

**POVERTY IN TASMANIA:  
AN ECONOMIST'S PERSPECTIVE**

**The third annual  
Dorothy Pearce address  
to the  
Tasmanian Council of Social Service (TasCOSS)**

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Rydge's Hotel, North Hobart

by

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Thank you for the invitation to give the third Dorothy Pearce address. This occasion honours Dorothy Pearce's contribution to social justice and to the community sector in Tasmania as a founding member of TasCOSS and as its Honorary Secretary for many years.

I must confess that I'm a little awed at following tonight in the footsteps of two former National Presidents of ACOSS, Robert Fitzgerald and Andrew McCallum. Although, as a glance at ACOSS's Annual Reports will confirm, I've been an Associate Member of ACOSS since 1997, I make no claim to having made anything approaching the contribution of either of those two gentlemen to 'social justice' in its broadest sense, or to the welfare of low-income people.

Rather, as an economist, and moreover an economist who works for a large and profitable bank, I suspect that many who regard themselves as advocates for social justice – including perhaps a number of those here this evening - would probably consider me, in the absence of any further information, to be 'on the other side', if I can put it like that without intending any offence.

Economists working for financial institutions are rarely asked for their opinions about poverty, the distribution of income and wealth, long-term unemployment or homelessness. In part that's because we don't claim to have much (or any) expertise in those areas. However that doesn't mean that we don't care about such issues, or have nothing to say about them on the rare occasions when we are asked.

I've always set great store by the belief of James Tobin, who won the 1981 Nobel Prize for Economics and whom some of you may know of as the proponent of a tax on financial market transactions as a way of raising funds for the relief of extreme poverty in developing nations, that economics 'offers the hope ... that improved understanding could better the lot of mankind'<sup>1</sup>.

Many people are aware that economics is sometimes referred to as 'the dismal science'. Well-informed people are usually aware that this phrase was coined in the mid-19<sup>th</sup> century by the English essayist Thomas Carlyle<sup>2</sup>. However very few people know that Carlyle wrote this in the context of an essay denouncing economists such as John Stuart Mill for their belief that all peoples' common humanity entitled them to the same liberties, including in this particular instance the freedom of black people from slavery<sup>3</sup>.

Of course, economists may have opinions about the best ways of achieving goals such as reducing the incidence of poverty or long-term unemployment which differ from those with other types of professional training. Paul Krugman, Professor of Economics at Princeton University and regular columnist with the *New York Times*, puts this rather well, I think, when he says that 'economists may make lots of bad predictions, but they do have a method – a systematic way of thinking about the world that is more true than not, that gives them genuine if imperfect expertise. That is also why lay commentators and other social scientists tend to hate them'<sup>4</sup>.

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<sup>1</sup> James Tobin, 'Autobiography' (1981), at [www.nobel.se/economics/laureates/1981/tobin-autobio.html](http://www.nobel.se/economics/laureates/1981/tobin-autobio.html).

<sup>2</sup> Thomas Carlyle 'An Occasional Discourse on the Negro Question (1849)', pp. 672-673.

<sup>3</sup> David Levy and Sandra Heart, 'The Secret History of the Dismal Science: Economics, Religion and Race in the 19<sup>th</sup> Century' [www.econlib.org/library/Columns/LevyPeartdismal.html](http://www.econlib.org/library/Columns/LevyPeartdismal.html)

<sup>4</sup> Paul Krugman 'Why I Am an Economist (Sigh) – Notes During Textbook Revision' (2000), at <http://web.mit.edu/krugman/www/Serfdom.htm>.

And, as many people are aware, economists' opinions on these (and most other questions) are by no means uniform. If it really is true that if you ask five economists for their outlook for the Australian dollar you will get seven answers, then this is no less the case when it comes to questions that might be grouped under the heading of 'social justice' than any others.

### *Three key premises*

So let me state three key premises from the outset. First, while economic growth is not an end in itself – indeed, while rapid economic growth can bring costs as well as benefits – I believe that it is pretty difficult if not impossible to achieve other, broader, objectives - including those which are typically grouped under the rubric (a word that I note has become a little controversial in Tasmania in recent weeks) of 'social justice' - in a shrinking or stagnant economy. To the extent that the achievement of 'social justice' objectives requires collective action and public expenditures funded by taxation, those objectives are much more readily attained in circumstances where the tax base is growing and public spending can be funded without continually raising taxes or introducing new ones.

Second, I regard the 'market mechanism' – that is, individuals and businesses responding in accordance with what they perceive to be their own self-interest to price signals determined by supply and demand – as the worst system known to mankind for determining what gets produced and sold, where, how and by whom - and thus for promoting sustained economic growth and improving living standards - except for every other method which has ever been tried.

In saying that, I am not saying that there is no role for governments in regulating the operation of market forces, or the behaviour of market participants. I don't question the legitimacy of government interventions designed to prevent the abuse or undue concentration of market power, to promote the health and safety of consumers, communities and employees, to prevent discrimination, to protect the environment, to uphold property rights and to enforce contracts. Indeed, in the tradition of Adam Smith, I regard government interventions such as laws against restrictive trade practices and other anti-competitive behaviour as absolutely fundamental to the operation of a market economy. Nor am I unconscious of the fact that a number of countries, particularly though not exclusively in Asia, have achieved very rapid rates of economic growth over long periods and high standards of living through systems that are very difficult to characterize as 'market mechanisms'.

However I would make the points that those systems have generally involved restrictions on individual liberties which our predominantly European cultural traditions would regard as unacceptable; and that authoritarian regimes such as those which have presided over long periods of rapid economic growth in Asia and elsewhere have usually had difficulty sustaining that growth once the 'catch-up' phase of economic development has been accomplished and continued economic progress increasingly depends on creativity, ingenuity and innovation.

Third, while I do believe in the efficacy of market forces in promoting sustained economic growth and improvements in material living standards, I do not believe in 'trickle-down economics'. I do not believe that 'a rising tide lifts all boats'. I do not believe that the distribution of income and wealth which results from the unfettered operation of market forces is necessarily optimal or just. And I accept without demur that 'society' has a right to alter the distribution of income and wealth which emerges from the operation of market forces to reflect democratically-determined social preferences.

Indeed it has an obligation to do so in circumstances where failure to do so would result in morally unacceptable levels of poverty, deprivation and exclusion from participation in society.

I believe that one of the clear and unambiguous lessons of history is that a market-based economy is not sustainable if the distribution of income and wealth which it produces is not accepted as 'just' by a majority of the population.

There is, of course, an enormous amount of subjective judgement embodied in all of those beliefs. What seems 'just' or 'fair' to one person may not so seem to another; and what is regarded as 'just' or 'fair' to a majority of the population may still provoke outrage in a minority. In a democracy, it is up to the political process to resolve those conflicts.

*Tasmania's economy is doing well*

Against that background of beliefs, then, let me turn to the situation in Tasmania.

The first important point to make is that the Tasmanian economy is doing well, both by Tasmanian historical standards and by comparison with other parts of Australia. There are numerous ways in which this can be demonstrated, and I have sought to do so in other addresses<sup>5</sup>, so for the present purpose I will simply summarize this by referring to four sets of statistics:

- Over the three years to 2003-04, Tasmania's economy has grown at an average annual rate of 3.3%, the best performance over any three-year period since that ended 1985-86;
- Over the three years to June this year, employment in Tasmania has grown at an average annual rate of 3.4%, ¾ pc point faster than on the mainland, cutting Tasmania's trend unemployment rate from over 10% during the late 1990s to 5.9% in the last four months;
- Average Tasmanian per capita household disposable income has risen from 80.6% to 84.6% of the national average over the past three years – reversing almost all of the decline which occurred over the second half of the 1990s.

If the forecasts contained in this year's State and Territory budgets turn out to be correct, then:

- over the five years to 2005-06, Tasmania's economy will have grown at an average annual rate of 3.3% - behind only the resources-boom States of WA and Queensland, level with Victoria, ahead of the national average of 3.2% per annum, and nearly a full percentage point per annum ahead of New South Wales;
- over the same period, employment in Tasmania will have grown by an average of 2% per annum, ahead of every other State (including Victoria) except for Queensland and WA; and in two year's time Tasmania's unemployment rate will be only ½ a percentage point above the national average, the smallest margin in 25 years; and

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<sup>5</sup> For example, *Tasmania's Economic Recovery: Is it Sustainable?*, Presentation to the Launceston Chamber of Commerce, 24th February 2005 (available on the ANZ website at [http://www.anz.com/business/info\\_centre/economic\\_commentary/LCofC\\_Feb\\_2005.pdf](http://www.anz.com/business/info_centre/economic_commentary/LCofC_Feb_2005.pdf)); *Human Capital and Tasmania's Economic Future*, Address to the Tasmanian Divisions of the Australian Human Resources Institute's HR Week Conference, 24 August 2005 (at [http://www.anz.com/Business/info\\_centre/economic\\_commentary/HumanCapitalandTasEconomicFuture.pdf](http://www.anz.com/Business/info_centre/economic_commentary/HumanCapitalandTasEconomicFuture.pdf)); and 'Tasmania's Economic Renaissance', *The Age*, 24 June 2005.

- by 2005-06 Tasmania's per capita gross product will have risen to just over 73% of the national average, from a low point of less than 71% of the national average in 2000-01 – proportionately, a larger rise in Tasmania's relative standard of living than Victoria achieved over the five years after it hit rock bottom in 1991-92.

As I've also said elsewhere, it is too early to be sure that this improvement in Tasmania's economic performance is sustainable. And there are things which I think Tasmania ought to be doing – in particular, reducing its reliance on volume production of essentially unprocessed commodities and increasing its emphasis on the creation, design, production and marketing of goods and services embodying a high intellectual content for which customers are willing to pay premium prices – in order to make it more likely that this improvement in economic performance is sustained.

*Tasmania continues to perform poorly on a range of other indicators*

The second important point to make is that, despite the significant improvement in the performance of Tasmania's economy, on a wide range of social indicators Tasmania continues to rank poorly in comparison with other parts of Australia:

- Tasmanians earn 20% less, on average, than their mainland counterparts<sup>6</sup>;
- The net worth of Tasmanian households is nearly 31% less, on average, than that of mainland households<sup>7</sup>;
- Fewer than 57% of Tasmanians of working age (15 and over) are employed, compared with nearly 62% of mainlanders, and of those Tasmanians who are employed, 68% have a full-time job compared with over 71% of mainlanders<sup>8</sup>;
- Of those Tasmanians who are unemployed, nearly one-third have been unemployed for more than a year, compared with just over one-fifth of unemployed mainlanders<sup>9</sup>;
- Tasmanian children are more likely to be born to a teenage mother (7.2% of all births) or without an acknowledged father (6.8% of all births outside marriage) than children in any other part of the country except the Northern Territory, are more likely to die in infancy (7.0 per 1 000 live births) than anywhere else except the Northern Territory, are more likely to have a natural parent living elsewhere (29.5% of all Tasmanian children) than anywhere else in Australia (23.3% of all Australian children) and significantly more likely to be living in a household where no resident parent is employed (21.1% of Tasmanian children under 15) than in any other State or Territory<sup>10</sup>;
- Tasmanians are less likely to make it to 70 (76.3% of men and 84.5% of women) than residents of any other State (78.7% of all Australian men and 87.1% of women), are more likely to have a disability (22.6% of Tasmanians) than Australians as a whole (20.0%), and are more likely to commit suicide (15 deaths per 100,000 of Tasmania's population as against 23 for Australia as a whole)<sup>11</sup>;

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<sup>6</sup> ABS, *Household Expenditure Survey 2003-04* (6530.0), Table 4.

<sup>7</sup> Ibid, Table 8.

<sup>8</sup> ABS, *The Labour Force* (6202.0), trend data for August 2005.

<sup>9</sup> ABS, *Australian Social Trends* 2005 (4102.0), p. 111 (data are for 2003-04).

<sup>10</sup> Ibid., pp. 33-34 and 62 (data are for calendar 2003, or, in the case of absent parent or employed parent, June 2003).

<sup>11</sup> Ibid., pp. 62-63 (data are for the average of 2001-03, except for those relating to disabilities, which are for 2003).

- Tasmanian households are significantly less likely to have a computer at home (51%) or access to the internet (41%) than residents of any other part of Australia (66% and 53%, respectively), including rural and regional areas of mainland States (61% and 47%, respectively)<sup>12</sup>.

All of these statistics can be summed up by saying that the incidence of poverty – in the sense defined by the Nobel Prize winning economist Amartya Sen as ‘the deprivation of basic capabilities rather than merely as lowness of incomes’<sup>13</sup> – is greater in Tasmania than in any other jurisdiction in Australia with the exception of the Northern Territory<sup>14</sup>.

Before moving on from this I want to acknowledge that Tasmania does not rank at the bottom of *every* single indicator of this nature. In particular, Tasmania scores better than most other States on indicators of community connectedness or what one might describe as ‘social capital’. For example:

- the percentage of Tasmanians who feel that they can ask for small favours from persons living outside the household, or who can ask for support in times of crisis from persons living outside the household, is higher than in any other State or Territory;
- the proportion of Tasmanians aged 18 and over who volunteer is, at 37%, higher than in any other State (though lower than in either of the Territories);
- and the proportion of Tasmanians who feel ‘unsafe at home alone after dark’ is lower than in any other part of Australia except the ACT<sup>15</sup>.

While, as I’ve mentioned, Tasmanian suicide rates are higher than for any other State (though not the NT), some consolation can perhaps be drawn from the fact that youth suicide rates in Tasmania are below the national average<sup>16</sup>. And the incidence of high-risk drinking is lower among both males and females, of smoking is lower among males (though not females), and of obesity is lower among males and especially among females, in Tasmania than the national average<sup>17</sup>.

Tasmanians have also traditionally been relatively well off in relation to housing costs. They have, together with Victorians the highest rate of home ownership of any State or Territory (at 74.0%)<sup>18</sup>, and (as at June 2003) the lowest incidence of ‘housing stress’<sup>19</sup> of any jurisdiction except the ACT. The rapid increase in property prices and rents in Tasmania in recent years has probably resulted in an increase in the incidence of housing stress since June 2003: in particular, house rents have risen faster in Hobart than in any other capital city since then and are no longer the lowest of any capital, being higher than in both Adelaide and Perth.

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<sup>12</sup> ABS, *Household Use of Information Technology* (8146.0) (data are for 2003 and exclude the Northern Territory).

<sup>13</sup> Amartya Sen, *Development as Freedom* (Anchor Books, New York, 1999), p. 87.

<sup>14</sup> The Northern Territory’s experience underscores the significance of Sen’s broader concept of poverty because households in the NT have the highest *average* incomes of any State or Territory.

<sup>15</sup> Data in these dot-points are from ABS, *General Social Survey: Summary Results, Australia* (4159.0) (data are for April-July 2002).

<sup>16</sup> ABS, *Australian Social Trends 2005* (4102.0), p. 62.

<sup>17</sup> ABS, *National Health Survey: Summary of Results 2001* (4364.0).

<sup>18</sup> ABS, *Australian Social Trends 2005* (4102.0), p. 159 (as at 30 June 2003).

<sup>19</sup> Defined as people with incomes between the bottom 10% and bottom 40% of the distribution of equivalized household income, and living in households where housing costs are more than 30% of the household’s gross income; source as for note 18.

*Tasmania is now well-placed to deal with many of these problems*

The third important point is that, acknowledging that some of these issues are Federal rather than State responsibilities, Tasmania is in a better position to deal with them than it has been for a long, long time:

- Tasmania's budget has been in (cash) surplus every year since 1997-98, and is projected (on unchanged policies) to register (cash) surpluses averaging \$155mn (or about ¾% of gross State product) over the four years to 2008-09;
- Having been the third most heavily indebted government (relative to the size of its economy) in Australia, after the Northern Territory and South Australia, in the mid-1990s, Tasmania has now joined Queensland, WA and the ACT as one of only four jurisdictions whose 'general government' is a net creditor, with its net financial asset position projected (on unchanged policies) to reach \$470mn by 30 June 2009 – an amount equivalent to about 2½% of Tasmania's gross State product, a more favourable position than that projected for any other government except Queensland and the Commonwealth;
- As a direct consequence of this improving financial position, Tasmania has gone from spending more than 10 cents in every dollar of State tax revenue on interest in 1993-94 to being a net recipient of interest in the current financial year;
- The improvement in the financial position of Tasmania's 'general government sector' has been achieved, uniquely among States and Territories in the last five years, without the introduction of any new State taxes or increases in any existing taxes. As a result, Tasmania has gone from being a relatively high-tax State – indeed, having had the most severe tax burden of any State or Territory in the late 1980s and early 1990s according to the Grants Commission's calculations – to the point where Tasmania's State taxes are now the lowest of any jurisdiction in Australia apart from Queensland and the Northern Territory<sup>20</sup>.

The achievement of this much-improved financial position has, of necessity, been accompanied by tight restraint on State government spending.

There were obviously other combinations of spending and taxation policies which could have produced a similar improvement in the Tasmanian government's financial position. Some of those would, I'm sure, have found more favour with at least some of you here this evening than the combination which was actually adopted. However, in keeping with my first premise, I have no doubt that successive governments since 1990 have, to varying degrees, served Tasmanians well in paying down the huge debt left by the profligate government of Robin Gray, and in doing so in ways that minimized the damage inflicted on the Tasmanian economy.

However I acknowledge that the fiscal austerity required to overcome the legacy of the Gray years has entailed considerable pressure on the services provided by the Tasmanian Government, and on those who in turn depend on those services.

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<sup>20</sup> Data and forecasts in this paragraph are from Tasmanian Department of Treasury and Finance, *Budget Papers 2005-06*; ABS, *Government Financial Estimates 2005-06* (5512.0); and Commonwealth Grants Commission, *Report on State Revenue Sharing Relativities: 2005 Update*, and the author's calculations.

One of those services, of which I've spoken on another occasion, is the public dental service<sup>21</sup>. When my father, Alan Eslake, was Director of the School Dental Service it had over 16 full-time dentists and 68.5 dental therapists in the workforce, responsible for the oral health of all school children in Tasmania up to the age of 16. Some years after he retired, when the Commonwealth Government was (briefly) funding a national dental service for pensioners and health care card holders, Tasmania had 24 dentists and almost 70 dental therapists in the state service.

Today, although children up to the age of 18 are entitled to access the children's service, so that together with health care card holders the client base for the public dental service represents about 40% of Tasmania's population, the service now employs only 15 dentists and fewer than 50 dental therapists.

Despite the provision of an additional \$5.3mn over four years for public dental services in the 2002-03 State Budget, and a further \$4mn over four years in last year's Budget, Tasmania still spends (according to Anglicare research) proportionately less on public dental services than any other State. Whether as a direct result of this, or for other reasons, Tasmanians are more likely to have lost all their teeth; to have missing teeth; or to have dentures; and are less likely to have seen a dentist in the past five years, than the national average. It may be that this is one of the reasons why participation in the labour force by Tasmanians of working age is more than 5pc points below the mainland average.

My father always used to say that if children could be assured of high standards of dental hygiene, then they were much less likely to suffer from poor oral health as adults. Unfortunately, the children's dental program no longer provides universal assessment of school children's oral health, but rather relies on parents to initiate contact with the service. The preventive aims of the service my father administered have thus to some extent fallen by the wayside.

More generally, Tasmanian general government outlays have declined from 21-22% of gross State product in the late 1990s to 20.7% of GSP in the 2004-05 financial year, and on unchanged policies are projected to shrink further, to less than 19% of GSP by 2008-09.

However, there is now no longer any need for policies to 'remain unchanged'. In the Australian federal system, it is the Commonwealth Government which is responsible for counter-cyclical fiscal policy, and it is therefore the Commonwealth's responsibility to run budget surpluses when the national economy is doing well, as it is today – not for their own sake, let me add, but so as to reduce the likelihood of the economy generating inflationary pressures when it is operating at close to full capacity and to provide the wherewithal to fund deficit spending when, as is inevitable, a subsequent downturn in the national economy renders that appropriate.

We do not, in the Australian system, elect State governments to accumulate large surpluses, or to pile up cash at the bank. It may well be prudent, when the State economy is travelling well, to maintain modest surpluses as a 'buffer' against the possibility of a downturn in GST revenues from the Commonwealth, or in stamp duty collections. But if, in the eyes of the Victorian Government (which takes this view), the amount of surplus required for reasons of 'prudence' is of the order of \$100mn per annum, then the amount required for the same purpose in Tasmania is surely a good deal less than that – probably of the order of \$10mn.

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<sup>21</sup> Remarks at the Opening of 'Sick to the Back Teeth', Hobart, 14<sup>th</sup> March 2005, <http://www.anglicare-tas.org.au/miscellaneous/teethremarks.html>.

So Tasmania is now in a very strong position to begin tackling some of the more entrenched social and economic disadvantages which have long beset this State.

That is *not* to say that State spending ought to be immediately lifted by \$200 or \$300mn per annum. Apart from anything else, it's not clear that Tasmania's service-delivery agencies could immediately absorb increases in funding of that magnitude, and put them to good use. But, clearly, there is scope for increased spending in ways that will alleviate poverty, address the longer-term causes of economic and social disadvantage and give hope to those in greatest need. It is important, though, that any increase in spending is well-thought out and targeted in ways that will make a difference, and addresses Tasmanian problems rather than simply replicating strategies or programs which are thought to have worked in other contexts.

In passing, I should also note that Tasmania's capacity to tackle entrenched social and economic disadvantages would be seriously undermined by any significant changes to the method by which revenues from the GST are distributed among the States and Territories. In the 2005-06 financial year, Tasmania will get \$596mn more from the distribution of GST revenues in accordance with the recommendations of the Commonwealth Grants Commission than would have been the case had those revenues been distributed on a per capita basis, as favoured by New South Wales and Victoria. That additional assistance is equivalent to 17.5% of Tasmania's total revenues. By contrast, the 'cost' to NSW and Victoria of these 'cross-subsidies' – defined as the shortfall between what they actually received from the carving up of the GST revenue pie, and what they would have obtained under a per capita distribution – represents only 4½% of their total revenues.

There is something rather odd, it seems to me, about the Labor Treasurers of New South Wales and Victoria objecting, as they always do, to the redistribution of income from the rich to the poor. I always thought that's something that Labor Governments believed in. Of course neither those States, nor any others, spend the revenues from their own taxes, such as stamp duty or land tax, precisely in the areas from which they are collected, so why they think GST revenues should be 'spent' in this way is far from clear either.

It is true, as the NSW and Victorian Governments (among others) point out, that the extent of 'horizontal fiscal equalization' in Australia is much greater than in other federations. That is why there is much less spatial inequality among the different constituent parts of the Australian federation than there is, for example, in the United States or Canada. And I imagine that most Australians prefer it that way.

*Tasmania's problem is not that its poor are poorer than in other States*

Here I want to make a fourth point which certainly came as a surprise to me when I was researching for this talk, and which may come as a surprise to at least some of you as well.

This is that, while it is well known that average household incomes and wealth are lower in Tasmania than in other States and Territories, this is *not* because those at the bottom end of the income and wealth scales in Tasmania are worse off (at least in respect of their income and wealth) than those at the bottom end of the income and wealth scales in other parts of Australia.

In fact, the average gross weekly household disposable income of those in the lowest 'quintile' or fifth of Tasmanian households by income was, at \$266 per week, actually \$3, or 1.1%, *higher* than the national average in 2003-04, and higher than that of the those in the lowest quintile in any other jurisdiction except Queensland and South Australia<sup>22</sup>. 'Equivalentized' for differences in household size and composition, Tasmanians in the bottom quintile of the income distribution actually had a higher average gross household disposable income than those in the bottom quintile of any other State or Territory except New South Wales.

Similarly, the average gross household disposable income of those in the second lowest quintile of the income distribution in Tasmania was, at \$562 per week, \$7 per week or 1.2% *above* the national average and higher than anywhere else in Australia except WA and the Northern Territory, although Tasmania drops to the bottom of the pack for this quintile when 'equivalized' for differences in household size.

Average incomes are therefore lower in Tasmania than for Australia as a whole not because the *poorest* Tasmanians are poorer than the poorest mainlanders, but rather because the *richest* Tasmanians are *less well-off* than their counterparts in other States. The average gross household disposable income of the top quintile of Tasmanian households was actually 8% lower than that of the top quintile of all Australians. 'Equivalentized' for differences in household size and composition, the highest-earning fifth of Tasmanian households earned \$309 per week, or 13½% less, than the highest-earning fifth of Australian households. Now, since they were still pulling nearly \$2,000 per week, I don't expect anyone in this room to be shedding any tears for the top quintile of the Tasmanian income distribution, but together with the observations about the relative incomes of those at the other end of the scale, it is an important observation.

The contrast is even more striking when we look at wealth, which is much more unequally distributed than income.

The average net worth of households in the bottom fifth of the wealth distribution in Tasmania is higher than that of those in the bottom fifth of the wealth distribution in any other State except Victoria and Western Australia, and 5% above the average net worth of those in the bottom fifth of the national wealth distribution. This may be at least partly attributable to the fact that home ownership among those in the bottom fifth of the income and wealth distribution is about one percentage point higher in Tasmania than for Australia as a whole.

The average net worth of Tasmanians in the second-lowest quintile is also 3% above the corresponding national average. But the net worth of the richest (by net assets) 20% of Tasmanian households is nearly 20% below the corresponding national average<sup>23</sup>.

From a different perspective, these figures show that income and wealth are less unequally distributed in Tasmania than in any other State or Territory:

- The lowest income quintile received 11.5% of total equivalentized gross household disposable income in Tasmania, by far the highest share in any State or Territory (Queensland was next with 8.6%), compared with a national average of 7.3%;

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<sup>22</sup> ABS, *Household Expenditure Survey: Summary of Results* (6530.0), Table 4 for each State and Territory and for Australia as a whole.

<sup>23</sup> *Ibid.*, Table 8 for each State and Territory.

- Conversely, the share of total equivalized household disposable income received by the top quintile in Tasmania was, at 31.0%, lower than in any other State or Territory, and more than 10 percentage points below the national average;
- The least wealthy fifth of Tasmanian households owned just 1.6% of total Tasmanian household net worth, but this was higher than the corresponding figure for any other State or Territory, and well above the national average of 1.0%;
- The wealthiest fifth of Tasmanian households owned 41.5% of total household net worth in this State, the lowest proportion of any State or Territory, more than 17 percentage points below the national average of 59.0%. Tasmania and Queensland are the only States where more than half of total household net worth is *not* owned by the wealthiest 20% of households<sup>24</sup>.

So for those for whom poverty and inequality border on synonymous, it could perhaps be said that there is relatively less poverty in Tasmania than anywhere else in Australia. To me, that conclusion adds to my belief that those who focus on inequality in the distribution of income or wealth as *the* most important issue are missing the point.

Instead, the conclusion I draw from this analysis – and I want to re-iterate that it is not the conclusion I expected to make when I first embarked upon it – is that to the extent that the incidence of poverty – in Sen's sense of capability deprivation – is greater in Tasmania than in other parts of Australia – it is *not* (in general) because those living in poverty in Tasmania have less income or fewer assets than those elsewhere in Australia.

Incidentally, the figures released by the Parliamentary Library in May this year showing that 12.7% of Tasmanians (including 14.1% of Tasmanian children) were living in poverty (defined as half the average disposable income for a two-couple, two-income household) in 2001, more than in any other State or Territory and compared with a national average of 9.3%, were based on the 1998-99 Household Expenditure Survey, with incomes indexed to 2001 values<sup>25</sup>. The data I've been using here are from the more recent 2003-04 Household Expenditure Survey. It seems plausible that the much improved performance of Tasmania's economy, including the significant increase in employment, between these two surveys has had the effect of reducing the relative incidence of poverty defined in this (somewhat narrower) way in Tasmania.

*Rather, it is that Tasmanians are less well-educated than other Australians*

If the statistics to which I referred earlier, showing that Tasmanians were on average more likely to be born into a household headed by a teenage mother and without an acknowledged father, less likely to grow up in a household where at least one adult has a job, less likely as an adult to have a job themselves, more likely to be dependent on welfare, more likely to have a disability, less likely to make it to 70 years old and more likely to commit suicide than the residents of any other State – all of which, I would assert, are indications of a higher incidence of poverty – are *not* due to relatively lower incomes and wealth, then what *is* the reason for all of these disconcerting outcomes?

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<sup>24</sup> Data in these dot-points are the author's calculations based on ABS, *Household Expenditure Survey: Summary of Results* (6530.0), Tables 5 and 8 for each State and Territory and for Australia as a whole.

<sup>25</sup> Tony Kryger, *Poverty Rates by Electorate*, Parliamentary Library Research Note No. 49 (Parliament of Australia, 23 May 2005).

In this context, as in others, generalizations are probably dangerous. But I would venture to suggest that – although there are almost certainly other factors involved as well - the most plausible single explanation for these outcomes is the lower level of educational attainment of Tasmanians, compared with other Australians.

There is a clear association between age, educational attainment and labour force participation<sup>26</sup>. In particular, male workers with upper-secondary or post-secondary education are much less likely to drop out of the work force once they turn 55 than those who have failed to complete year 12.

There is also a clear association between educational attainment and employment outcomes. Australians with a bachelor's degree or higher are 24% more likely to have a job, and less than half as likely to be unemployed, as those without one; and in employment they typically earn at least 35% more than those without such qualifications<sup>27</sup>. Research by the Economic Research Unit in Tasmania's Department of Treasury and Finance also indicates that 'persons with low levels of educational attainment, particularly those that have not completed secondary school, are more likely to be unemployed for extended periods'<sup>28</sup>.

There are of course also much broader economic and social benefits from higher levels of educational attainment. Research by academic economists suggests that each additional year of schooling in the adult population boosts long-run economic growth by between ¼ and ¾ percentage points per annum, or by anywhere between 6 and 19% in total. The Australian National University's Professor Steve Dowrick suggests a figure of 8%<sup>29</sup>.

On the basis of what I readily admit is rather less evidence than is available for the linkages between education and employment prospects, I would argue that there is also an inverse association between educational attainment and some of the social conditions which are in turn highly correlated with poverty, such as teenage motherhood and susceptibility to alcohol abuse, problem gambling and the like.

Tasmanians are typically less well educated than mainlanders, with 44.1% of 15-64 year-olds not having completed Year 12, compared with the national figure of 32.3%, while just under half of Tasmanian 25-64 year-olds have post-school qualifications compared with 57.5% of all Australians in that age bracket<sup>30</sup>.

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<sup>26</sup> David Headley and Steven Kennedy, 'Educational Attainment and Labour Force Participation in Australia', in Commonwealth Treasury, *Economic Roundup*, Winter 2003, Canberra.

<sup>27</sup> Australian Bureau of Statistics, *Education and Work* (catalogue. No. 6227.0), May 2003, Table 12; OECD (2002), *Education at a Glance 2004*, Table A.13, available at <http://www.oecd.org/EN/document/0,,EN-document-604-5-no-27-32058-604,00.html>.

<sup>28</sup> Economic Research Unit, Department of Treasury and Finance, Tasmania, *Long Term Unemployment in Tasmania: A Statistical Analysis*, June 2005, available on the Treasury website at [http://www.treasury.tas.gov.au/domino/DTF/DTF.nsf/LookupFiles/Long-Term-Unemployment-in-Tasmania.pdf/\\$file/Long-Term-Unemployment-in-Tasmania.pdf](http://www.treasury.tas.gov.au/domino/DTF/DTF.nsf/LookupFiles/Long-Term-Unemployment-in-Tasmania.pdf/$file/Long-Term-Unemployment-in-Tasmania.pdf).

<sup>29</sup> Steve Dowrick, 'The Contribution of Innovation and Education to Economic Growth', Paper presented to the Melbourne Institute Economic and Social Outlook Conference *Towards Opportunity and Prosperity*, April 4-5 2002; available at [www1.ecom.unimelb.edu.au/iaesrwww/conf/top2002/pdf/DownrickSteve5A.pdf](http://www1.ecom.unimelb.edu.au/iaesrwww/conf/top2002/pdf/DownrickSteve5A.pdf) p. 20. See also Robert Barro, 'Education and Economic Growth', OECD 2003, available at [www.oecd.org/dataoecd/5/49/1825455.pdf](http://www.oecd.org/dataoecd/5/49/1825455.pdf);

<sup>30</sup> *Ibid.*, p. 88 (data are for May and August 2004, respectively).

This is, incidentally, the main reason why Tasmanian wages are lower, on average, than in any other State or Territory. Contrary to the way it is presented, for example, in the State Treasury's *Competition Index*<sup>31</sup>, it is *not* a sustainable source of comparative advantage. Rather, it means that Tasmanian workers are more vulnerable than those living and working in other States to competition from even lower-paid workers in other countries.

Encouragingly, from this perspective, the proportion of Year 10 students going on to complete Year 12 in Tasmania, which 20 years ago was almost 20 percentage points below the national average, is now very close to the national average (although there was some slippage in 2004)<sup>32</sup>. That should mean that the proportion of young Tasmanians going on to attain post-secondary qualifications will rise in coming years.

However, as I've argued elsewhere<sup>33</sup>, it is not only the *quantity* of education received that matters. The *quality* of that education, while harder to measure, is also at least as important. For example, some researchers have found a significant positive correlation between proxies for quality such as test scores (especially for maths and science) and economic growth<sup>34</sup>.

Data released late last year by the Australian Council for Educational Research<sup>35</sup> suggests that on three important measures of educational attainment – reading literacy, mathematical literacy, and problem solving ability – Tasmanian students are near the 'bottom of the class' - with only the Northern Territory having a higher proportion of students 'failing to reach level 1' (the lowest level of attainment) in these three areas, and a smaller proportion of students in the highest levels.

Another recently published set of internationally standardized test results<sup>36</sup> suggests that Tasmanian school children do well by national standards in mathematics and science by year 4: their scores are slightly below the national average, but better than those for the other small States. To me, this suggests that Tasmanian children have the same innate abilities as children from anywhere else in Australia.

But then something happens – or doesn't happen – over the following four years which leaves Tasmanian school children performing 5.5% and 4.4% below the national averages in maths and science, respectively, by Year 8. Tasmania's Year 8 results are lower than for any other State.

There is, perhaps, some room for argument as to whether these differences are 'significant' or not. For what it's worth I have little doubt that if Tasmania's results were higher than the national average by these margins rather than lower by them, then the Minister for Education would regard these margins as 'significant'.

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<sup>31</sup> Tasmanian Department of Treasury and Finance, *The Competition Index 2004*, [http://www.treasury.tas.gov.au/domino/dtf/dtf.nsf/LookupFiles/Competition\\_Index\\_2004.pdf/\\$file/Competition\\_Index\\_2004.pdf](http://www.treasury.tas.gov.au/domino/dtf/dtf.nsf/LookupFiles/Competition_Index_2004.pdf/$file/Competition_Index_2004.pdf), p. 5.

<sup>32</sup> ABS, *Schools Australia, 2004* (4221.0), Table 51.

<sup>33</sup> *Human Capital and Tasmania's Economic Future* (see footnote 5).

<sup>34</sup> See, for example, Robert Barro, *op. cit.*, pp. 23-25; and Eric Hanushek, *The Long Run Importance of School Quality*, Education Next, 2002; available on-line at <http://www.educationnext.org/200023/10.html>.

<sup>35</sup> Australian Council for Educational Research, *PISA in brief from Australia's Perspective*, [http://www.acer.edu.au/research/PISA/documents/PISA\\_Brief\\_screen.pdf](http://www.acer.edu.au/research/PISA/documents/PISA_Brief_screen.pdf).

<sup>36</sup> Australian Council for Educational Research, *Trends in International Mathematics and Science Study 2002-03*, [http://www.acer.edu.au/research/TIMSS/TIMSS\\_02\\_03.htm](http://www.acer.edu.au/research/TIMSS/TIMSS_02_03.htm).

The Minister for Education prefers to refer instead to performances against benchmarks established by the Ministerial Council on Education, Employment Training and Youth Affairs (MCEETYA) for Year 3 and Year 5 reading and writing, which show Tasmania in a rather more favourable light: for example, 96% of Tasmanian students achieved the Year 3 reading benchmark in 2002, a higher proportion than in any other State.

But, as Gary Banks, the Chairman of the Productivity Commission, has recently pointed out, these benchmarks focus on the proportion of students who do not reach a minimum standard (one which students who do not reach 'would have difficulty progressing satisfactorily at school') rather the more conventional approach to benchmarking which focuses on some concept of 'best practice'. Moreover, the MCEETYA measures are not derived from any nationally applied test, unlike the PISA and TIMSS results which I mentioned earlier. Thus, as Gary Banks observes, the MCEETYA data are 'a very blunt indicator and tend to show only winners'<sup>37</sup>.

It seems to me that Tasmania's children, and in particular those children for whom a first-rate education up to Year 12 and beyond would offer the best possible chance of escaping a lifetime of poverty, are ill-served by pretending that Tasmania's education system is better than it is. And I say that without meaning a word of disrespect to Tasmania's teachers, and without (here) intruding into the debate about the Essential Learnings frameworks.

Thus, and without detracting from the importance of attending to unmet needs in areas such as health (and especially dental health) or housing, I believe that improving the quantity and quality of education received by Tasmania's children ought to be an integral part of any long-term strategy aimed at reducing poverty and deprivation in Tasmania.

Tasmania now has, as I've suggested earlier, both the capacity and an unparalleled opportunity to address long-standing areas of social and economic disadvantage which blight this otherwise beautiful island.

It is important that this be done thoughtfully, and with a well-informed understanding of the specific causes of social and economic disadvantage in the particular circumstances of Tasmania - rather than in a headlong rush to spend what might appear to some well-meaning people as a 'pot of gold', or by seeking to apply 'solutions' which have been devised for other places at other times.

But it is also important not to let the opportunity go by.

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<sup>37</sup> Gary Banks, *Comparing School Systems Across Australia*, Address to an Australia and New Zealand School of Government Conference, 'Schooling in the 21<sup>st</sup> Century: Unlocking Human Potential', Sydney, 28-29 September 2005, pp. 18 and 22.