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Mr S Boyd
Committee Secretary
House of Representatives Standing Committee on Economics
PO Box 6021
CANBERRA ACT 2600

-4 SEP 2009

Dear Mr Boyd

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS
INQUIRY INTO RAISING THE LEVEL OF PRODUCTIVITY GROWTH IN THE
AUSTRALIAN ECONOMY**

I refer to the House of Representatives Standing Committee on Economics Inquiry into raising the level of productivity growth in the Australian economy. Enclosed is the Tasmanian Government's submission to the Inquiry.

Yours sincerely



Michael Aird
Treasurer

Encl.

Tasmanian Government submission:

Inquiry into raising the level of productivity
growth in Australia

4 September 2009

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Overview

At both a national and state level, securing high levels of productivity growth is critical to the ability of both Australia and Tasmania to sustain economic growth and improve living standards in the long-term. This is particularly important for Tasmania as it addresses the challenges that arise from its rapidly ageing population.

Over the past decade, Tasmania has experienced a period of substantial economic growth with improvement in a number of economic measures. However, productivity in Tasmania remains well below the national level.

For these reasons, the Tasmanian Government places a very high importance on improving Tasmania's productivity. The Government is introducing a number of long-term initiatives designed to boost productivity and sustain the State's economic growth. These policy initiatives are central to the Tasmanian Government's ten year vision to transform Tasmania.

The Australian Government also plays a very important role in improving productivity growth rates across Australia in areas such as taxation policy, higher education and some major components of health care and the provision of public infrastructure.

It is only through effective policies at all levels of government, including local government, together with a setting that promotes further private investment, that the potential for improving productivity can be maximised.



Trends, considerations and challenges in Tasmanian productivity

Tasmania has historically experienced lower levels of productivity than other states. Business investment, an important factor in productivity, has tended to be lower in Tasmania than in mainland states, though it has increased significantly in recent years.

Over the past decade, new industries have emerged in Tasmania and there have been major changes in key sectors of the economy, such as energy, that have boosted economic performance. In addition, the State has fully met its commitment to a range of micro-economic reforms under National Competition Policy.

More recently, the State has introduced major reforms in the water and sewerage sector. The communications industry will be transformed as a result of several State and national initiatives, which began with the State Government's investment in an optic fibre backhaul network.

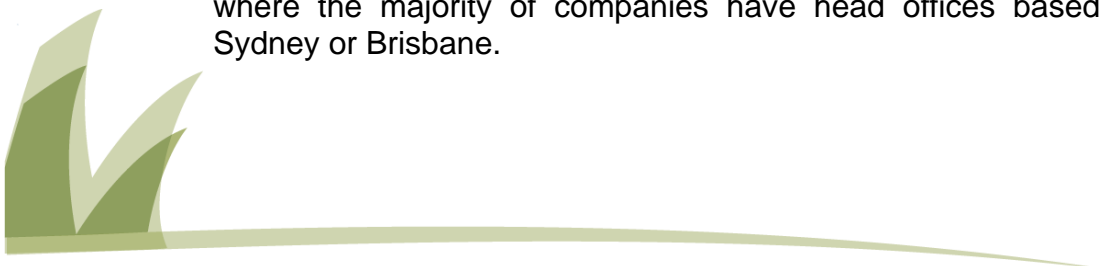
However, at around 91 per cent of the national rate, Tasmania continues to have the lowest labour productivity rate of any Australian state or territory. The low productivity rate is a significant contributing factor to Tasmania's Gross State Product per capita being below the national level. This stems in part from relatively low levels of education attainment; something that the Government has been seeking to address over the past few years.

The effect on households is reflected in lower levels of average weekly earnings, which is around 90 per cent of the national level, and lower net household worth, which is only 72 per cent of the national level.

Tasmania's population is ageing more rapidly than in other Australian jurisdictions. Part of this is due to the outwards migration of younger workers. Over the next decade, more Tasmanians are likely to be leaving the workforce than entering it. The net effect is that labour supply in Tasmania will be constrained in the decades ahead. Achieving high levels of labour productivity growth is therefore critical to sustaining economic growth and living standards.

Tasmania's industry structure has evolved based on its inherent advantages, such as natural resources for forestry and the capacity to provide competitively priced electricity for metal processing. At the same time, the relatively small and dispersed population has prevented businesses from achieving economies of scale and scope and has resulted in a smaller range of sub-industries than in the larger states.

Tasmania is also under-represented in industries that prefer to be located close to large population centres, such as business and financial services, where the majority of companies have head offices based in Melbourne, Sydney or Brisbane.



Innovation is emerging as a critical issue in promoting productivity growth in Tasmania. In 2008, the Australian Innovation Research Centre (AIRC) conducted a census of innovation in Tasmania. The results indicated that Tasmania is an innovative economy with firms investing in a wide range of production inputs.

The Innovation Census also found that it is the capacity of businesses to adopt innovation, rather than the availability of innovation, or the willingness of businesses to adopt innovation, which is the key to driving improved innovation take-up in Tasmania.

While innovation is broadly based in Tasmania, the intensity of innovation is uneven and around 35 per cent of firms are innovating without any research and development. It is now recognised that much important innovation is through changes in production methods and ways of undertaking business, and that there is very substantial scope for innovation in the more traditional sectors such as forestry, fishing and mining.

Sustaining high levels of research and development in areas relevant to the Tasmanian economy, such as the agricultural, fisheries and food processing sector, is clearly one necessary element in boosting Tasmania's productivity performance. There have been some very successful examples, such as increasing beef output under the Red Meats targets programme at Winnaleah.

While there remains room for productivity growth by traditional means, significant gains can be achieved by maximising opportunities in high-yield niche markets. It is important to ensure that that new and emerging industries, or industries that operate in more than one sector, do not miss out on mainstream research and development expenditure; this can arise when resources are focused on key industry sectors.

Tasmania is a regional economy that shares many characteristics with non-metropolitan regions of Australia. Initiatives targeted to improve productivity at a national level may not provide uniform benefits across Australia's urban and regional economies. It is therefore important that publicly funded programs include policies focussed on promoting productivity growth at a regional level, as well as policies that aim to lift the average level of productivity across the nation.

The Tasmanian Government recognises that we need to continue to work at improving the productive capacity of the Tasmanian economy and the future prosperity of the State. Improving the level of education and skills of the current and future work force in Tasmania is one critical component. In particular, Tasmania's education retention rate remains low and is acting as an impediment to the supply of skilled labour for the Tasmanian economy.

The Tasmanian Government has identified three areas where policy intervention can boost productivity – innovation, skills and public infrastructure. Three strategies are being developed as part of a 10 year vision to transform Tasmania. As there is a high degree of interdependency between these areas, the initiatives being developed in these areas will take into account the linkages between them.



Overview of key policy initiatives

Tasmanian Innovation Strategy

The AIRC has been commissioned by the Tasmanian Government to prepare a report on a Tasmanian Innovation Strategy. The report

- identifies approximately five sectors of the Tasmanian economy that have the greatest potential to grow through innovation;
- profiles the patterns of innovation that occur in these sectors with a view to identifying particular challenges and opportunities in the Tasmanian context; and
- outlines options where the Government can contribute to closing the gaps and capturing opportunities for industries with the greatest innovation potential.

Tasmanian Skills Strategy

The Tasmanian Skills Strategy considers three drivers of productivity – investment, a highly skilled workforce, and technology and innovation. All three are highly dependent on the availability of skilled people.

The Strategy is a multi-year plan, which will establish targets, define current and planned actions and provide strategic direction around skills for employers, learners and service providers so that skills can be developed based on market need and emerging technologies.

Tasmanian Infrastructure Strategy

In late 2009, the State Government will finalise a 10-year Tasmanian Infrastructure Strategy. The Strategy will encompass the key infrastructure sectors of transport, telecommunications, energy and water.

The Strategy is intended to guide short and long-term infrastructure planning that will provide Tasmania with the infrastructure it needs to facilitate innovation, drive economic growth, deliver services and improve living standards for all Tasmanians.



Joint Commonwealth-State initiatives

The State Government is committed to increasing Tasmania's productivity and recognises that, given the respective responsibilities and resources of the Australian and State Governments, there are areas where Australian Government support is critical. These include public infrastructure funding, higher education and training, research and development, improving the capacity of businesses to access innovations and promoting productivity initiatives in regional areas.

The National Broadband Network provides a very good example of an initiative from the Australian Government that will lead Tasmania to a higher productivity growth path. It will provide optic fibre to over 200 000 homes and businesses across Tasmania over the next five years, and transform electronic communication and access to information in the State. Investment in technology of this type, and at this scale, would not be achievable by the State Government in isolation. The National Broadband Network will complement the Tasmanian Government's strategic investment earlier in the decade in an optic fibre backbone for Tasmania that extends to Victoria via Basslink.

Contact information

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