

Human Capital and Tasmania's Economic Future

Presentation to the
Australian Human Resources Institute

Saul Eslake
Chief Economist
ANZ Bank

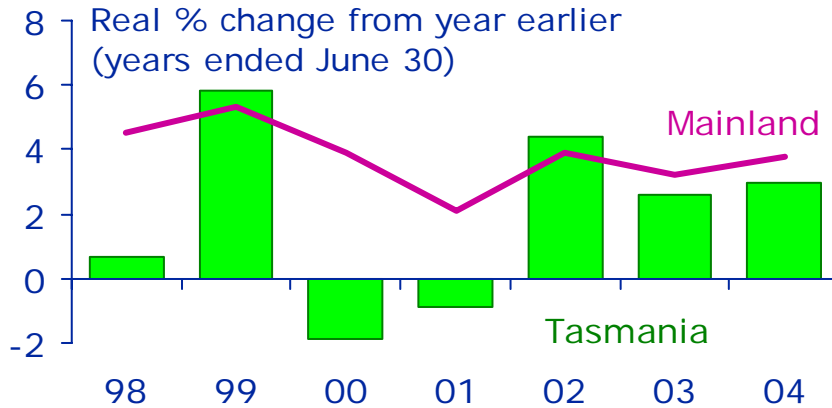
Wrest Point
Hobart
24th August 2005

www.anz.com/go/economics

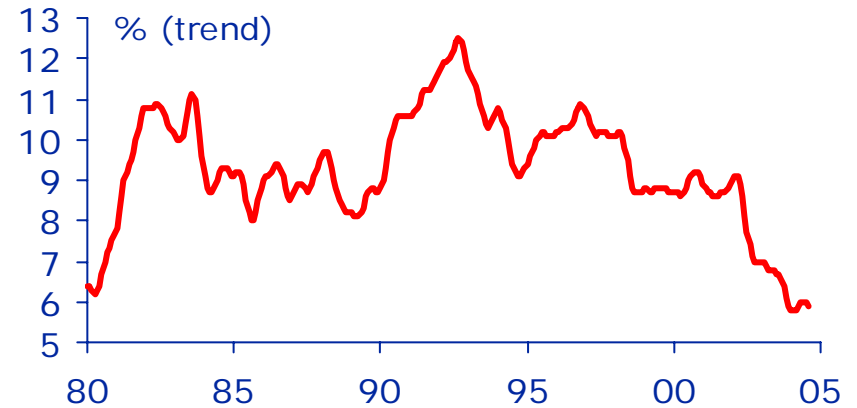
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The Tasmanian economy has performed very strongly over the past few years ...

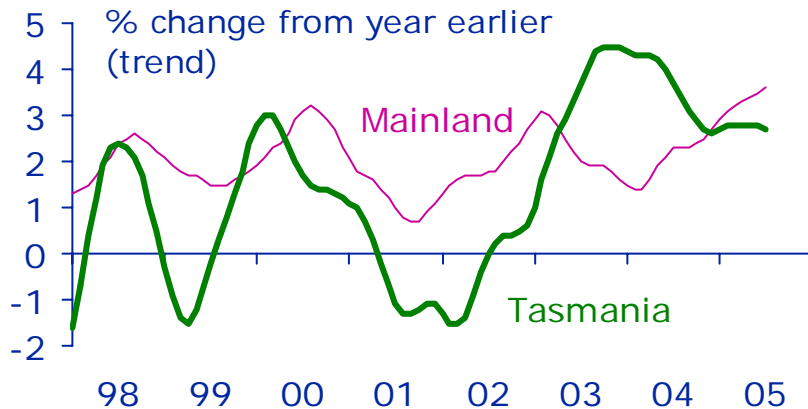
Gross State product



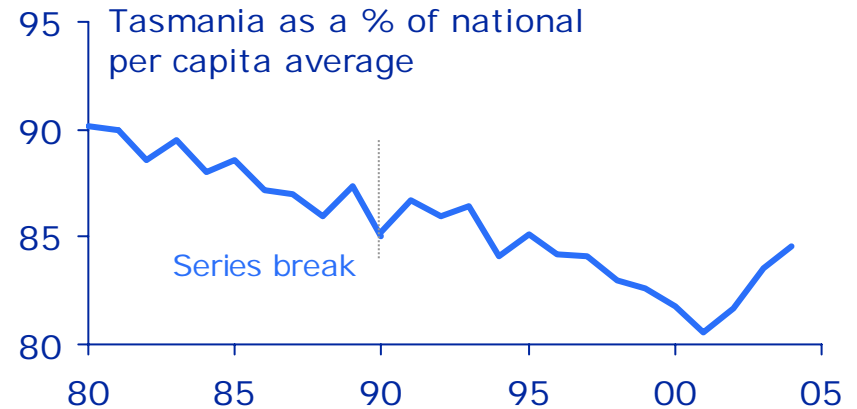
Unemployment rate



Employment



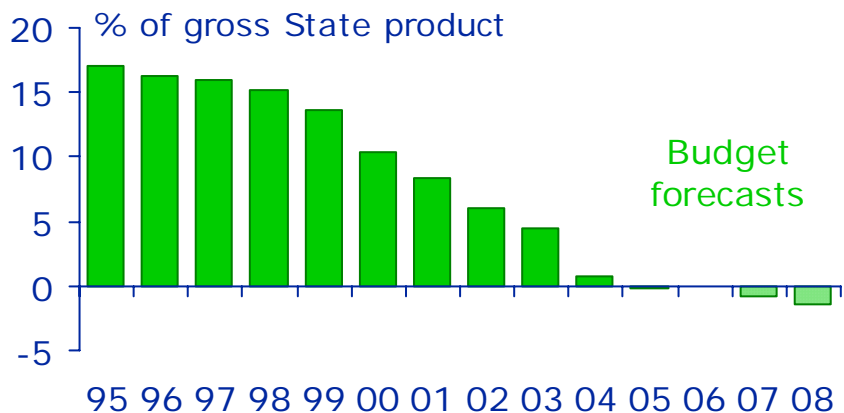
Household disposable income



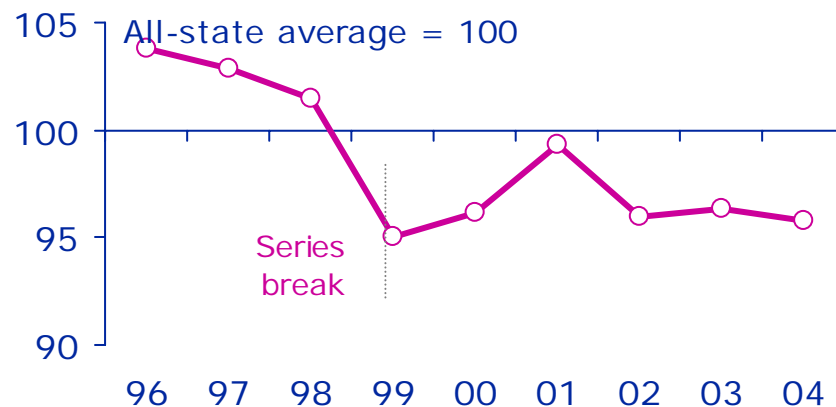
Sources: ABS, State Accounts (5220.0) 2003-04; The Labour Force (6201.0); Economics@ANZ calculations.

Good economic policy at the State level has played an important role in these results

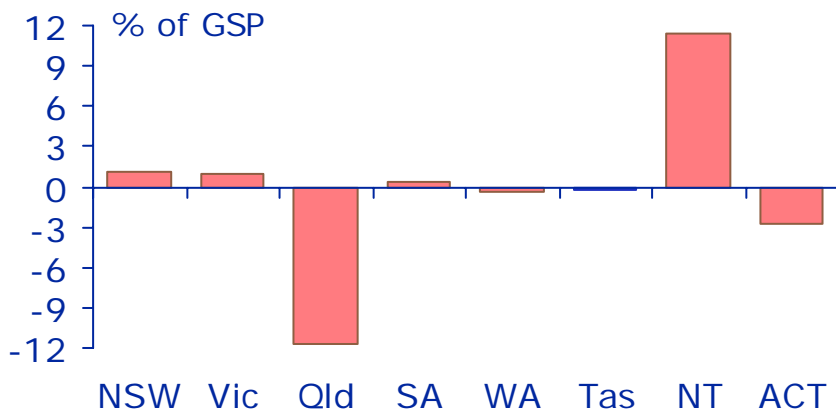
State government net debt*



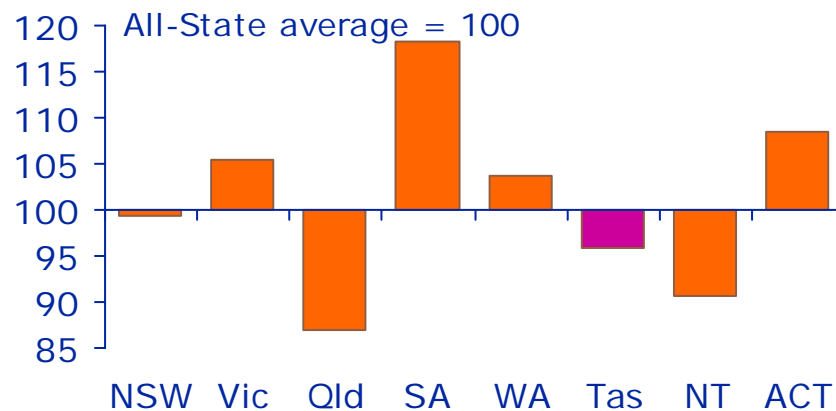
Relative severity of State taxation†



State net debt *, 30 June 2005



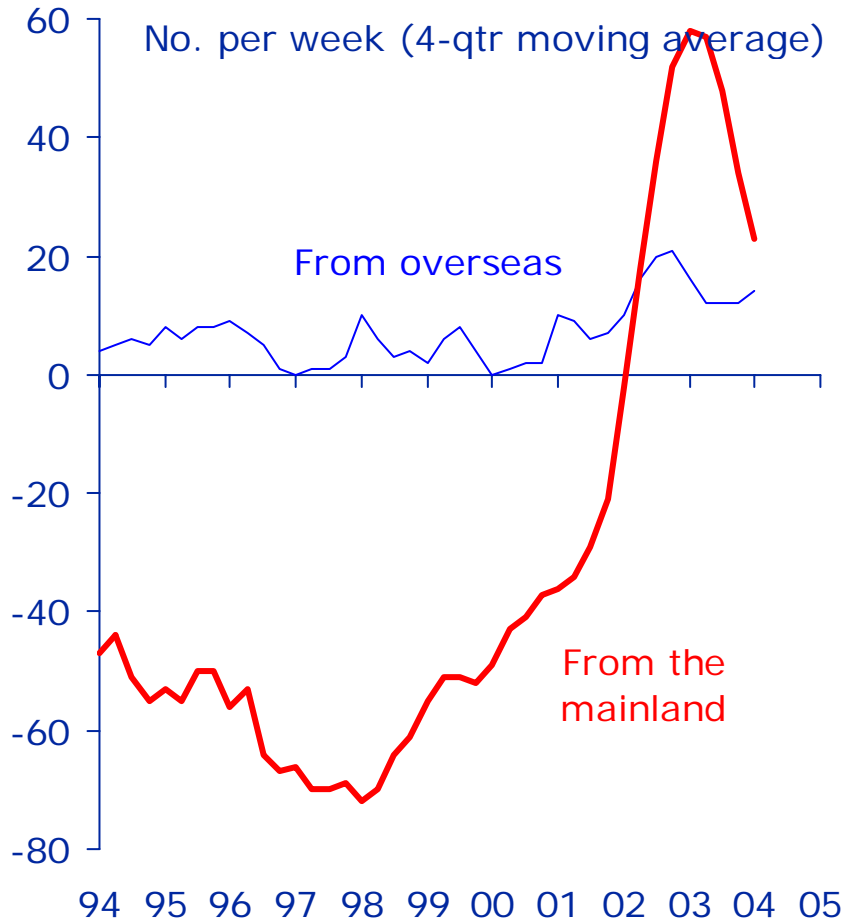
State tax burden, 2003-04



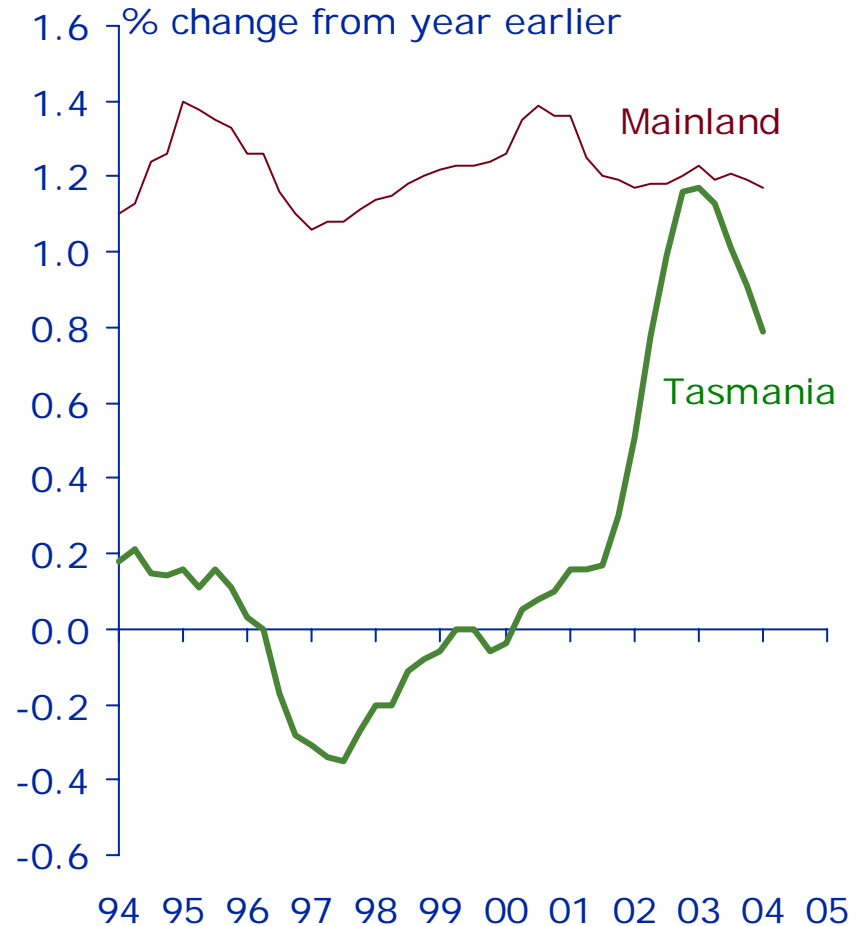
*General government sector. †"Revenue-raising effort ratio". Sources: ABS; State and Territory Treasuries; Commonwealth Grants Commission.

People voting with their feet: Tasmania's population is growing again

Net migration to Tasmania



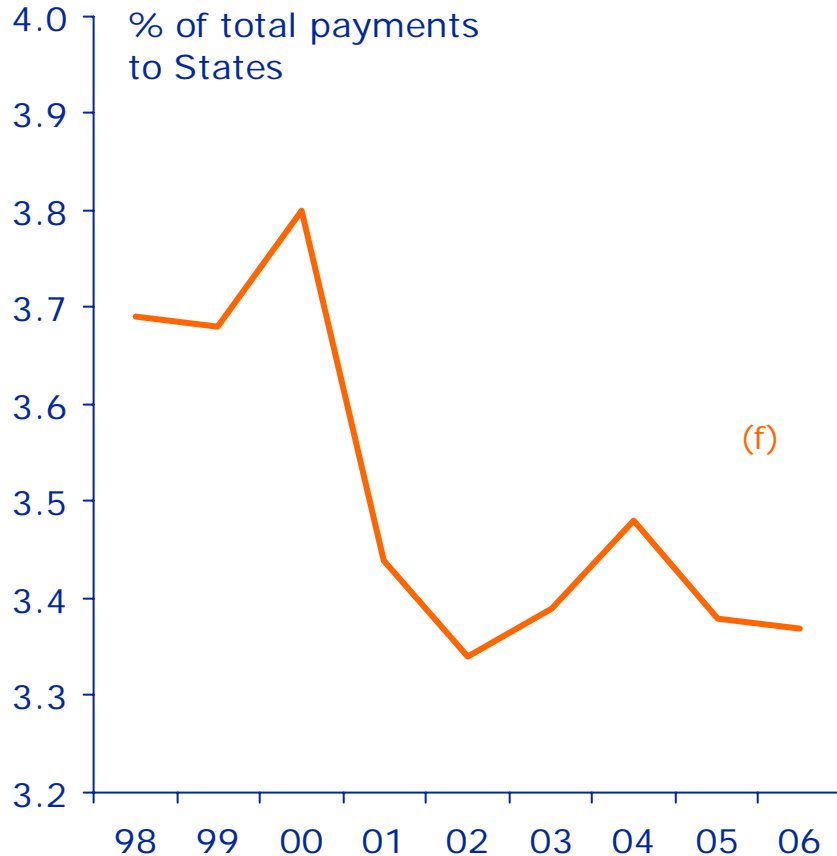
Population growth



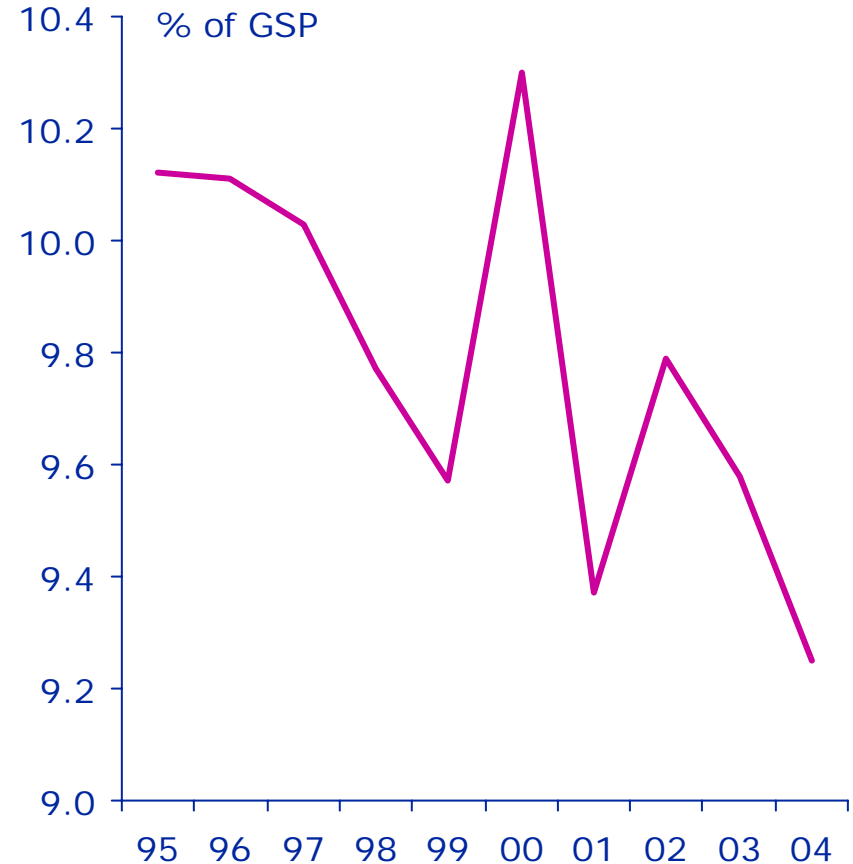
Sources: ABS, Australian Demographic Statistics Quarterly (3101.0); Economics@ANZ.

The Commonwealth government's contribution to Tasmania's recovery has been fairly small

Commonwealth payments to Tasmania as a % of total



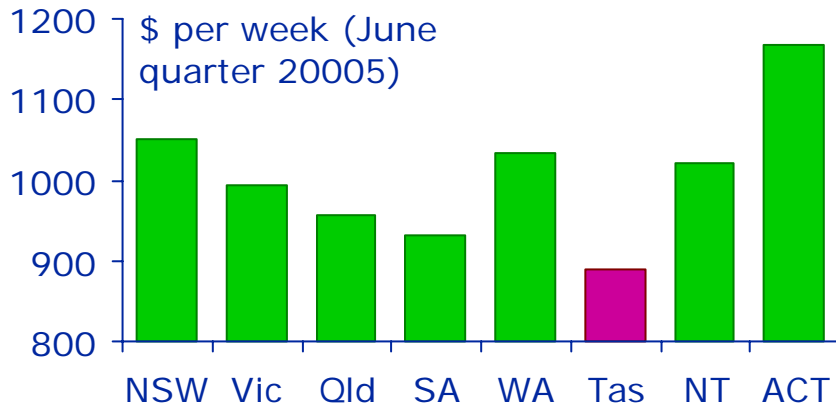
Commonwealth direct expenditure in Tasmania



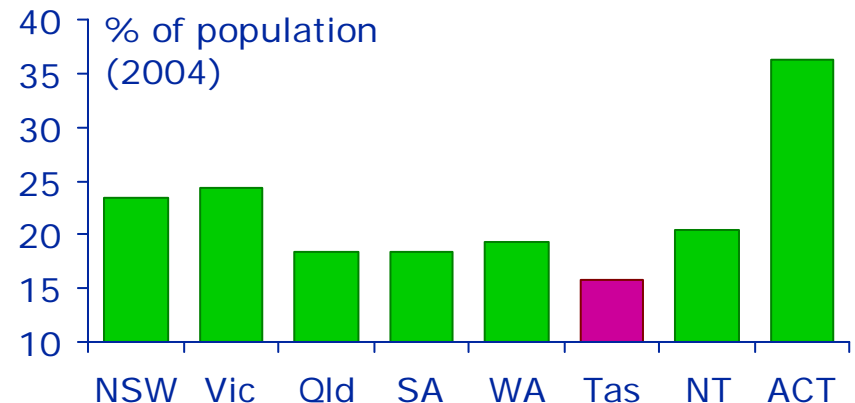
Sources: Commonwealth Budget Papers; ABS State Accounts; Economics@ANZ.

Tasmania still ranks poorly on a range of other indicators of economic and social well-being

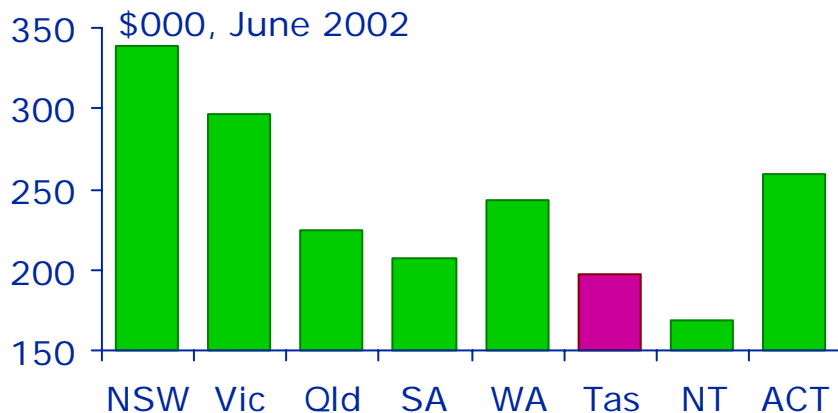
Average weekly ordinary time earnings



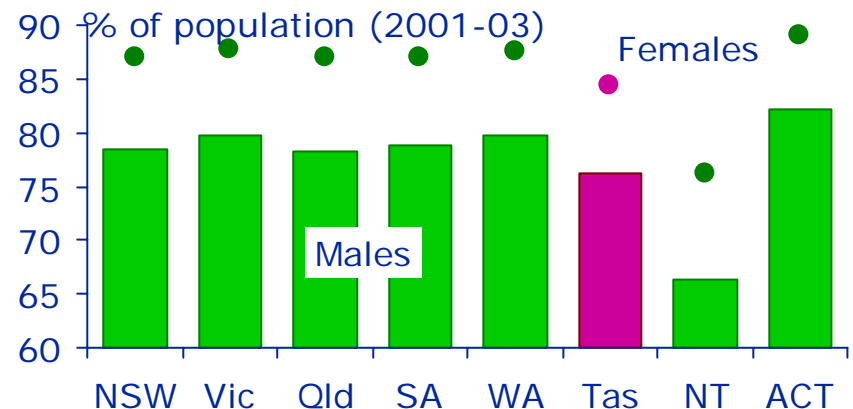
Persons aged 24-65 with bachelor degree or higher



Average household wealth



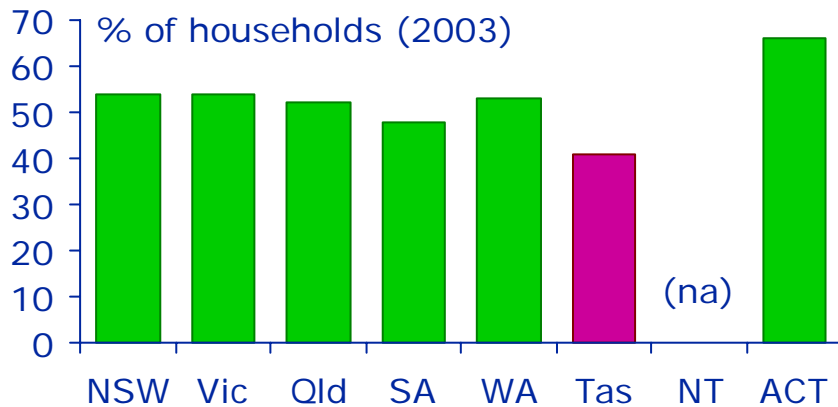
% of population surviving to age 70



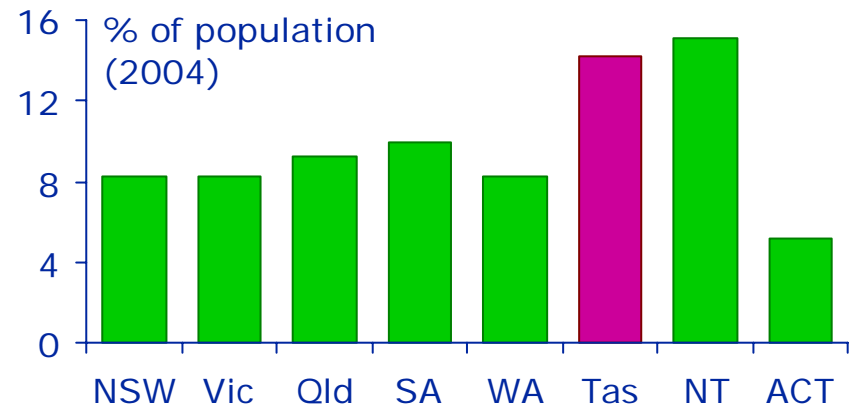
Sources: ABS, Australian Social Trends (4102.0) 2005.

Tasmania still ranks poorly on a range of other indicators of economic and social well-being

Household access to the internet



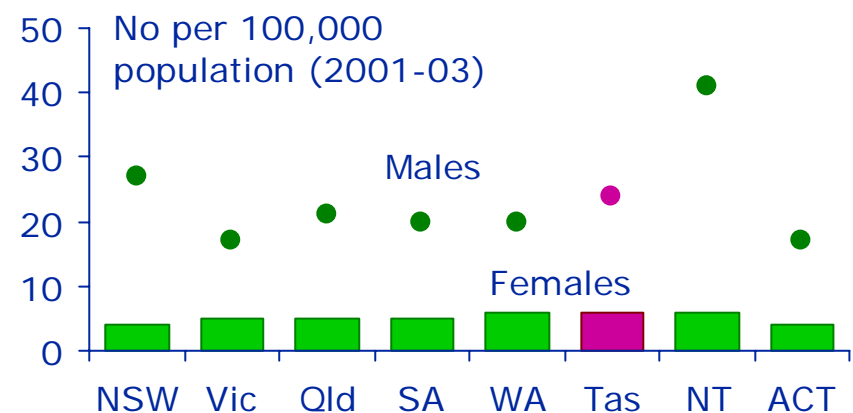
Dependency on social security payments (excl. age pension)



Working age population in employment



Suicide rate



Source: ABS, Australian Social Trends (4102.0) 2005.

Tasmania's future ...

- ... cannot possibly lie predominantly in the volume production of essentially unprocessed commodities at lower prices than competitors with better access
 - to larger and cheaper resources of labour and capital
 - and to markets (by virtue of proximity of membership of trade blocs)
- ... but instead depends on its capacity to produce and market
 - highly differentiated goods and services
 - embodying a relatively high intellectual content
 - for which customers are willing to pay premium prices

Tasmanian potato growers are hardly the first to confront their current problems

Does any of this sound familiar?

- In Costa Rica (Central America) in 1999, small banana growers accounted for 58% of production
- They employed 40,000 people, paying them an average of US\$18 per day, plus housing, health and social security benefits
- Three multi-nationals bought most of their crop for export
- Growers were paid US\$5.20 per box, and had to pay an 18¢ per box export tax
- These growers began to face intense competition from growers in Uruguay ...
- ... who paid their workers US\$ 2-3 per day, with no benefits, and exported at US\$2.18 per box

Source: Raphael Kaplinsky (Food & Agricultural Organization, 2003).

If Costa Rican banana growers can solve their problems, so can Tasmanian potato growers

Costa Rican banana growers implemented four strategies:

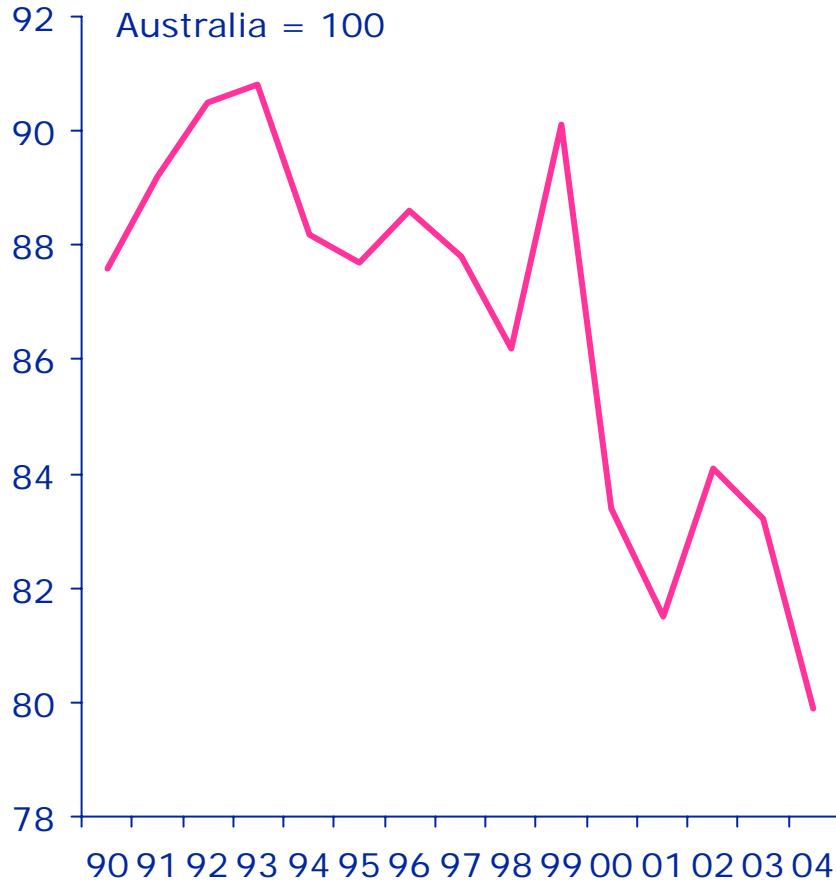
- Diversifying sales away from the three multinationals who had been the main buyers
- Undertook research into new varieties – and found a cure for a disease which caused bananas to ripen too quickly
- Marketed bananas to consumers in rich countries as being environmentally friendly and involving ethical work practices and paying reasonable wages
- Developed a brand name to differentiate these characteristics from bananas produced elsewhere

“Costa Rican bananas are not like others: they come with many social guarantees. We need to make this known to customers”

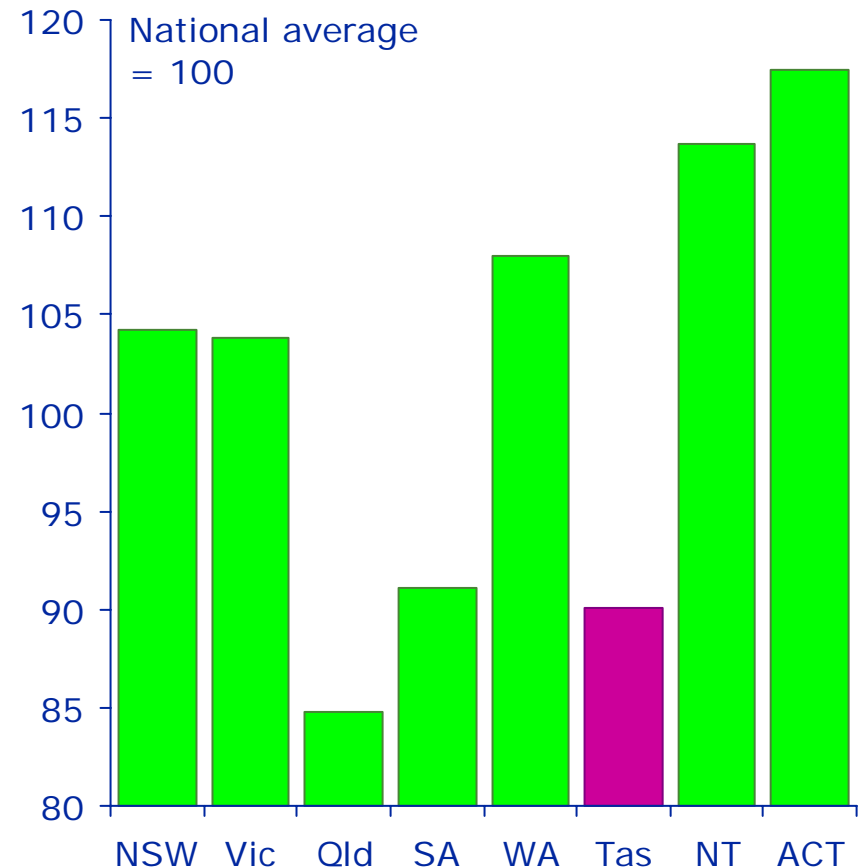
— General Manager of Costa Rica’s largest banana exporter,
—*Financial Times*, 17 November 2000

Tasmania's labour productivity is still declining relative to the national average

Tasmania's productivity relative to national average



Productivity by State and Territory, 2003-04



* Productivity defined as real gross State product divided by an index of hours worked. Sources: ABS; Economics@ANZ.

Productivity is 'what you get out for what you put in' - and it matters

“Productivity is the prime determinant in the long run of a nation’s standard of living, for it is the root cause of per capita national income

High productivity not only supports high levels of income but allows citizens the option of choosing more leisure instead of working longer hours.

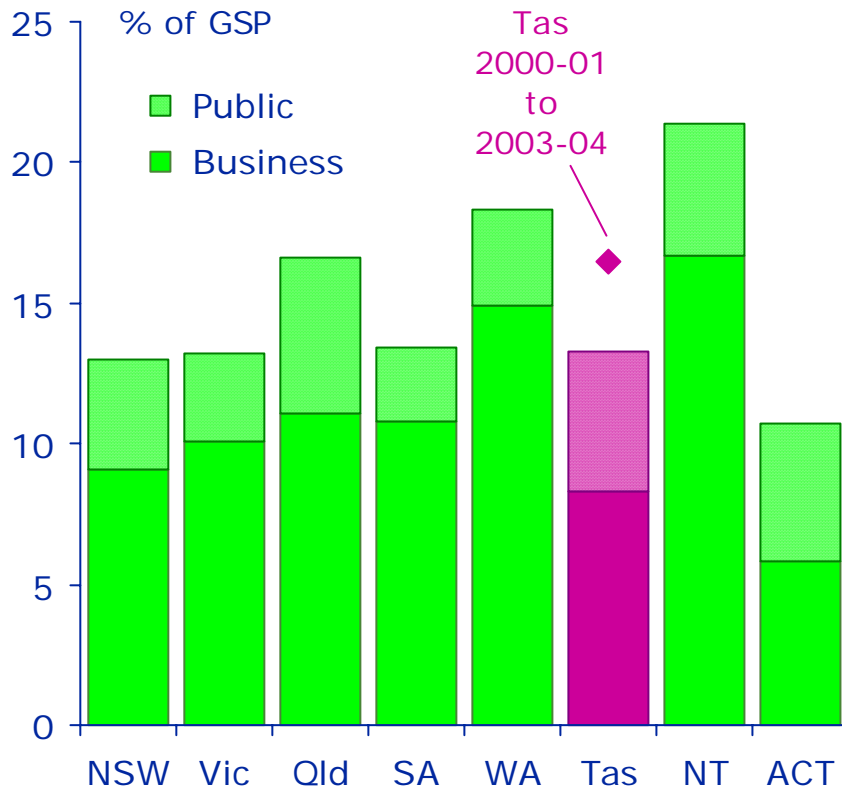
It also creates the national income that is taxed to pay for public services which again boosts the standard of living

The capacity to be highly productive also allows a nation’s firms to meet stringent social standards which improve the standard of living, such as in health and safety, equal opportunity and environmental impact”

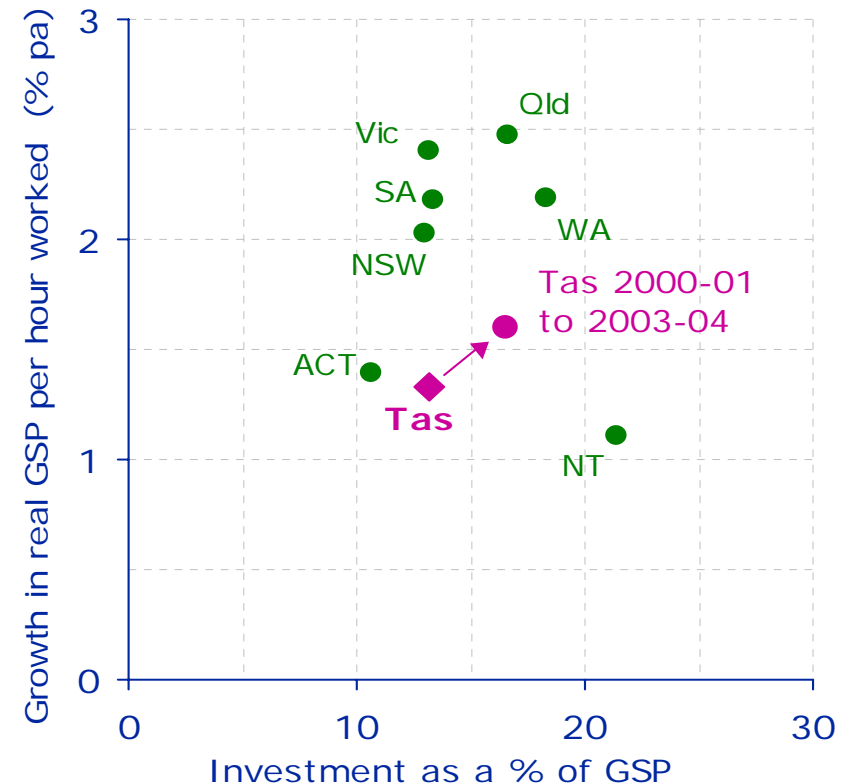
– Michael E. Porter, *The Competitive Advantage of Nations* (1990), page 6

Tasmania invests a below-average proportion of its income in physical capital

Non-housing Investment as a share of GSP, 1990-2004



Investment as a share of GSP and productivity growth

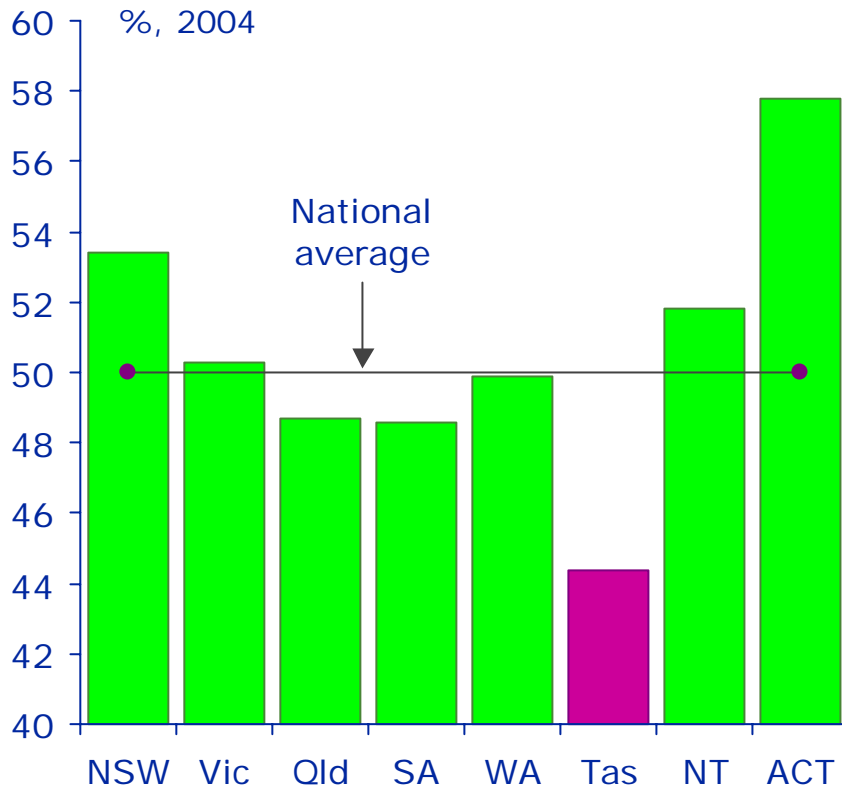


Note: Investment shares and productivity growth are averages over the period 1990-91 to 2003-04.

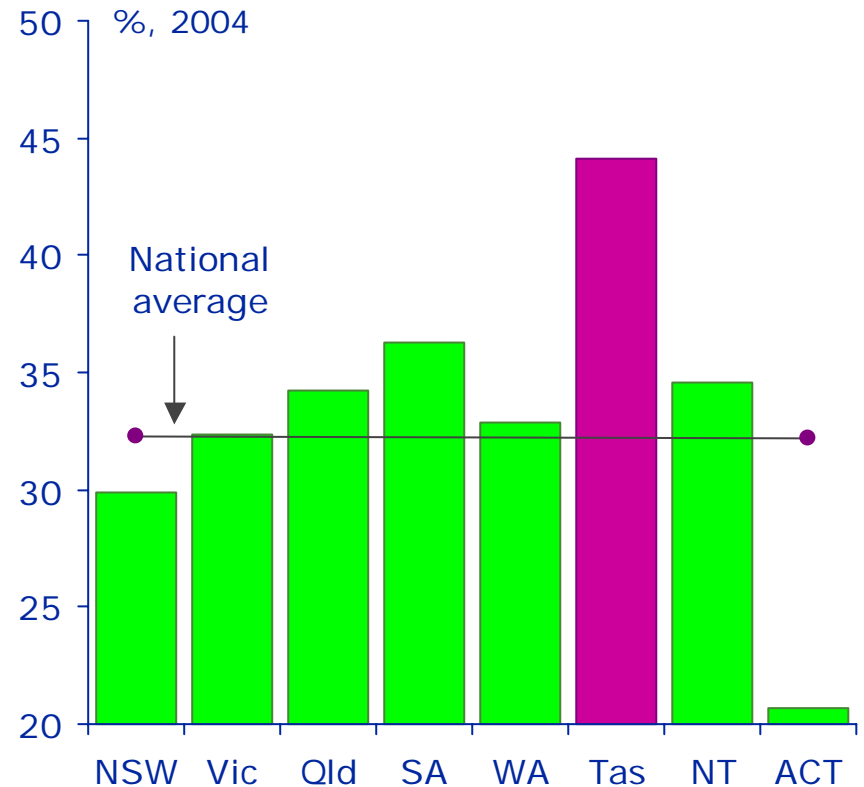
Sources: ABS State Accounts (5220.0); Economics@ANZ.

Tasmania has the poorest educational attainment rankings of any State or Territory

15-64 year olds with post-school qualifications



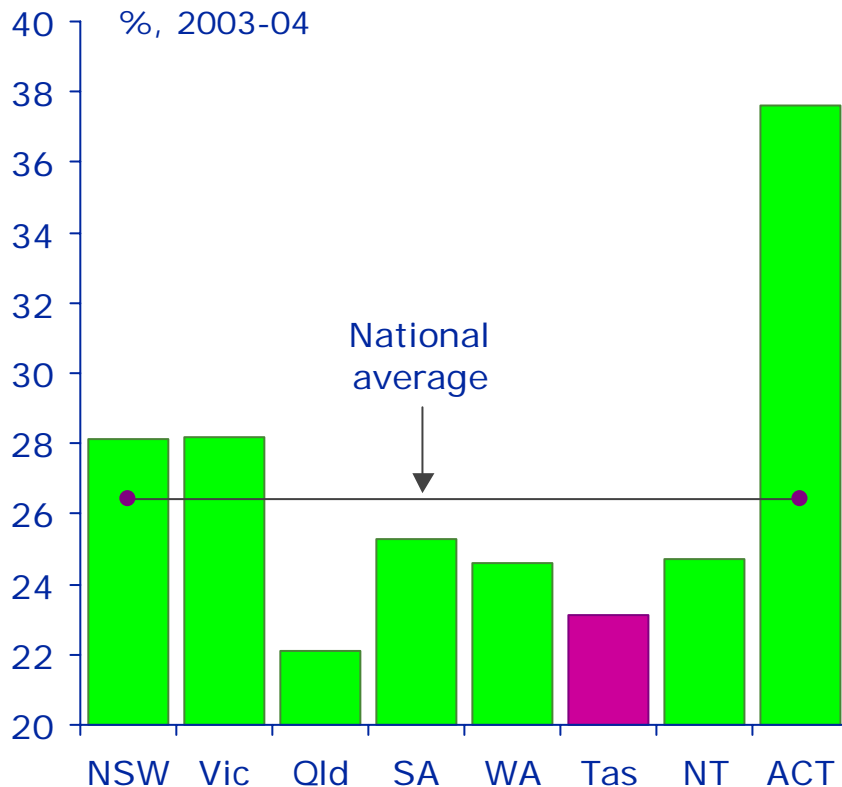
15-64 year olds who have not completed Year 12



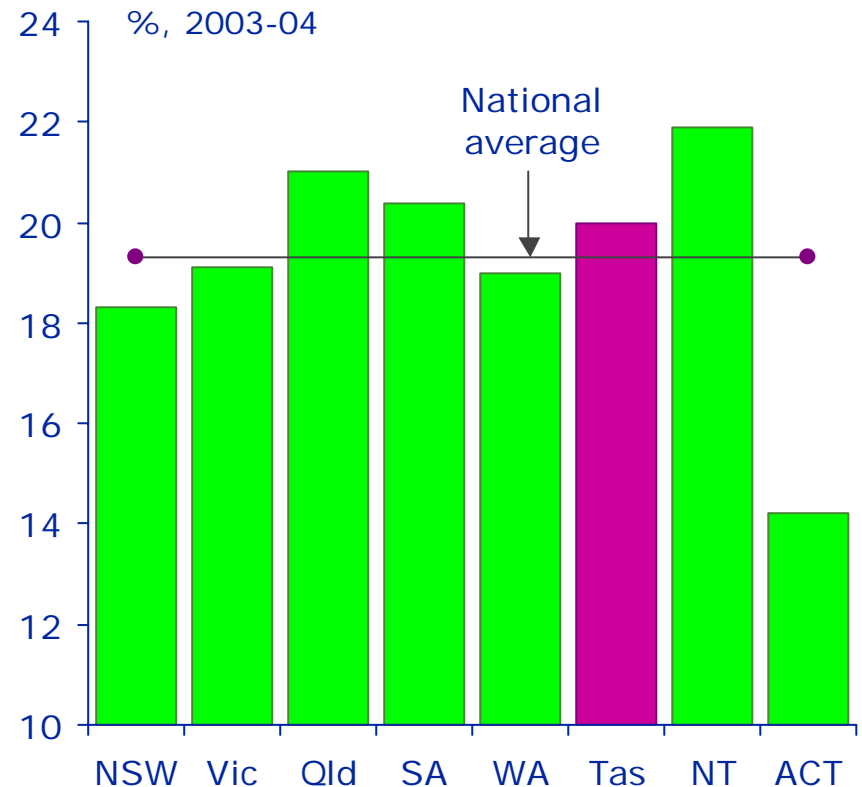
Source: ABS, *Education and Work, Australia*, (6227.0); *Australian Social Trends* (4102.0) 2005.

Tasmania has an above- (below-) average proportion of workers in high- (low-) skill jobs

Workforce employed in highest-skill occupations



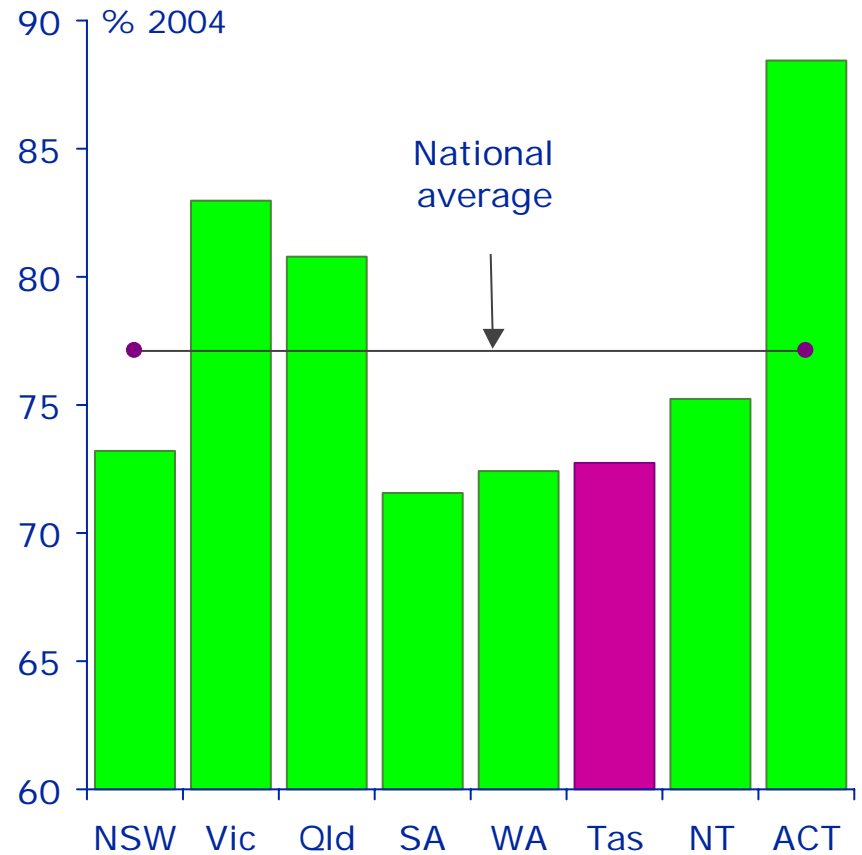
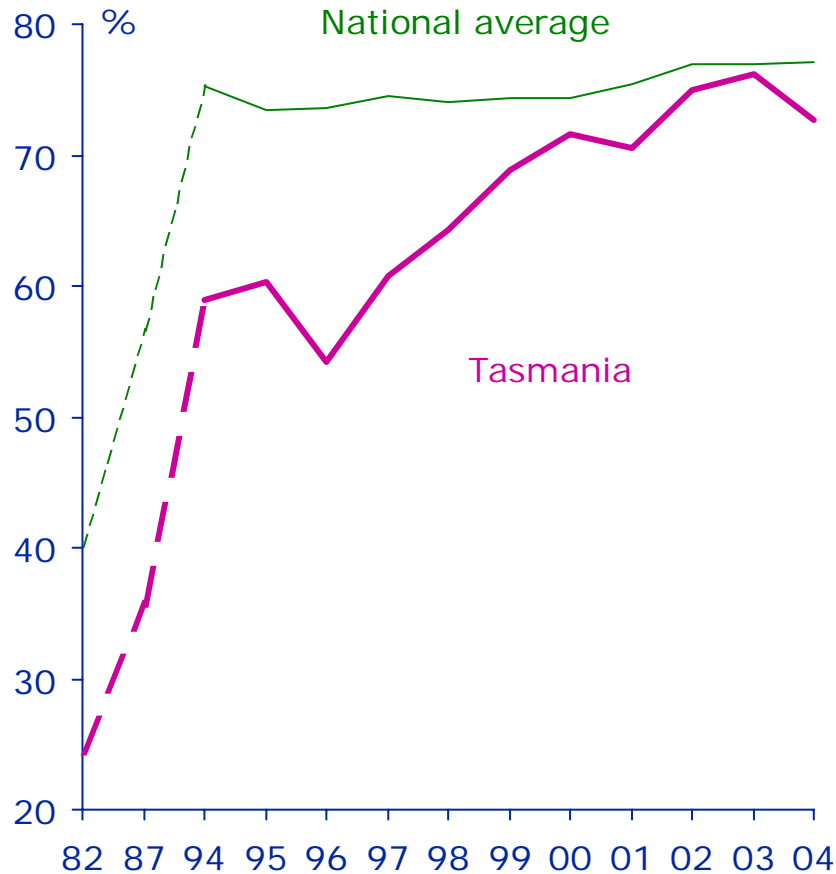
Workforce employed in lowest-skill occupations



Source: ABS, Australian Social Trends (4102.0) 2005.

More Tasmanian Year 10 students are now going on to Year 12, which is encouraging

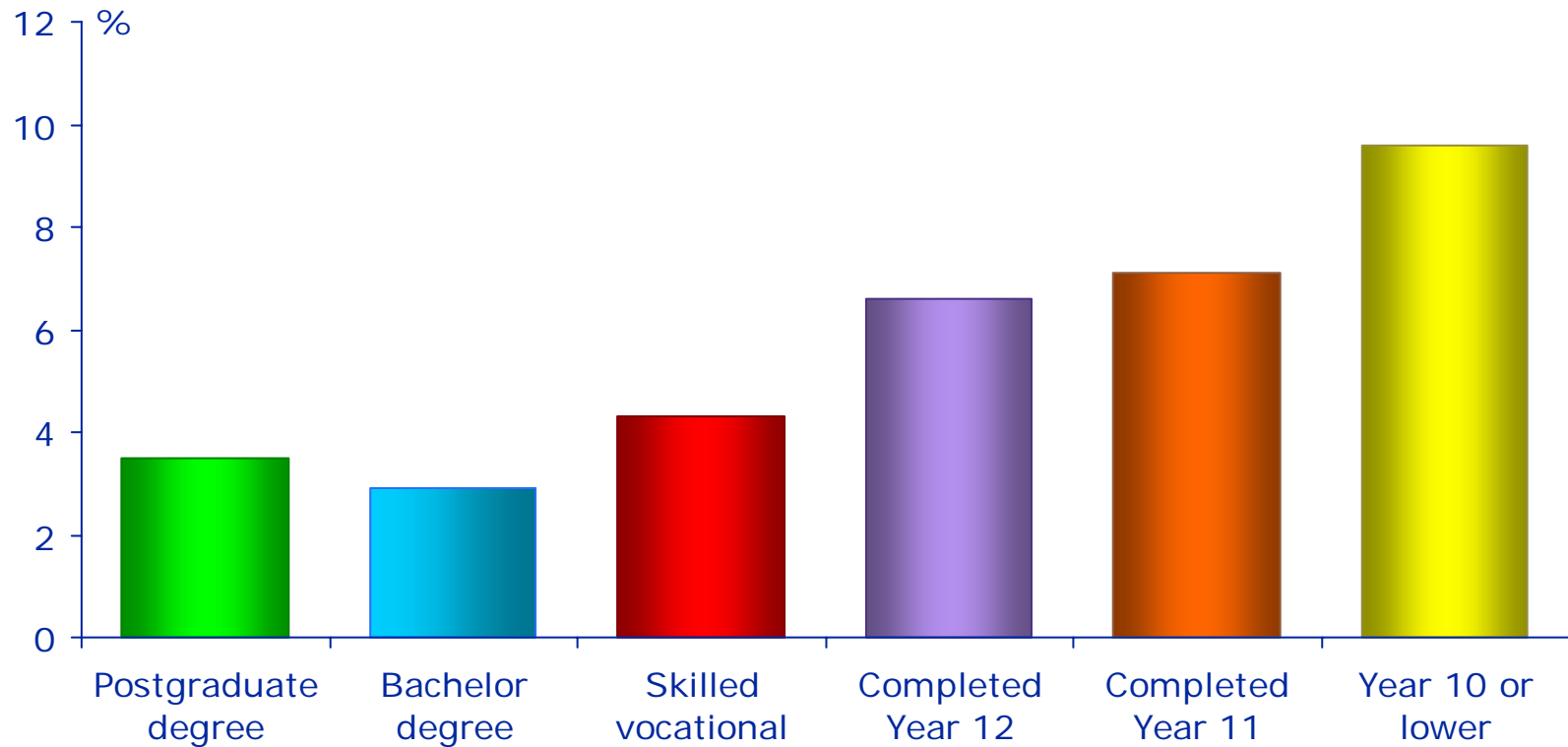
School retention rates to year 12



Source: ABS, Schools Australia (4221.0).

There's a clear link between educational attainment and employment outcomes

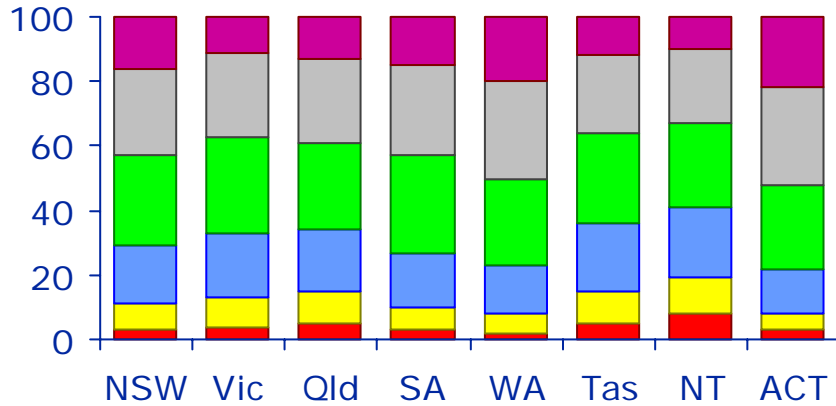
Unemployment rate by educational attainment - May 2004



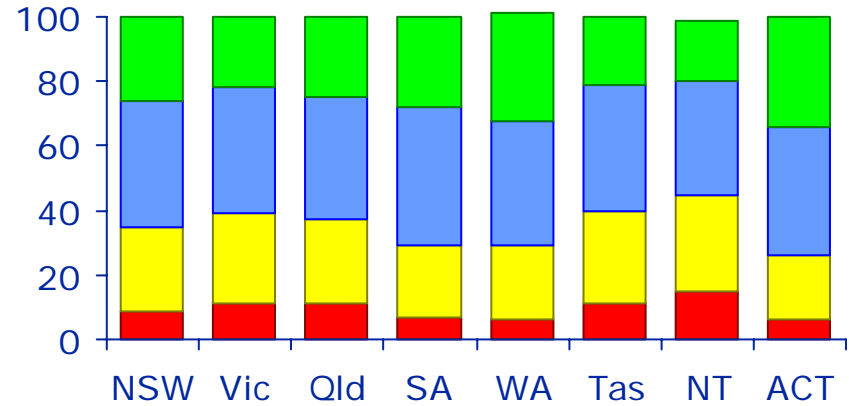
Source: ABS, *Education and Work* (6227.0) Table 11.

But it's also important to monitor quality of outcomes – where Tasmania isn't doing so well

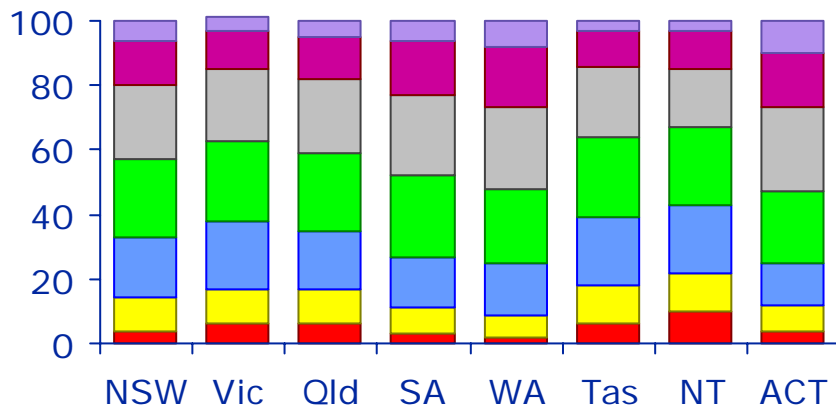
Reading literacy



Problem solving ability



Mathematical literacy

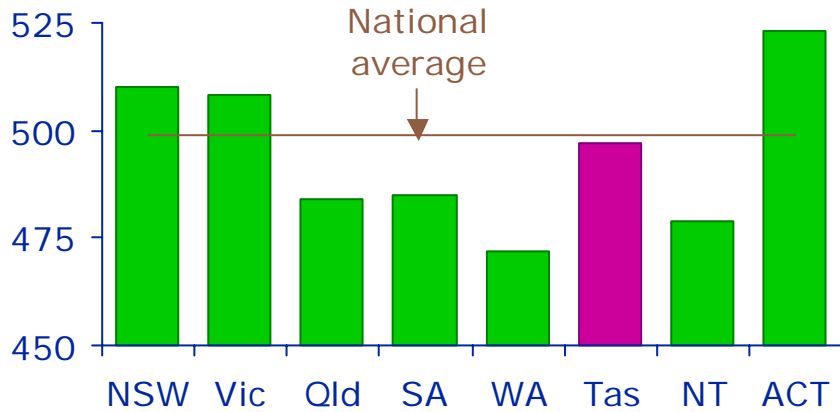


- Below Level 1 ('likely to be seriously disadvantaged in life beyond school')
- Level 1 (lowest)
- Level 2
- Level 3
- Level 4
- Level 5
- Level 6 (highest)

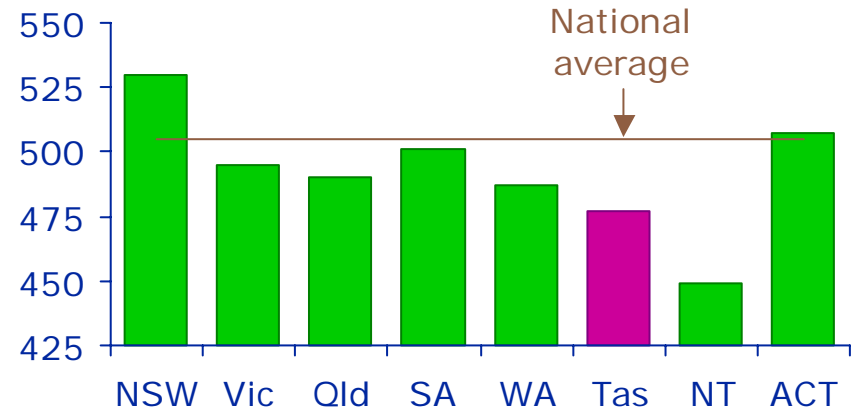
Results based on testing of 12,500 students from 321 schools randomly selected from across Australia in 2003 as part of an OECD-sponsored assessment involving 41 countries.

Tasmanian students slip back relative to their mainland counterparts between Years 4 and 8

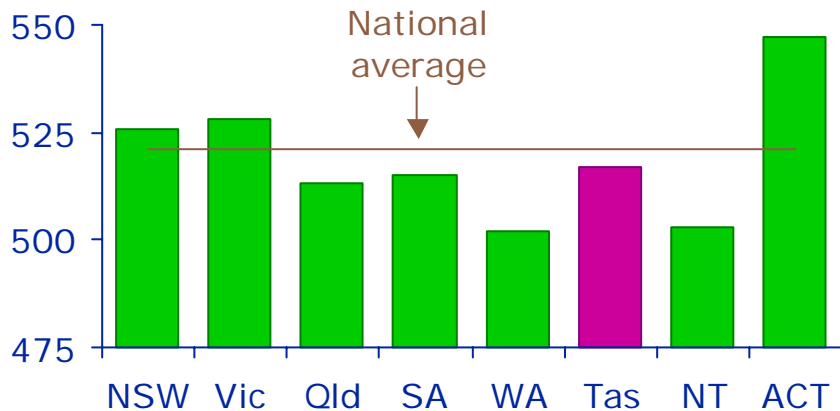
Average maths scores – Year 4



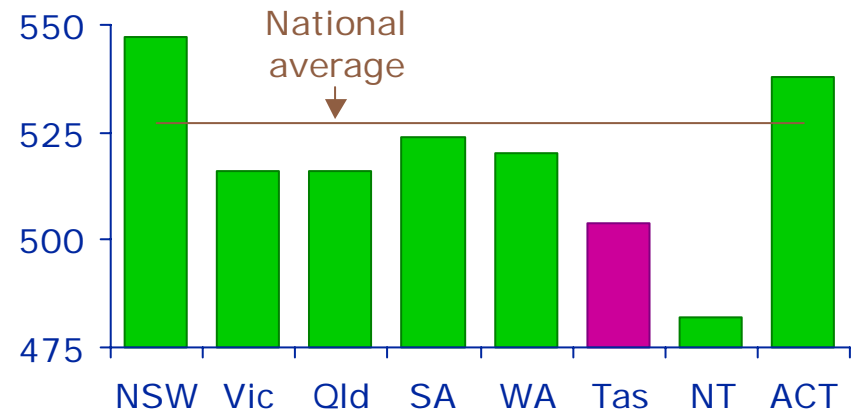
Average maths scores – Year 8



Average science scores – Year 4



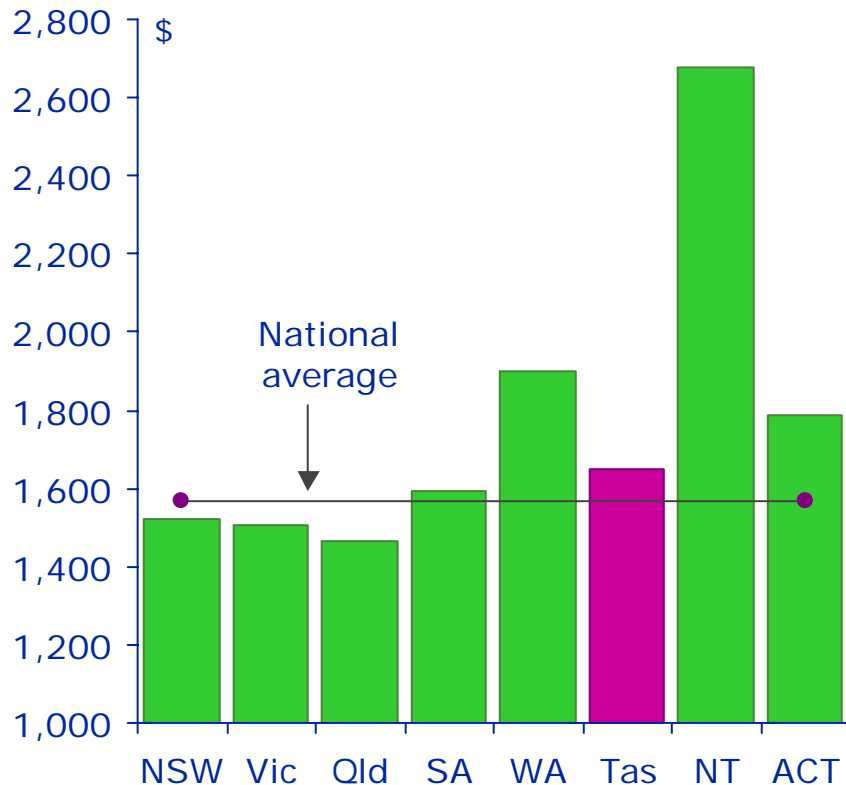
Average science scores – Year 8



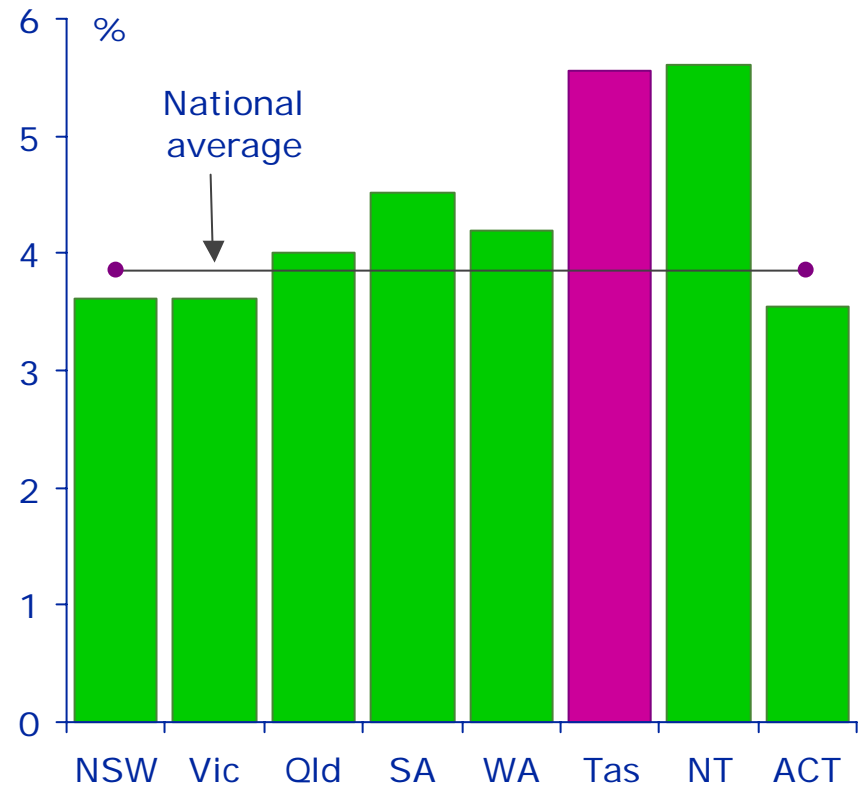
Source: Trends in International Mathematics and Science Study 2002-03

Tasmania actually spends relatively more on education than the national average

State government education spending per capita, 2003-04



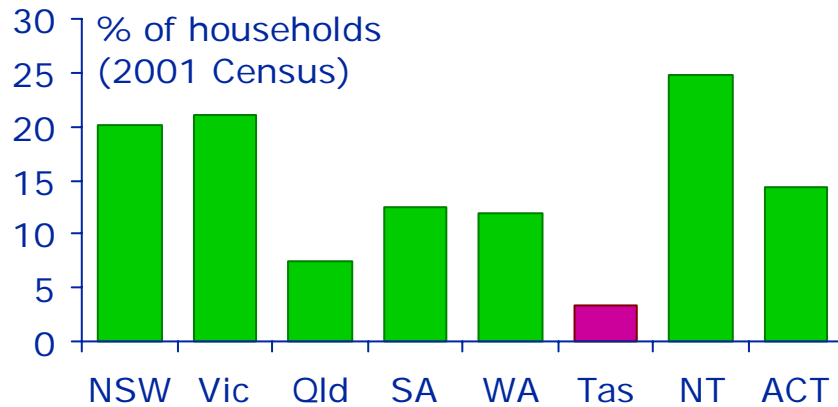
State government education spending as % of GSP, 2003-04



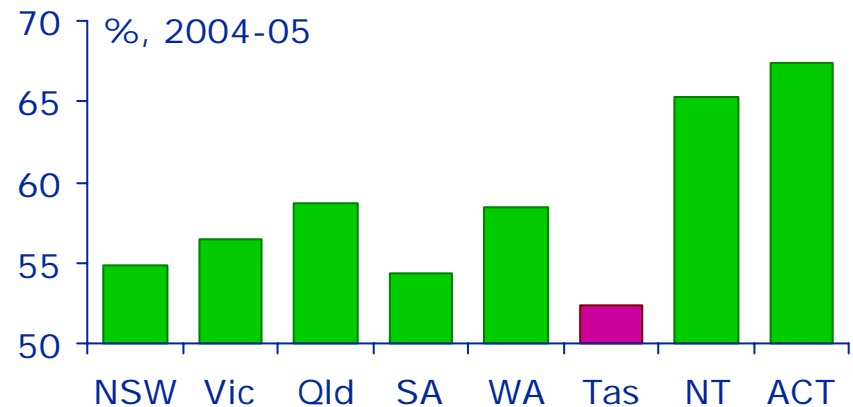
Sources: ABS, *Government Finance Statistics, Australia* (5512.0) and Economics@ANZ calculations.

Tasmania ranks poorly on a range of 'diversity' indicators

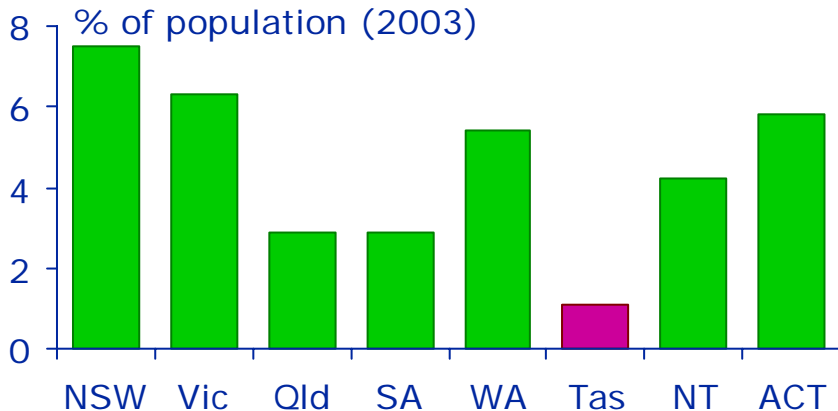
Languages other than English spoken at home



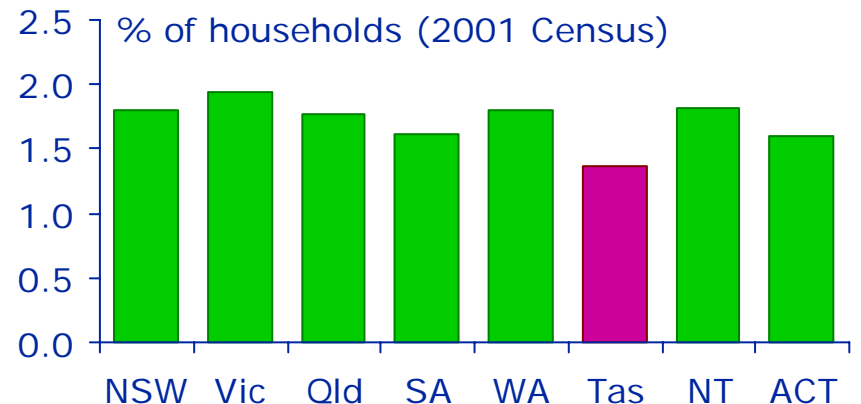
Female labour force participation



Asian-born population



'Non-traditional' households*



* Non-traditional households are groupings of 2 or more related persons (incl. defactos) resident in the same household, excl. couples with or without children and one-parent families. *Source: ABS.*

Diversity is a 'creative class' magnet

- "The location choices of the creative class are based to a large degree on their lifestyle interests [which] go well beyond standard 'quality of life' amenities"
- "They gravitate to stimulating creative environments – to places that offer not only opportunity and amenities, but openness to diversity, where they feel they can express themselves, and validate their identities"
- "They favour active, participatory recreation over passive, institutionalized forms ... not once did they mention professional sports as playing a role of any sort in their choice of where to live or work"
- "Places are also valued for authenticity and uniqueness - [which come] from ... historic buildings, established neighbourhoods, a unique music scene or specific cultural attributes"
- "Openness to immigration is particularly important for small cities and regions ... it's important for a place to have low barriers to entry for people - to be a place where newcomers are accepted quickly into all sorts of social and economic arrangements"

Source: Richard Florida, *The Rise of the Creative Class* (Basic Books, New York, 2002).

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