

## The TCCI Tasmania Report 2017: Executive Summary

There's certainly some **good news** in this year's *Tasmania Report*:

- **Tasmania's economy** is about \$4¼bn (or 8¼%) larger than previously reckoned, because of revisions to the ABS estimates of gross state product which were included in their most recent *State Accounts* published last month. These revisions stem largely from the fact that the ABS now thinks the Tasmanian economy grew faster than previously reckoned between 2003-04 and 2012-13.
- Among other things, these revisions mean that **the 'gap'** between Tasmania's economic performance and the rest of Australia's **isn't quite as large** as it previously seemed – our per capita GSP is now estimated 'only' about 22% below the national average, instead of nearly 27%, which previous estimates suggested. (That is still a very large gap, however, and much of this Report is about how it could be reduced).
- Some parts of the Tasmanian economy are doing really well – in particular, **agriculture, tourism, health & aged care** and **IT & telecommunications**. Business **confidence** remains high; and Tasmanian businesses are more supportive of state government policies than anywhere else in Australia. Business **investment** has been rising in Tasmania at a time when it has been falling on the mainland. Some areas of **non-residential construction** – in particular, hotels and offices – are experiencing record-high levels of activity. Tasmania's **exports** are recovering strongly after a slump last year.
- Tasmania's **property market** is doing very well. Residential property prices in Hobart are now rising more rapidly than in any other capital city (albeit from a much lower base) and selling more quickly than for a very long time. Property prices are also rising, although not as rapidly as in Hobart.
- **Employment** grew strongly during 2016-17 – and is now, finally, above the previous peak just before the global financial crisis. Tasmania's **unemployment rate** is down to around 6%, still above the national average, but that's partly because the participation rate has picked up: the proportion of the 15-64 year-old population who are working is at its highest level since the financial crisis.
- **Population growth** is picking up again, because more people are moving to Tasmania from the mainland than the other way round for the first time in 6 years.
- Tasmania's **state public sector** is (except in one respect) in good financial shape, with spending growing at a consistently slower rate than revenue. Non-financial public sector **net debt** is lower, relative to the size of Tasmania's economy, than it is in any other state or territory except New South Wales.

However there are also some areas of Tasmania's economy that are **not doing so well**:

- **Household spending** remains soft, probably reflecting the same factors as in the rest of Australia (in particular weak household income growth).

- **Housing activity** has been surprisingly weak, given the strength in property prices), and despite a strong rise in building approvals since winter last year. The level of housing activity in 2016-17 was the lowest in 16 years. Extensions to the First Home Owners' Grant haven't worked.
- Most of the growth in employment has been in **part-time jobs** (even more so than on the mainland). The level of **full-time employment** is still 9% below its pre-financial crisis peak. **Under-employment** and **long-term unemployment** remain much higher in Tasmania than elsewhere in Australia.
- The **manufacturing** and **mining** sectors are still experiencing very difficult conditions.
- **Rents** are under significant upward pressure in Hobart, with the vacancy rate falling to its lowest level in at least seven years. Rental affordability for low-income households in Hobart is now worse than in any other capital city except Sydney.
- Despite its very strong position with regard to public sector net debt, Tasmania's **unfunded public sector superannuation liability** is by a wide margin the largest in Australia, and represents a major impediment to Tasmania's capacity to take advantage of near-record low long-term interest rates in order to fund much-needed infrastructure investment.

Some other aspects of Tasmania's recent economic performance are also troubling:

- Tasmania's **overall economic growth rate** has not improved over the past three years. Long-term real per capita GSP growth remains about half of what it was prior to the financial crisis.
- Economic growth remains **disproportionately dependent on public sector spending**, with public consumption and investment expenditure accounting for more than 80% of the recorded growth in real GSP over the past three years.

And Tasmania faces a **significant risk** from the possibility that the **GST revenue-sharing arrangements** will be changed, in order to placate Western Australia, in ways that would have a very negative impact on Tasmania's public finances, forcing some combination of large tax increases and spending cuts.

Notwithstanding the 'good news' presented in this year's *Tasmania Report*, the long-term challenges identified and analysed in the two previous *Tasmania Reports* remain:

- Tasmanians are still the **oldest, sickest, least well-educated, least employed and poorest** population of any Australian state.
- (As mentioned above) notwithstanding the upward revisions in the most recent ABS State Accounts, Tasmania's **per capita gross product** is \$15,500 or **22% below the national average**.
- This gap reflects **below-average participation in employment, fewer-than-average hours worked**, and **below-average labour productivity**.

Given Tasmania's demographic profile, and its inability (for reasons which it cannot control) to attract a significant presence of the highest-productivity forms of economic activity, there is a **significant risk** that the **Tasmanian living standards will continue to decline** relative to those of the rest of Australia **if nothing is done** to address the causes of Tasmania's

The single biggest factor underlying each of these factors is Tasmania's **below-average levels of educational attainment**, which in turn are the result of long-standing **below-average levels of educational participation**.

- Contrary to what is often asserted, Tasmania's below-average levels of educational participation and attainment are **not** the result of an above-average proportion of the population living in rural or regional areas, nor are the result of a higher-than average representation of low socio-economic status households.
- Nor are they the result of insufficient spending on education – on the contrary, Tasmania spends more per student, and a higher percentage of its income, on education than the national average, yet gets worse results.
- The thing which stands out as being different about Tasmania's education system is its separate senior secondary college system – which no other state has seen fit to copy (even for its regional areas) in the past six decades, despite its alleged superiority as a way of delivering Year 11 and 12 courses.

There is some evidence that the Government's extension of Year 11 & 12 courses to rural and regional high schools is resulting in higher retention and attainment rates.

- The Government's plan to replicate this in the four major population centres deserves widespread support – although ultimately it is likely to, and should, mean the abandonment of the college system. The colleges could be converted into, or merged with, comprehensive high schools.

The Report doesn't pretend to offer a comprehensive list of recommendations for whoever forms Government after next year's election. However it does suggest:

- Setting a **target for Tasmania's economic performance** – a suggested goal is lifting Tasmania's per capita gross product to the proportion of the national average to **where South Australia is today** – ie from 78½% to 83½%. This could be achieved within a decade if Tasmania's per capita GSP were to **grow by ¾ pc point pa above the national average**, as it did between 2001-02 and 2008-09.
- Make **big changes to the structure of Tasmanian education** – by 'biting the bullet' on the college system and providing every Tasmanian student with the opportunity to complete Year 12 where she or he starts Year 7 – the same opportunity as every student in every other state.
- **Spend more on health and community services** – two areas where Tasmania is clearly spending less than it needs to in order to provide services comparable to those in other states. But also pursue reforms in the way health care is managed and provided as recommended by the Productivity Commission.

- Undertake **wide-ranging state tax reform**, in particular, **lower the rate and broaden the base of payroll tax** (with all employers paying less than 4%, which would be the lowest in Australia), and preference new businesses rather than small businesses; and be the first state to **gradually replace stamp duties with a broadly-based land tax**.
- Consider **selling or leasing** one or more of TasNetworks, Aurora Energy, TasPorts or the MAIB, depositing the proceeds with the Australian Government's Future Fund in order to offset some of Tasmania's (massive) unfunded superannuation liability, and thereby providing some 'headroom' to borrow in order to fund higher levels of investment on (rigorously selected) infrastructure.

This amounts to a plea for boldness and imagination on the part of those seeking to be the next Tasmanian Government. To quote the last two paragraphs of the Report:

The economic and social challenges facing Tasmania, over the next four years and well beyond, cannot be addressed by a government which has sought a mandate for doing nothing more than 'minding the store', however competently they promise to do that.

Tasmania has made some genuine and tangible progress in recent years. There is a greater sense of optimism about what may be possible. This is a moment in Tasmania's history where those who seek to shape its future should be imaginative and bold, rather than cautious or timid. It is a time, to paraphrase Robert Kennedy, to think of what could be, and ask "why not?"