Tasmania: The new tiger economy?

Mike Nahan

Last year, for the first time in at least half a century, Tasmania recorded the highest rate of economic growth amongst the States.

While Tassie is no antipodal Ireland, its growth rate—4.0 per cent in 2004–05—was not only the highest in the country, but double the State's average performance over the last decade and almost double the rate recorded in the economic powerhouse, Western Australia.

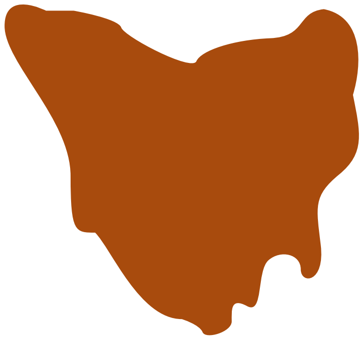
ABS data on State growth for the smaller States are notoriously volatile, however the relative success of the Tasmanian economy is supported by a range of data—including high rates of growth in interstate emigration (including overseas migrants), job formation, housing prices and capital formation.

What is driving the Apple Isle's new-found growth? Is it sustainable?

The Tasmanian economy is benefiting particularly well from reform of the airline industry. When first mooted, the protectionists loudly proclaimed that the demise of the two-airline policy would disenfranchise the State. When Ansett was allowed to fall over from its own ineptitude, the claim again was that Tasmania would be ignored.

Instead, the cheap airlines that arose from these decisions have brought huge benefits to the state. In 2004, airline visitor arrivals (tourist and business) grew by 21 per cent. This, in turn, generated growth in visitor numbers of 11 per cent and in visitor expenditure of 15 per cent.

There has been a downside to this growth. In a textbook example of a



government backing losers, over the last three years, the Tasmanian Government purchased three new ferries: two to ply the Melbourne route, the other a new Sydney route. It made the purchases after deregulation of the airline sector and after the introduction of cut-price airlines on the Tasmania route.

Not surprisingly, the ferry service is burning money and losing patronage. In 2004–05, the service recorded a loss of nearly $80 million and suffered an 11 per cent decline in passenger numbers. The losses appear to be getting worse. To put this loss into context, it is equivalent to the amount spent this year by State and Federal Governments on the repair, maintenance and construction of roads in Tasmania.

The Tasmanian economy has also benefited greatly from reform of home lending. The property market in Tasmania had long been depressed relative to the mainland, a difference which grew dramatically during the late 1990s as housing prices rose rapidly in the mainland but remained stagnant in Tassie. In 1999, the median house price in Hobart was just $110,000—less than a third of the comparable price in Sydney.

In 2001, things began to change. Small-scale investors from the mainland, armed with lines of credit based on the swollen value of their family homes, began investing heavily in the Tasmanian housing market. Families with little collateral began to migrate to Tasmania in search of affordable housing. Mainlanders also began to invest heavily in a vacation market made more accessible by cheap flights. As a result, the Tasmanian housing market boomed over the three years until 2004, with dwelling investment growing by 200 per cent and median house prices in Hobart more than doubling.

Although the housing market, particularly in investment properties, has cooled, Tasmania continues to have the cheapest housing in the country. Depending on job opportunities and growth generated elsewhere, there is scope for further expansion in the Tasmanian housing market.

The Tasmanian Government is also back in spending mode and has given the economy a huge stimulus.

Over the last 15 years, successive Tasmanian Governments have quietly gone about getting the public sector finances in order. Expenditure has been held tightly in check, public service numbers trimmed, the budget pushed into surplus, taxes reduced to below the all-State average, and State liabilities cut.

At the same time, the Tasmanian Government has reaped windfall gains from the housing boom and consumption boom. State tax receipts, led by property taxes, have grown

All States are busily padding public servant wages and numbers, but Tasmania's effort is simply huge.

rapidly—by 10 per cent in 2004–05 alone. On top of this, over the last five years, GST grants from the Commonwealth have grown at a rate of 9 per cent per year—a rate three times the combined rate of inflation and population growth.

The Lennon Government responded to this windfall with a huge fiscal stimulus led by spending on public servants and capital works. Over the two years to 2004–05, the spending on public sector wages increased by 20 per cent. Another 12.5 per cent increase is planned for 2005–06.

All States are busily padding public servant wages and numbers, but Tasmania's effort is simply huge and illustrates the power that public sector unions have over even a conservative and generally responsible Labor Government. Given that the public sector accounts for around 35 per cent of the State's wages income, the 32.5 per cent increase in public servants' income over three years is stimulatory in the extreme.

The Lennon Government has also increased the government's capital works budget by about $100 million per year for the next four years, representing a 70 per cent increase in capital outlays.

On top of the budgetary spending, the government has underwritten a number of large private-sector projects, including the $700 million Basslink project and $100 million gas reticulation project, both of which are currently under construction.

While Lennon's fiscal splurge has helped push the state's economy to the top of the growth stakes, it will prove to be another costly flash-in-the-pan if is not supported by large, new, export-oriented private-sector projects. And while the domestic side of the state's economy has been doing very well, the export side has been in the doldrums.

What Mr Lennon has done is creamed off income from the housing and consumption booms and locked it into large, on-going commitments in the public sector which will generate no additional revenue.

The housing boom is already tapering off. Interstate migration is slowing and consumption spending and GST receipts are starting to slow.

What is more, the day of reckoning is nigh. The Tasmanian Government has been kept solvent for decades with large subsidies from mainland taxpayers. Untied grants from the Commonwealth are allocated on the basis of fiscal equalisation, under which states with a relatively low capacity to raise funds and a higher level of dependence on government hand-outs receive more funds than the more successful, self-reliant States.

Tasmania has long gained from this national welfare scheme. And with increased volumes of funds flowing through the system as a result of the GST, Tasmania is benefiting to a perverse degree. For every dollar raised by the GST in Tasmania (including from tourists) the state gets back $1.90 in GST grants. The other states have been complaining for years. It is highly likely that when WA and Queensland no longer benefit from the system (which will not be long), the push for reform will begin in earnest. The effect on Tasmania's finances will be profound.

Knowing this, the Tasmanian Government appears to be once again betting on a pulp mill. On this front, Lennon and his predecessor have done a remarkable job in the face of huge opposition and they should be able to made the project succeed.

The Tasmanian Government has been the only state government willing and able to stick to its Regional Forest Agreement (RFA). All other states have caved into the Greens—closing down their native forestry industry and relegating management to wildfires.

The Lennon Government is the only section of the ALP to support forestry. As a result, the Tasmanian forestry sector remains viable with a future based on the gradual shift from native forests to plantations. It has also provided the confidence and security necessary for future expansion and investment in the proposed pulp mill.

With the well-recognised success of its pro-jobs forestry policy in last federal election, the Howard Government is also committed to the maintenance of the RFA and a pulp mill.

Tasmania is also fortunate to have a large, successful local firm in Gunns Ltd, which is able and willing to make the necessary investments in the pulp mill and to deal with the obstacles and abuse of the Greens. This is a major plus.

If it goes ahead, the pulp mill will have a large impact on the state's economy. Monash University's Centre of Policy Studies has estimated that it would create around 8,000 direct and indirect jobs at the peak of its construction phase, and around 1,500 direct and indirect jobs when the mill is operational. It also estimates that it will boost the state's economy by 2 per cent of GSP. In short, it will create a larger and more sustained impact than the housing boom and the public sector stimulus combined.

Without the mill, however, the state's future looks like a re-run of the past—struggling to pay off stranded assets in a declining economy with a shrinking population.

IPA