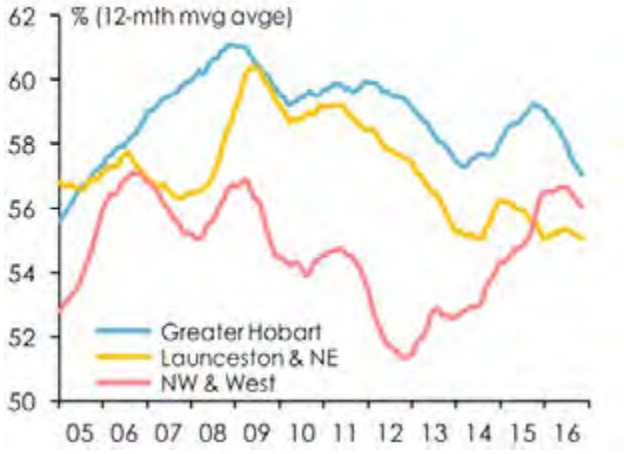


Chart 7.7: Employment-to-working age population ratios, Tasmanian regions



Note: data are depicted as 12-month moving averages in the absence of seasonally adjusted or trend data at the regional level. Source: ANS, The Labour Force (6202.0), October 2016.

The decline in employment in the Greater Hobart region has been paralleled by a fall in the labour force participation rate, to its lowest level in over a decade (at face value, suggesting that those who lost their jobs 'dropped out' of the labour force), leaving the unemployment rate little changed over the past two years at around 6¼%.

By contrast, the unemployment rate in the North-West and West region has fallen to 5.8% in the twelve months ended October 2016, the lowest since the current series of regional labour force statistics commenced in 1998, and down from a peak of over 9% in 2012-13. While this decline has been aided to some extent by a fall in the labour force participation rate, that rate nonetheless remains high by historical standards, so that the proportion of the North-West and West's working-age population who are in employment is now close to the peak recorded in 2006.

The unemployment rate in Launceston and the North-East has risen by more than 1½ pc points since the spring of 2015, to 7.7% in the twelve months ended October 2016, although that partly reflects a small increase in the labour force participation rate.

The proportion of Launceston and the North-East's working-age population who are in employment is now lower than at any time since 2003, and lower than that of the North-West and West for the first time since at least 1998.

Tourism

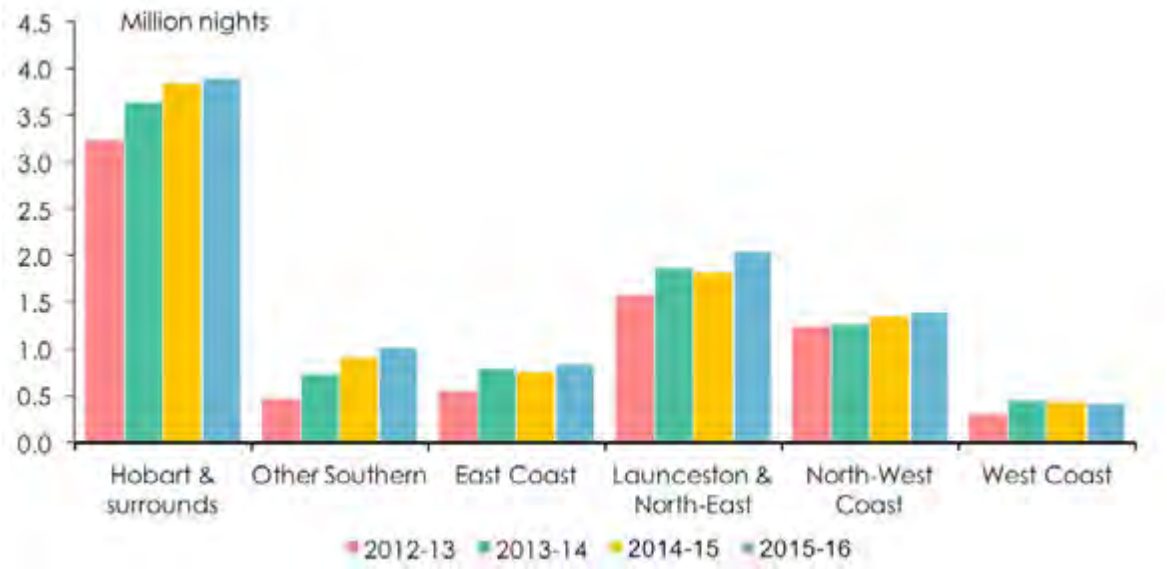
Tourism has been one of the strongest-performing sectors of the Tasmanian economy in recent years, with total visitor numbers rising by more than 36% over the four years to 2015-16 to just under 1.2 million, visitor nights rising by 30% to more than 10 million, and total visitor spending rising by almost 55% to over $2bn.

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

However, tourism is a mainstay of other Tasmanian regional economies, and in recent years they have been participating in the growth in Tasmanian tourism. The stand-out in this regard has been the South and South-East, where visitor nights have more than doubled over the past four years, accounting for almost one-quarter of the increase in total visitor nights in Tasmania (Chart 7.8). The Tasman Peninsula, Bruny Island and the far South have all experienced very strong growth in visitor numbers and overnight stays.

Visitor nights spent in Launceston and the North-East have grown by more than 30% over the four years to 2015-16 – 10 pc points more than for Hobart and surrounds. While much of this growth has been within Launceston itself, the number of visitors to the North-East (around Derby) has risen by nearly 250% over the past two years, reflecting the region's success in attracting mountain bike riders to the newly developed trails.

Chart 7.8: Visitor nights, by region, 2012-13 to 2015-16



Source: Tourism Tasmania, Tasmanian Visitor Survey.

The East and West Coasts have also experienced strong growth in visitor nights over the last three years, of over 50% and 40% respectively, albeit from lower bases than the state's other tourism regions. Growth along the North-West Coast has been somewhat slower, at just under 15%, although that partly reflects the adverse impact of bushfires and floods on visitor numbers in the first half of 2016.

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

The development of new international air connections (enhanced by the lengthening of the runway at Hobart Airport), and the opening of new accommodation facilities should aid further growth in tourism over the next few years, although it may prove difficult to maintain the growth rates of the past two or three years. Sustained growth in tourism is also likely to require greater levels of investment in road infrastructure, especially in regional areas, and in the maintenance and upgrading of facilities in Tasmania's iconic national parks and reserves.

Promoting regional development

The profile of Tasmania's regions has become more nuanced over the past couple of years. It is no longer simply a matter of "Hobart doing well and everywhere else missing out". The Greater Hobart region appears to have borne the brunt of the slowdown in employment growth over the past 18 months: while, correspondingly, the North-West and West Coasts have demonstrated considerable resilience, especially given the difficulties recently faced by dairy and other primary producers.

However, Launceston and the North-East continue to face difficult economic and social challenges. It's understandable, and appropriate, therefore, that this region remains a focus for employment creation programs and infrastructure investment.

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

And – as both this Report and last year's version have sought to demonstrate – there is nothing that can contribute more to progress in each of these three areas than higher levels of educational participation and attainment.

To that end, the Tasmanian government's emphasis on offering Year 11 and 12 courses at high schools in rural centres is of great importance – although ideally those opportunities ought eventually to be extended to students in Burnie, Devonport and Launceston (as well as in Hobart), in the same way that they are available to students in comparable places elsewhere in Australia (and more readily taken up than they currently are in Tasmania).

As set out in Section 5, the University of Tasmania's Northern Transformation Program has the potential to be a 'game changer' for both the North and the North-West – through the initial impact of the jobs created in the construction phase of these two projects, and over the longer term by the new pathways which they will provide to higher levels of educational participation and attainment, and by the way in which they change the 'face' and 'feel' of the cities of Launceston and Burnie.

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

SECTION 8
Looking forward

8. Looking forward

This year's 'Tasmania Report' has, like last year's, attempted to lay out the facts of Tasmania's economic situation in order to promote a broader and deeper understanding of Tasmania's strengths and weaknesses, in the belief that this will in turn facilitate both a stronger appetite for change, and a greater probability of identifying and implementing strategies which will ultimately prove effective in narrowing the large gaps in economic performance and material living standards which currently exist between Tasmania and the rest of Australia.

This Report does not seek to argue that these gaps can or should be eliminated altogether.

One of the clearest conclusions of the analysis presented in this Report is that Tasmania's demographic profile and economic structure are too different from those of mainland Australia's for it to be a realistic aspiration that Tasmania could attain the levels of participation in employment, or the levels of labour productivity, that would permit Tasmania's per capita gross product to rise to the national average level.

However, this Report also shows that – in the absence of any concerted efforts to lift participation in employment and labour productivity from their current levels – the more rapid ageing of Tasmania's population and the under-representation in Tasmania's economy of industry sectors with high levels of, and rates of growth in, labour productivity means that Tasmanian living standards will inevitably decline further, relative to those of other Australians.

And were that to occur, as a result of an unwillingness on the part of Tasmanians to lift their participation in employment and their productivity from current levels, well below those of other Australians, then the willingness of other Australians to continue to cushion Tasmanians' standard of living, through both the national tax-transfer systems and the mechanism for allocating revenue from the GST, may be increasingly called into question.

Material living standards – as measured by per capita GDP, or other essentially monetary indicators – are not the be-all and end-all of human existence, in Tasmania any more than anywhere else. This Report has acknowledged the dimensions of life in Tasmania which, though hard to measure, are appreciated and valued by Tasmanians as being preferable to what can be found in other parts of Australia – and especially in the large mainland metropolitan centres.

Nonetheless, it is doubtful whether real progress can be made in addressing the economic, social and other challenges which most concern Tasmanians if their incomes, their employment prospects, the opportunities available to Tasmanian businesses, and the resources available to their government, continue to decline relative to their counterparts on mainland Australia.

This Report, like last year's, has also sought to argue that progress – in arresting the long-term decline in Tasmanian living standards relative to those of the rest of Australia, let alone in beginning to reverse it – cannot come without change.

Change is never easy. And it may be more difficult to achieve in Tasmania than in many other places. Tasmania is a society which is older, poorer, less well-educated and more dependent on government largesse than the rest of Australia. Those characteristics almost inevitably make Tasmanians more resistant to change, and suspicious of those who advocate it, than people in communities which are younger, richer, better educated and more entrepreneurial.

Phillip Lowe, the recently appointed Governor of the Reserve Bank of Australia, noted something important about one dimension of this in a speech he gave in March 2014:

"If ageing societies do become inherently more risk averse and less supportive of innovation – as I suspect they might – then we are likely to face a greater challenge than we have to date in generating productivity growth"[36].

Achieving the kind of changes Tasmania needs to undertake in order to address the challenges which this Report has identified may be even more difficult in the political climate which is evolving in the aftermath of, among other things, the outcome of the 'Brexit' referendum in the UK, the US Presidential elections, and here in Australia the national election in July this year.

Government relies, as Thomas Jefferson and John Locke said at different times, on the 'consent of the governed'. Around much of the so-called 'developed' world, it seems, and potentially in Australia as well, citizens are withdrawing their consent to be governed in the way that they have been governed in recent decades.

But it is far from clear that the kind of change being sought by voters who have determined the outcomes of recent elections and referenda will or can produce the results that have been promised – results which, in essence, amount to a restoration of what has been portrayed, often inaccurately, as a 'glorious past'.

This Report has argued, as has last year's, that the single most important thing that needs to be done in order to improve Tasmanians' material living standards relative to those of other Australians – indeed, as this Report in particular, has emphasised, to prevent them from continuing to deteriorate relative to those of other Australians – is to increase the levels of educational participation and attainment which, despite some improvement in recent years, remain way behind those of most other parts of Australia.

Higher levels of educational participation and attainment won't solve all of Tasmania's economic and social challenges – but they will make them less difficult to solve, not least by sustainably increasing the resources which can be used to solve them.

[36] *Phillip Lowe, 'Demographics, Productivity and Innovation', Address to the Sydney Institute, 12th March 2014.*

Yet 2016 has provided ample evidence that there remains considerable resistance within Tasmania to making changes that will improve levels of educational participation and attainment.

It is also likely that any efforts at reform of the state taxation system, local government, the ownership of government business enterprises, the structure of the health and education systems, or the electoral system, would encounter similarly formidable resistance.

Two things are likely to be of particular importance in pursuing the kind of changes which are most likely to promote higher levels of employment and productivity, and hence improvements in Tasmanians' living standards, in the current political environment.

The first is greater effort and care in **communicating the reasons for change**, particularly in advance of making change.

All too often, political parties are elected to government on platforms which promise continuity and stability, and then seek to impose changes for which they have no electoral mandate (although it is not suggested that the current Tasmanian government has done that). Such actions undermine trust in all governments, and 'poison the well' for future efforts at reform.

Governments, and those aspiring to be governments, need to work much harder at articulating the case for change, and explaining how the change they propose will deal with the challenges which they identify. That is a much more difficult task to accomplish in a world where people get their news and information from a much more diverse array of sources, many of them less concerned with accuracy and integrity than in earlier times – but it is an essential task nonetheless.

Second, there needs to be greater attention paid, and weight given, to **fairness** in framing and implementing change. Again, all too often, governments have pursued policies which have delivered net economic benefits to nations or states, but which have left sections of those nations or states worse off – with little or no attempt being made to ensure that the 'winners' actually do 'compensate' the 'losers'. Too many people now feel that they have been 'losers' from a whole raft of changes, for change to be made as readily as it has been in recent decades.

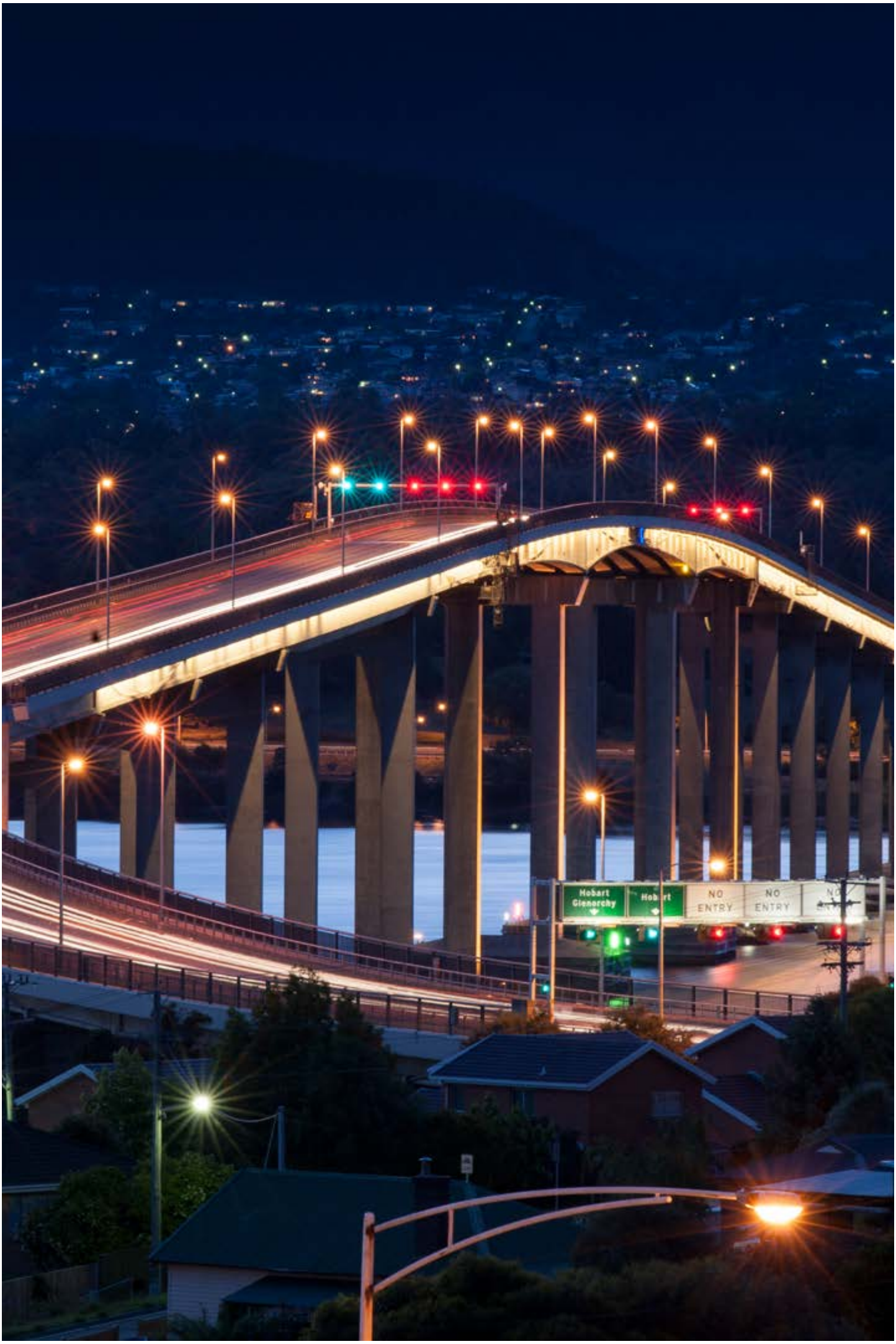
These considerations are highly relevant in the Tasmanian context. This Report, and its predecessor, have sought to provide those who wish to advocate changes that would improve Tasmanians' living standards with facts and arguments which they can use to advance the case for change.

But this Report has also highlighted the fact that a large proportion of Tasmanians number themselves as 'losers' – both from developments that have been beyond the control of governments, and from deliberate actions of governments.

As noted in this section of last year's 'Tasmania Report', Tasmania does have considerable potential – as a producer of high-value foods and beverages, as a niche producer of specialised manufactured products, as a tourist destination with particular appeal to visitors in search of unique experiences, as the home of leading-edge research in distinctive fields, as a place where housing is still affordable, as a home to a vibrant and distinctive range of cultural and artistic endeavours, and as a community better-placed than many to deal with the challenges associated with climate change.

However these attributes on their own do not guarantee Tasmanians a prosperous economic future. None of them is exclusive to Tasmania: all of them require the application of both financial and human capital to bring them to fruition.

That, more than anything else, is the key message of this year's Tasmania Report.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