

SOME ECONOMIC THOUGHTS

PRESENTATION TO THE 2024 SHELLFISH FUTURES CONFERENCE

HOSTED BY OYSTERS TASMANIA

EASTCOASTER RESORT, ORFORD

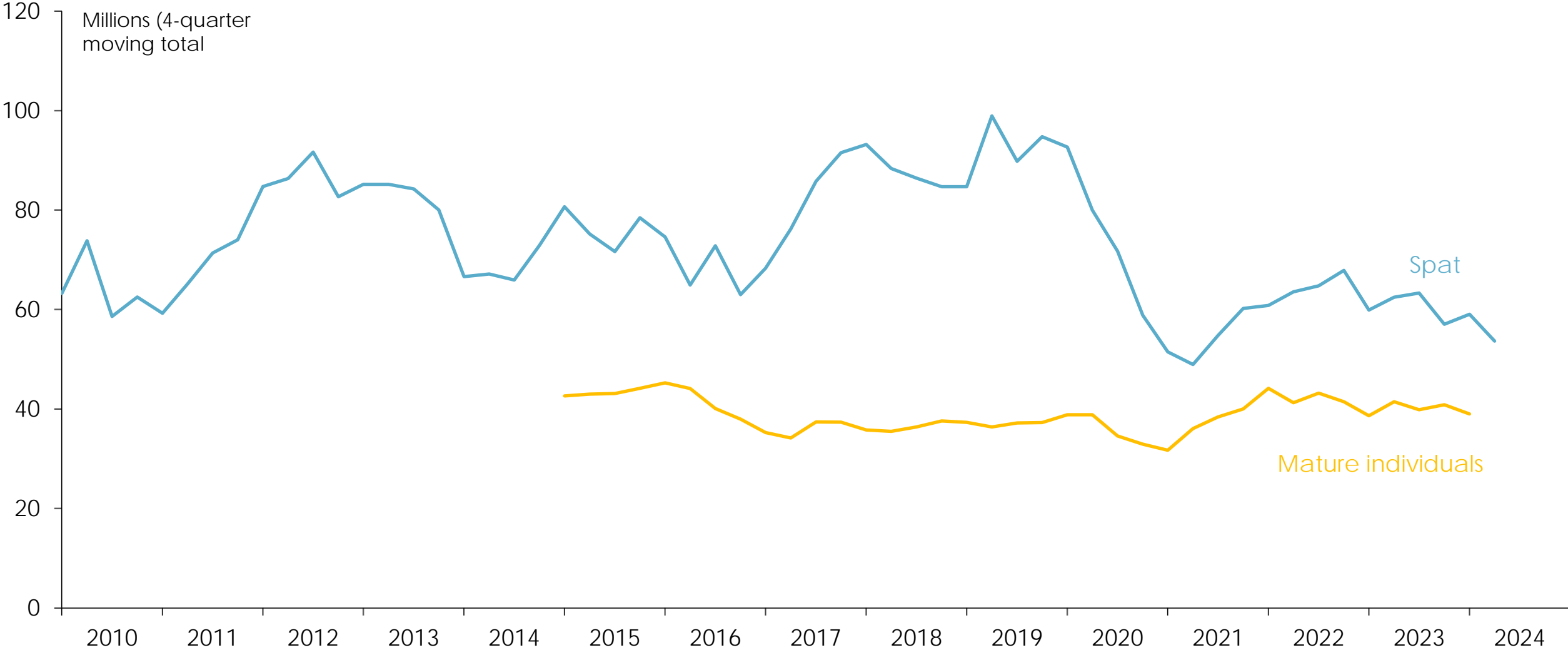
13TH SEPTEMBER 2024

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Tasmanian oyster production hasn't recovered from the POMS outbreak

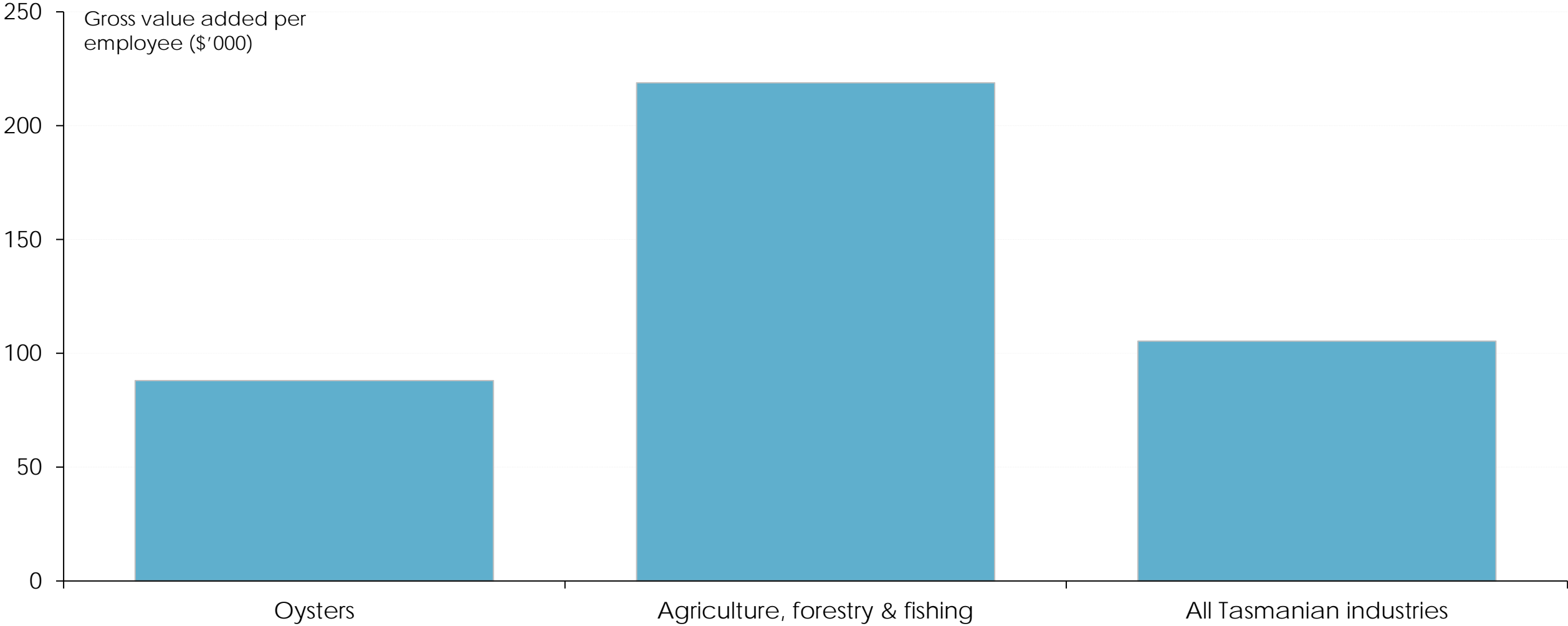
Tasmanian oyster production



Source: Oysters Tasmania.

Labour productivity in the Tasmanian oyster industry is significantly lower than in Tasmanian primary production as a whole

Labour productivity in Tasmanian oyster production compared with primary industry more generally and with all Tasmanian industries, 2020-21 financial year



Source: Oysters Tasmania and IMAS, [2020-21 economic contribution from Tasmanian oysters](#); ABS, [Australian National Accounts: State Accounts](#), 2022-23.

Improving productivity will be vital to improving the commercial viability of Tasmania's oyster industry

How can productivity be improved?

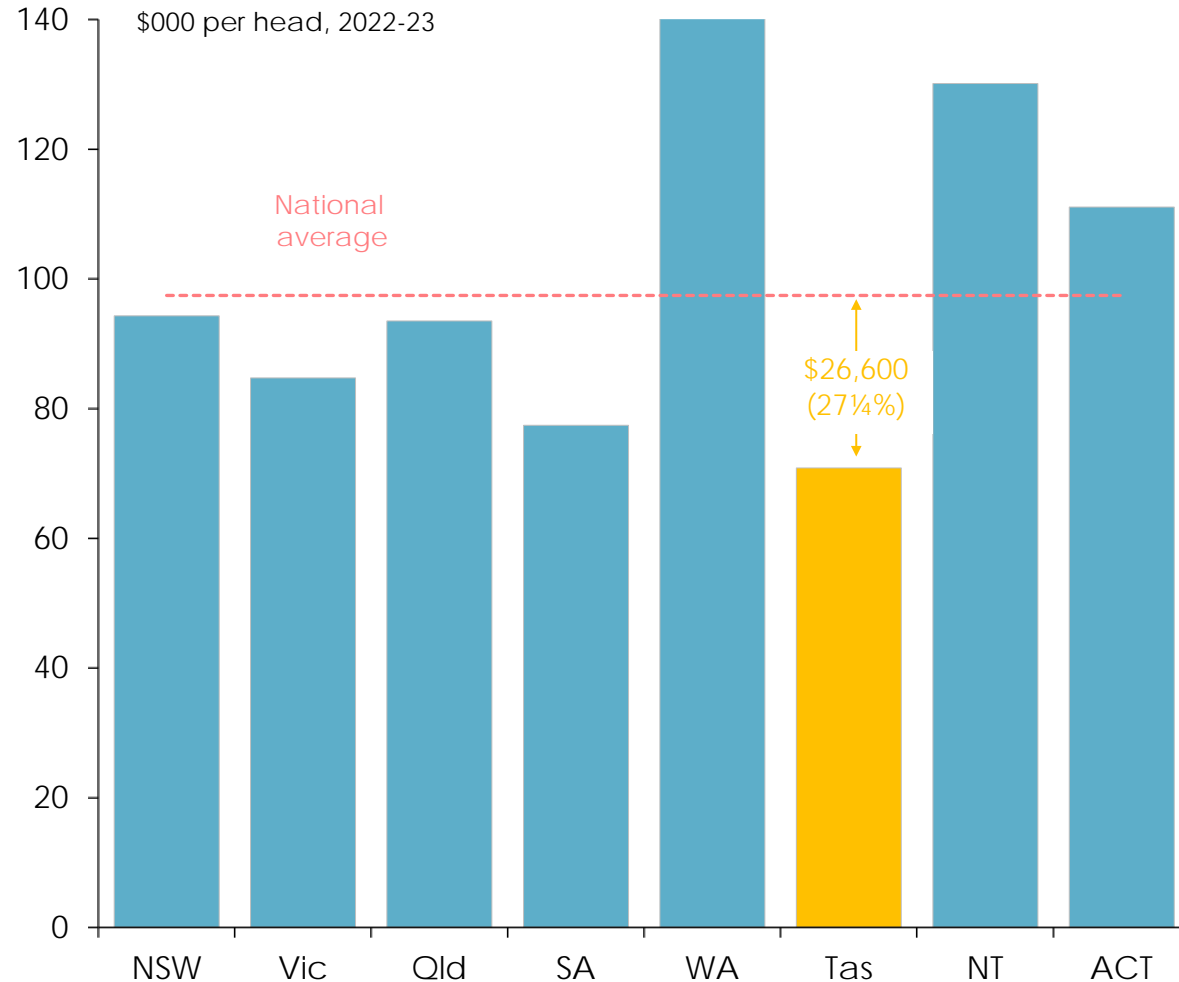
- ❑ Productivity improvement is about 'working smarter' – not 'working harder'
- ❑ Increase the volume of production (with the same labour force)
 - innovation / mechanization eg in harvesting
- ❑ Increase the value of a given volume of production
 - through branding that creates an image in consumers' minds of Tasmanian oysters as a 'premium product' that warrants a 'premium price'
 - for example by promoting Tasmanian oysters as coming from a 'cleaner and greener' environment than competitors

What might be required to make this happen?

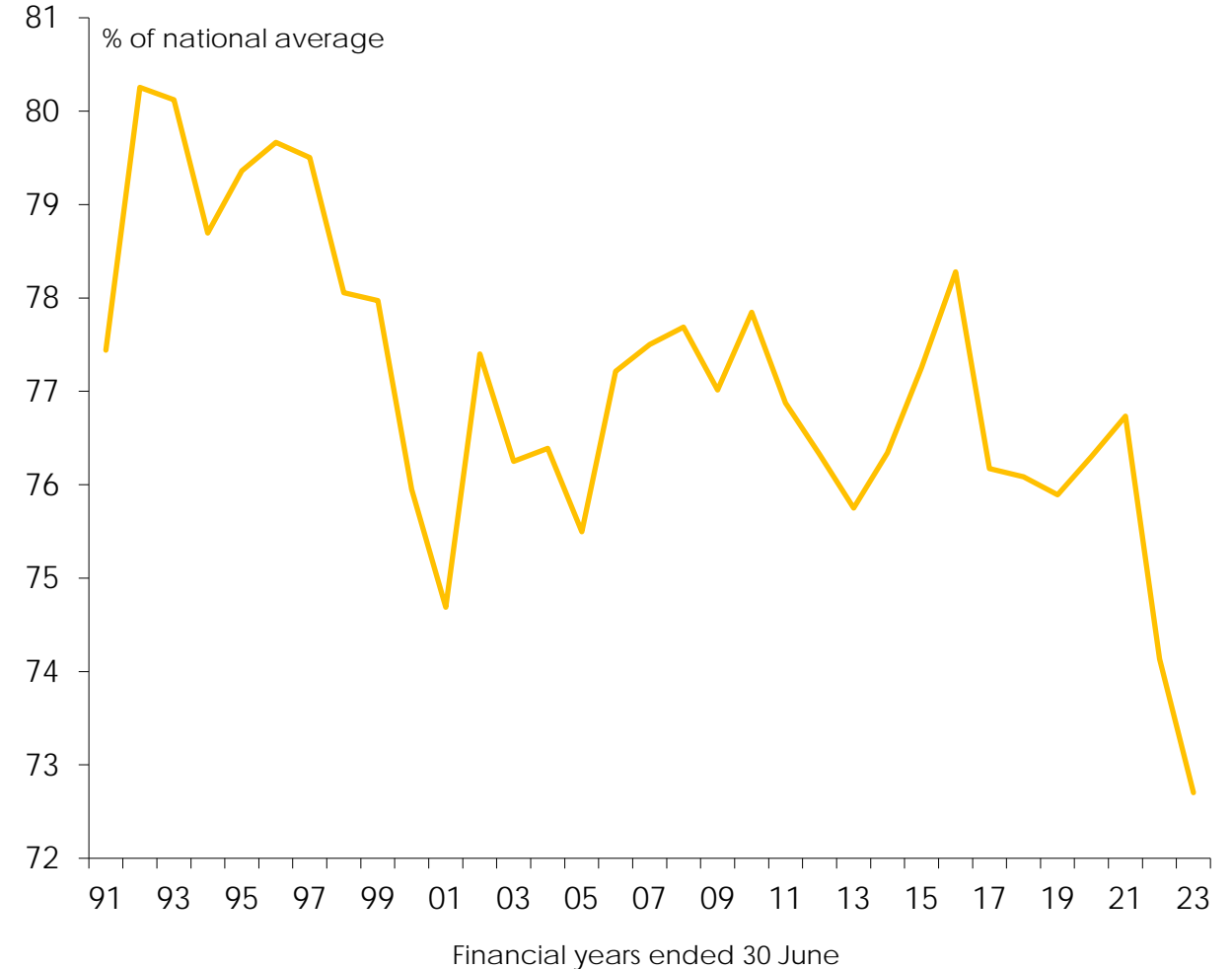
- ❑ Demonstrably improving the environmental quality of the waters in which Tasmanian oysters are produced
 - which requires action from government agencies (in particular TasWater) regarding discharges into waters where oysters are grown
- ❑ Successfully challenging 'bio-security' restrictions imposed by other states
 - which means exposing them as anti-competitive restrictions rather than genuine bio-security measures
- ❑ Seeking out export markets
 - exports represent less than 1% of total Australian oyster production
 - if abalone and crayfish can find overseas markets why not oysters?

Tasmania remains Australia's poorest state, measured by per capita gross product – and in 2022-23 by the biggest margin in 32 years

Gross state product per head of population, states and territories, 2022-23



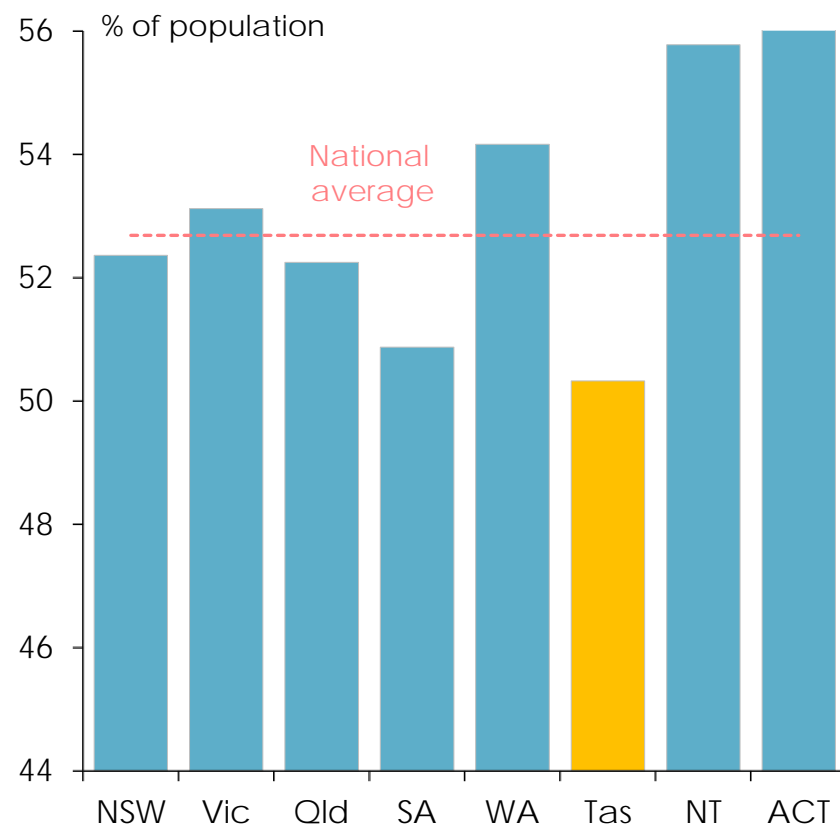
Tasmania's per capita gross state product as a proportion of the national average



Source: ABS, [Australian National Accounts: State Accounts](#), 2022-23.

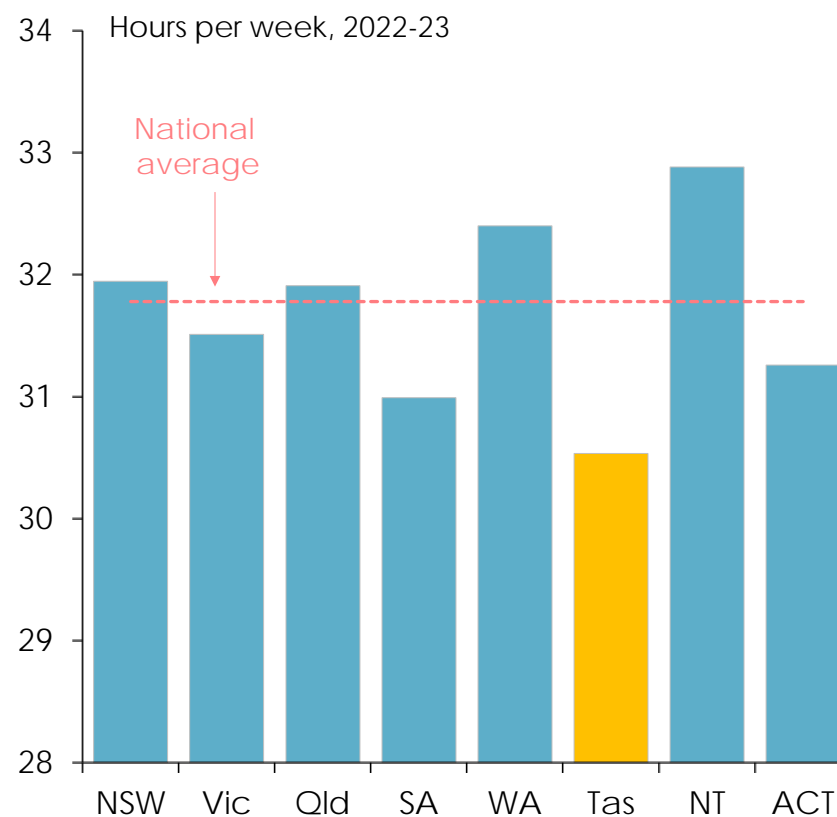
We're the poorest state in the nation because fewer of us have jobs, we work fewer hours, and for each hour that we work we produce less

People with jobs as a proportion of the population, 2022-23



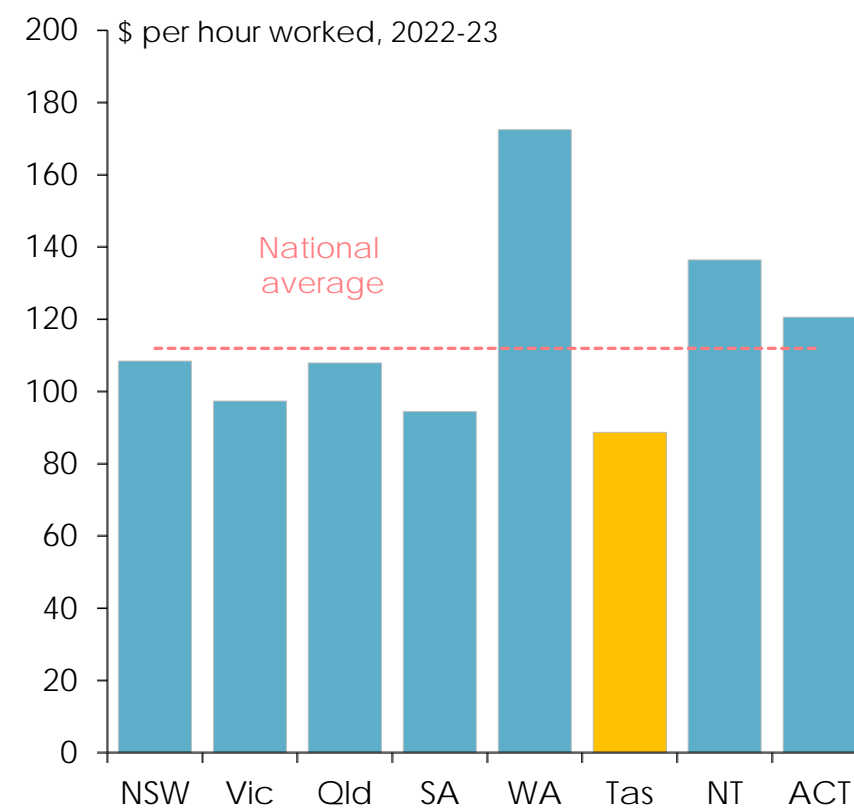
Only 50.3% of Tasmanians work – 2.4 pc pts less than the corresponding proportion of mainlanders

Average hours worked by people with jobs, 2022-23



Tasmanians work 1¼ fewer hours per week than mainlanders – equivalent to an additional 7 days off a year

Output per hour worked by people with jobs (labour productivity), 2022-23



Tasmanian labour productivity is \$21.60 (20¾%) less than the mainland average

There's a clear and unequivocal relationship between educational attainment and employment outcomes

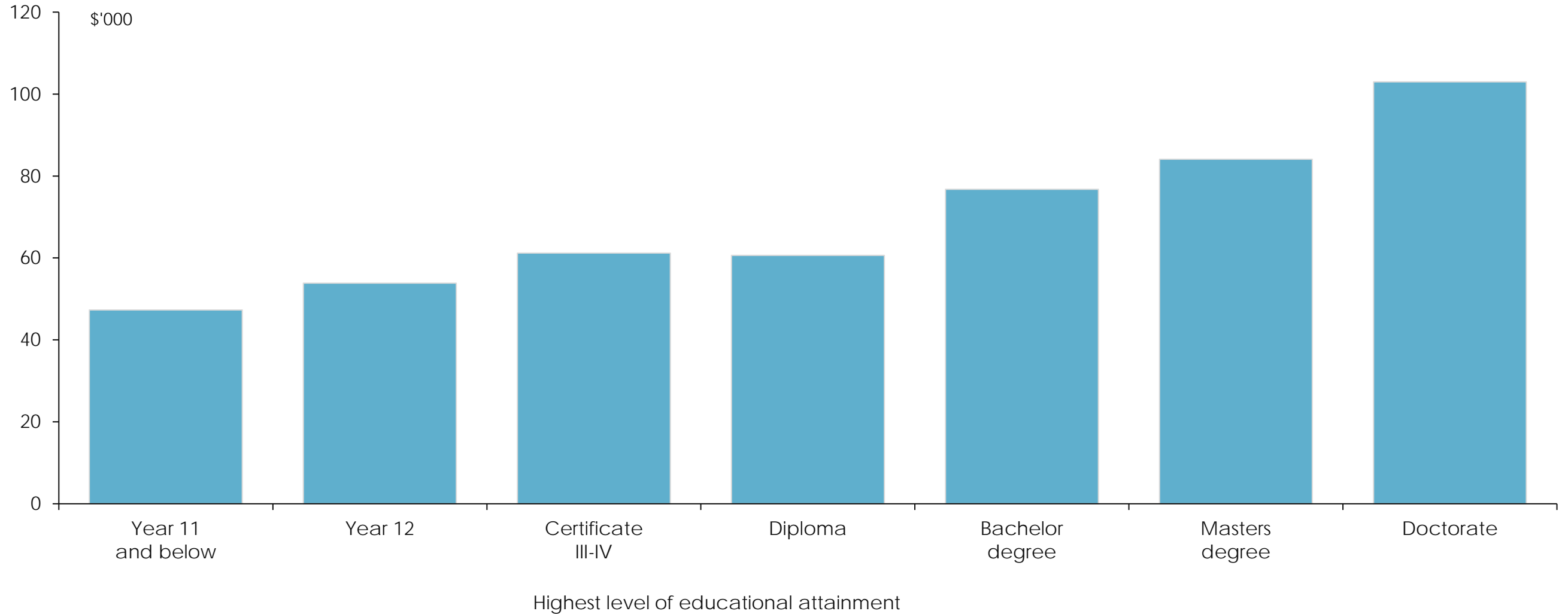
Participation rates and employment to population ratios for different levels of educational attainment, February 2023



Source: Australian Government, [Working Future: The Australian Government's White Paper on Jobs and Opportunities](#), September 2023.

There's an equally clear and unequivocal relationship between educational attainment and earnings from work

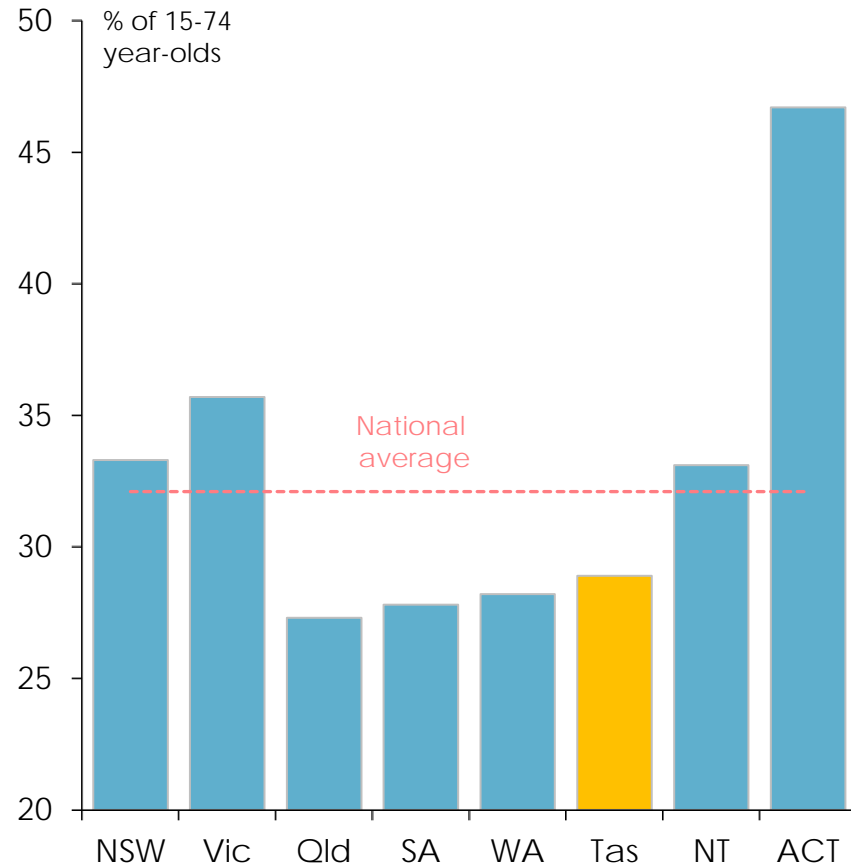
Median derived total annual income from wages and salaries for 30–64-year-olds not currently studying, by highest level of educational attainment, 2015-16



Source: Australian Government, Department of Education, [Benefits of educational attainment](#), November 2020.

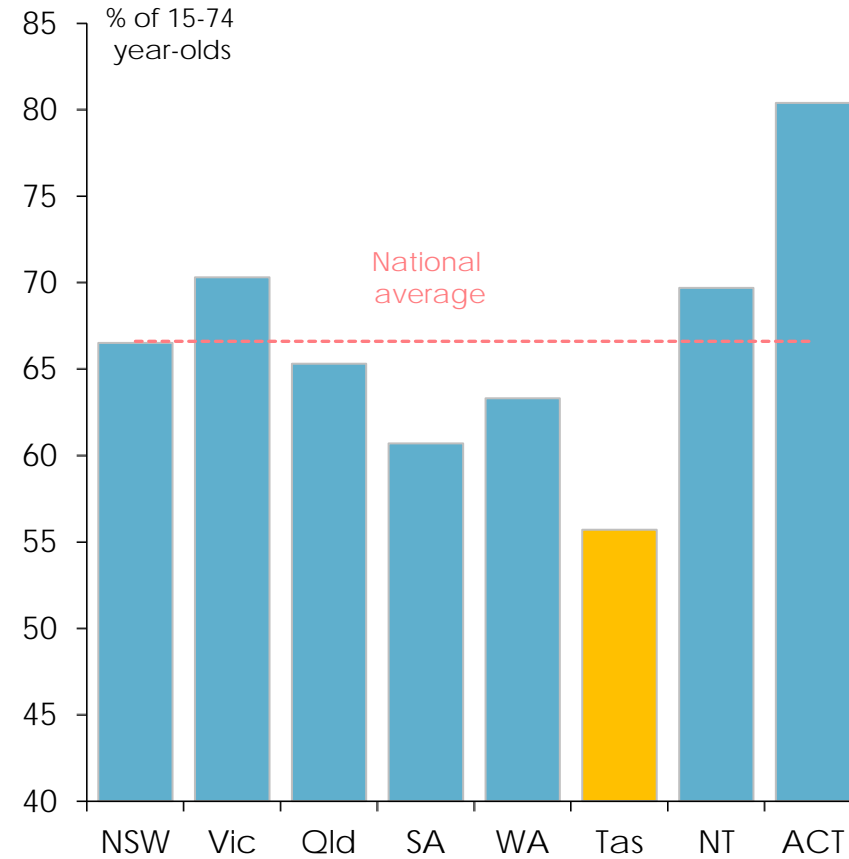
The biggest obstacle to improving employment participation and productivity in Tasmania is the poor performance of our education system

Proportion of 15–74-year-olds with a bachelor degree or higher, 2023



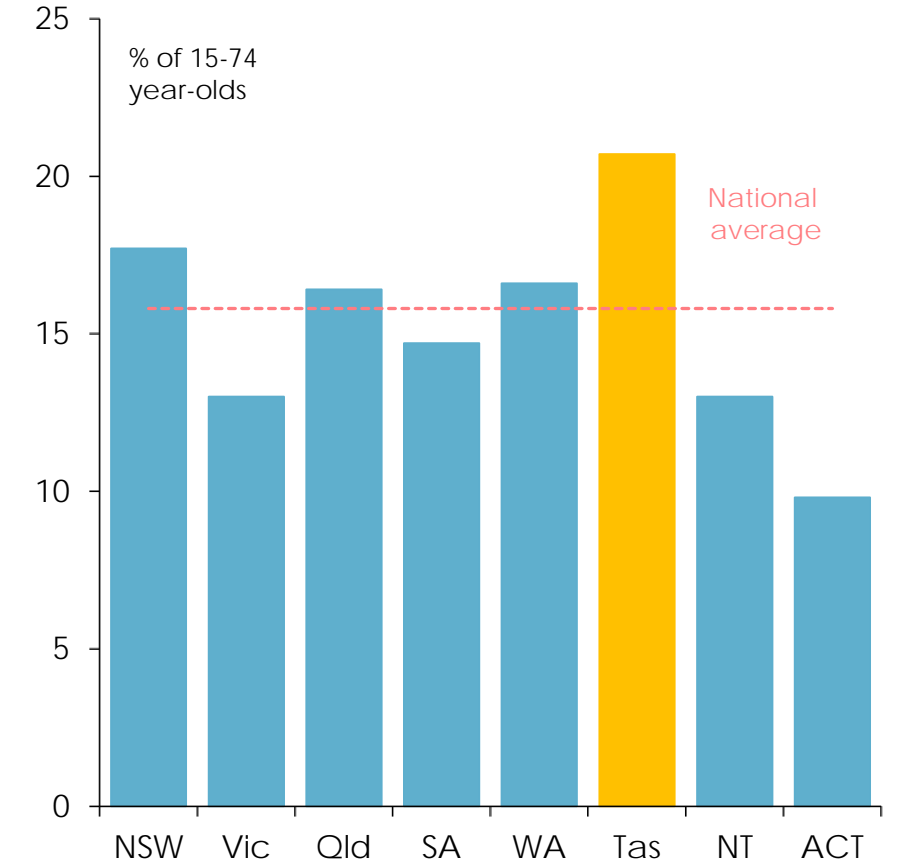
The proportion of Tasmanians with a university degree is 3¼ percentage points *below* the national average

Proportion of 15–74-year-olds with at least Year 12, 2023



The proportion of Tasmanians with at least Year 12 of high school is 11 pc points *below* the national average

Proportion of 15–74-year-olds with nothing beyond Year 10, 2023

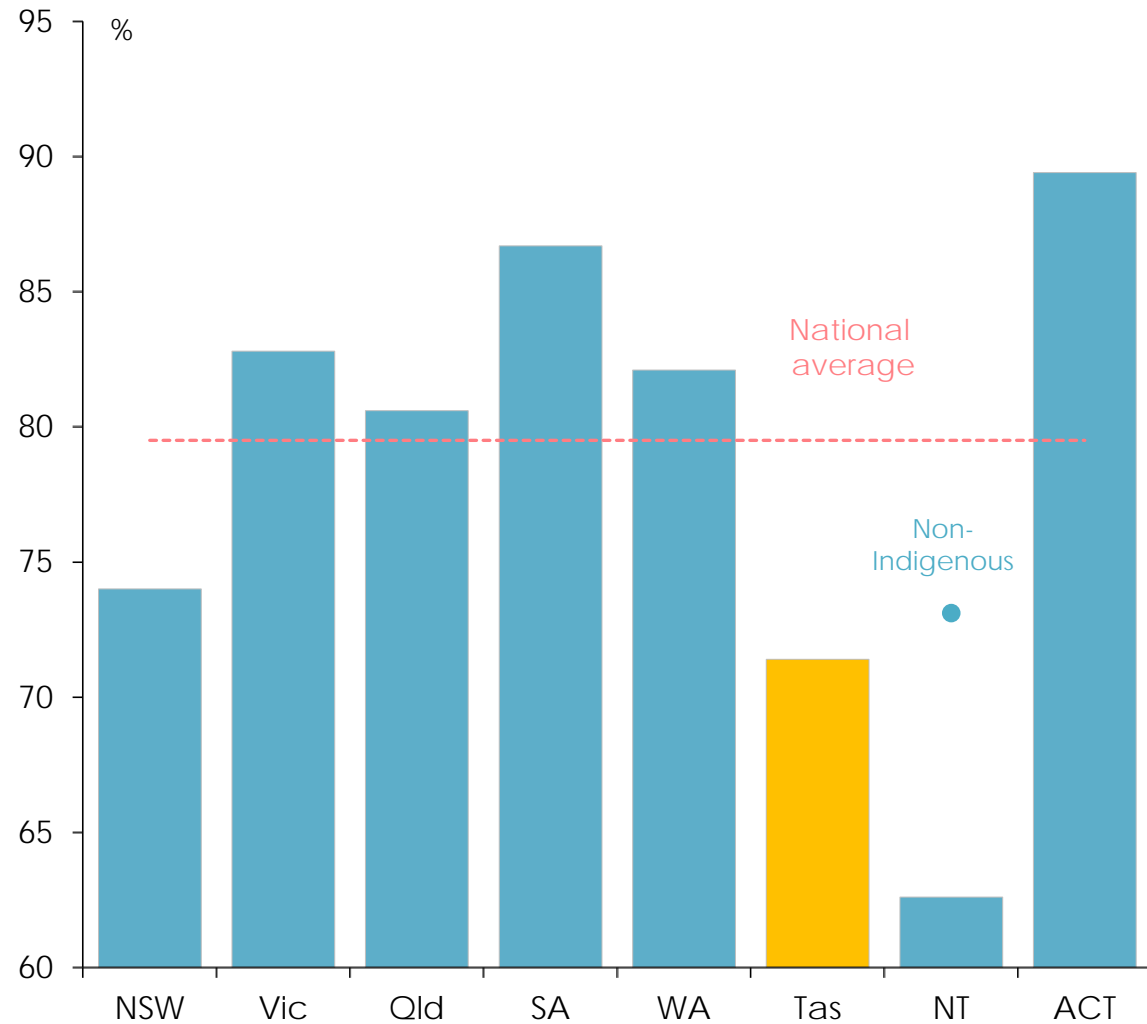


The proportion of Tasmanians with nothing beyond Year 10 is 5 pc points *above* the national average

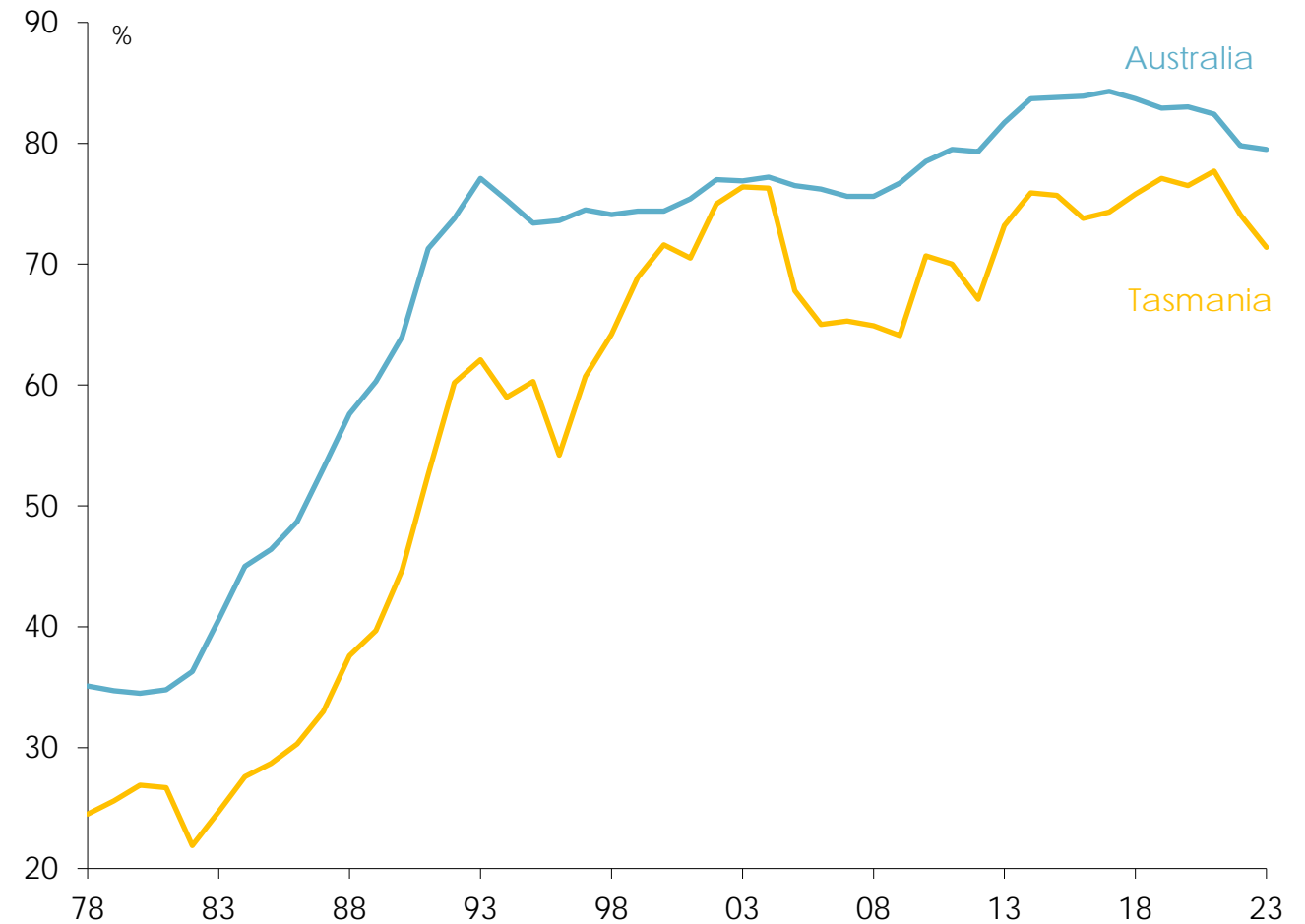
Source: ABS, [Education and work, Australia](#), May 2023.

Retention rates to Year 12 among contemporary Tasmanian secondary school students remain the lowest in Australia

Retention rates from Year 10 to Year 12, states and territories, 2023



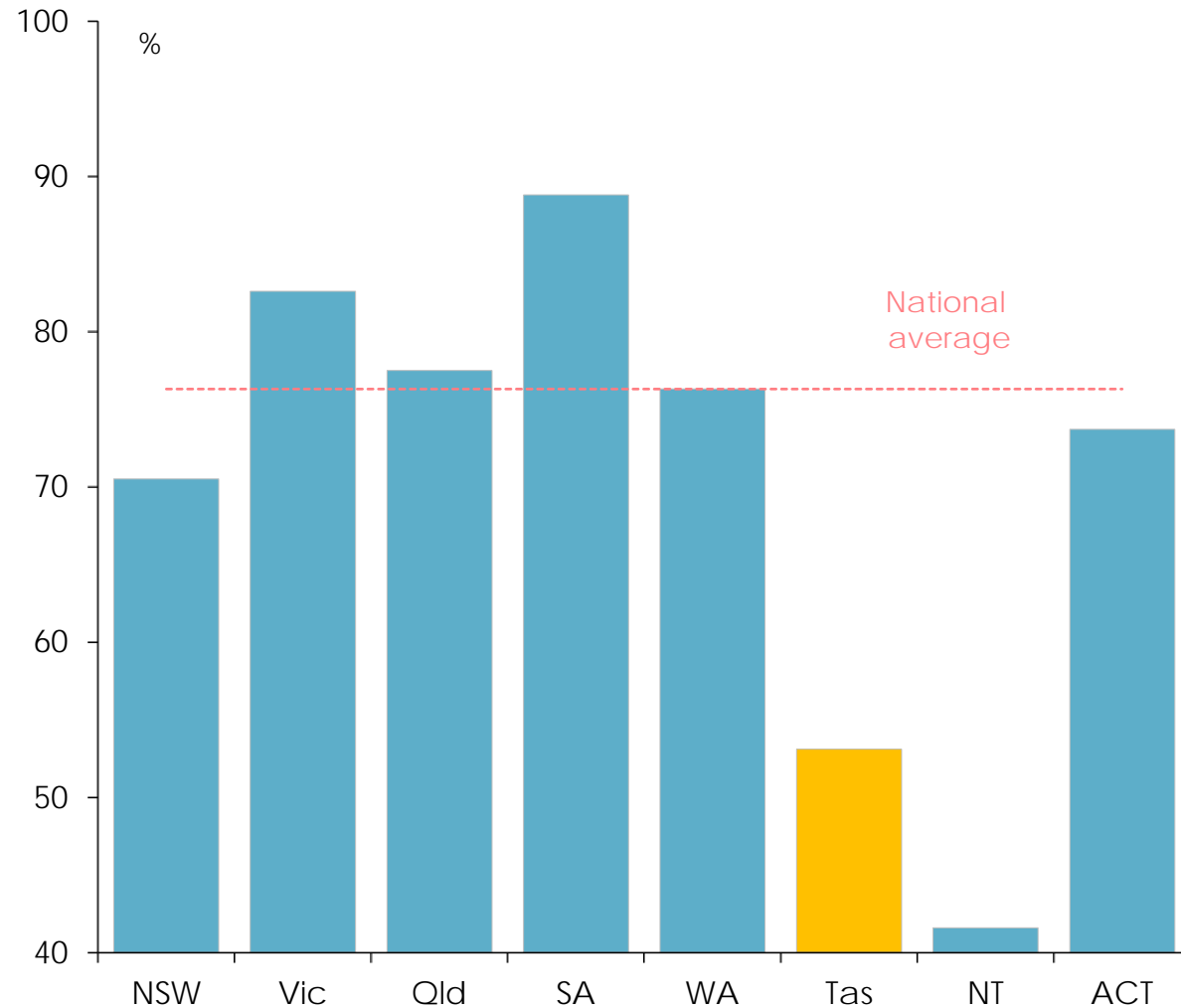
Retention rates from Year 10 to Year 12, Tasmania and Australia, 1978 to 2023



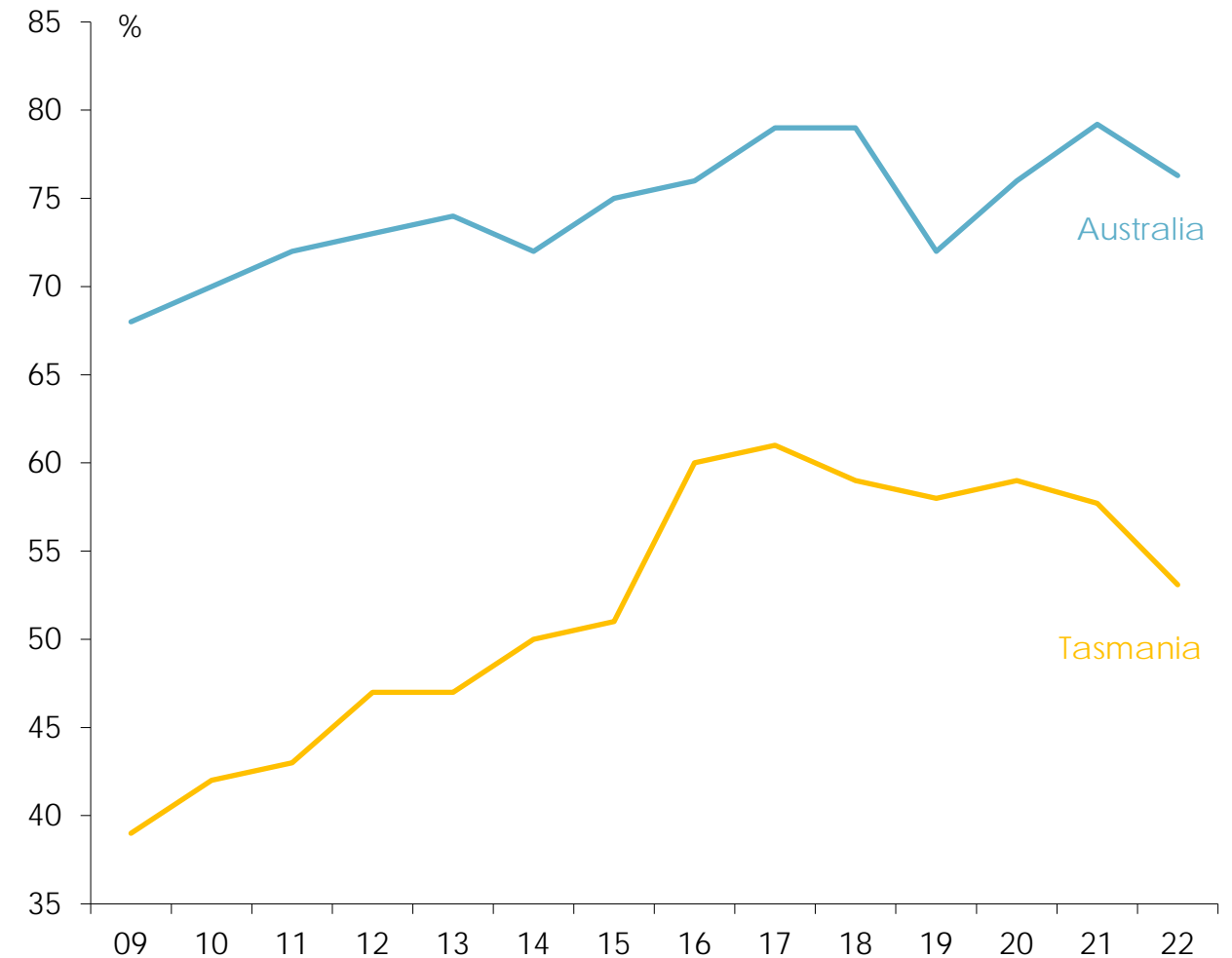
Source: ABS, [Schools](#), 2023.

Although retention rates to Year 12 have improved a bit, attainment rates haven't

Year 12 completion rates, states and territories, 2022



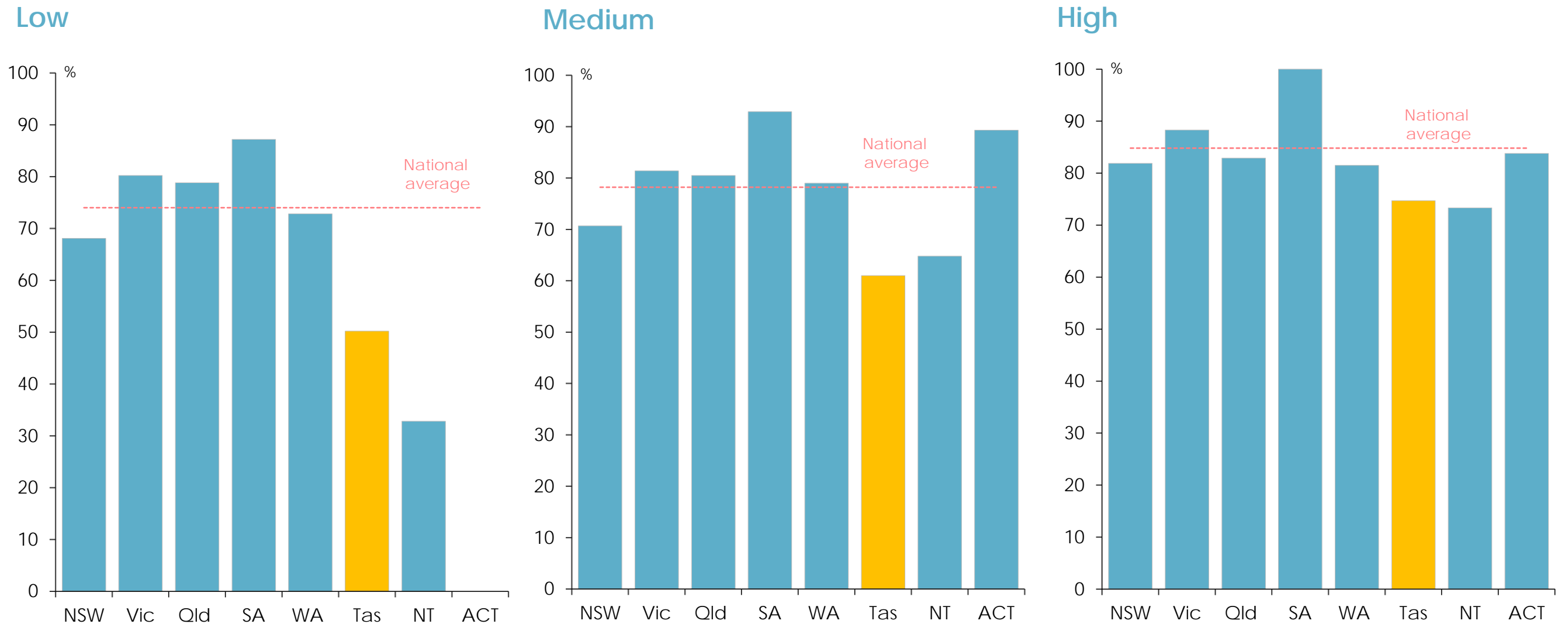
Completion rates from Year 10 to Year 12, Tasmania and Australia, 2009 to 2022



Note: Attainment rates are estimated by calculating 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. Source: Productivity Commission, [Report on Government Services 2023: School Education](#), February 2024.

Tasmania's relatively low Year 12 attainment rates can't be wholly attributed to a higher incidence of socio-economic disadvantage

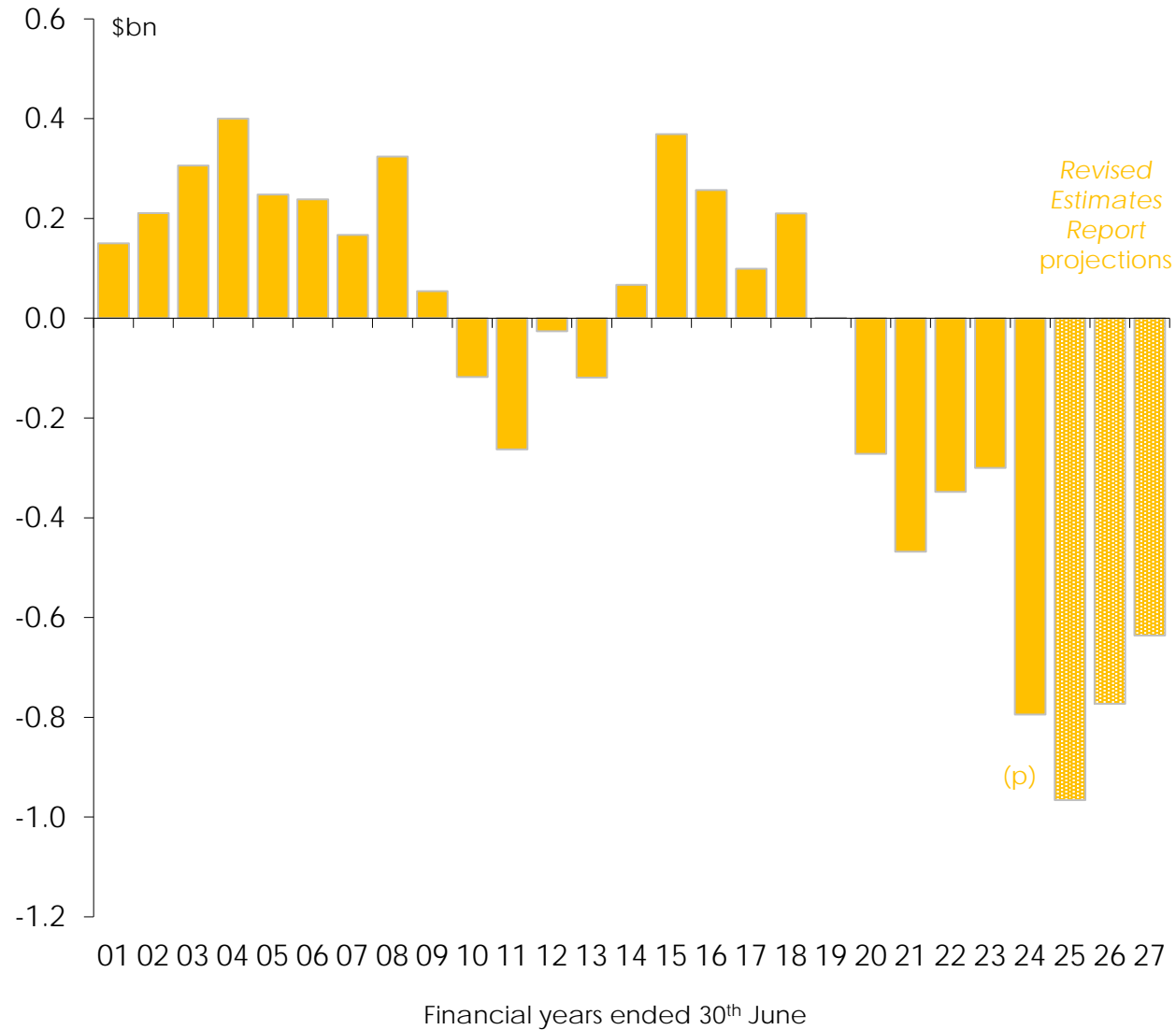
Year 12 attainment rates by socio-economic status, 2022



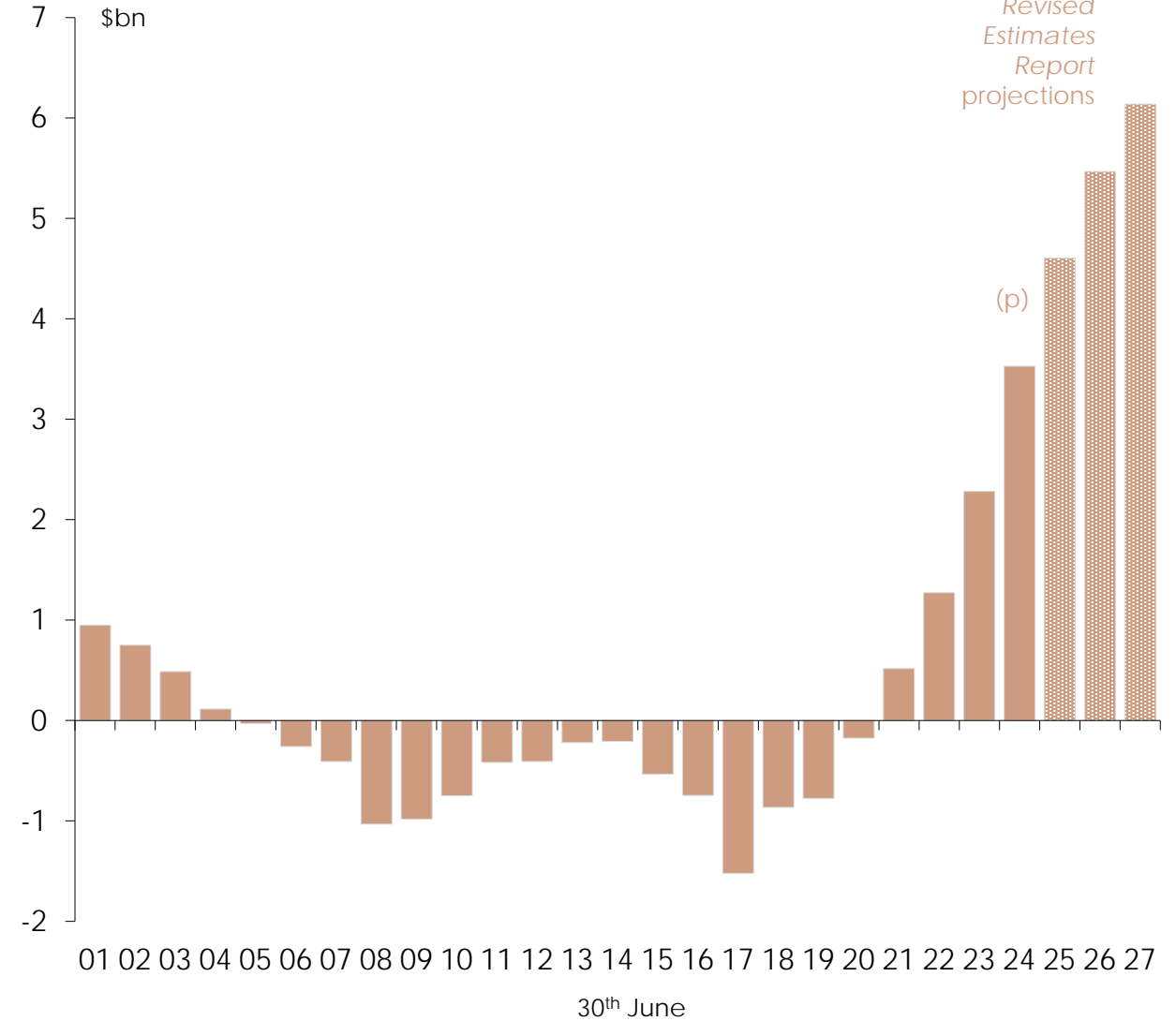
Note: Socioeconomic status is calculated the basis of postcode of students' home addresses, based on the ABS Postal Area Index of Relative Socio-economic Disadvantage. Attainment rates are estimated by calculating the number of students who meet the requirements of a year 12 certificate or equivalent expressed as a percentage of the potential year 12 population. Source: Productivity Commission, [Report on Government Services 2022: School Education](#), January 2023.

Tasmania's 'general government' finances have deteriorated sharply over the past six years, and will do so further over the next three years

'General government' sector cash balance



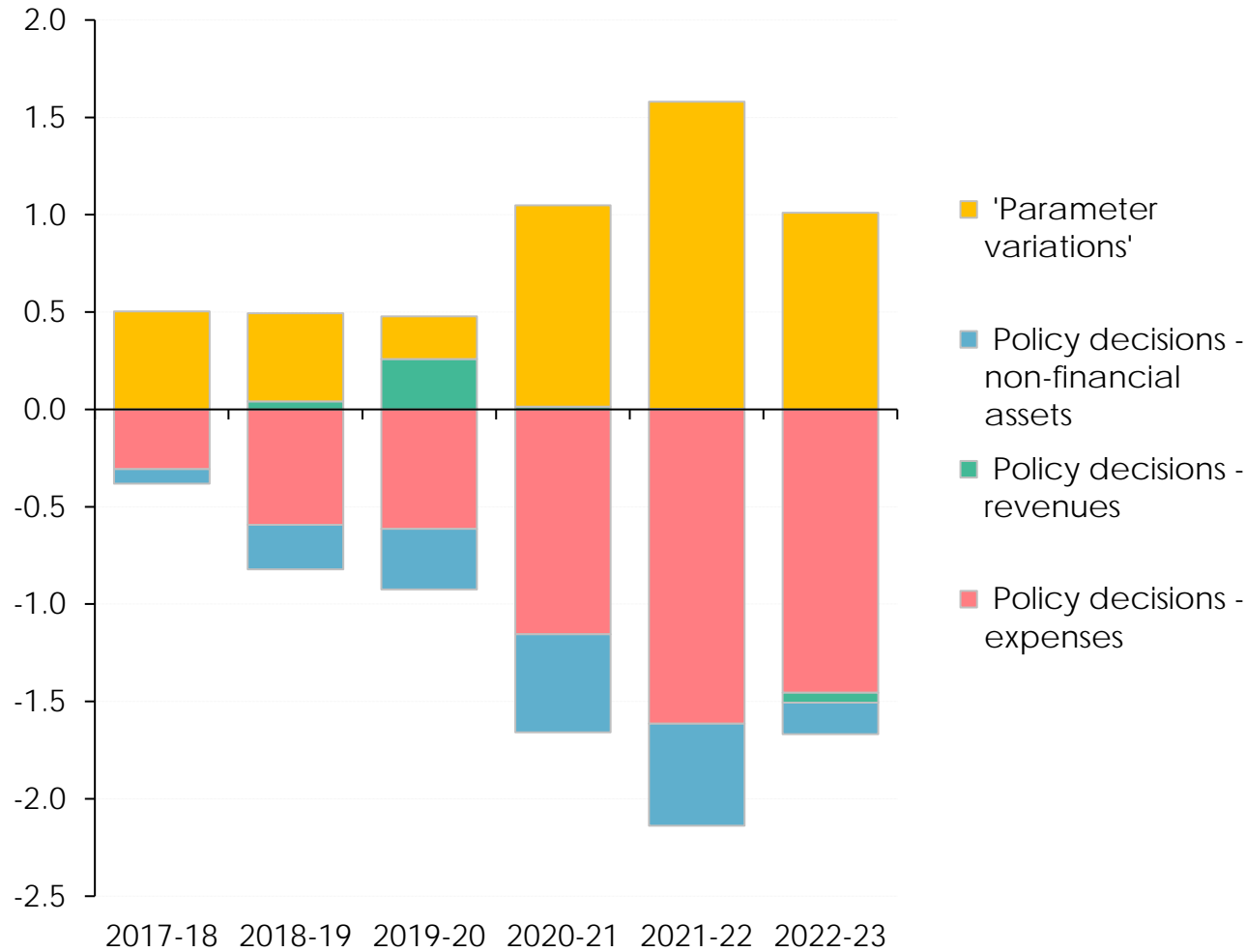
'General government' sector net debt



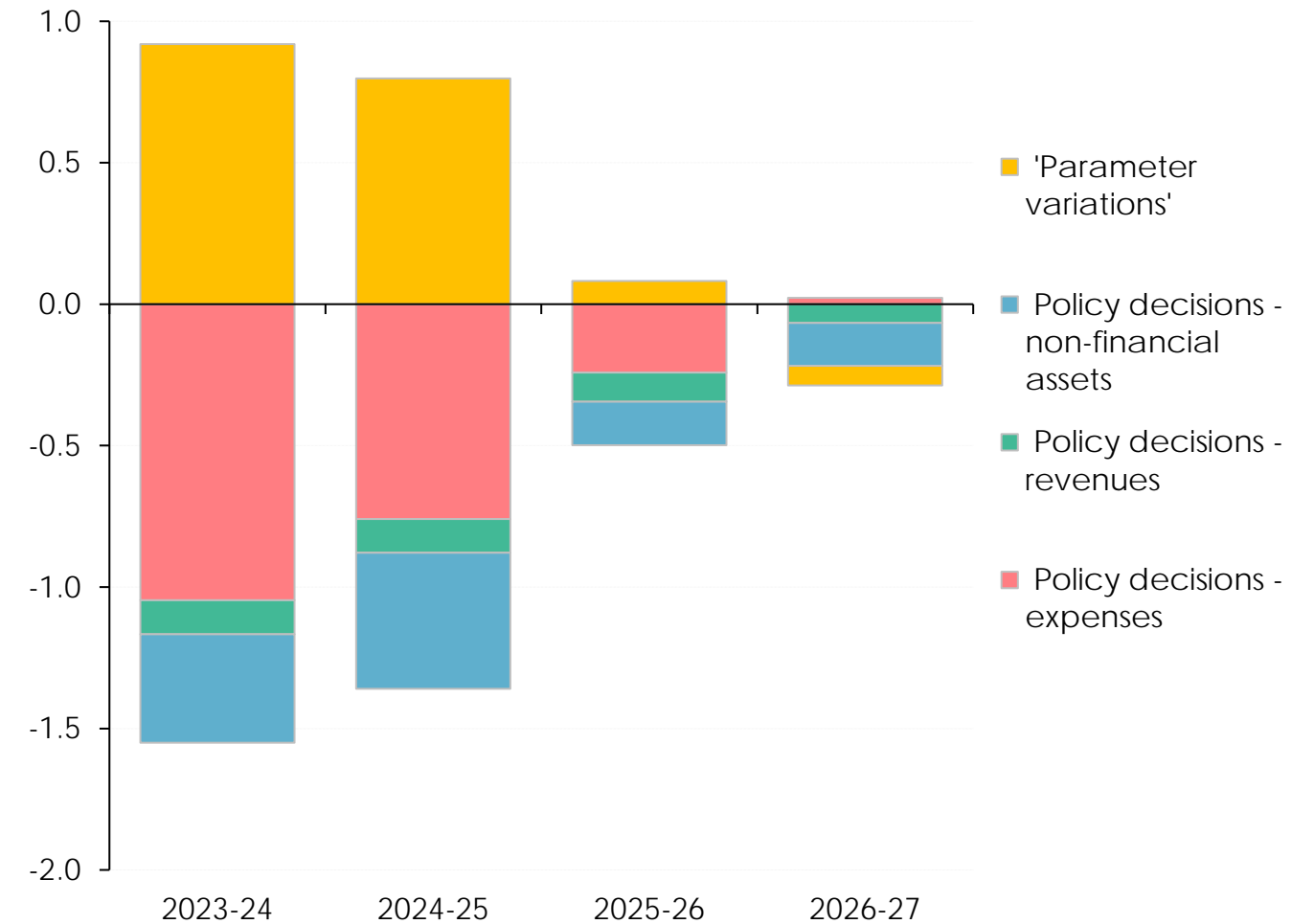
(p) Preliminary. Sources: Tasmanian Treasury, [Treasurer's Annual Financial Report 2022-23](#) and previous issues; [2023-24 Revised Estimates Report](#) and [Preliminary Outcomes Report 2023-24](#); [Independent Review of Tasmania's State Finances](#), August 2024.

The deterioration in Tasmania's public sector finances is entirely the result of conscious decisions to increase spending and cut taxes

Sources of changes in the fiscal balance from initial estimates, 2017-18 to 2022-23



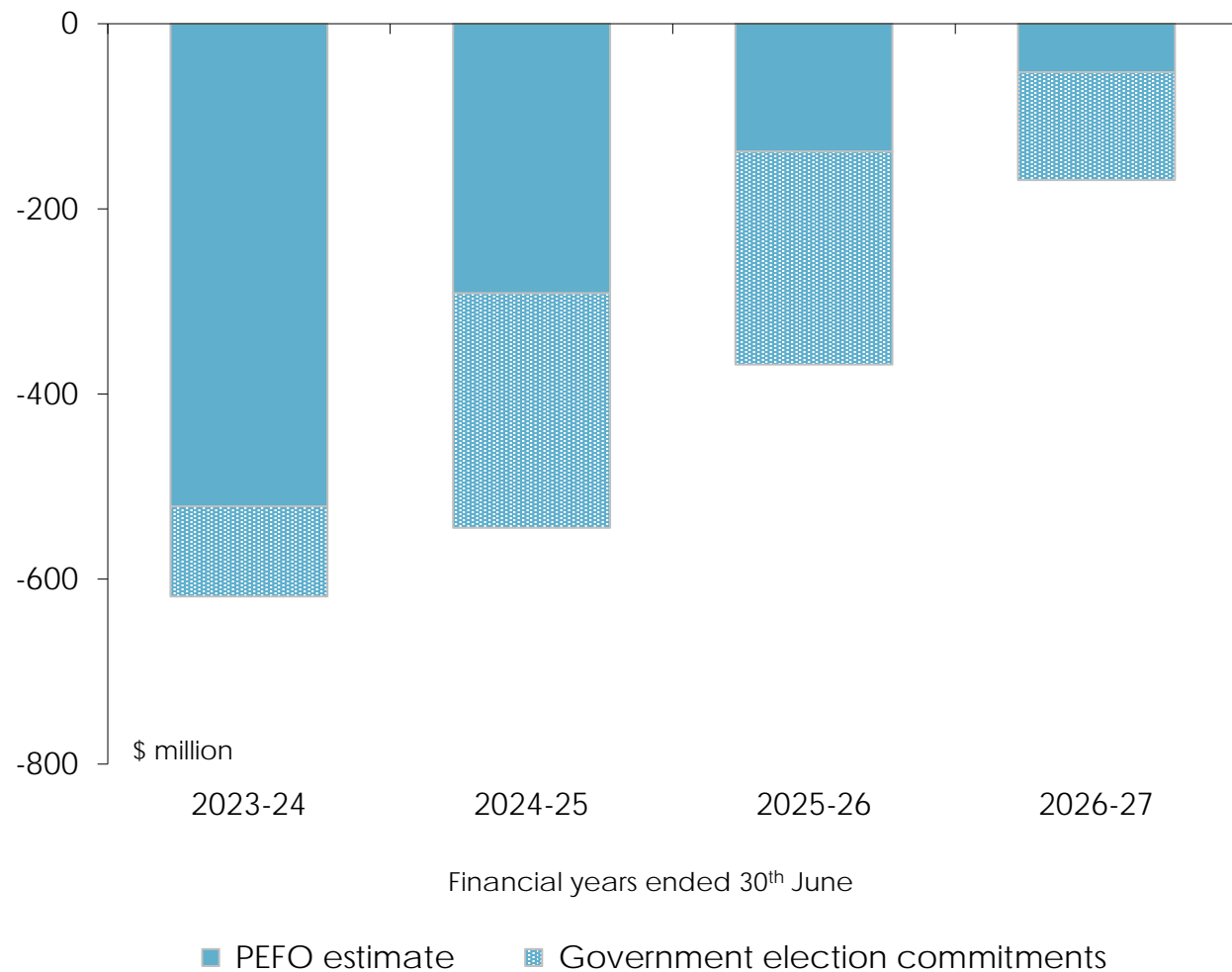
Sources of changes in forward estimates of the fiscal balance from initial estimates, 2023-24 to 2026-27



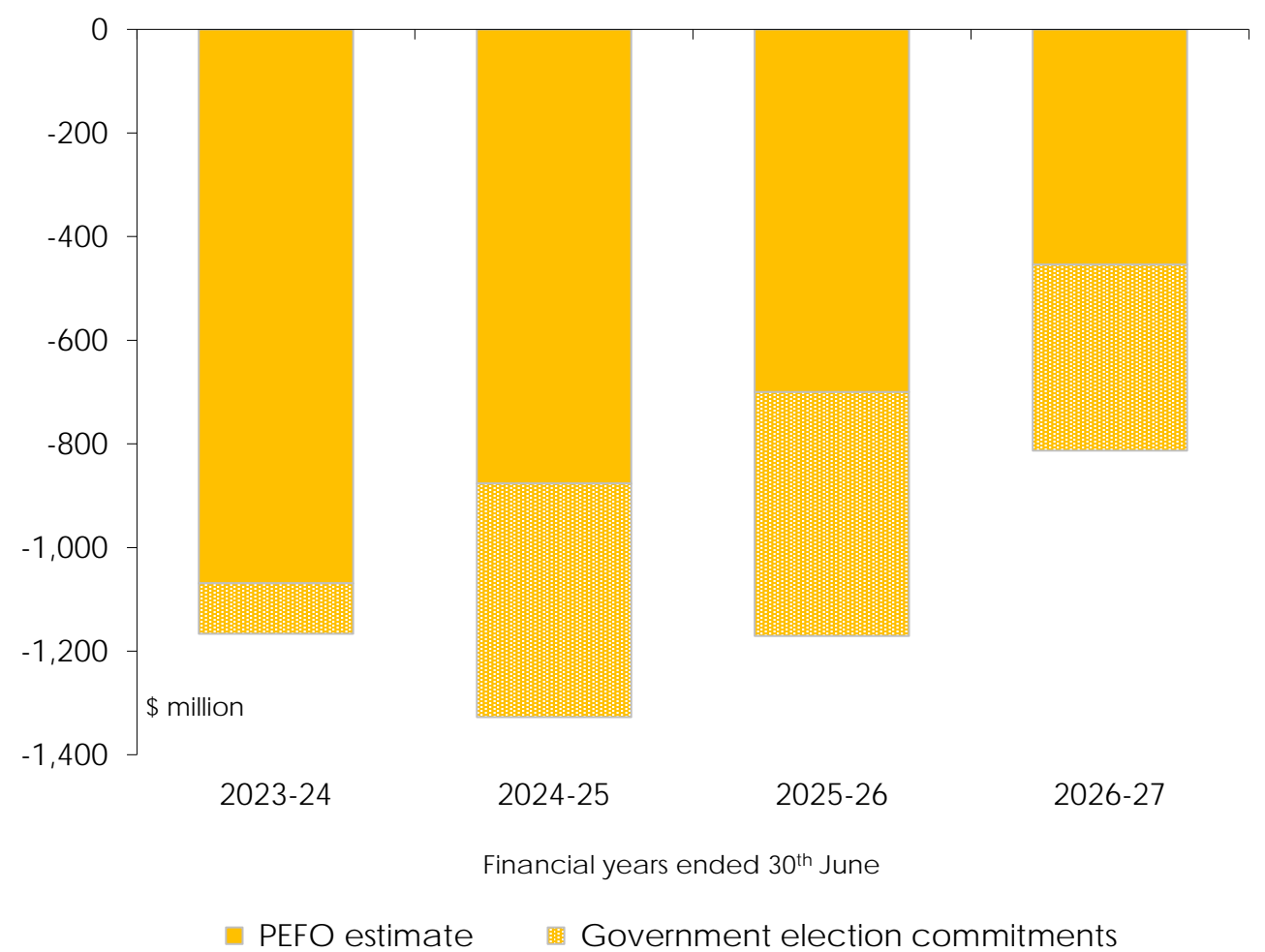
Note: 'Parameter variations' are changes in economic and other assumptions used in constructing forward estimates of expenses and revenues (including changes in GST revenues and other Commonwealth grants). 'Policy decisions' are conscious government decisions to increase or reduce operating expenses, 'purchases of non-financial assets' (ie, capital expenditures) and revenues. Source: [Independent Review of Tasmania's State Finances](#), August 2024.

And the Government continued doing that during the election campaign earlier this year, despite warnings from State Treasury

Impact of Government 2024 election commitments on the 'general government' net operating balance



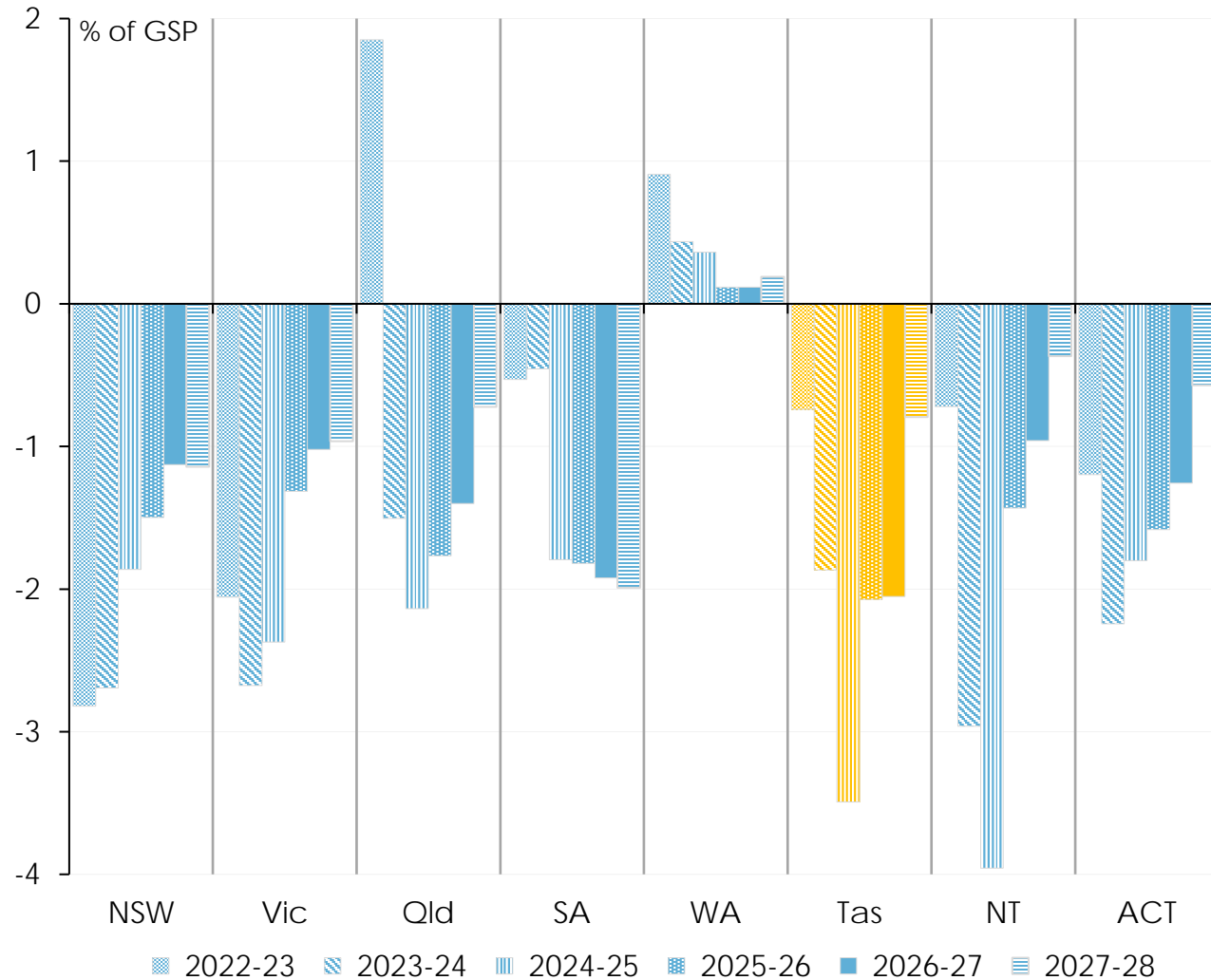
Impact of Government 2024 election commitments on the 'general government' fiscal balance



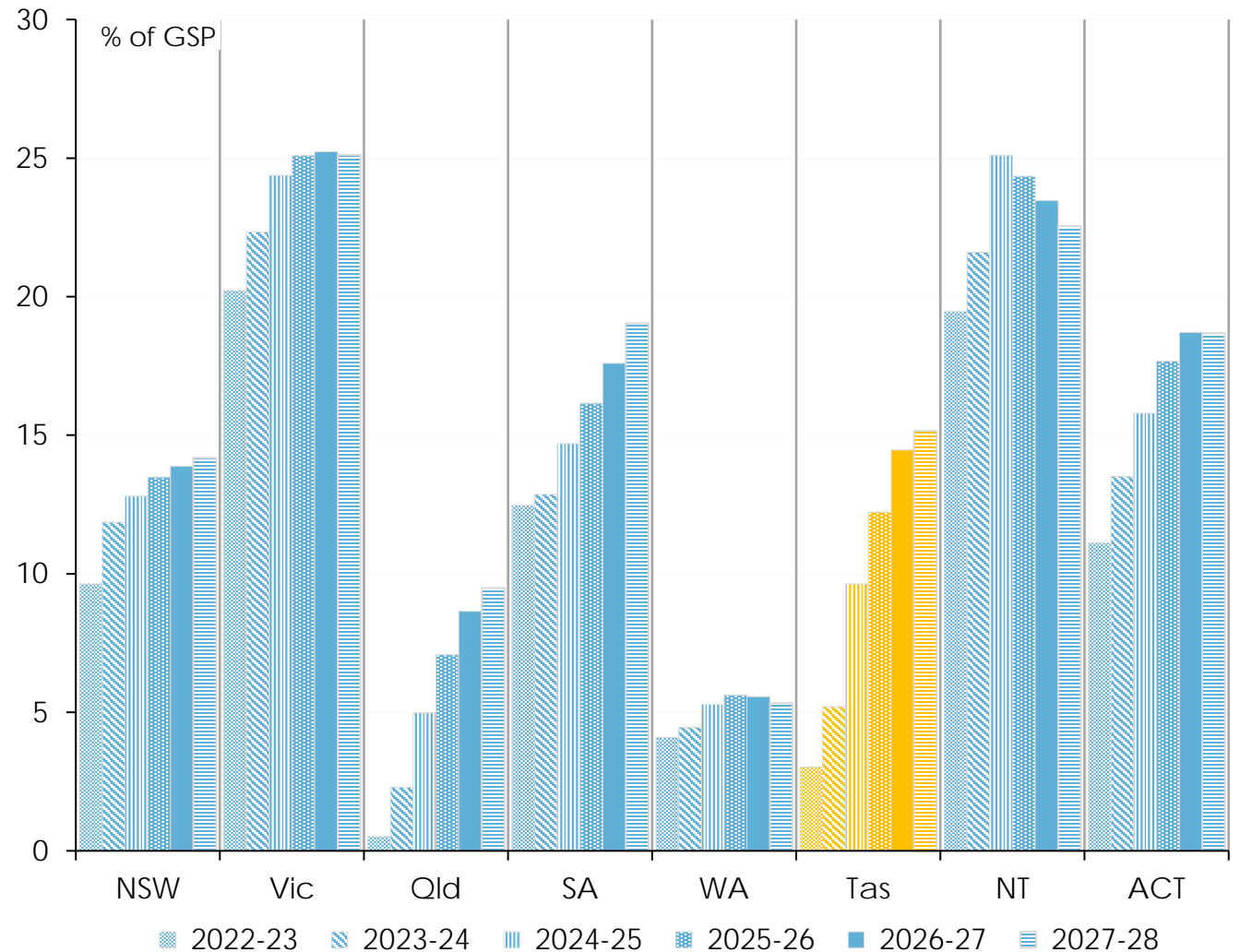
Sources: Tasmanian Treasury, [Pre-Election Financial Outlook Report - February 2024](#); Hon. Michael Ferguson MP, Treasurer, [Liberals Election Costings Confirm 2030 Strong Plan Can Be Delivered Without Increasing Taxes](#), March 2024; [Independent Review of Tasmania's State Finances](#), August 2024.

Tasmania's general government sector cash balance and net debt positions aren't the worst in Australia, but they're no longer the best, either

'General government' cash balances, Tasmania and other states and territories, 2022-23 to 2027-28



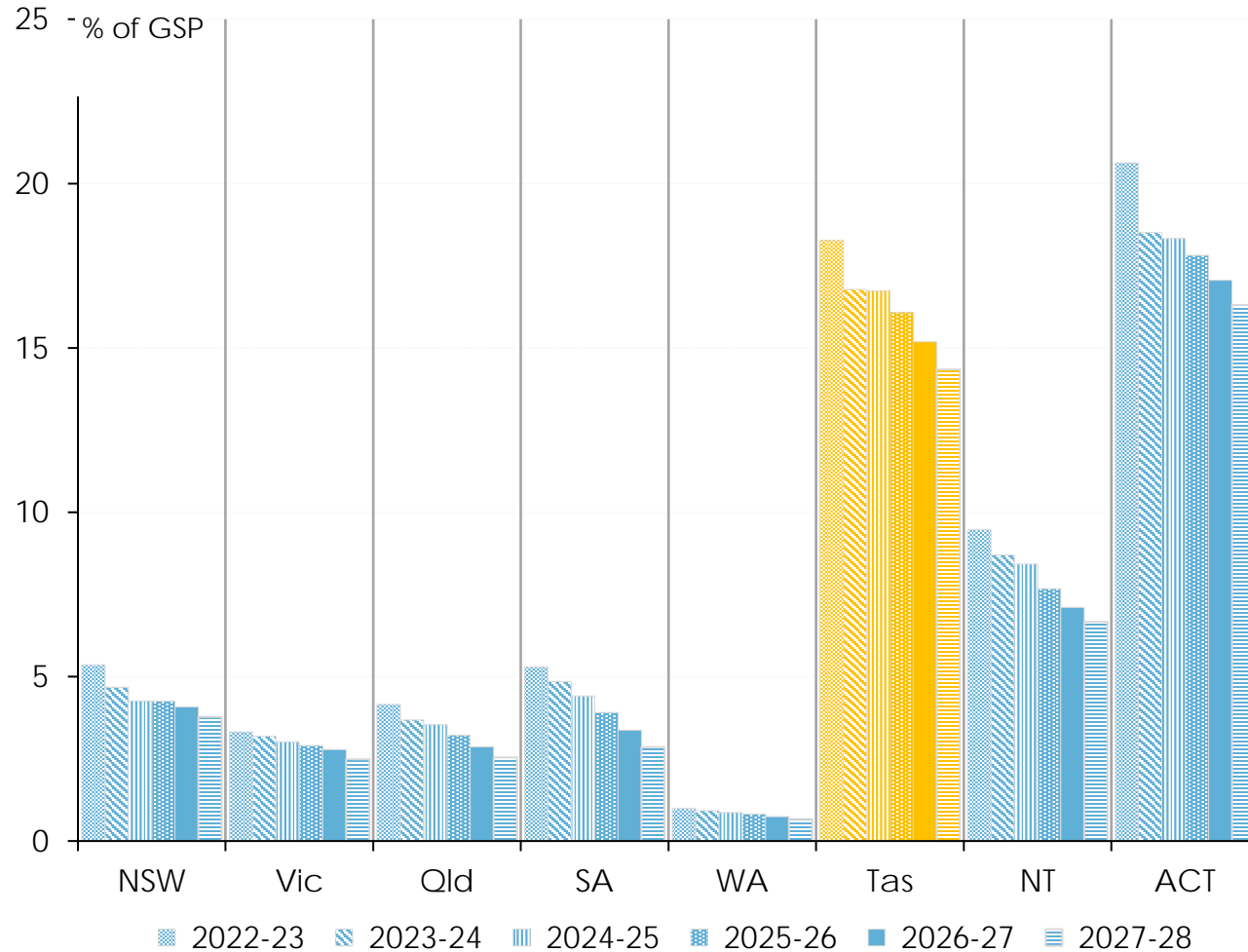
'General government' net debt, Tasmania and other states and territories, 2022-23 to 2027-28



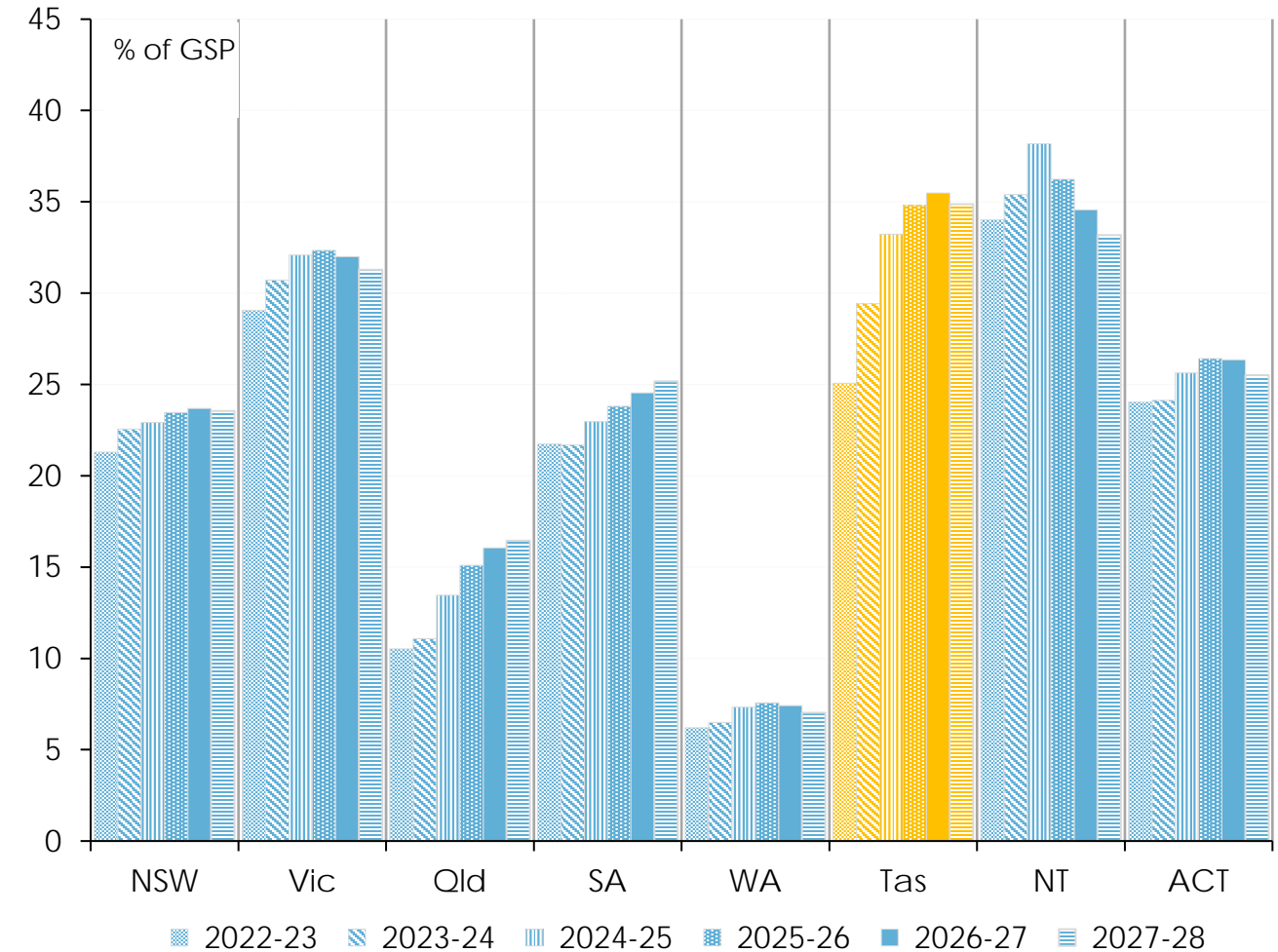
Sources: Tasmanian Treasury, [2024-25 Budget Paper No. 1](#); other state and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024

Including Tasmania's outsized unfunded superannuation liability, 'general government' net financial liabilities are exceeded only by the NT

'General government' unfunded superannuation liabilities, 2022-23 to 2027-28



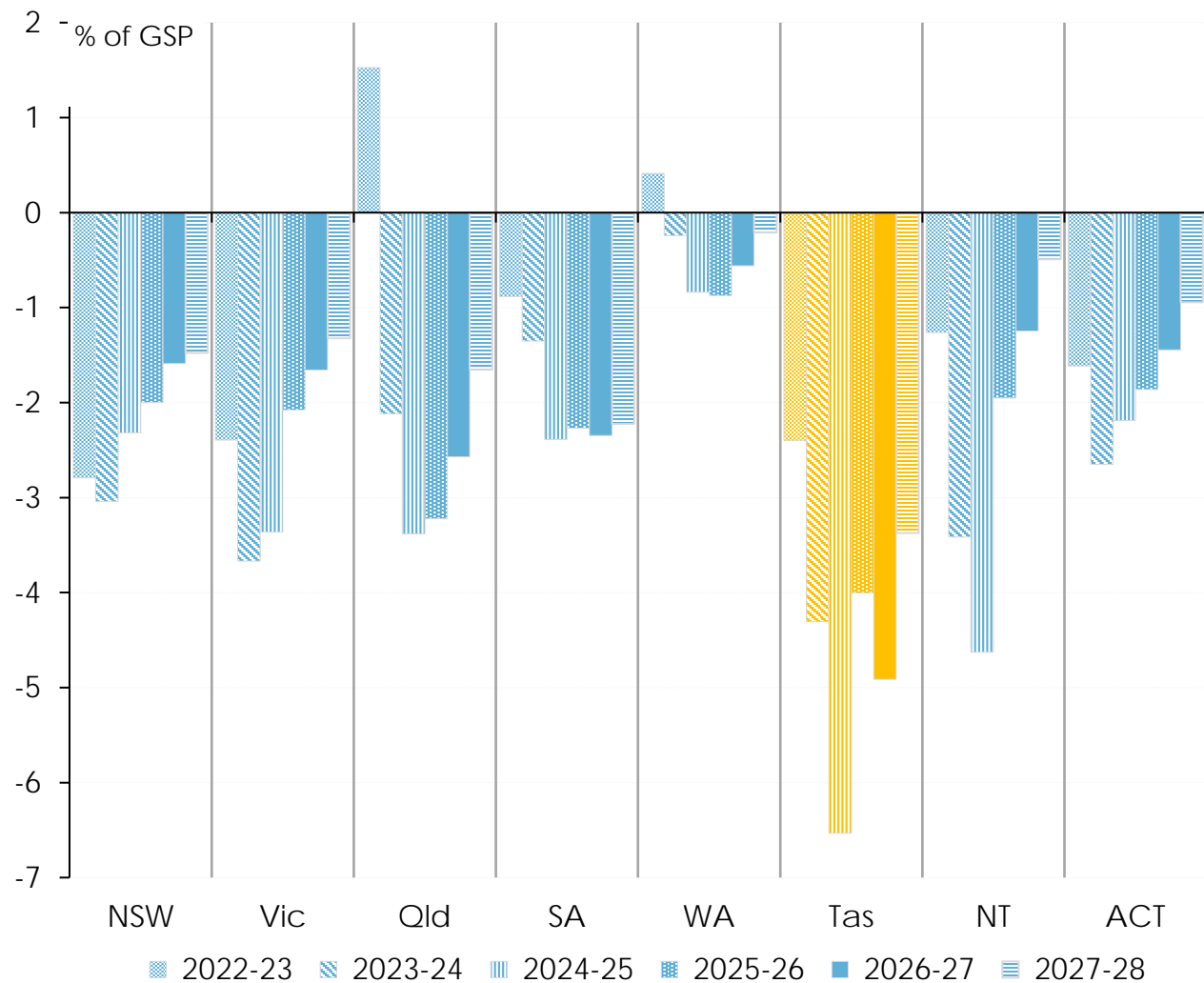
'General government' net financial liabilities, Tasmania and other states and territories, 2022-23 to 2027-28



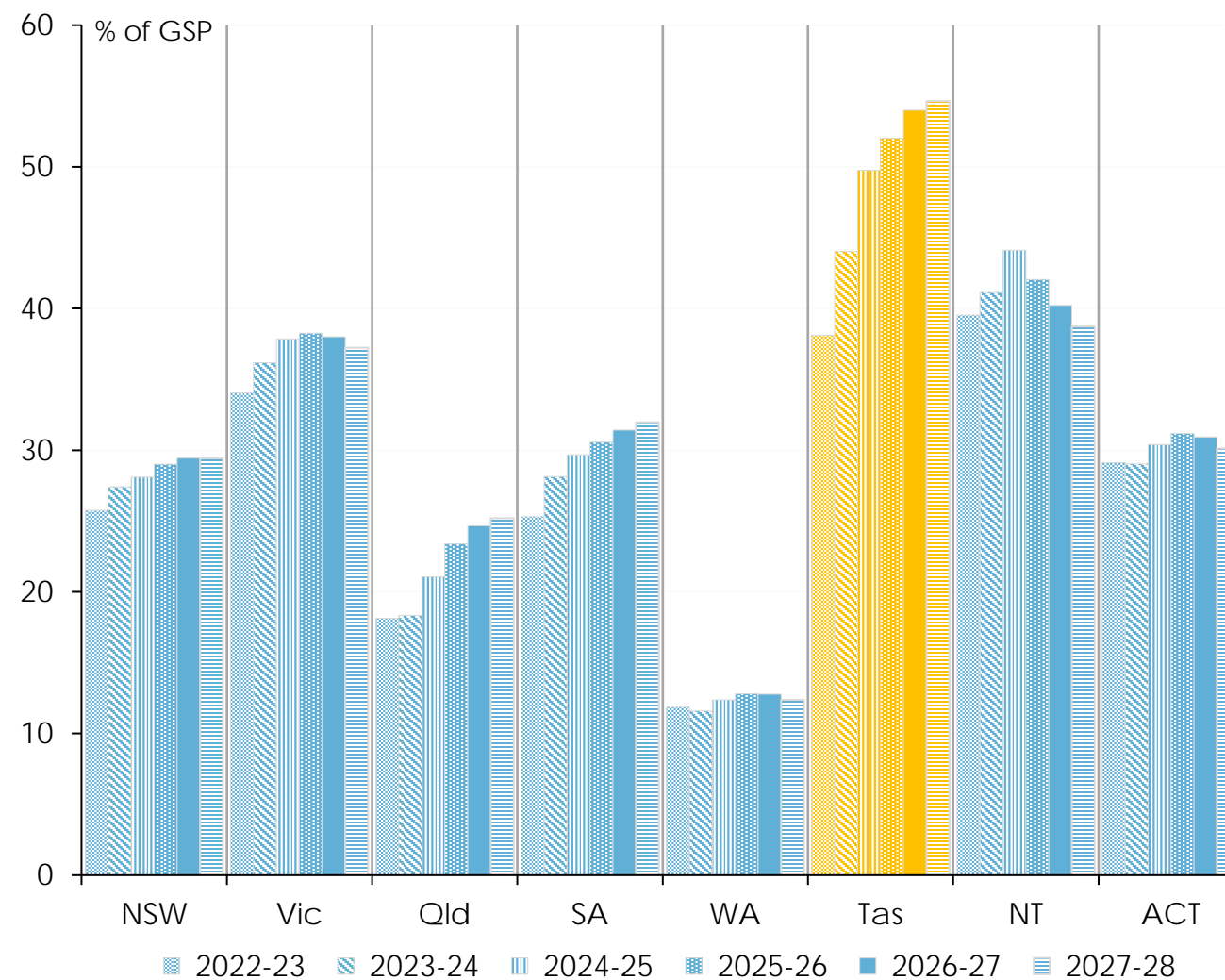
Note: The ACT's superannuation liabilities aren't as large as they appear in government finance statistics, because its employee superannuation arrangements are managed via the Commonwealth Government's superannuation fund, which precludes the ACT from including capital gains on its superannuation investments in its GFS financial statements, as the states and the Northern Territory do. 'Net financial liabilities' includes the unfunded superannuation liability. Sources: Tasmanian Treasury, [2024-25 Budget Paper No. 1](#); other state and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024.

When government-owned businesses are included, Tasmania's fiscal position looks worse than even Victoria's and the Northern Territory's

Total non-financial public sector cash balances, 2022-23 to 2027-28



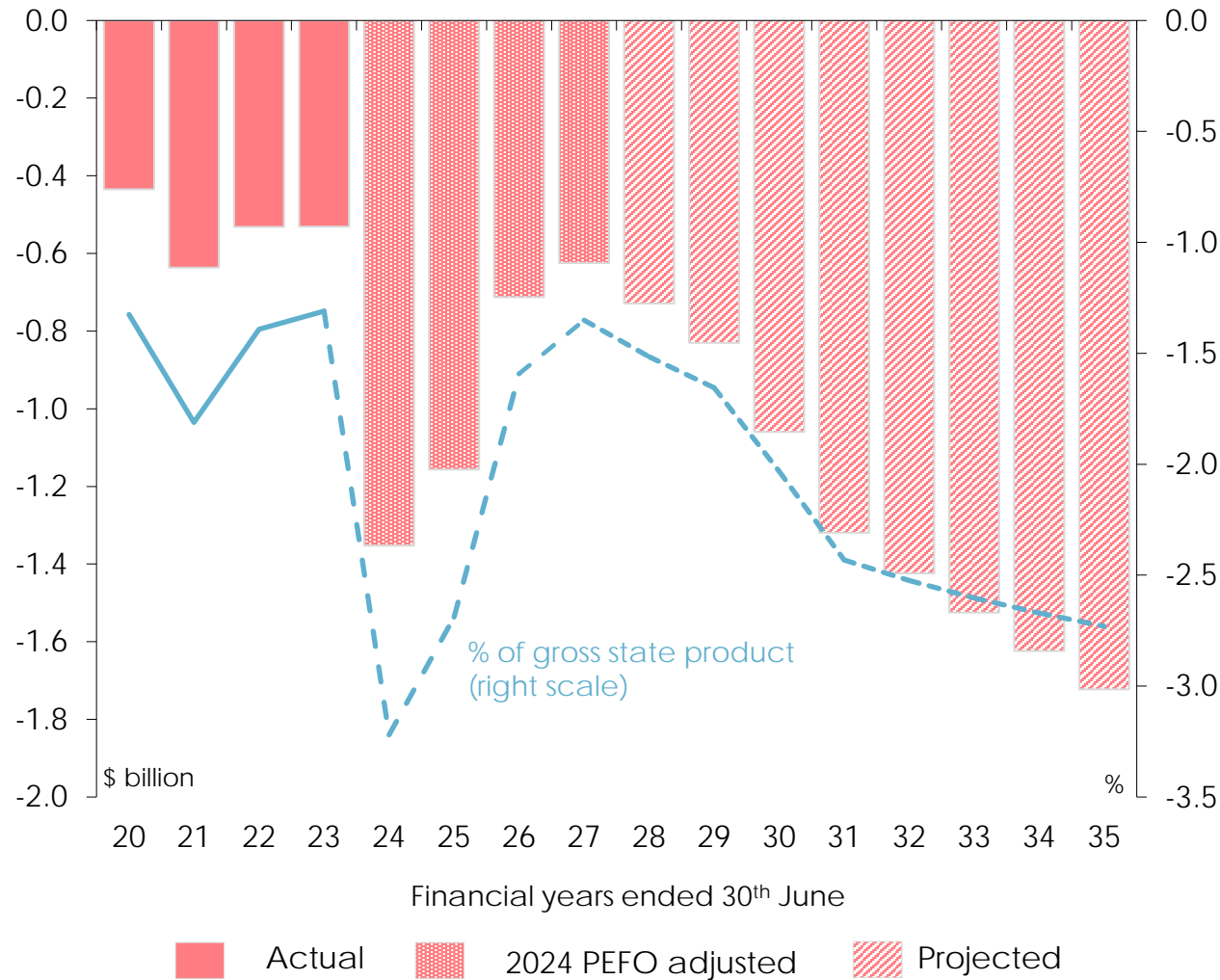
Total non-financial public sector net financial liabilities, 2022-23 to 2027-28



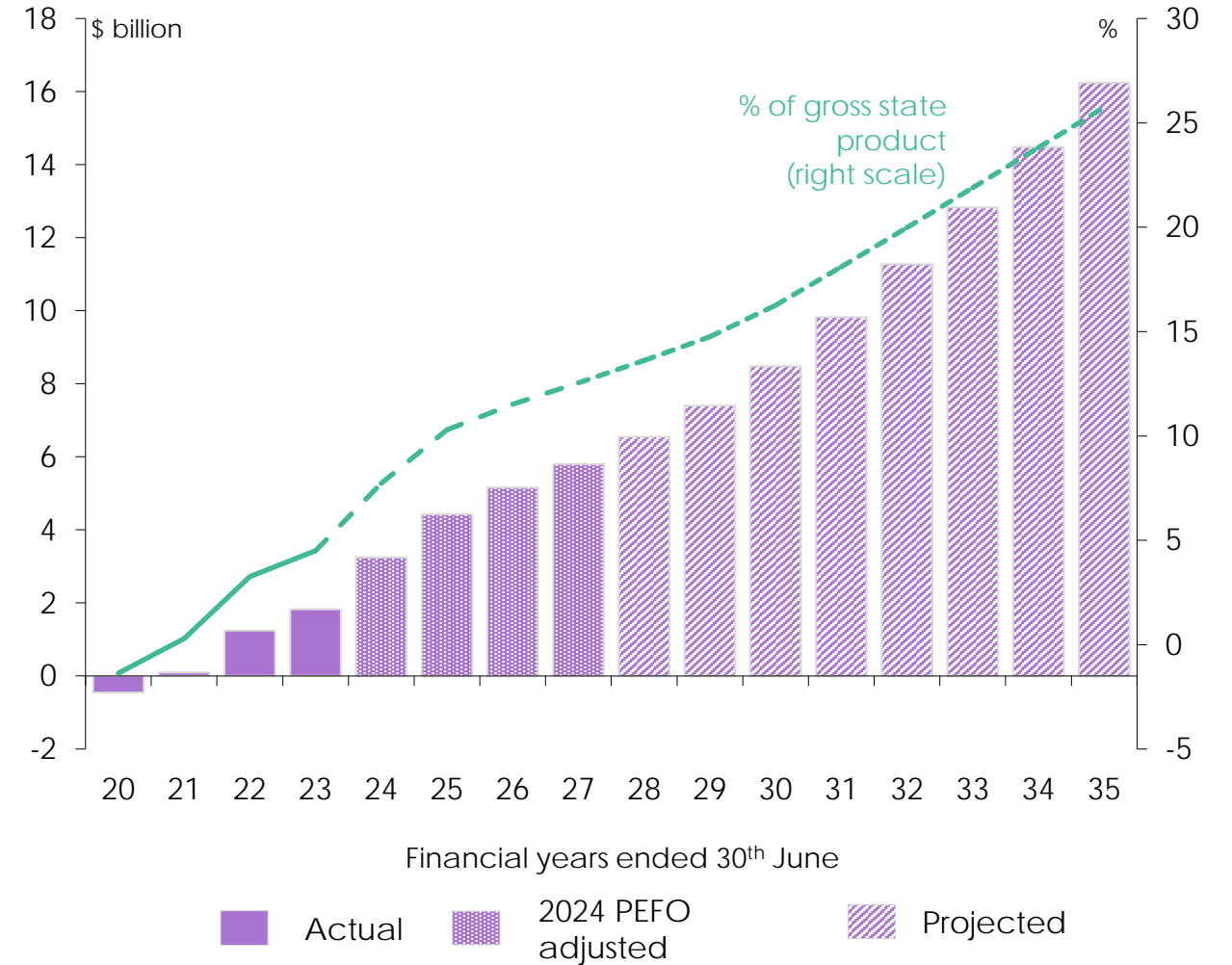
Sources: Tasmanian Treasury, [2024-25 Budget Paper No. 1](#); other state and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024.

And Tasmania's public sector finances will get a lot worse over the next ten years if nothing is done

Cash balance



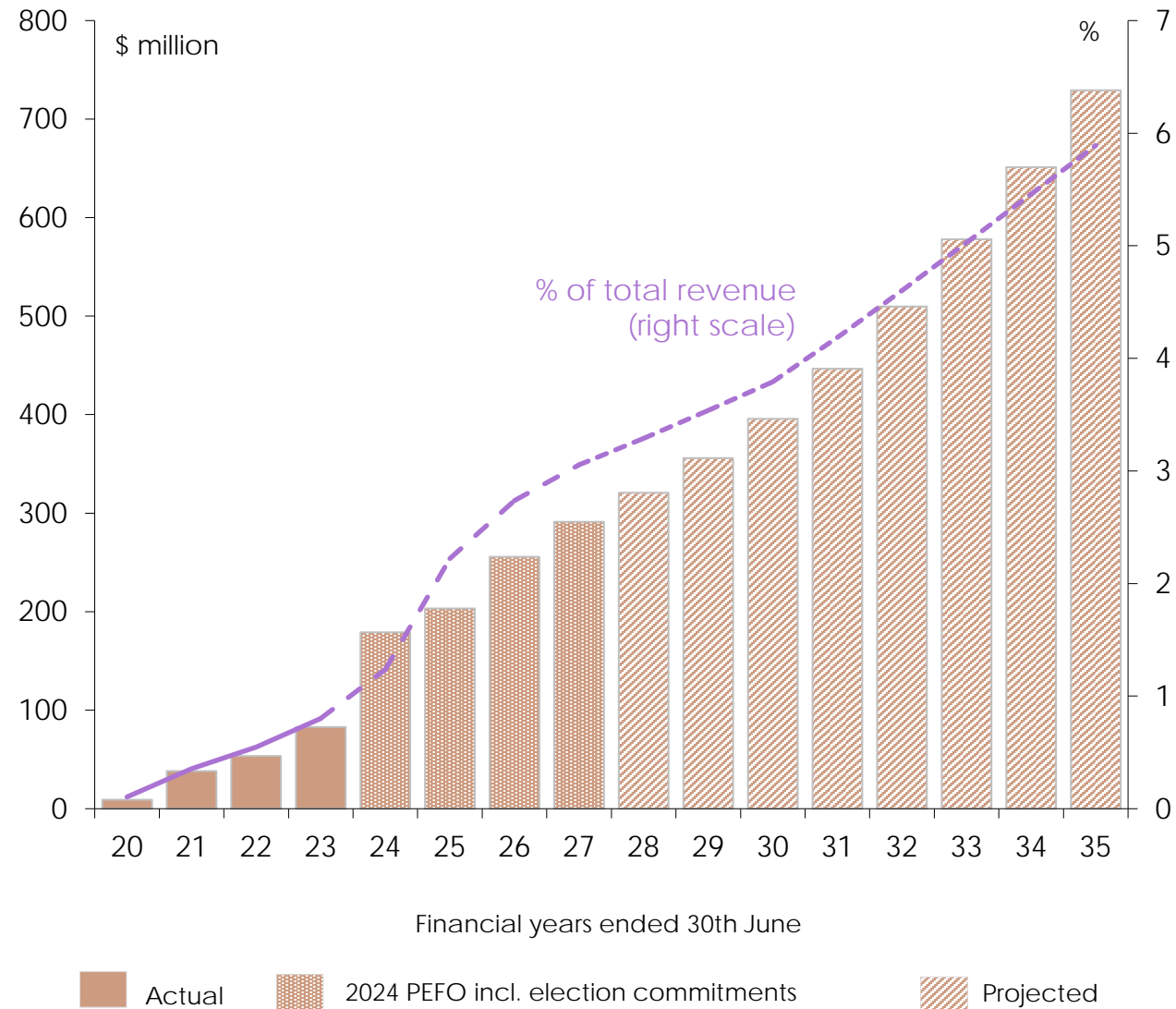
Net debt



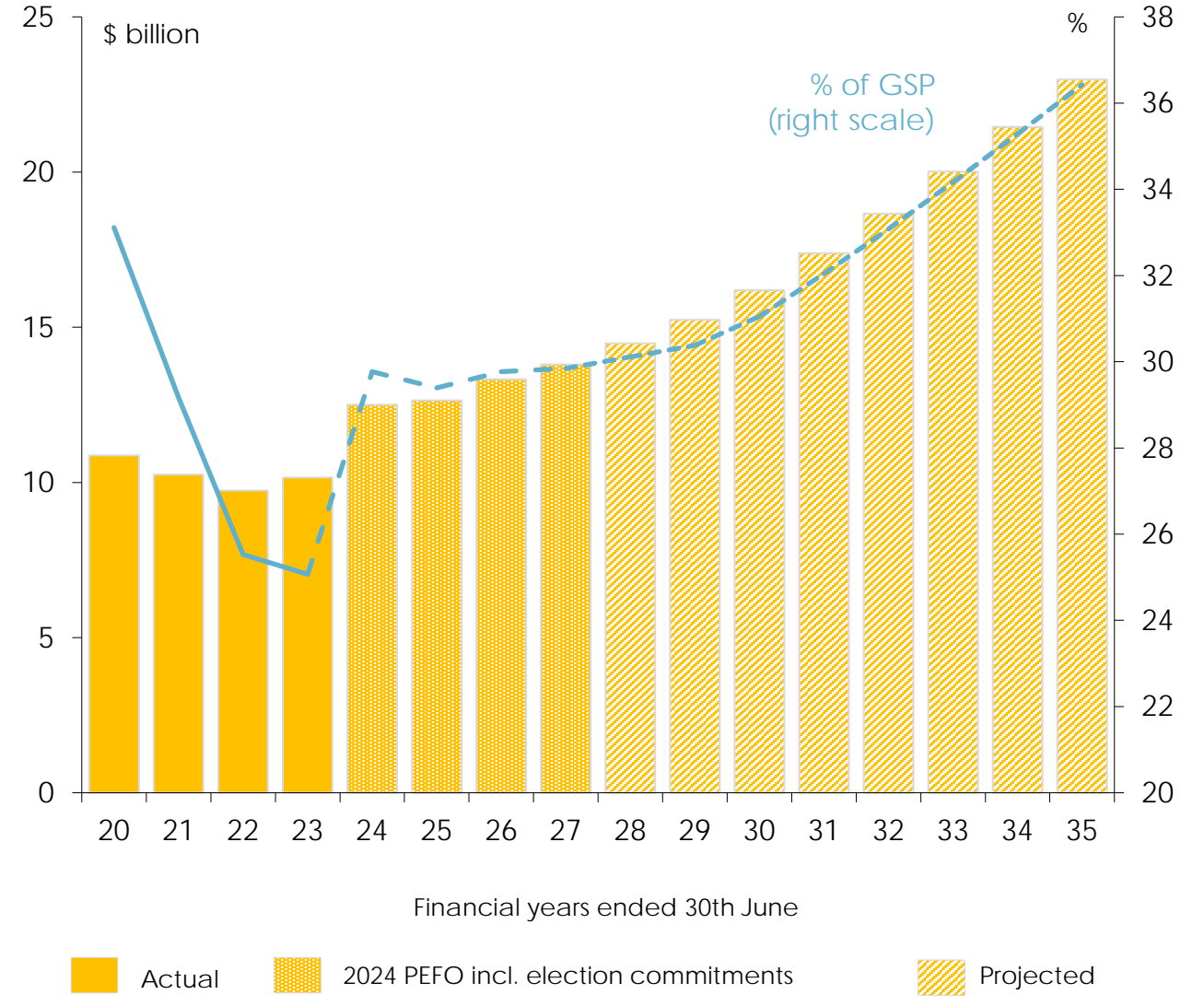
Note: figures shown are for the general government sector. Data shown in these charts do not incorporate the results for 2023-24 reported in the [Preliminary Outcomes Report 2023-24](#). Source: [Independent Review of Tasmania's State Finances](#), August 2024.

Tasmania's public sector finances will get a lot worse over the next ten years if nothing is done

Interest payments



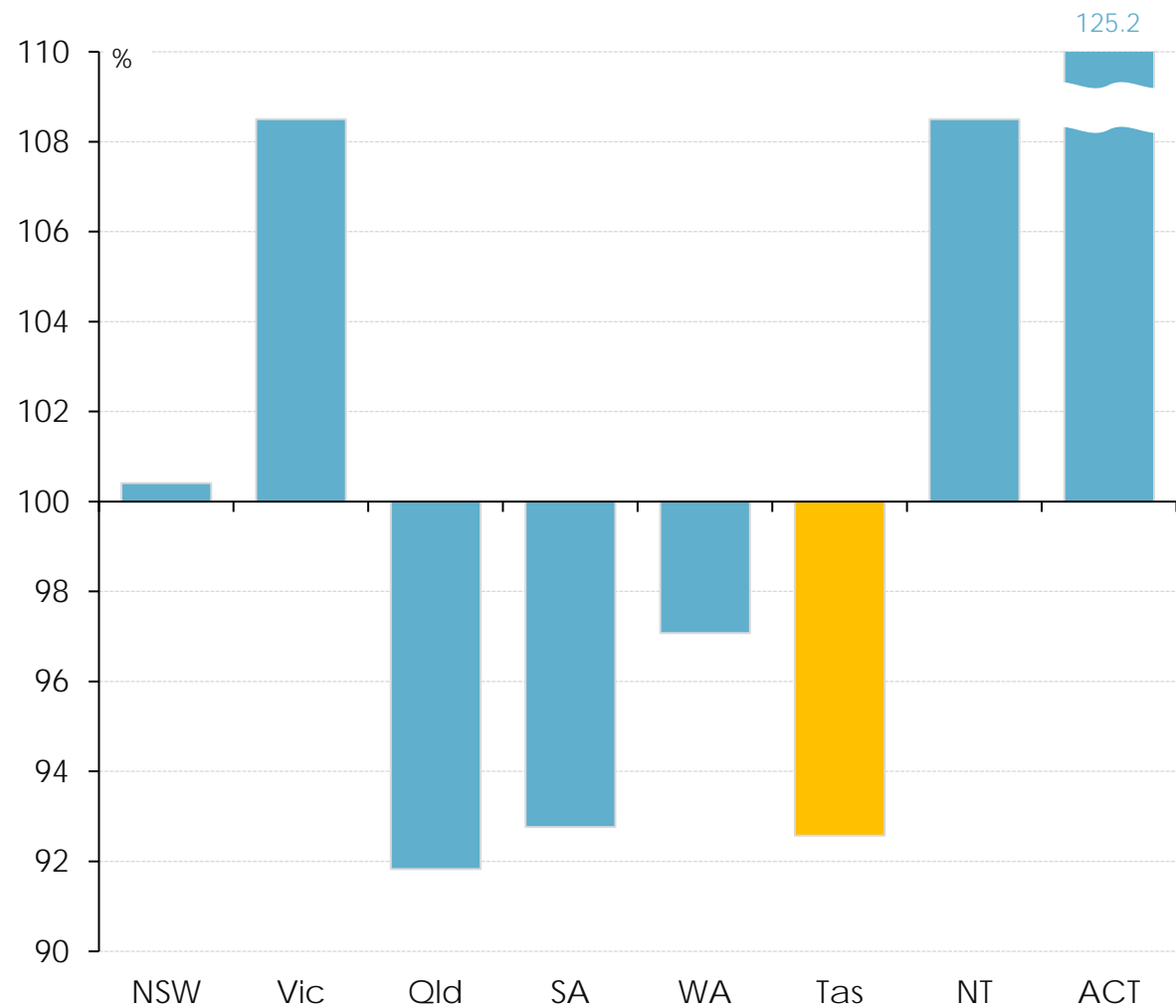
Net financial liabilities



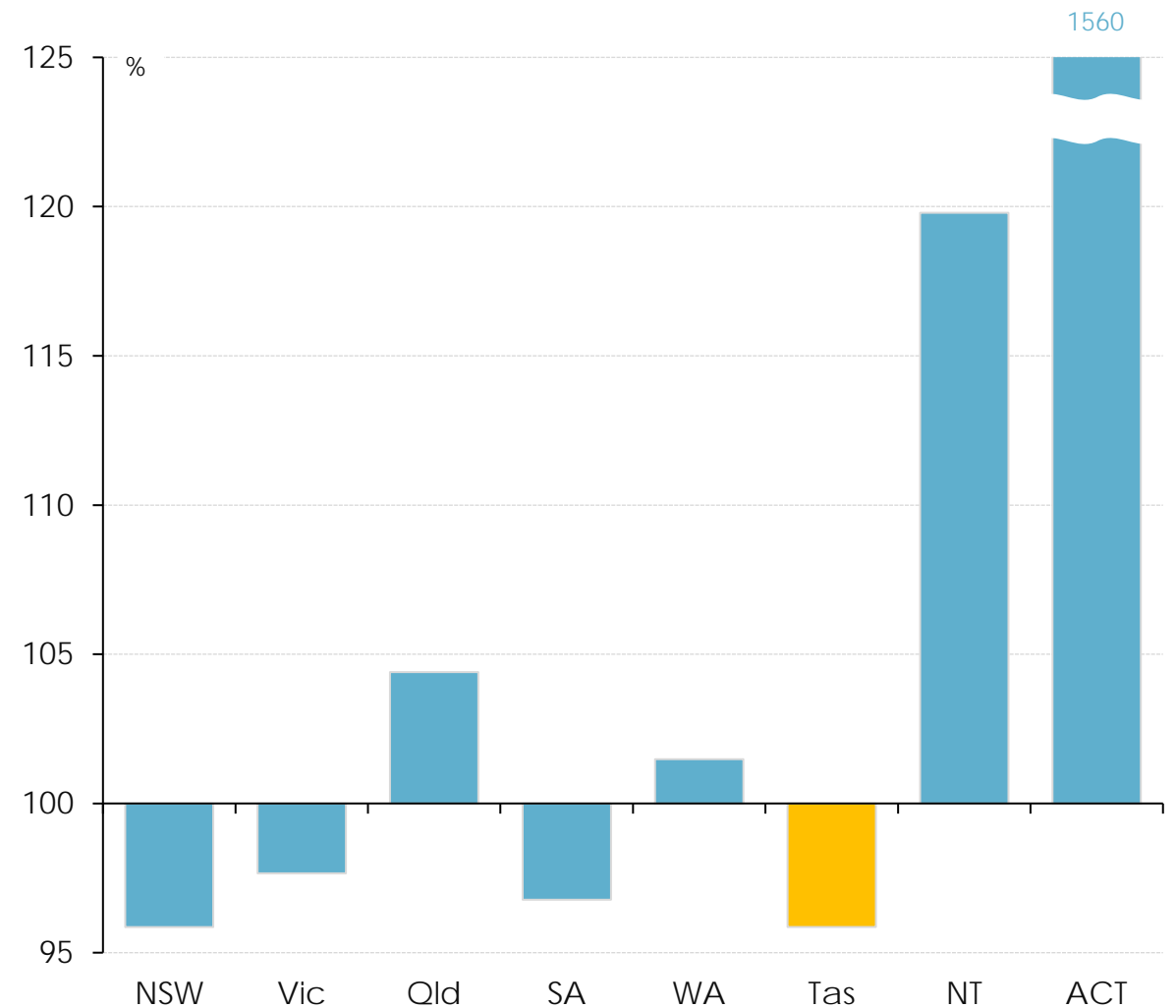
Note: figures shown are for the general government sector. Data shown in these charts do not incorporate the results for 2023-24 reported in the [Preliminary Outcomes Report 2023-24](#). Source: [Independent Review of Tasmania's State Finances](#), August 2024.

Tasmania's finances can't be restored to a sustainable position solely by cutting recurrent spending – state taxes will have to rise

Average 'level of service provision' ratios, 2019-20 to 2021-22



Average 'revenue-raising effort' ratios, 2019-20 to 2021-22

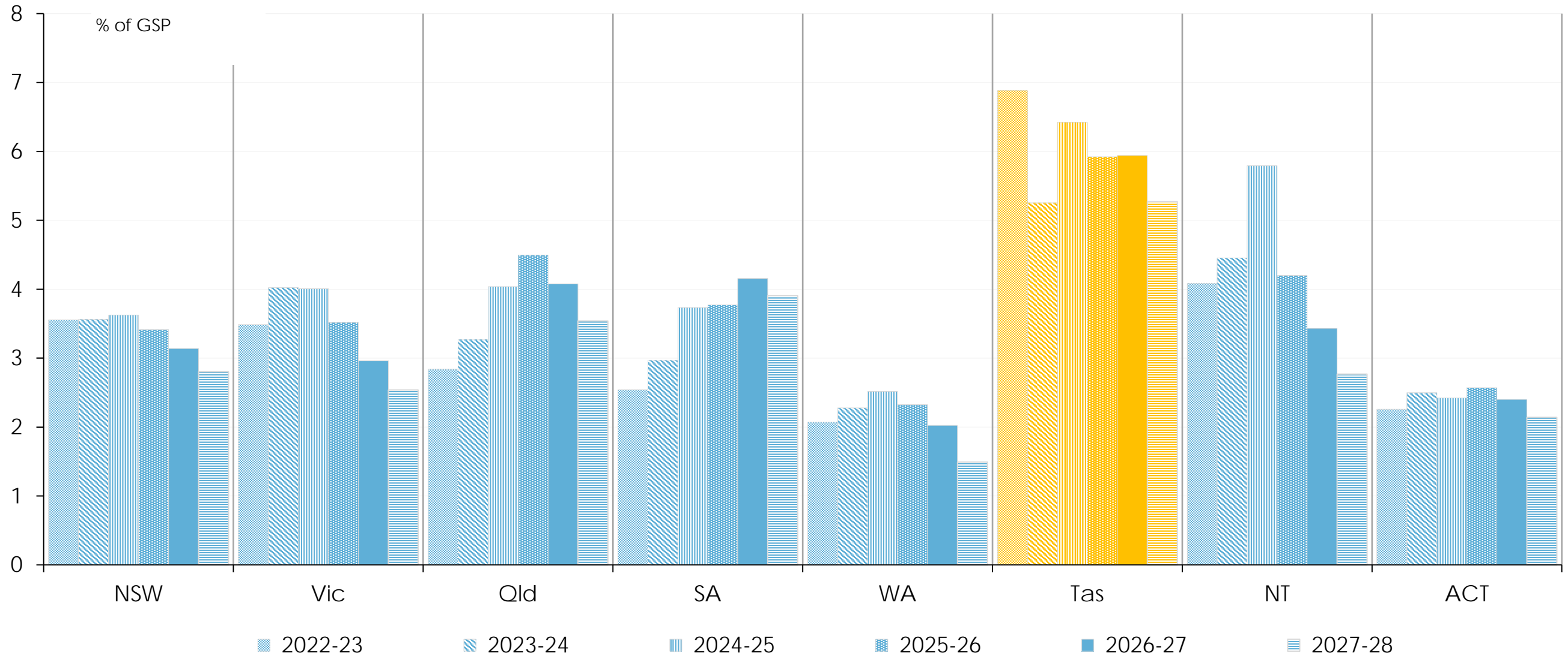


Note: The 'level of service provision' ratio is the ratio of total actual operating expenses by each state and territory to the Grants Commission's assessment of what it would need to spend in order to deliver the same level of services with the same 'efficiency' as the average of all states and territories. Similarly, the 'revenue-raising effort' ratio is the ratio of total taxation revenue actually raised by each state and territory to the Grants Commission's assessment of what it could raise if its tax regime were the same as the average of all states and territories.

Sources: Commonwealth Grants Commission, [2024 Update of GST relativities](#), April 2024; [Independent Review of Tasmania's State Finances](#), August 2024.

And Tasmania can't afford to run the nation's largest infrastructure spending program (relative to the size of our economy)

Total state non-financial public sector 'purchases of non-financial assets', 2023-24 to 2027-28



Note: 'Total state non-financial public sector' includes GBEs.

Sources: State and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024.

What can be done?

- ❑ **There's not a lot of scope on the 'operating' (or recurrent) expenditure side**
 - on-going review of the continuing justification for, and efficiency and effectiveness of, existing spending programs
 - look for ways of moving remaining defined benefit superannuation members to SGC arrangements
 - 'efficiency dividends' and 'vacancy control' are a very poor way of achieving expenditure savings
 - big spending cuts will have a larger adverse impact (dollar-for-dollar) on economic activity and on the most vulnerable Tasmanians than equivalent revenue measures
- ❑ **Most of the 'heavy lifting' will have to be on the revenue side**
 - at least some of the impact of any increases in state taxes will be absorbed by reductions in company tax payments or reductions in household saving (hence less impact on economic activity)
- ❑ **Revenue-raising options**
 - reduce the tax-free threshold for payroll tax (which is the highest of any state, and which has done nothing to create jobs)
 - over the longer-term, replace stamp duties with a broadly based land tax (including owner-occupied homes)
 - in the near term, consider imposing a surcharge on council rates as a *de facto* extension of land tax
 - extend the stamp duty and land tax surcharges imposed on foreign investors to mainland investors in established residential real estate
 - increase motor vehicle registration fees and motor vehicle duty for more expensive motor vehicles
 - increase mineral royalties
- ❑ **Defer or reduce planned infrastructure spending and reform infrastructure budgeting processes**
 - first determine how much Tasmania can afford to spend on capex over 10 years and in each year of those ten
 - then select projects based on ranking of projects according to economic & social cost-benefit ratios

But the Government (and for that matter the Opposition) obviously know better

- ❑ Both the Government and the Opposition were quick to rule out raising additional revenue in order to 'fix' the budget
 - and yesterday's Budget continued the Government's infrastructure splurge (although they usually end up spending a lot less on infrastructure than they say they're going to)
- ❑ That's disappointing – but not surprising
 - there is no 'politically easy' way to restore Tasmania's finances to a sustainable position
 - it will require the expenditure of 'political capital' – something which the major parties were unwilling to spend when they had it, and which is now in very short supply
- ❑ The Government wasn't prepared to consider how to pay for all this additional spending when Tasmania's economy was doing well, and when it had a majority in Parliament – and it's not prepared to consider how to pay for it when Tasmania's economy isn't doing well, and now that it doesn't have a majority in Parliament
 - so when will it bite that bullet?
 - or will it be left to some future government?
 - and if so, under what circumstances?

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

This document does not purport to constitute investment advice. It should not be used or interpreted as an invitation or offer to engage in any kind of financial or other transaction, nor relied upon in order to undertake, or in the course of undertaking, any such transaction.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all financial instruments referred to herein. None of Saul Eslake, Corinna Economic Advisory Pty Ltd nor Independent Economics however makes any representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. Saul Eslake, and Corinna Economic Advisory Pty Ltd expressly disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Any opinions expressed herein should not be attributed to any other organization with which Saul Eslake is affiliated.

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS