
Advancing Tasmania's Prosperity

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As you've probably gathered from my accent, I'm not from around here! But I am married to a Tasmanian. He grew up in Burnie, in the heyday of large-scale manufacturing there. It's funny, many of us wax nostalgic about the glory days of manufacturing ... but the ocean water was brown because of the residue from the pulp and paper mill; and if the wind was in the right direction, and you were downwind from the sulfuric acid plant, you'd get a strong tingling sensation in the back of your throat. And if you went mountain biking behind the paint and pigment factory, the forest had been completely killed off and it looked like a moonscape.

So if the good old days of manufacturing were not quite as good as we remember, why are so many of us worried about the shift from manufacturing to services? Tasmania after all, like the rest of Australia, has had a long-term shift away from manufacturing and toward services, and Tasmania's manufacturing sector is performing a useful support function for agriculture and mining, but it's relatively low productivity. What is it we're actually worried about?

First, making stuff is cool. I'm very sympathetic to this view, being from Washington DC, a town that produces nothing but hot air. A brilliant Tasmanian architect selling their designs overseas doesn't have the same tangibility as a manufacturing export.

During Covid, we worried about being dependent on overseas supply chains for manufactured goods. The Productivity Commission did a study of that issue and found that there are only a small number of products where global production is overly concentrated. Relying on global trade means supply can come from a whole range of countries, some of whom can respond to a shock more quickly than we can.

Of more concern is that manufacturing used to offer a route to building skills and earning a good income for those who didn't get much formal education. The decline of manufacturing means fewer paths to a high-income job for those who didn't get much education. There are still paths to good jobs through trade apprenticeships and some paths through health, and those are big sectors. But for the rest of workers, the path to a better job is through taking VET courses to upskill (possibly in an area you're not currently working in). So all of these paths rely on VET being affordable, accessible, and high-quality. Even with good VET, upward mobility is an ongoing policy challenge, for all of Australia, as job markets become increasingly polarised.

Finally, there is a **geographic** concern, because a shift from manufacturing to services shifts the locus of activity:

- Some economic activity has shifted away from input locations in manufacturing, like the North West of Tasmania; and so the employment options in those locations are worse.

- Economic activity also shifts towards cities, specifically the big cities of the mainland with several universities, that create knowledge economy jobs (for example, finance, professional and technical services).

So some of those concerns are reasonable. That said, policies to slow or reverse the shift to manufacturing have lots of negative consequences. And there is also lots of potential good new in the shift toward services.

First, in terms of the geographic shift, it's potentially good news for some smaller cities. Even before remote work, some smaller locations became hubs of knowledge work. In the US this includes locations such as Austin Texas, Raleigh-Durham in North Carolina, Boulder Colorado, and so on. There needs to be a good university (for hiring smart graduates and as a source of expertise and new startups), and appealing location to high-income workers.

So in Tasmania, this means that the Hobart region has strong potential if investments are made in boosting the quality of teaching at University of Tasmania and the involvement of academics with the private sector (academics involved in consulting, academics involved in startups).

The same could potentially be said of Launceston. The Commission has made a number of recommendations that the University could implement itself, with encouragement from Tasmanian economists: making all lectures available online to the university community or even better to everyone; real rewards for good teaching (grants and bonuses); allowing academics to consult and to easily license their intellectual property.

More recently, the rise of remote work (and of course climate change) raises the attractiveness of all of Tasmania as a location.

The message is that attracting high-income knowledge work is about attractive locations (the growth in the Tasmanian tourism industry has helped make many locations more appealing), telecommunications and digital infrastructure and SKILLS – attracting retaining and building skilled workers. (I want to stress, the interest in attracting this work to Tasmania is not because high income knowledge work is the only sector of interest, but it's high productivity and it boosts demand for many other services.)

There is also a tremendous amount of good news for Tasmania in another major shift we are experiencing, the shift to more services being available online.

The shift to online is good for workers

First, the shift to online study. Lots more VET and Uni courses are available online than before Covid. I counted 20 different online TAFE accounting courses, for example. There are also lots of e-learning courses from reputable firms with industry expertise for upskilling and even entering a new industry. This means that there are more paths for people to upskill, and more industries that they can access. It also means more competition for local University and VET courses.

It's useful that Tasmania was early in the NBN rollout, so students in most locations can access the internet. But Australia is still missing a key ingredient for online: we need good mechanisms to ensure quality in online VET and university. Students need information on the quality and cost of all available courses.

As the Commission has pointed out, the websites to guide students to VET courses are deeply terrible. And the VET regulators (ASQA) are very focused on compliance rather than quality. I would love to see ASQA and TEQSA actually attend some classes in the institutions they regulate!

Next, the shift to online work

That means lots more jobs available in depressed areas, thanks to online options. The transition hasn't fully happened yet; at the moment there are more people interested in working from home than there are jobs, depending on the type of work. For example, an online health provider advertised 20 work-from-home nursing and allied health jobs, and got 500 applications. But there will gradually be more and more work available purely online. But taking advantage of these online jobs requires literate and internet-savvy workers; and we still have some students leaving school with serious weaknesses in their literacy and computer skills. So Tasmanian school and VET options need to be high quality for all students. More on school quality later today!

The shift to online is good for businesses

I think Tasmanian firms are aware that they need to be online and oriented toward bigger markets on the mainland and overseas. This is a big advantage over mainland firms. And the ease of getting one's business online really helps.

Online is important for the diffusion of technology: The main way that firms learn about innovation is from other firms in their industry. That's challenging in Tasmania, when those firms may be further away.

There are a number of ways that the internet can help with that challenge. Staying more digitally connected to professional associations, relevant university researchers on the mainland and overseas, can be really valuable. Firms can attend online events and lectures. Firms can also access more skilled intermediaries from the mainland and overseas: consulting firms, skilled accountants and other intermediaries. There is value in using intermediaries that other firms in the industry are using, because they share information. There are benchmarking services (including one from the ATO) that allow firms to see how they're performing relative to their industry.

And an online presence makes it feasible to hire workers from the mainland and overseas; for some roles, they may not even need to relocate. Firms can gain both specialised skills and specialised knowledge of sophisticated processes at other firms when casting a wider net in hiring.

What is the role of policymakers and economists in all of this? Policymakers can support the growth of professional associations, especially ones with ties to the mainland; they can provide more industry-specific information about what's available online; they can support the migration review.

Finally, the shift to online is good for consumers

It's worth remembering that the benefits to firms that I've described also flow to their consumers. Lots of products and services are available from online providers, and this provides a valuable check and balance on local market power: there are lots of areas where there are a small number of firms supplying the market. Again, it requires literate and online-savvy consumers with internet access.

In short, I think some of the broad shifts that we identified in *Advancing prosperity* have tremendous potential for Tasmania, if there is the right policy response. Supporting people to develop their skills is at the core of that policy response.