

Open partnerships
Open possibilities

'Jobs for future Victoria'

Presentation to Victorian Parliamentary Labor Party offsite

Macedon
15th August 2008

Saul Eslake
Chief Economist

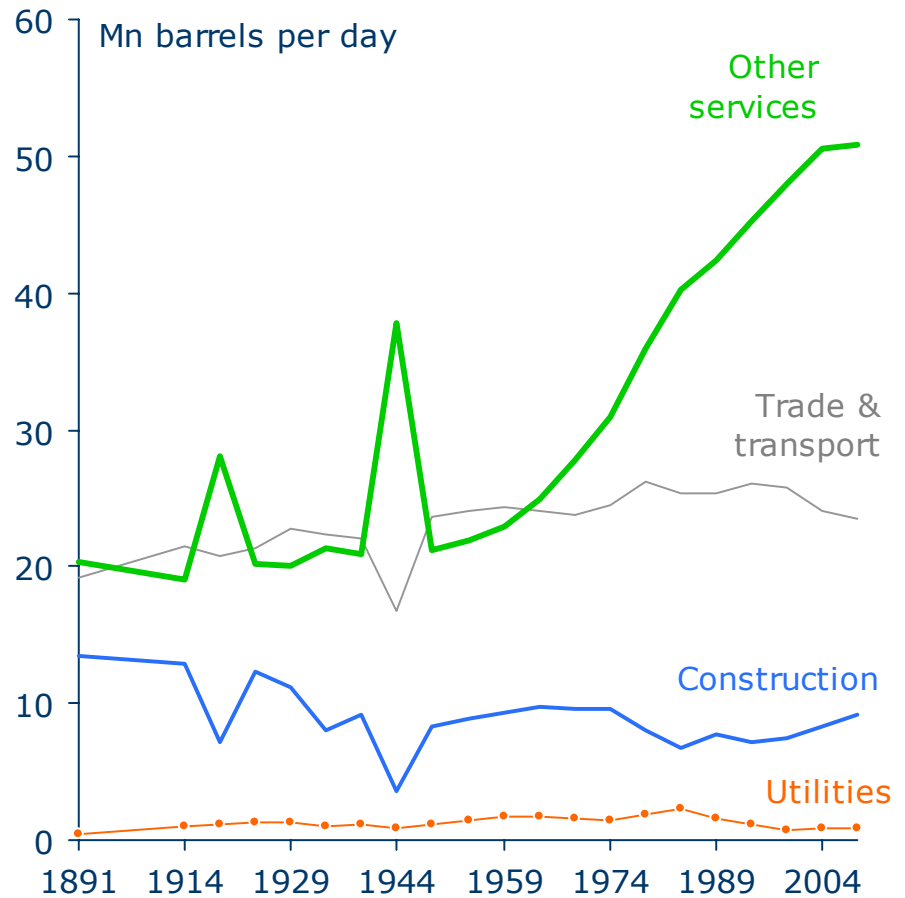
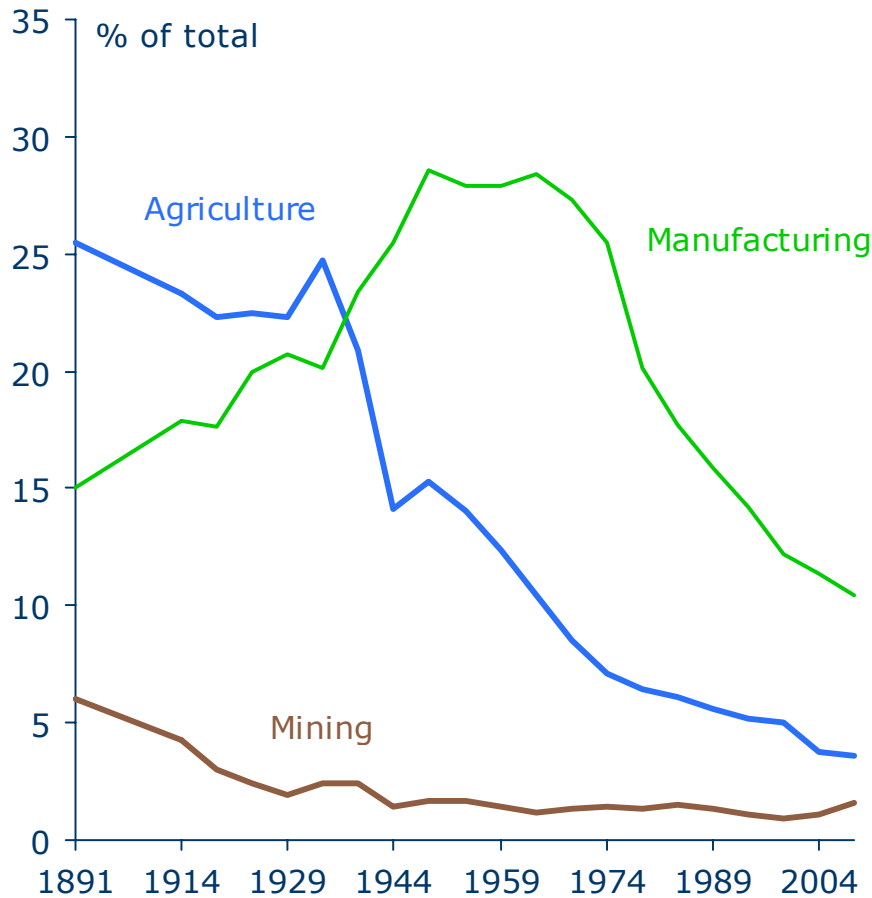
“Forecasting is very difficult – especially when it’s about the future”*

- “Theoretically, television may be feasible, but I consider it an impossibility – a development which we should waste little time dreaming about”
 - Lee de Forest (inventor of the cathode ray tube, 1926)
- “Stocks have reached a permanently higher plateau”
 - Irving Fisher (Yale University Professor of Economics, 16 October 1929)
- “I think there is a world market for maybe five computers”
 - Tom Watson (CEO of IBM, 1943)[†]
- “The Japanese auto industry isn’t likely to carve out a big slice of the US market”
 - *Business Week* magazine (1958)
- “There is no reason why anyone would want a computer in their [sic] home”
 - Ken Olsen (founder and CEO of Digital Electric Corporation, 1977)
- “640K of memory ought to be enough for anybody”
 - Bill Gates (1981)
- “We don't like their sound, and guitar music is on the way out”
 - Decca Records executive, rejecting the Beatles (1962)

* Lawrence Peter (‘Yogi’) Berra. † Said by some to be apocryphal.

Who would have believed, 100 or even 50 years ago, that over 80% of Australian jobs would be in the services sector?

Australian employment by major sector, 1891-2008



Sources: Glen Withers, Anthony Endres & Len Perry, 'Labour', in W. Vamplew (ed.), *Australians: Historical Statistics* (Fairfax, Syme & Weldon 1988) p. 149; ABS, 6204.0.55.001 and 6291.0.55.003; ANZ.



What trends can we be reasonably confident of over the next twenty years?

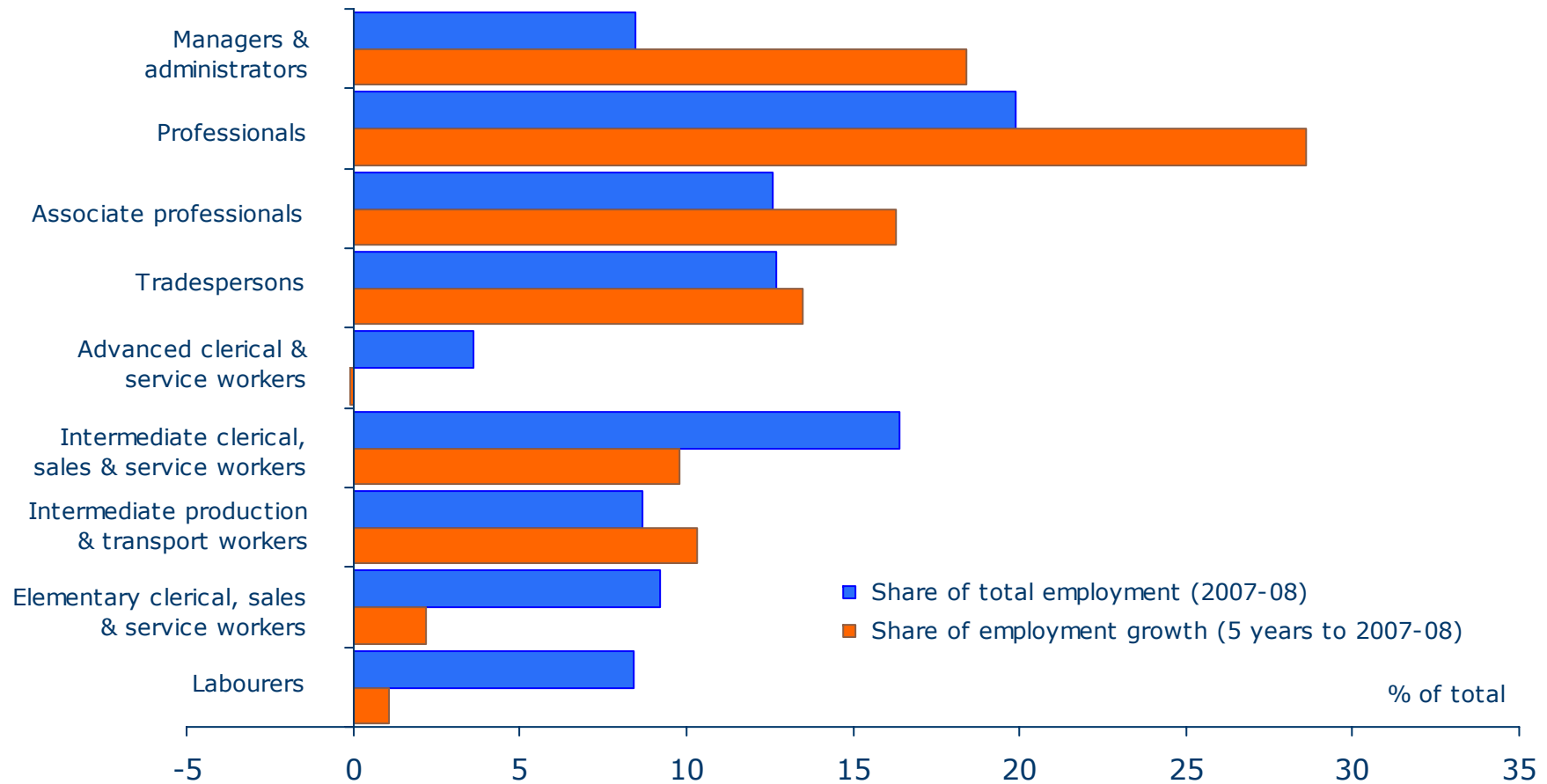
- The continuing rise of Asia and (relative) decline of the West
 - Asia (incl. Japan) will probably account for around 38% of world GDP by 2020 compared with around 29% in 2007
 - China will be displacing the US as the world's largest economy ~ 2020, while India will have moved past Japan (probably around 2015) into third place
 - Russia will probably have moved into fifth place (ahead of Germany) and Brazil into seventh by 2020
 - Asia's share of global manufacturing will continue to increase
- Developing country demand for energy, metals and food commodities will continue to grow strongly
 - keeping commodity prices at relatively high levels by historical standards although (to the extent that supply increases) not necessarily at 2007-08 levels
 - there could be heightened international tensions over 'energy security'
- The world will continue to get warmer (assuming the scientific consensus is correct)
 - reflecting the GHGs already in the atmosphere
 - and the small likelihood that the world's major GHG emitters will reach mutually acceptable ways of reducing emissions in the next five years or so
- Western countries' (including Australia's) populations will age
 - over-60s will account for more than 70% of Australia's population growth to 2020
- Household spending growth is likely to be much more closely aligned to income growth (and less driven by borrowing or asset prices)
 - the downward trend in personal saving / upward trend in debt-to-income is almost certainly over

Possible implications of these trends for Victoria

- Victoria's manufacturing base will probably continue to decline
 - competition from increasingly sophisticated Asian manufacturing will not 'go away'
 - the A\$ has now passed its peak but will likely remain above its post-float average (~US72¢) unless Australia experiences a deep recession
- Victoria's agricultural base may continue to decline despite strong global demand for many of its products
 - as a result of climate change, soil degradation and declining water availability/reliability
- Demand for services will continue to grow but change in composition
 - over 60s will spend more of their income on services and less on goods than those of working age
 - spending on health and aged care, leisure travel, financial services etc likely to grow faster than income while spending on goods will grow less rapidly
 - services spending by older age groups will be location-specific
- Skilled labour shortages likely to persist
 - job opportunities for unskilled labour likely to be confined to 'unattractive' areas such as aged care
- Victoria's competitive advantage can only lie in highly-differentiated (or location-specific) goods or services (probably with a high intellectual content) and for which consumers are willing to pay premium prices
 - not in undifferentiated products competing largely on price

High-skill occupational groups have accounted for more than three-quarters of growth in employment over past five years

Share of total employment and employment growth 2002-03 to 2007-08, by occupational group

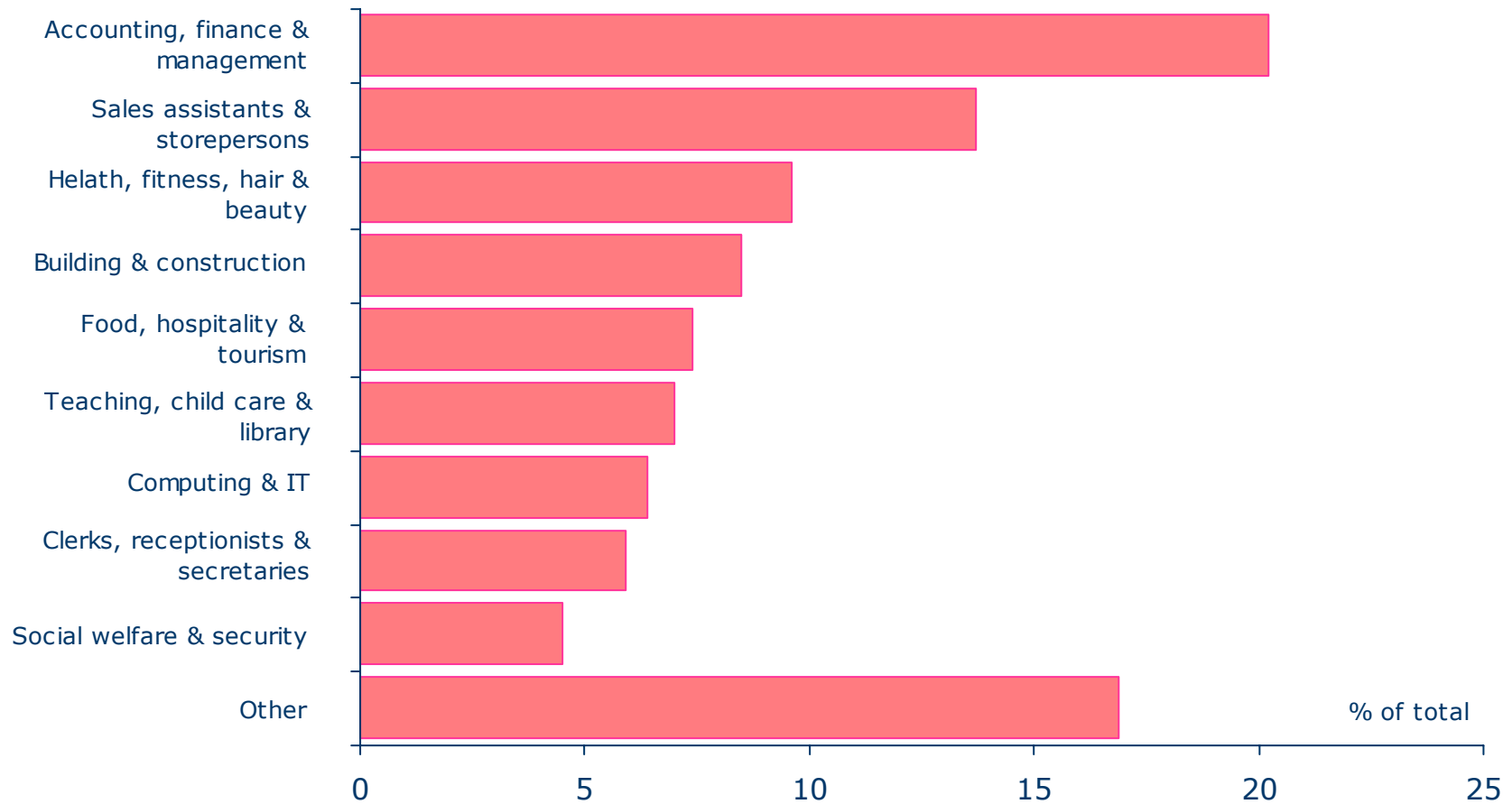


Source: ABS, Labour Force Australia – Detailed Quarterly (6291.0.55.003); ANZ.



Four occupational groups are projected to account for over half of the jobs growth over the next five years

**Projected employment growth by occupational group
2007-08 to 2013**

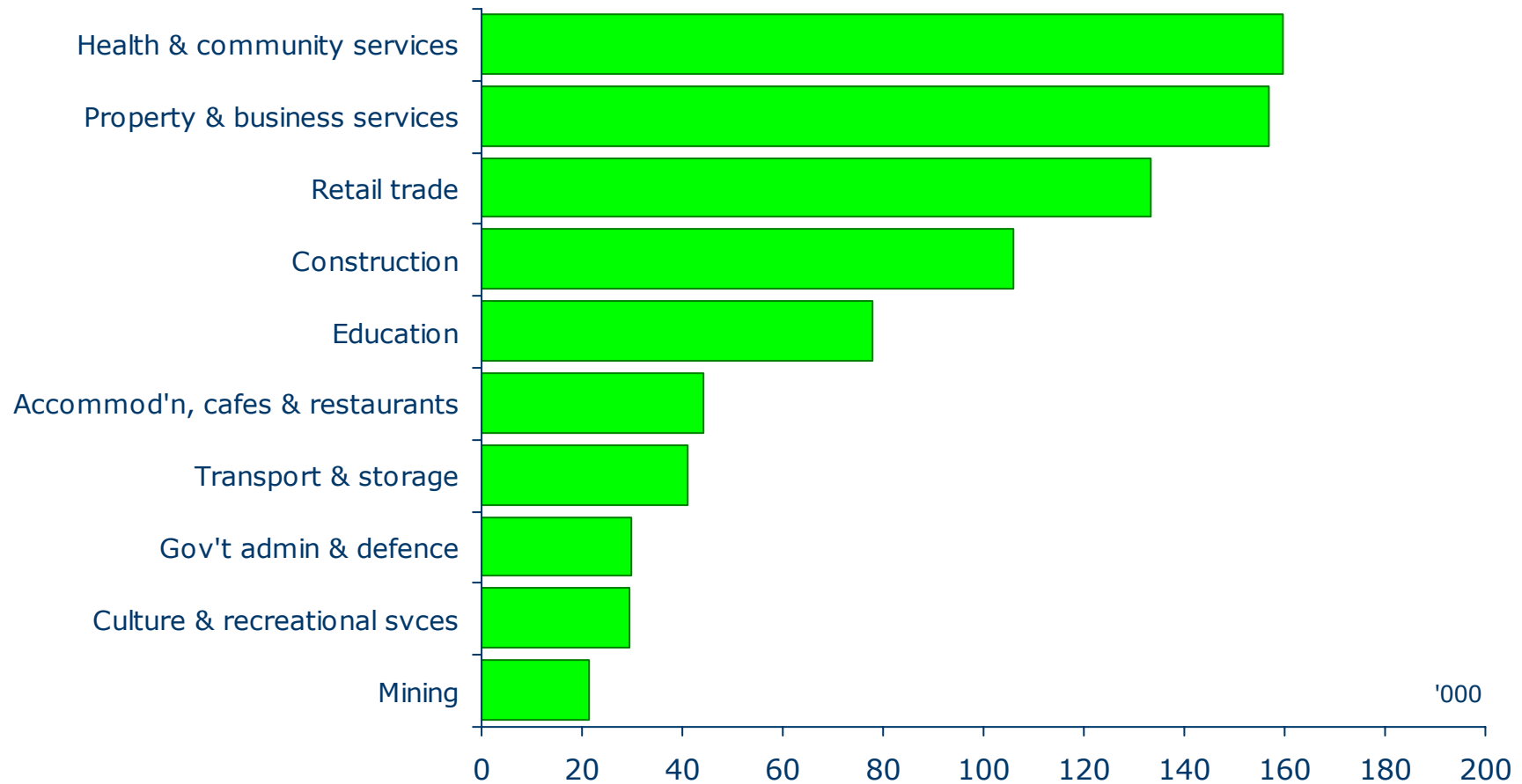


Source: Commonwealth Department of Education, Employment & Workplace Relations, *Australian Jobs 2008*.



Three major industry sectors are likely to account for more than half the jobs growth over the next five years 8

**Projected employment growth 2007-08 to 2012-12:
top 10 industries**



Source: Commonwealth Department of Education, Employment & Workplace Relations, *Australian Jobs 2008*.



What should Victorian Government be doing?

- Not trying to 'pick winners' in the sense of identifying and favouring particular industries or companies
 - 'picking winners' works for countries striving to 'catch up' with front-runners (because the front-runners provide examples of the 'winners' to pick) and countries whose culture & political system allow for detailed State intervention
 - but 'picking winners' doesn't work for countries that are already 'front-runners' (since there's no reliable way of identifying what the 'winners' will be) or where the culture & political system isn't compatible with detailed State intervention (Australia & Victoria clearly in the latter category)
- Instead focus on the things that governments can do and the private sector generally won't (because it can't capture all the benefits)
 - education and skills development (emphasize problem-solving, flexibility, languages)
 - economic and social infrastructure provision (health and aged care, public amenities, energy, water, transport, broadband)
 - internalizing 'externalities' by ensuring (through taxes, regulation etc.) that prices reflect all costs (incl. environmental costs)
- Exploit the convergence between good economic policy and good social policy
 - the most effective and sustainable way of addressing skilled labour shortages is by improving the employability of the most marginalized groups in the community
- Orient policy towards making Victoria a preferred location to live
 - because the growth in services demand will be increasingly location-specific
- Compete more assertively with New South Wales
 - NSW has been poorly managed for the much of the past 15 years and has squandered some of its ostensible advantages over Victoria)