



Economic Issues

Development Strategy for Reinventing South Australia

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Economic Issues

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Development Strategy for Reinventing South Australia

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Executive Director's Note

Welcome to the forty ninth issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of its Corporate Membership Program. The scope of Economic Issues is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within the scope, the intention is to focus on key issues – public policy issues, economic trends, economic events – and present an authoritative, expert analysis which contributes to both public understanding and debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

This paper is the fourth and final in a series of four Economic Issues papers that have collectively reviewed South Australia's economic performance. EIP No. 44 considered South Australia's macroeconomic performance with reference to historical developments and more recent history, including a pointer to sustainable comparative advantages. The second paper in the series (EIP No. 45) examined prospects for growth through a review of the state's manufacturing sector including the role that state government can play in assisting the potential to be realised. In the third paper (EIP No. 46) we considered the impact of regulation and industry support policies on economic activity and our search for global competitiveness. In this final paper (EIP No. 49) we refer to the economy as in a 'state of constant transition', but key challenges are evident including competitive enhancing policies to address structural changes to reinvent South Australia. We consider a range of policy responses to reinvigorate the state's economy.

The history of the economic development of the South Australian economy is a study of a small agricultural and industrial market economy in constant transition. The agricultural sector (and at times) the mining sector and defence manufacturing have been the traditional mainstays; protectionist policies encouraged the diversification of manufacturing reducing our reliance in terms of state GSP and employment on agricultural and natural resources. Population growth and inward migration have stalled. In the last three decades population growth has been half the rate of Victoria and Australia as a whole; there are fewer young people under the age of 24 years than there were in 1981/82; the key workforce aged group are growing at half the national rate; the employment to population ratio continues to decline; the aged dependency ratio is 5 percentage points above that for Victoria and Australia.

Structural changes require institutional reforms across government, the public sector, the business community and economic and social policies and programs. This paper explores policies for reinventing South Australia and asks the question: "What are the competitive enhancing policies South Australia must adopt to generate the wealth required to support social and community objectives and environmental development".

The authors of this paper are Associate Professor Michael O'Neil (Executive Director, SACES) and Darryl Gobbett (Visiting Fellow, SACES). The views expressed in the report are the views of the authors.

Michael O'Neil
Executive Director
SA Centre for Economic Studies
January 2018

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South Australia: An Economy in Constant Transition

Economies are not static. They are constantly changing as a result of, *inter alia*, internal and external forces, creative destruction supported by technology, automation, new ideas, knowledge, availability of resources and changes in consumer tastes and preferences. Economies and sectors of an economy evolve, develop, grow and decline as a result of public policies and private/business/corporate decisions including openness to trade (or otherwise), domestic and international tax policies, new organisational and managerial practices (such as just-in-time, offshoring, use of deep supply chains), access to credit, business investment and location decisions and responsiveness of labour markets. The comparative advantage of an industry, state or nation may change as changes in demand for resources or products change; the competitive position of a whole economy, industry or sector of industry may rise or fall for a myriad of reasons (e.g. low labour costs compete away the advantage once possessed, transport costs likewise, cancellation of industry protection).

The history of the economic development of the South Australian economy is a study of a small agricultural and industrial market economy in constant transition as internal and external factors, national and global, changed. Sinclair (2009) in his insightful review of the economic history of South Australia considers that “up to end of the 1870s, South Australia had enjoyed over 40 years of uninterrupted economic progress propelling it to the top of the Australian ladder of GDP per capita; nearly 60 years later, at the outbreak of the Second World War its real per capita GDP was lower than it had been in 1880. For no other colony/state was this the case. What went wrong?”¹

The first wave of economic progress was due to the exploitation of agricultural and natural resources, trade with other states and the British Empire, and rural and regional development often assisted by local innovation in the technological, financial, social and political spheres. From that point (end of 1870s) the declining influence of natural resources; slowdown in trade; slower population growth; the impact of WWI with the loss of many younger males previously employed in agriculture; and the Great Depression all contributed in some way to the slowdown in economic progress.

Pre- and post- WWII manufacturing production and employment surged in all Australian states while South Australia notably was the beneficiary of Commonwealth investment in defence materials, munitions and shipbuilding. South Australia’s specialisation in the machinery and the metals sector, along with the strategic decision of the Commonwealth to locate considerable defence production in South Australia during the war years is largely the explanation for development of a manufacturing industry. As a result, the manufacturing sector in South Australia grew

“.....at a rate greatly at variance with the national experience only during the Second World War. Between 1938-39 and 1947-48 there occurred a 75 per cent increase in manufacturing employment in South Australia but only a 51 per cent increase in Australia as a whole, suggesting that the special wartime experience of this State requires explanation’.²

The compound average growth rate of employment in manufacturing in South Australia (1938-48) was 6.0 per cent per annum whereas for Australia it was 4.0 per cent. Mules (1989) et al reviewed manufacturing labour productivity and reported “on the evidence, South Australia has on average the lowest level of labour productivity in manufacturing of any state”³ adjusted for scale economies and the capital labour ratio.

“Whereas the literature on the history of manufacturing in South Australia has focussed particularly on the role of the State Government in the expansion of industry, we have already noted the observation by previous writers that the form that this assistance took may have resulted in the encouragement of inefficiencies. If so, the adverse impact of State Government policies on productivity must have occurred through some routes other than the industry mix, average size or capital intensity.”⁴

That is to say, policies that, *inter alia*, facilitated location, employment and production for a growing domestic market, protected by ‘tariff and quota walls’ encouraged the development of manufacturing and permitted, and perhaps even encouraged for employment creating purposes domestic inefficiencies, but were not policies that were likely to grow manufacturing in the absence of industry protection provided by legislation or address geographical distance, transport, communications, rapid shifts in consumer preferences or other factors. Swept away by bigger and better financed and managed interstate and international producers, were ‘internal protections’ such as breaks in railway gauges, state purchasing and standards, policies of government utilities including ETSA, E&WS, Highways Department and various business practices and monopolies that encouraged local production.

So apart from the losses due to increased international competition in TCF, white goods, automotive, agricultural implements, etc., how much was lost as SA Brewing, AMSCOL, Farmers Union, Berri Fruit Juices, the local soft drink manufacturers, bakeries and small goods makers were taken over as intrastate and interstate transport costs dropped?

That is, were the various policies likely to impede or support continual investment in R&D; higher capital investment; expanding markets through growing exports; and improvements in human capital including management and labour relations? More pointedly for the current future, is there a continuing influence of past protectionist policies and acceptance of inefficiencies on new policy development and implementation stances?

Post WWII South Australia experienced a surge in population and immigration with the expansion of manufacturing, particularly the production of household consumer durables (e.g. array of white goods, textiles, clothing and footwear, household electronic products and automotive). "South Australia was unique amongst the states in the extent to which manufacturing retained its importance in the economy. In all other States, except Victoria, the share of manufacturing in GDP peaked in the late 1950s. South Australia, in 1967/68, was the last to do so".⁵

The Playford era (Premier 1938-1965) as it is well known in South Australia (and beyond) was a period of economic transformation, from an over reliance on agricultural and natural resources (in terms of contribution to state GSP and employment generation) to an economy initially dominated by defence manufacturing and increasingly manufacturing of consumer durables. This development process continued right up to the mid-1960s.

Public policies supported the development of a manufacturing industry through import tariffs and quotas and a host of trade restrictive practices while "agriculture bore a disproportionate burden of the costs of the tariff"⁶. It is also interesting to speculate what impact these conditions, along with the Federal ban on iron ore exports until the 1960s had on the mining sector in South Australia.

Capitalising on trade protection provided by the tariff and a wide ranging environment of industry protection, the Playford Government set about lowering business input and production costs notably energy and water; and lowered the entry cost of new firms, such as white goods manufacturers and other consumer durables, through the supply of low cost land and industrial estates, low cost housing and growing a skilled labour force through large scale skilled immigration.

"Playford's policies allowed for the supply of cheap electricity to factories, minimal business taxes, and low wages to make the state more attractive to industrial investment. Playford kept salaries low by using the South Australian Housing Trust to build vast amounts of public housing and using government price controls to keep housing and other costs of living low to attract workers and migrants."⁷

The City of Elizabeth and to a lesser degree, the City of Whyalla (also a beneficiary of defence investment and production) were very much planned cities with a significant role for the South Australian Housing Trust (SAHT).

However, the days of manufacturing protection supported by a range of government interventions and local protection were numbered. South Australia was particularly vulnerable to changes in the world economy dating from the mid-1970s (first global inflation, higher unemployment, stagnant growth and the increase in public debt [1980s]) and the transformation of the Australian institutional structure of the 1980s.

International and domestic policy changes and external and internal shocks stranded much of South Australia's manufacturing base.

Relevant factors included:

- tariff reductions introduced by the Whitlam Government;
- the two global oil shocks and global inflation (1973 and 1979);
- the impact on labour costs of wage indexation in a stagflationary environment; and
- increasingly national and international markets in products, services, labour and capital, driven in part by reduced real transport and communications costs.

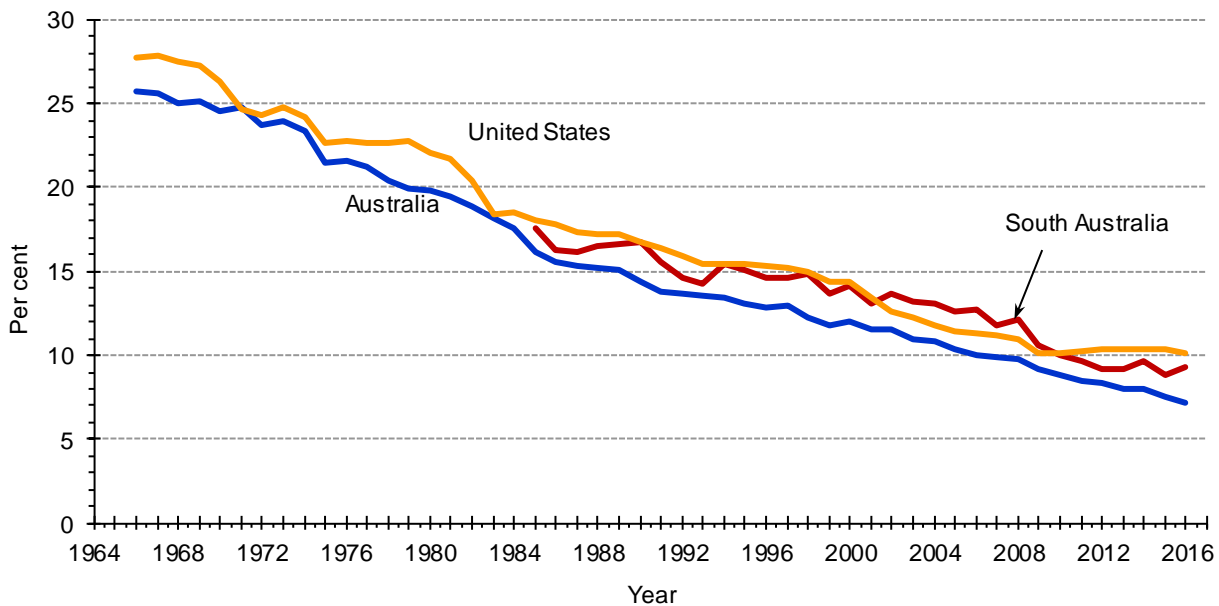
The reduced protection, at various levels, and increased manufacturing input costs along with the lower starting points for productivity meant local industry was now much more dependent on achieving scale economies and faster productivity increases to survive.

In South Australia manufacturing employment continued its decline from 103,000 in 1985 to approximately 74,000 in 2013, with a similar pattern evident for Australia and the United States (see Figure 1).

From 17.6 per cent of total employment in South Australia in 1985, manufacturing employment is now less than 9.0 per cent; in the USA in 1977 manufacturing was 19 per cent of total employment and by 2012 it represented 9.0 per cent.

Automation, rising productivity, inability to achieve ever rising scale economies in mass consumer products, the shift of manufacturing to Asia, exchange rate movements - all and more contributed to the decline in employment in manufacturing in advanced economies.⁸ Low wage mass production has migrated to low wage emerging market economies.

Figure 1 Manufacturing Employment as a Proportion of Total Employment
Australia, United States and South Australia



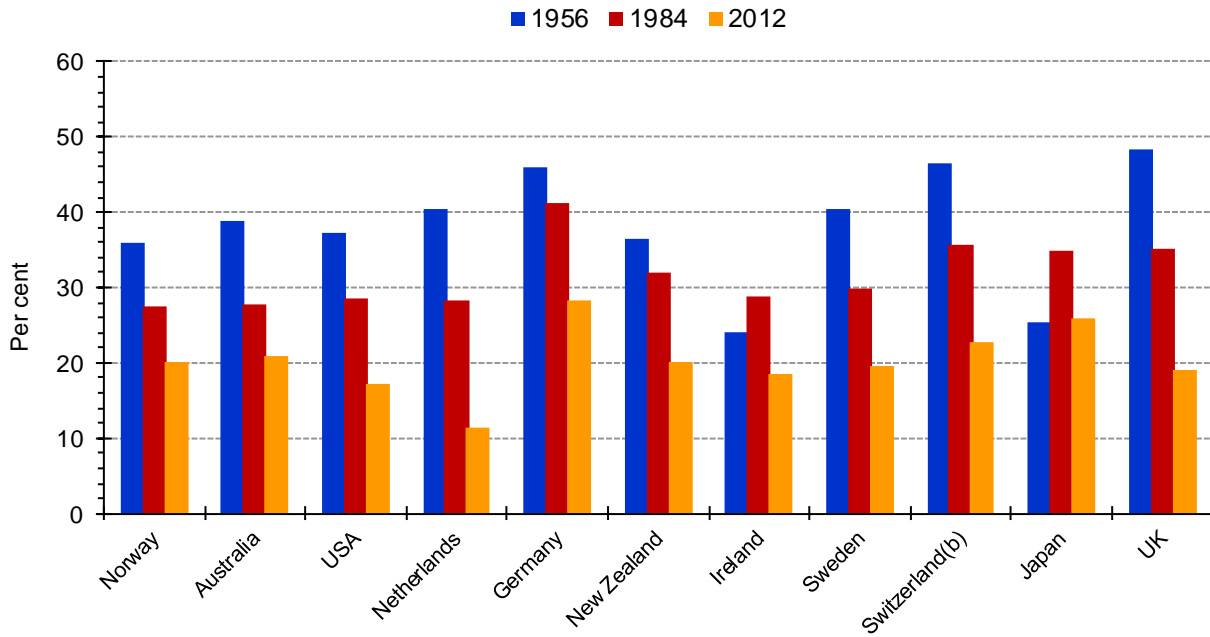
Source: OECD, StatExtracts and Australian Bureau of Statistics, *Labour Force*: www.abs.gov.au

It has not only been manufacturing employment that has fallen as a proportion of total employment, but industries including manufacturing, mining and quarrying, electricity gas and water, and construction as shown in Figure 2 for eleven developed countries. This is a long wave phenomenon. The services sector which no doubt includes growth in services to each of the industries above and the remarkable growth in essentially “human service employment” has experienced strong and continual growth since the 1960s (Figure 3).

Taken together, Figures 2 and 3 confirm exactly the point we are making – that economies are continually in a process of restructuring and change and policy makers and governments need to be able to flexibly respond to current trends and possess insights into future possibilities.

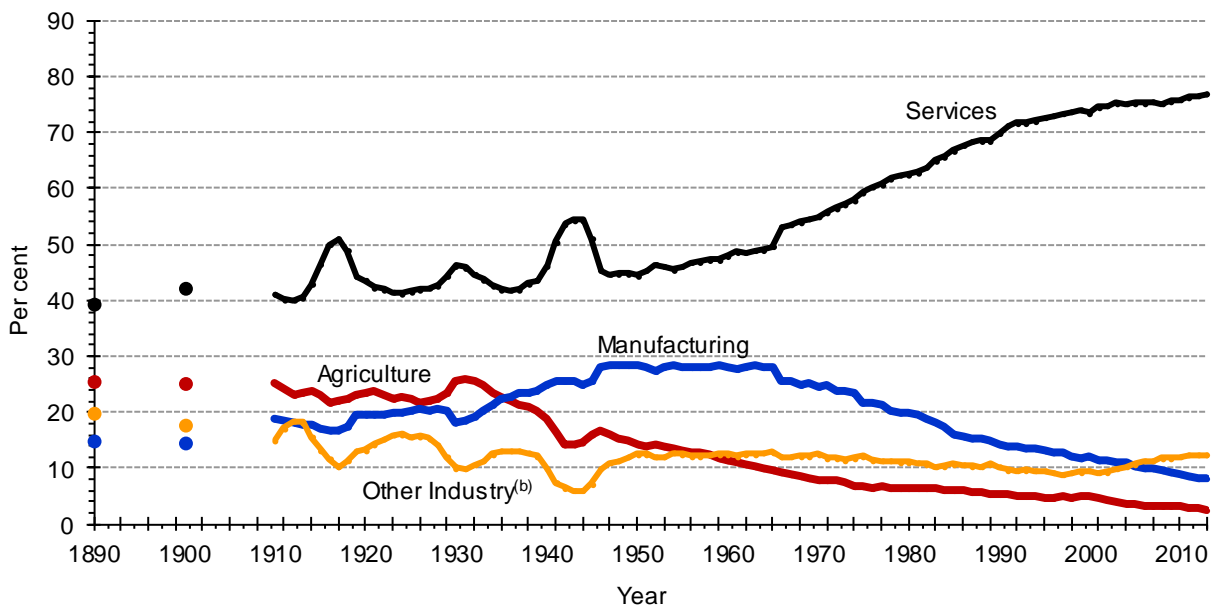
Figure 4 for South Australia, illustrating changes in employment by industry over the last (almost as shown) 30 years, simply confirms we are part of national and international trends that are evident in advanced economies.

Figure 2 Persons employed in industry as a proportion of total employment, selected years^(a)
 Countries ranked according to the Human Development Index



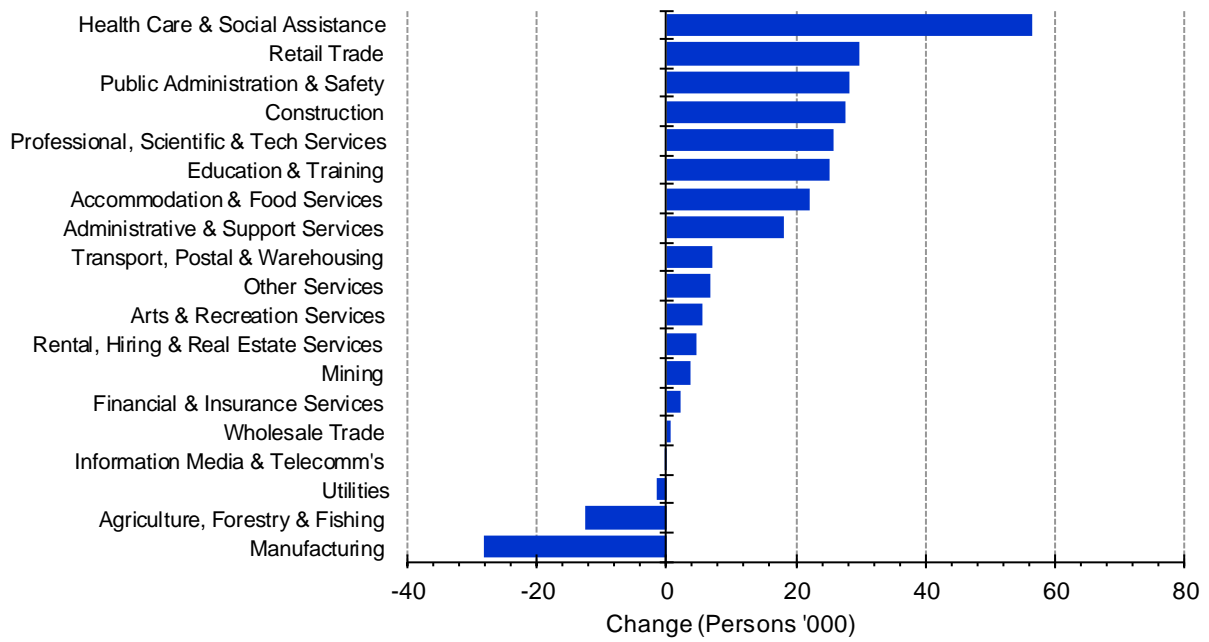
Note: (a) Industry composed of manufacturing, mining and quarrying, electricity gas and water, and construction.
 Source: OECD, StatExtracts.

Figure 3 Proportion of total persons employed by industry sector^(a)
 Australia, 1890 to 2013



Note: (a) Industry composed of manufacturing, mining and quarrying, electricity gas and water, and construction.
 (b) Other industry composed of finance, property, trade and transport.
 Source: Withers, G., Endres, T. and L. Perry (1985), "Australian Historical Statistics: Labour Statistics"; Source Papers in Economic History, Source Paper No. 7, Canberra, December; and OECD, StatExtracts (from 1966 onwards).

Figure 4 Change in employment by industry
 South Australia, 1985 to 2013 (year average)



Source: ABS, Labour Force: www.abs.gov.au

Acceleration of Change

Wide ranging economic and institutional reforms introduced by the Hawke-Keating government post 1983 accelerated the pace of change. These included, *inter alia*, the floating of the \$A, deregulating (banks to set own interest rates), the entry of overseas banks, removing import protection and quotas, privatising government businesses, the introduction of enterprise bargaining, removal of restrictions to the domestic aviation market, deregulation of industry including facilitating entry of new firms in the telecommunications market, removal of restrictions on legal services, occupational licensing, agricultural products, retail trading and shopping hours, and the introduction of national superannuation.

National Competition Policy (NCP) extended the scope of deregulation into product and the labour market, education, skills and training, child care and more.

Prior to these economic and institutional reforms, from the late 1970s and accelerating throughout the 1980s, South Australia experienced the loss of a number of headquartered companies; the closure of multiple manufacturing enterprises especially those producing consumer durables; the wind down in some businesses associated with the automotive industry as components were increasingly sourced globally; and the wholesale closure of TC&F businesses.

In addition, the reduction in average manufacturing employment accelerated through the 1970s and 1980s in part due to increasing specialisation, growth (albeit slow) in capital inputs, the outsourcing of non-core functions and a fall in the number of establishments employing more than 100 employees. In the years 1975 to 1988 the average employee per establishment in all manufacturing industries declined from 50.8 to 38.3. The largest falls were in basic metals, transport equipment, textiles clothing and footwear and other machinery. Taken together the trend decline in the average number of employees per establishment suggests a movement away from economies of scale.

From the mid-1970s through to the mid-1980s the manufacturing sector first experienced a decline in real input costs but from 1985/86 and thereafter real input costs began to increase significantly. While the depreciation of the Australian dollar had some role to play in increasing input costs and the higher interest rates (i.e., impact on the cost of capital) a major cause of the increase in input costs was “electricity charges feature as [a] prominent factor contributing to input price rises.”⁹ The assessment of the response of manufacturing industry to structural adjustment pressures was that “the sector as whole has failed to keep pace with the competitive forces which shape it. Manufacturing continues to decline relative to GSP”¹⁰

Many manufacturers (and others) lacked scale economies and were simply not globally or even perhaps nationally competitive. Structural weaknesses in the South Australia economy were further exposed by the 1991-92 recession and exacerbated by the failure of the State Bank.

Around this time a report on the local economy concluded that the “South Australian economy was poorly structured and vulnerable to an open, competitive, international trade environment.”¹¹ This was the first of many ‘wake-up’ calls to address an ageing and out-of-date industry structure; other reports such as McKinsey’s “*Think Global, Act Local*”, reinforced the imperative to look outward and achieve international competitiveness.

The pace of reform continued from the mid-1980s well into the 1990s notably with the cooperation of government, business groups and unions campaigning for structural reforms and competitive enhancing policies.

States generally responded to the Hawke- Keating reforms, they agreed to certain reforms and initiatives under National Competition Policy (Hilmer Review) while implementing their own review of “overlap and duplication” in tandem with the Commonwealth in education, health, environmental approvals, business regulation, occupational recognition, national training awards and much more.

A number of industry adjustment programs to enhance competitiveness (and/or assist displacement of the labour force) were introduced by the Commonwealth. The Button Car plan was rejigged a number of times, but in 2013 automotive industry protection was estimated at \$23,000 per job by way of subsidies, export credits, ‘co-investment’ and other attempts to prolong the life of the automotive industry. The essential problem was it still lacked scale!

Protection policies (1960s and beyond) were originally designed to protect local firms from US and UK imports that were lower cost due their economies of scale and not lower wages. Then the Japanese achieved significant scale economies with the support of the Ministry of International Trade and Industry (MITI) favouring export oriented domestic production (see C. Johnson¹²) so that the argument for further protection for local

producers shifted to 'protection against low cost Asian workers' when in fact it was still the problem that the domestic industry lacked economies of scale with higher wages relative to their Asian counterparts.

But the emerging Asian and Latin American car manufacturers with their large and growing domestic markets and access to developed country markets now combine low wages with very large factories and developed economies' technologies, R&D and quality control. In China and Mexico single factories now have the capacity to produce around 400,000 vehicles per annum, the equivalent of the peak of total Australian motor vehicle production in 2004.

End of Protectionism: Was it all Pain and No Gain?

Australia has experienced one of the longest periods of economic growth in our history, more than 25 years of sustained growth, assisted by the rise of China, but more generally economic growth has gone in lockstep with rising levels of international trade¹³. Market reform and the preference for market solutions favoured by public policy has also contributed to the long cycle of economic growth, notwithstanding that the appetite for reform has appeared to waiver in more recent times.

Throughout this period of sustained growth most economists, policy makers and others have come to accept that it is simply not feasible to prolong the life of those industries in Australia where we are not internationally competitive and where we do not possess a comparative advantage.

In this regard South Australia has borne a higher adjustment burden than other states because it had more of the trade protected industries (and, through state and Federal policies, held onto them longer). It has therefore felt more of the adjustment costs and this often in shorter time frames due to the way in which the adjustment took place, i.e. it was often due to the end of particular policies of support, rather than through market forces or technological or social change in isolation. In particular, the type of policies put in place often built up expectations about the post change industry and employment environment that could not be met.

While it is true that we are masters of our own destiny, it is equally true that the major 'market opening' policy reforms were initiated at the Commonwealth level and hence they have a considerable (or at least shared) responsibility to assist South Australia in transitioning the economy.

The challenge facing South Australia then has been to develop an economy that is 'less taxpayer subsidised' at various levels, into an economy in which we have an actual or potential competitive advantage, including that public policies and institutional arrangements should preferably be long sighted, consistently applied and pro-competitive.

An honest appraisal of the challenge of transitioning an economy (including that it does not happen overnight) is to acknowledge that the South Australian economy as it is currently structured is not generating the wealth required to support social and community objectives and environmental development.

It also seems likely the current policy focus and implementation, through the impacts on underemployment, income and employment growth, interstate migration, etc. are having broader adverse impacts on other social indicators such as health, education, illicit drug use, respect for the law, etc.

The challenge is not simply one confined to a sector of the economy such as transitioning manufacturing or growing 'advanced manufacturing' although it is obvious (and an advantage) that South Australia does possess immense skills and expertise in this sector of the economy and labour force.

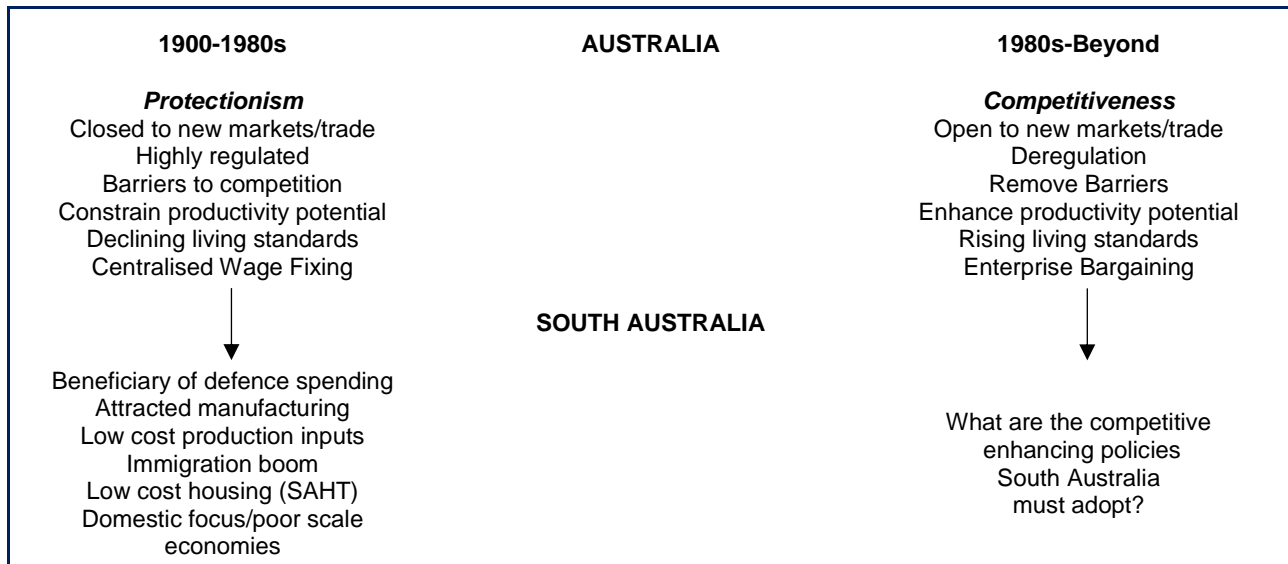
The challenge is much broader than that:

- it is community wide;
- it needs to be argued and explained; and
- policies need to be supportive of reform (in our institutions and markets), applied consistently and signalling the direction of change.

If we conclude that South Australia's future lies in specialising in the production of high-end goods and services that capitalise on our highly educated and trained workforce, capital and natural resources then domestic policies need to be oriented in that way – specialised products and sophisticated demand; improvements in literacy and numeracy for all; higher skills levels and training; and competition in product and health, community and human service markets. In short, South Australia as a community and economy must share the challenge, it must re-invent itself based on our natural comparative advantages and in-built (the one's we create ourselves) competitive advantages.

The challenge is represented diagrammatically in Box 1, suggesting the local economy followed in lock-step the design and intent of public policies (historically, they were largely protective) of the national government in the past and must continue to do into the future.

Box 1 Transition of an Economy and Institutions



The question posed in the bottom right hand corner is: are we in South Australia – in policy, programs and institutional reforms – responding sufficiently to the challenge of international competitiveness; are we implementing pro-competitive enhancing policies; are our institutions and practices contributing to efficiency, productivity and regulatory change?

South Australia has addressed some challenges and weaknesses in a systematic way with examples being the promotion of a 'clean and green image'; development of the viticulture sector; exploration and development of the mining sector; pockets of high-end manufacturing; innovations in wind and solar; and desalination and water recycling for agriculture; expansion of the aquaculture sector; product development to support tourism; and much greater emphasis on international investment and trade.

South Australia has a small to medium sized business economy. We have lost many headquartered companies and those we subsidised to come to South Australia (e.g. EDS, JP Morgan¹⁴, several back office operations, etc.) did not stay long - but we have proven excellence in, *inter alia*, the processing of premium quality food; agribusiness and food technologies; medical technologies and medical research; electronics, surveillance systems and defence manufacturing; aerospace; pharmaceuticals; and expertise in coupling industry with research centres and R&D. We have three nationally funded Universities and established excellence in research institutes such as at Waite Campus, Roseworthy Agricultural College, SAHMRI, SARDI, and many others.

The key point and basis of pro-competitive policy development is that the situation South Australia faces (while not unique) is structural in origin, not cyclical. It will not be satisfactorily addressed by pump priming, by more government expenditure or by use of inefficient subsidies that prolong the inevitable.

We have been able to gradually adapt to the loss of the Mitsubishi engine plant, then car production, the loss of HQ companies, back office operations; we have effectively moved from an economy with a high proportion of employment and value add being related to a highly subsidised car industry to an economy with a subsidised defence contract industry of which some elements do not have the obligations/market pressures to be internationally competitive.

Long-life defence projects are notorious for cost and time overruns so we need to find other mechanisms or benchmarks to monitor levels of productivity and performance that can be classified as 'internationally competitive'. Agriculture and mining are not the high employing industries that they once were.

Governments are not immune from the imperative of 'transformation and reform.' There is a need to re-visit and re-invent the role, functions and size of government.

This is no more than asking the same questions involved in any major policy or program evaluation:

- a) appropriateness (e.g. are our current institutional arrangements 'right for the future', are there alternative strategies, what about size and scale);
- b) effectiveness (e.g. are current services and functions achieving desired outcomes, making a difference, building community and business capacity); and

- c) efficiency (e.g. are various costs exceeding the benefits, are there better ways to achieve stated goals).

Government must do all in its power to create the conditions for new private capital investment from existing companies seeking to expand and attract new investment from out of the state, preferably without subsidies, but with offers of support that improve company performance, enhance skills training, workforce productivity and international competitiveness (e.g. industry commentators such as Commsec, NAB report that South Australia consistently ranks low on business investment, economic and population growth but with higher than average unemployment).

These assessments suggest a renewed emphasis on the supply side including efforts to lower business costs and entry costs; facilitate start-ups, while prioritising export growth and modern infrastructure that is productivity enhancing; minimising regulatory and compliance costs; benchmarking the growth of local firms; and incentivising the benefits/rewards of employment growth. Government has role to play in all of the above, including challenging the status quo while designing sophisticated, long-sighted policy goals.

The ultimate goal of economic (and social) policies is improvement in the quality of life for all, good health and wellbeing. Improving the quality of life for all implies a sense of equity and fairness or, in Pareto terms, the 'winners are able to compensate the losers.'

There is no doubt that within the wider community there is not a sense that this is happening. Rather, it seems there is a general belief that we (Australians) have lost that sense of fairness, that it is winner take all, that spin doctors dominate the discourse and that government has 'mastered the language of change without creating change" (King,2/2016).

People in regional and rural economies have longed believed they have been neglected; in South Australia the consistent criticism of government is that it is 'city-centric.' It is just as true for individuals, regions and businesses that if you want people and institutions to be self-reliant and accountable then they have to be given the responsibility to do so and this means that decision making power and responsibility needs to be shifted down. That is one challenge for a truly democratic government.

Before examining potential policy options, it is sobering to examine some of the underlying trends in the South Australian economy, population, demographics and labour market, in essence picking up on those issues and challenges for Australia and South Australia identified by two of Australia's most experienced and influential economists, Dr Martin Parkinson and Dr Ken Henry. Key issues are:

- a) population growth;
- b) certainty in the domestic economy (political leadership);
- c) less red tape;
- d) budget repair and a simpler taxation system;
- e) energy security;
- f) modern and efficient infrastructure; and
- g) improved labour force participation and productivity, including through better access to skilled domestic workers.

Parkinson and Henry have consistently argued that business has a role to play in promoting the need for more efficient infrastructure, better design of our cities, new urban centres, regional development and public sector reform.

Demographics, Population and Productivity

What do South Australia and China share in common? Slow to zero population growth and ageing of the population (more retirees). If you think this does not matter, be reminded that our economic system needs a growing workforce of income-earning taxpayers to support our large public sector.

Growing, or the very least sustaining current living standards in the face of slowing population growth and demographic ageing necessarily implies improvements in productivity; that is, higher output per hour worked of a declining share of the working population.

The ratio of the number of workers employed relative to the retired population in South Australia in 1982 was 5.3:1 and in 2014 this had declined to 3.5:1.¹⁵ For Australia the comparative figures were 5.8:1 and 4.5:1. In China it is currently 6.7:1 and estimated to fall to 4:1 by 2020.

In Australia, and more so in South Australia, over 90 per cent of those over Age Pension age are expected to continue to be eligible for the Age Pension and other tax payer funded benefits. The maths says an increasing share of Federal and State budget spending will be in these areas and it will be paid for by a mix of taxation and increased debt. In turn, that points to increasing income and consumption taxes per capita in order to fund the rising benefits and/or service the increasing debt.

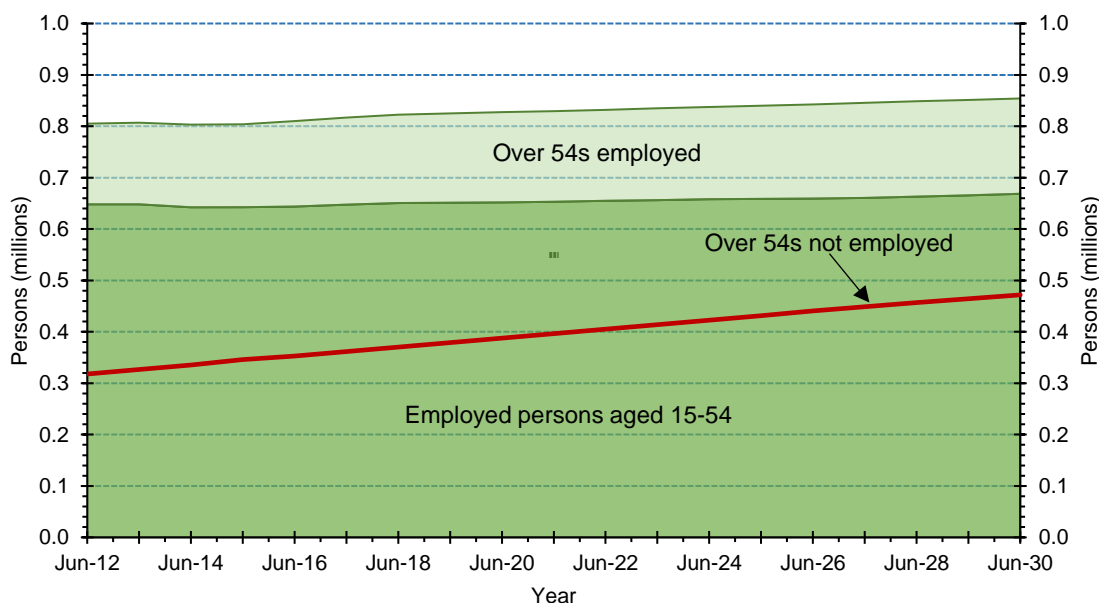
This is why productivity matters, why private capital investment matters, why costs matter, why labour conditions and labour relations matter, regulatory impediments and excessive compliance costs matter, education, training and skills and efficient institutions and systems matter.

If we consider the core aged workforce at notionally 15 to 54 years (using the ABS Population Projections C (i.e. the lower projection) and note that South Australia's population is growing even more slowly than these projections with the second round impact of lesser children born in South Australia, Figure 5 shows that in 2016 the estimated ratio of employed to over 54s not employed is 2.3 to 1 and the forecast ratio in 2030 will decline to 1.8 to 1.

In short, this faster rising dependency ratio is another 'red alert' as to why productivity has to rise even faster to support stronger real wages growth. This illustrates that a much stronger policy focus is warranted on those 'policy levers', including regulatory and institutional reforms that will provide a boost to productivity across the South Australian economy.

On current projections based on the aged demographic, some 50 percent of the increase in employment out to 2030 will be in the over 54 age group. This has implications, discussed later, about meeting changing industry needs, training and retraining and entrepreneurship, etc.¹⁶

Figure 5 Projected employment by age group for South Australia, employed persons aged 15-54 and over 54, not employed over 54s, June 2012 to June 2030



Source: ABS, Cat No. 3222.0, Population Projections, Australia, Series C, Table C4.

Population trends ...

In the 35 years from 1981/82 to 2015/16, the total population of South Australia increased by a little over 382,000 or some 28.8 per cent from the 1981/82 baseline (average of estimated residential population for four quarters in Table 1).

In comparison the population of Victoria increased by approximately 2.146 million people or 54.0 per cent above the 1981/82 baseline. The population of Australia increased by approximately 8.984 million people or 59.5 per cent over the same period.

Over the period shown in Table 1 the South Australian population grew at an average annual rate of 0.75 per cent, the Victorian growth rate was 1.28 per cent and the Australian growth rate was 1.38 per cent.

Table 1 Financial year average estimated resident population by state, selected years

	South Australia	Victoria	Australia
1981/82	1,326,547	3,974,857	15,087,185
1985/86	1,378,257	4,145,532	15,930,029
1989/90	1,427,182	4,356,226	16,969,881
1993/94	1,461,764	4,468,883	17,745,087
1997/98	1,480,445	4,593,043	18,539,681
2001/02	1,508,599	4,798,245	19,416,032
2005/06	1,547,380	5,034,729	20,351,342
2009/10	1,621,132	5,431,099	21,912,390
2013/14	1,681,476	5,856,055	23,374,755
2014/15	1,696,544	5,984,857	23,724,016
2015/16	1,708,833	6,121,016	24,070,789

Source: Australian Bureau of Statistics, Australian Demographic Statistics, March 2017 Cat. no. 3101.0 Table 4 Estimated Resident Population, States and Territories.

Most noticeably in the two periods 1993/94 to 1997/98 and 1997/98 to 2001/02 South Australia's population growth rates were less than half those of Victoria or Australia (Table 2). This was largely due to sharply reduced overseas immigration and increased outward migration to interstate. The dominant cohorts of those who left South Australia were young people and young families. They did not return and they married and/or had children adding to other states' younger aged profile while depleting our own. Since 2009/10 South Australia's population growth has again decelerated relative to both Victoria and Australia for what appears to be similar reasons to these earlier periods.

Some 25 years on in 2016 from the 1991 State Bank crisis and the hollowing out of mass assembly manufacturing, the effects on the age profile are evident. In the decade following the State Bank crisis the age cohorts 15-19, 20-24, 25-29 years all declined in aggregate numbers and the effect of this change is still evident in our current age demographic profile (Table 3). Thus began the first wave of structural change in the age profile of the local population.

Compounding the adverse impact of the outflow to interstate migration in the decade from 1990/91 to 2000/01 when South Australia lost 34,456 people, overseas inward migration accounted for a mere 33,134. Hypothetically, had South Australia's population grown at the rate of Victoria over the entire period (at 1.19 per cent) then South Australia's population would be 1.94 million instead of the 1.68 million in 2014. We are not likely, even on relatively optimistic assumptions on interstate and overseas migration, to reach the stated 2 million target until approximately 2034.

Table 2 Four yearly population compound annual growth rates, South Australia, Victoria and Australia, per cent

Years	South Australia	Victoria	Australia
1981/82 - 1985/86	0.96	1.06	1.37
1985/86 - 1989/90	0.88	1.25	1.59
1989/90 - 1993/94	0.60	0.64	1.12
1993/94 - 1997/98	0.32	0.69	1.10
1997/98 - 2001/02	0.47	1.10	1.16
2001/02 - 2005/06	0.64	1.21	1.18
2005/06 - 2009/10	1.17	1.91	1.86
2009/10 - 2013/14	0.92	1.90	1.63
2011/12 - 2015/16	0.88	2.20	1.60

Source: Australian Bureau of Statistics, Australian Demographic Statistics, December 2014 Cat. no. 3101.0 Table 4 Estimated Resident Population, States and Territories.

Population profile: population in transition

The changing age distribution is summarised in Table 3. There are several points to note from the aggregate data. The first is the doubling of the age cohort greater than 65 years in each jurisdiction (while not shown, the same is true for other states).

The second is, that only in South Australia are the numbers of younger people in the first three age cohorts smaller in aggregate in 2013/14 than in 1981/82 (by some 25,000 young people). This is significant for the reason that there are clear economic consequences that follow from this “deyounging” ‘ageing profile’ based on life cycle income and consumption (e.g. the shift in household expenditure and investment in health care relative to education) and labour force productivity.

Table 3 Population by age group: South Australia, Victoria and Australia, 1981/82 and 2013/14

	South Australia		Victoria		Australia	
	1981/82	2013/14	1981/82	2013/14	1981/82	2013/14
0-14	309,762	297,298	973,659	1,069,380	3,744,986	4,422,554
15-19	114,869	104,763	344,081	357,934	1,288,994	1,474,485
20-24	116,667	114,429	347,052	419,758	1,333,401	1,650,869
25-29	108,656	115,376	326,612	450,175	1,253,635	1,747,148
30-34	105,423	111,195	318,640	439,588	1,228,574	1,709,344
35-39	91,730	102,734	278,922	395,440	1,073,243	1,559,166
40-44	73,005	114,318	227,414	417,742	865,803	1,666,157
45-49	65,454	112,827	199,963	386,969	748,322	1,541,092
50-64	202,187	324,743	572,921	1,037,371	2,148,521	4,248,187
> 65	143,355	287,713	403,606	865,139	1,498,768	3,456,347
Total ^(a)	1,331,108	1,685,396	3,992,870	5,839,496	15,184,247	23,475,349

Note: (a) sum of all age groups does not align to financial year averages presented.

Source: Australian Bureau of Statistics, Australian Demographic Statistics, December 2014. Cat. No. 3101.0. Tables 52, 54 and 59. Estimated Resident Population By Single Year of Age.

There are three important issues behind this aggregate picture. The first, is as previously mentioned, the impact of the State Bank financial crisis; the loss of headquartered companies around the same time; and the loss of “mass manufacturing” employment (particularly in white goods, other consumer durables and textile/clothing) that commenced in the 1980s and accelerated in the early 1990s. In the absence of other growth sectors, this resulted in substantial out-migration. The national recession of 1990/91 was also a contributing factor.

The second is the long-term decline in the fertility rate or population replacement rate. The ABS (2015) estimate the national replacement fertility rate is 2.1 births per female aged 15-49 years. The current birth rate in South Australia is currently 1.85, in Victoria it is 1.73 and for Australia 1.8. Here we simply note that social and economic factors (e.g. entry and higher retention of women in the workforce) have contributed to a decline in the fertility rate in most advanced Western economies. On-going advances in medical and health care have contributed over the longer term.

The third contributing factor, compared to the national trend, is the lower rate of overseas migration to South Australia. This is despite SA benefiting from the Federal Government’s designation of the State as a special region. A higher rate closer to or above the national rate not only would contribute to population growth, but have a positive effect on the working age population, the quality and quantity of human capital and add to the domestic consumer market. The recent Productivity Commission Inquiry (2015) concluded that the

“relatively young and skilled immigrants provide a demographic dividend by increasing the proportion of people in the workforce, thus reducing the negative impacts associated with an ageing population.”¹⁷

Population: labour supply

While immigrants benefit from their employment in Australia, preliminary modelling (PC: 2015) suggests that the Australian population as a whole benefits from higher output per person.

“... if most of a nation’s population falls within the working ages, the added productivity of this group can produce a ‘demographic dividend’ of economic growth, assuming that policies to take advantage of this are in place”. (Bloom et al, p. 1)

How does South Australia fare with respect to the share of the population that is economically active? The first point to note as previously mentioned is that the absolute number of younger people potentially contributing to the “demographic dividend” in 2014 is less than it was in 1981/82 and their share of the population has also declined. (Table 3).

The second point to note is that the labour force participation rate of those aged 15-19 years and 20-24 years has continued to decline, with policies to encourage secondary school completion and an expansion in tertiary enrolments (although many combine part-time and casual employment with education) (see Table 4).

Table 4 Average youth labour force participation rates, South Australia, Victoria and Australia, 2001/02 – 2016/17, per cent, original data

	South Australia		Victoria		Australia	
	15 – 19 years	20 – 24 years	15 – 19 years	20 – 24 years	15 – 19 years	20 – 24 years
2001/02	61.3	82.1	57.7	81.8	59.4	81.7
2002/03	60.8	82.8	56.9	80.4	59.1	81.4
2003/04	61.4	81.7	55.5	81.1	59.7	80.9
2004/05	61.0	83.5	56.7	79.7	59.8	81.0
2005/06	61.8	82.1	56.4	80.5	59.6	81.5
2006/07	59.9	82.5	56.6	80.8	59.4	81.8
2007/08	59.6	81.4	57.1	81.1	59.6	82.1
2008/09	58.9	79.4	54.1	79.9	58.1	81.0
2009/10	58.0	80.0	53.0	80.4	56.3	80.0
2010/11	60.8	79.1	53.2	80.0	55.8	79.7
2011/12	53.9	80.5	52.6	79.8	55.1	79.5
2012/13	56.7	77.1	52.1	77.8	54.4	78.6
2013/14	54.5	75.5	50.6	77.8	53.2	78.4
2014/15	52.9	78.1	53.0	77.2	54.0	78.5
2015/16	53.9	77.6	50.9	77.7	53.7	79.2
2016/17	51.4	78.8	51.3	78.1	53.1	78.5

Note: Calculated as financial year averages of monthly data

Source: ABS (2015), Labour Force, Australia, Detailed - Electronic Delivery, Jul 2015, cat. no. 6291.0.55.001

The third point to note is the growth rates of selected age groups (Table 5) and the worsening of those growth rates in the last five years (Table 5a). Here we are most interested in the principal workforce age groups. The rate of growth in the age cohort 25-44 years is only one-third of the national and Victorian growth rates and it was this group that was 'hollowed-out' with the wave of out migration that immediately followed the State Bank crisis and loss of headquartered companies some 25 years ago.

Table 5 Compound annual growth rate by selected age groups, 1981/82 – 2015/16, per cent

	South Australia	Victoria	Australia
0-14 years	-0.05	0.47	0.59
15-19 years	-0.29	0.23	0.40
20-24 years	-0.02	0.77	0.71
25-44 years	0.47	1.32	1.30
45-64 years	1.48	1.95	2.13
15-64 years	0.65	1.24	1.40
65 years and over	2.23	2.45	2.67

Source: Australian Bureau of Statistics, Australian Demographic Statistics, December 2016. cat. no. 3101.0. Table 59. Estimated Resident Population By Single Year of Age, Australia, Table 54 Estimated Resident Population By Single Year of Age, South Australia and Table 52 Estimated Resident Population By Single Year of Age, Victoria.

Table 5a Compound annual growth rate by selected age groups, 2010/11 – 2015/16, per cent

	South Australia	Victoria	Australia
0-14 years	0.92	2.36	1.55
15-19 years	-0.36	0.96	0.31
20-24 years	0.17	1.79	1.03
25-44 years	0.38	2.20	1.51
45-64 years	0.50	1.74	1.20
15-64 years	0.33	1.87	1.23
65 years and over	2.99	3.63	3.53

Source: Australian Bureau of Statistics, Australian Demographic Statistics, December 2016. cat. no. 3101.0. Table 59. Estimated Resident Population By Single Year of Age, Australia, Table 54 Estimated Resident Population By Single Year of Age, South Australia and Table 52 Estimated Resident Population By Single Year of Age, Victoria.

The workforce (15-64 years) is growing at half the national rate and well below the rate for Victoria with implications for the skill profile (and experience profile) of the labour market. The future replacement cohorts, 15-19 years and 20-24 years, are smaller than they were in 1981/82 and, most worryingly, many young people continue to experience extended periods of unemployment thus delaying the acquisition of workforce skills and training.

In the last five years (Table 5a) the principal workforce age group has declined still further relative to the growth rate nationally and for that of Victoria. This is precisely the “echo effect” as we described earlier, where young people left the State due to the ‘State Bank crisis and its aftermath”, they secured employment, married and had children and did not return to South Australia.

Adding in those who are underemployed, the ABS estimates the underutilisation of labour rate in South Australia is approximately 19 per cent or 156,000 employed persons out of 811,000.

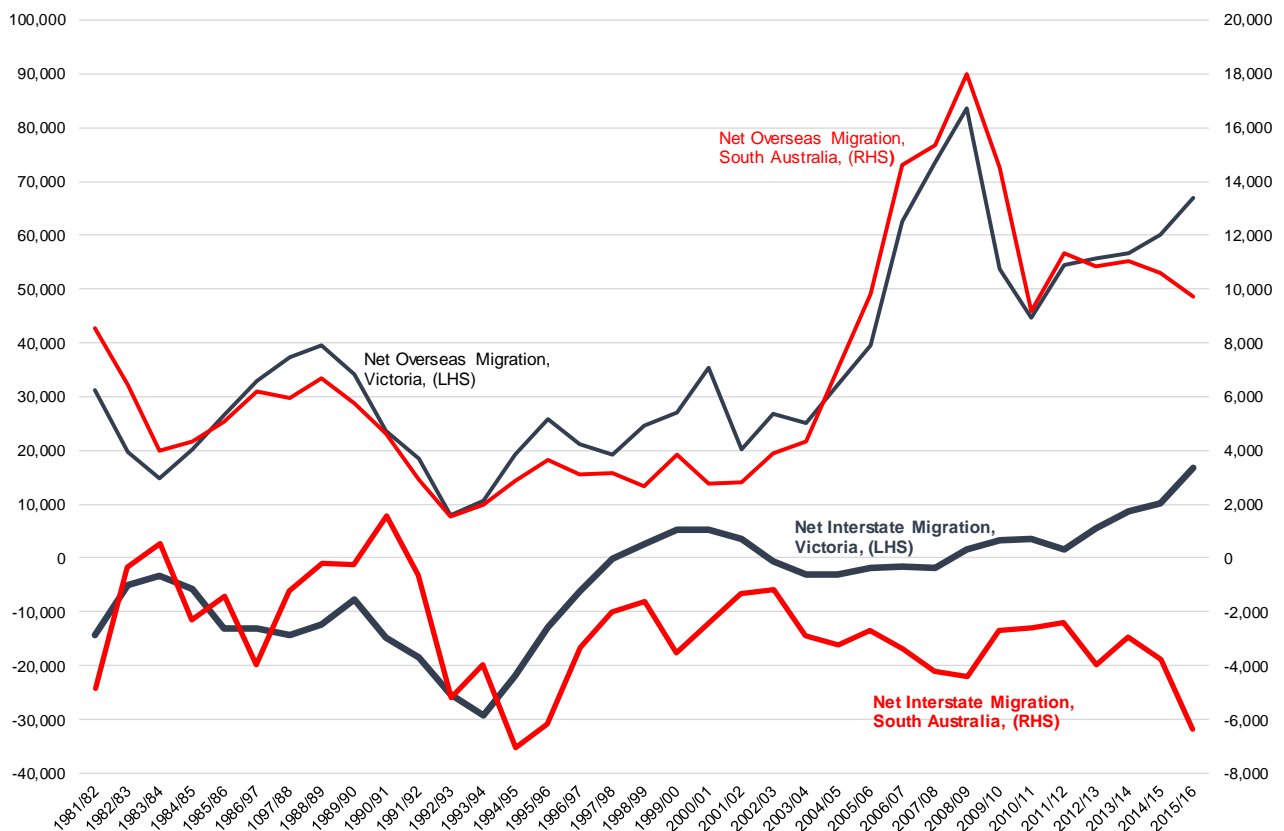
Net interstate and overseas migration

A state or region can enjoy a ‘demographic dividend’ if conditions are such that an inflow of migrants is principally comprised of working age cohorts. This is well illustrated in the history of mining towns/regions where the workforce was generally younger, families were younger and incomes were high. A ‘demographic deficit’ is the situation (often) for smaller rural towns where post-school youth move to large centres/cities for education and in search of employment.

There are two sources of migration that influence the composition of the population. The first is interstate migration – people moving in and out of states or territories – with the final measure being ‘net interstate migration’. That is to say, for South Australia is the trend positive (more people moving in) or negative (more people moving out)?

Figure 6 illustrates the trend in net interstate and overseas migration for South Australia and Victoria including the immediate impact of the financial crisis experienced by the two states in 1991/92. In the case of South Australia, outward migration was ten times higher in 1994/95 (7,100 persons) than it was in 1991/92 (658 persons). In both states, net overseas migration at that time was not sufficiently positive to offset the interstate migration outflow from 1991/92 to 1995/96 (see Table 6).

Figure 6 Net interstate and overseas migration, per annum, South Australia and Victoria, 1982/82 – 2015/16



Source: ABS (2015), Australian Demographic Statistics, Dec 2014, cat. no. 3101.0.

Table 6 Average net annual migration, South Australia and Victoria and Australia, 1981/82 to 2013/14

	Net Overseas Migration	South Australia Net Interstate Migration	Total	Net Overseas Migration	Victoria Net Interstate Migration	Total
1981/82 - 1985/86	5,664	-1,677	3,987	22,425	-8,381	14,044
1986/87 - 1990/91	5,840	-829	5,011	33,406	-12,543	20,863
1991/92 - 1995/96	2,595	-4,621	-2,027	16,402	-21,566	-5,164
1996/97 - 2000/01	3,108	-2,579	530	25,480	1,289	26,769
2001/02 - 2005/06	5,568	-2,269	3,299	28,780	-1,017	27,763
2006/07 - 2010/11	14,334	-3,463	10,871	63,605	966	64,571
2011/12 - 2015/16	10,717	-3,905	6,811	58,746	8,510	67,259

Note: See appendix Table A.2 for full data.

Source: ABS (2015), Australian Demographic Statistics, Dec 2014, cat. no. 3101.0.

A look back at who left South Australia – the 1996 Census data – showed that it was indeed younger and skilled young workers who departed the state from 1992 to 1995. People in their twenties comprised more than half of all higher education graduates who left the state in the mid-1990s.

Hugo et al (2000) also reported that the female contribution to the “brain drain” was greater than the male contribution, i.e. skilled women were more likely to move interstate from South Australia than their male counterparts. Hugo et al (2000) reported that the strongest reason for higher education graduates moving from South Australia to other jurisdictions was employment prospects.

The recession of 1991/92 and the State Bank crisis led to a significant and accelerated outflow of population along with a decline in overseas immigration. Coupled with the aftermath of the financial crisis in South Australia and Victoria and the on-going structural change in industry and employment, both states found that overseas migration was not sufficient to offset net losses of interstate migration. Victoria recovered and turned its slowing population growth around more quickly in the mid-1990s than did South Australia, Victoria halted the outflow of interstate migration and boosted the intake of overseas migrants (Table 6) whereas South Australia has successfully achieved (particularly at least) only the latter. Net interstate migration losses for South Australia have remained relatively high with an increasing trend in recent years.

Increasing the number of overseas migrants into South Australia will provide a boost to the skill profile of the labour force notwithstanding that “from an economic perspective, migration policy is better directed at raising average skill levels than lowering the age level.” (Banks 2013). In 2011, 48.8 per cent of recent overseas migrants to South Australia had a Bachelor degree or higher (Economic Analysis Unit, 2014). This is higher than the figure for the general South Australian population at 18.6 per cent.

It is important to increase the degree of regional flexibility in the Australian migration and visa system so that regional employers and small area labour markets can quickly adjust to labour shortages and skills mismatch (e.g. people are generally reluctant to move from major urban centres to regional areas). In SACES reports referred to below we reiterate that

“Concerns are sometimes expressed that employment focussed migration has negative impacts on the existing population of a recipient country, with fears about impacts on the employment prospects of existing lower skilled employees being particularly widespread. If these concerns were borne out by the evidence then it would be prudent to tightly restrict migration and only allow in a very limited range of high skilled occupations where there are broader benefits to the community (such as doctors, researchers and entrepreneurs). However, the evidence of the impact of migration does not confirm these concerns. Instead the available evidence suggests that migration has a neutral or slightly positive affect on per capita GDP, no impact on the employment rates of the non-migrant population (even at lower skill levels), a very small but positive impact on average wages, and a very small but ambiguous impact on the wages of lower skilled occupations.”¹⁸

SACES has recently completed a study into reforming Commonwealth migration policies in which it was identified that how the current system of regulation of labour migration operates has potential adverse effects and risks that may disadvantage South Australia and our regional economy. The series of three reports contained 14 recommendations that need to be taken up by the State Government if the migration system is going to be able to meet South Australia’s needs and the needs of local and regional employers.

In the past, the Australian visa system has often had a degree of regional flexibility. This recognises that the substantially smaller labour market of regional areas, together with the difficulties often experience in attracting Australians from major urban centres to move to regional areas.

Employment to population ratio

The ABS provides estimates of the employment to population ratio, defining the ratio “as the number of people that are employed as a percentage of the civilian population aged 15 years and over. This measure removes population growth as a confounding factor when interpreting employment estimates.”¹⁹ Removing the influence of any change in population to be able to observe a change in the ratio provides a further insight into any positive or negative effect on GSP/GDP per capita as the proportion of the population employed rises or falls.

Table 7 illustrates the ratio is subject to bouts of recession (1981/82, 1991/92) and then the Global Financial Crisis of 2007/08, with the ratio consistently lower for South Australia (an indicator of jobs created relative to population) and falling relative to Victoria and Australia.

Table 7 Financial year average employment to population ratios, South Australia, Victoria and Australia, per cent, selected years

	South Australia	Victoria	Australia
1981/82	55.8	57.7	57.2
1989/90	57.9	61.2	59.6
1990/91	57.3	58.8	58.3
1991/92	54.8	56.1	56.4
1992/93	54.3	55.2	55.7
1996/97	55.4	57.7	57.9
2001/02	56.1	59.2	59.1
2004/05	58.2	60.6	60.6
2007/08	59.9	62.3	62.6
2008/09	60.2	61.4	62.3
2009/10	59.8	61.6	61.7
2014/15	57.7	60.7	60.7
2015/16	57.6	60.9	61.2
2016/17	58.0	61.8	61.0

Source: ABS (2017), Labour Force, Australia, Sep 2017, cat. no. 6202.0, Table 1. Labour force status by Sex, Australia - Trend, Seasonally adjusted and Original; Table 5. Labour force status by Sex, Victoria - Trend, Seasonally adjusted and Original; and Table 7. Labour force status by Sex, South Australia - Trend, Seasonally adjusted and Original.

For males, the employment to population ratio (Table 8) has exhibited a consistent decline and most particularly in the early mid-1990s with the impact of tariff reductions on local manufacturing. Notably the fall in the male employment to population ratio has been more significant in South Australia than for Victoria and Australia while the increase in the female employment to population ratio has been somewhat slower.

The relative male/female ratios also provide an insight into the changing structure of state and national industries and economies over time. However, in view of the close comparability of the composition of manufacturing industries in South Australia and Victoria at the start of the 1990s, and each experienced the same tariff reductions and similar financial crises, why have the employment to population ratios for each sex in South Australia moved less favourably than in Victoria?

Table 8 Financial year average employment to population ratios, South Australia, Victoria and Australia, per cent, selected years

Year	South Australia		Victoria		Australia	
	Male	Female	Male	Female	Male	Female
1981/82	71.3	41.0	73.7	42.3	73.6	41.3
1989/90	69.4	46.9	72.6	50.1	71.2	48.3
1990/91	67.9	47.2	68.9	49.1	68.9	47.9
1991/92	64.1	45.8	64.7	46.0	65.2	46.6
1992/93	63.4	45.6	64.7	46.0	65.2	46.6
1996/97	63.1	48.0	66.9	48.9	66.8	49.2
2001/02	63.3	49.2	67.7	51.1	66.9	51.5
2004/05	65.6	51.2	68.5	53.0	68.2	53.3
2007/08	66.4	53.7	69.8	55.0	69.8	55.7
2008/09	66.4	54.2	68.3	54.8	68.9	55.8
2009/10	65.9	54.0	68.3	55.1	68.2	55.3
2014/15	63.2	52.5	66.9	54.7	66.6	55.0
2015/16	62.1	53.3	67.5	54.7	66.7	55.8
2016/17	62.3	53.8	67.9	56.0	66.4	55.8

Source: ABS (2017), Labour Force, Australia, Sep 2017, cat. no. 6202.0, Table 1. Labour force status by Sex, Australia - Trend, Seasonally adjusted and Original; Table 5. Labour force status by Sex, Victoria - Trend, Seasonally adjusted and Original; and Table 7. Labour force status by Sex, South Australia - Trend, Seasonally adjusted and Original.

This is an important question in regard public policy development and implementation, employment, living standards and community welfare issues.

Recent data confirms the on-going structural change in employment, with male full-time employment declining by some 17,000 positions (March 2011-2017) and part-time employment up by some 12,000. Through mid-2017, male full-time employment has lifted but remains below the levels of early 2015. In the same period, female full-time employment increased by only 500 and part-time by 14,000. Since mid-2017, net losses in female full-time employment have largely offset the recovery in male-full-time employment. In March 2017 (not shown in Table 8) the male employment to population ratio is as in the last row of Table 8 (62.5); however, the ratio has increased to 54.1 for females.²⁰

The second and important measure is the dependency ratio which is a measure of the age to population ratio of those who are traditionally not in the labour force relative to those in the labour force.²¹ It is a ratio that is socially defined. For example, if the formal retirement age increased then the dependency ratio would decline as more older aged workers continued in the labour force. Traditionally, as a complement to other labour force statistics and analysis, it is a measure of the productive workforce (i.e. 15-64 years) relative to those who are dependants.

South Australia's ageing population is reflected in the increase in the dependency ratio by 10 percentage points since 1981/82 in the first two columns of Table 9. Columns 3 and 4 combining young and old dependants leads to an increase in the ratio in South Australia, whereas for Victoria and Australia the ratio falls. The reason for the fall is that the proportion of particularly the younger working age in Victoria and Australia has increased, whereas it has marginally declined in South Australia.

Table 9 Comparison of dependency ratios: 1981/82 and 2015/16

	Dependency ratio for >65		Dependency ratio for 0-14 and >65 years	
	1981/82	2015/16	1981/82	2015/16
South Australia	16.3	27.4	51.6	54.9
Victoria	15.4	22.6	52.7	50.4
Australia	15.1	23.0	52.8	51.7

What this means – given that the higher the dependency ratio the more people who are not of working age and conversely the fewer who are in the productive sector of the economy – the greater is the support burden carried by those in the labour force and the greater the need to achieve productivity gains.

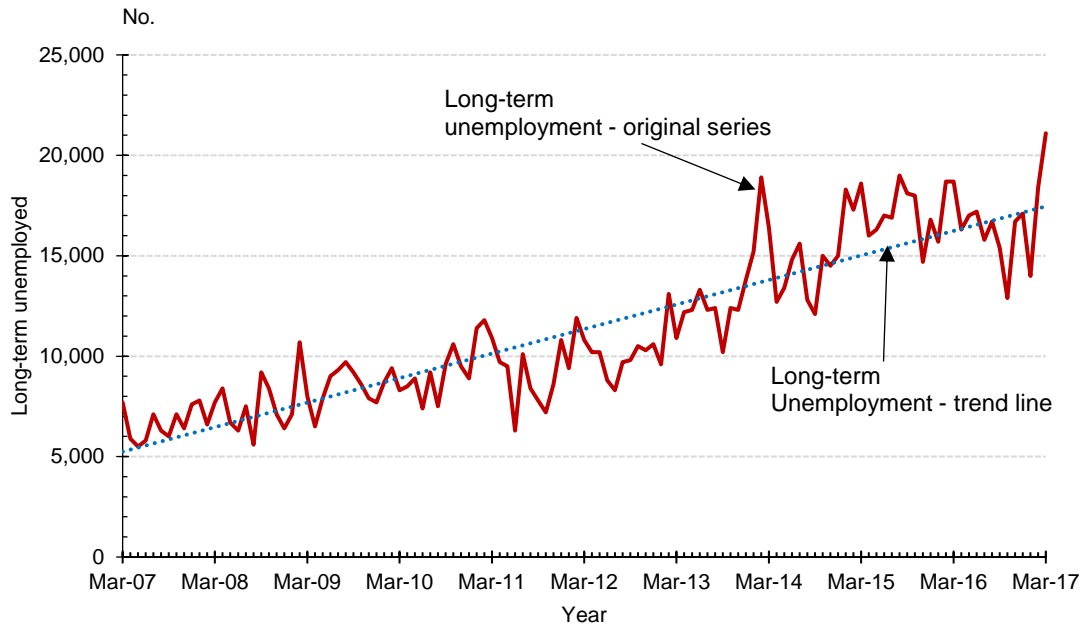
We make a cautionary note at this point, as analysis of those over 65 years participating in the labour force will reveal, that many in this age group are working and are income self-sufficient so that they are not strictly dependent. However, it is the working population that pay most of the income and consumption taxes, it is the tax paying workers who support a large public sector and higher dependency ratios do imply the direction and burden of taxes to fund retirement pensions, health costs, disability pensions, schools and other public services.

The higher the dependency also impacts the direction of the composition of income generation and growth and the focus of spending. For example, an increasing proportion of the population no longer in fulltime or any employment and dependent on superannuation or social security benefits is likely to mean slower overall income growth. Less is likely to be spent by new families, e.g. on first homes, and more on health care.

Analysis by King (2017) shows another side to this. He considered falling enrolment figures in private schools to argue "middle class flight" was evident in South Australia in 2016 with of the 6500 people who left "500 were upper salary earners": the figure for leavers in 2016 was 70 per cent higher than the year before and the 5,000 leavers in 2015 was 81 per cent higher than the previous year".²²

Unemployment

The deterioration in the labour market is illustrated in several ways including a decline in the participation rate, an increase in the underutilisation of labour with those in employment seeking more hours and as shown in Figure 7 and Table 10, an increase in the duration of unemployment. The long-term trend is an increase in unemployment but of most concern is the increase in long-term unemployment measured at 12 months or more.

Figure 7 Long-term unemployed (1 year or more), South Australia, March 2007-March 2017 (original series)

Source: ABS, Cat No. 6291.0.55.001, Labour Force, Australia, detailed, April 2017, unemployed persons by duration of job search, state and territory, January 1991 onwards, Table UM2.

Looking beyond the numbers, the increase in long-term unemployed has obvious personal, health, mortality and social costs for the individuals along with significant economic and community costs as well.

The first concern must be for the individuals and families who experience real economic hardship in the loss of income and savings and personal and social costs. While the Commonwealth meet transfer payment costs and a large part of transition costs (e.g. training support, job active, transition programs) significant transition costs are incurred at the state level by government and not for profit organisations.

Unemployment is often also relatively concentrated geographically and this means that some communities and local councils bear a disproportionate cost relative to others. SACES estimates that the cost of unemployment in South Australia, based on the profile and characteristics of the unemployed, is in the order of \$6.5 billion to \$8.0 billion per annum, equivalent to 5 per cent of total income or \$11,000 per household. This could be doubled when underemployment is added.

Table 10 Unemployment by duration, South Australia, persons, 12 month moving-average, Mar 2007 and March 2017 (original series)

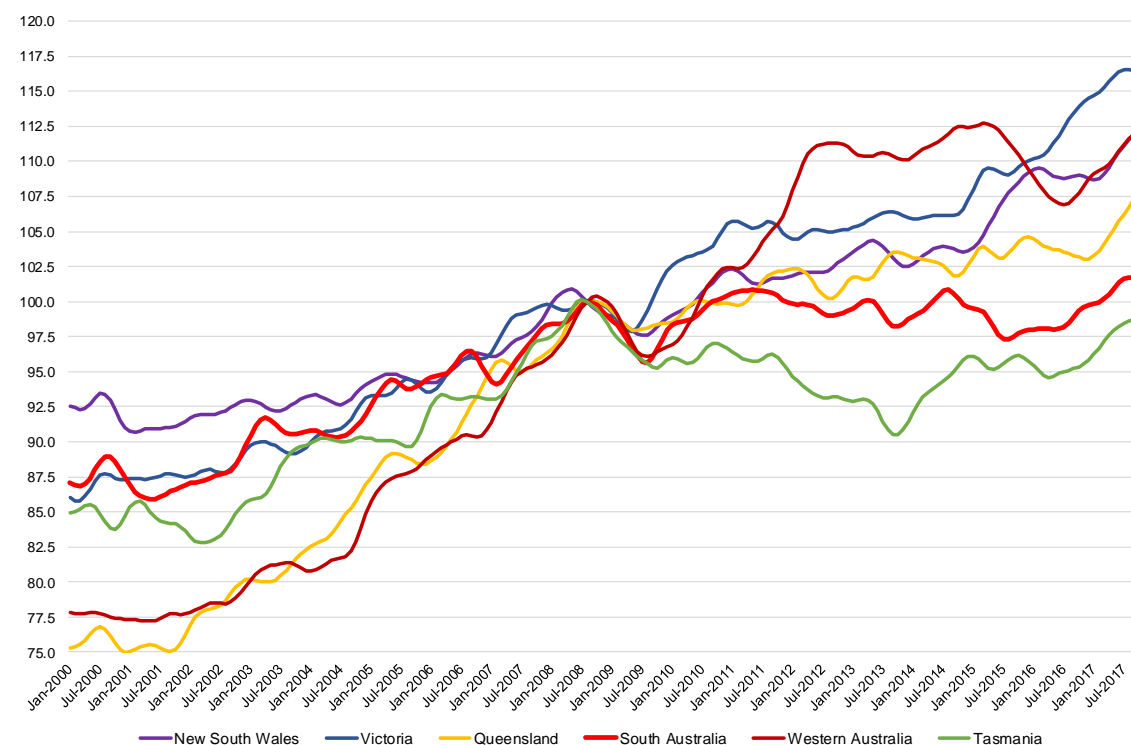
Unemployed	March 2007	March 2017	Increase over 10 years	
			No.	Per cent
All durations	39,983	58,475	+18,492	+46.2
Less than 1 year	32,575	41,925	+9,350	+28.7
1 year or more (long-term)	7,392	16,550	+9,158	+123.9

Source: ABS, Cat No. 6291.0.55.001, Labour Force, Australia, detailed, April 2017, unemployed persons by duration of job search, state and territory, January 1991 onwards, Table UM2.

In addition to rising unemployment levels and the increase in long-term unemployment, the labour underutilisation rate has increased while the monthly hours worked in all jobs has shown no increase post the Global Financial Crisis of 2008/09.

The low to no growth in hours worked (Figure 8) at least has a positive side in the process of employment adjustment for employers and some individuals. That is to say, employers want to retain employees (i.e. labour hoarding) and adjustment in hours worked is the preferred pathway rather than reducing employment.

On balance this is also often more preferable than unemployment for the individual as well. ABS surveys consistently, however, confirm that large numbers of South Australian employed workers are seeking more hours of work. This working of less hours than desired represents a substantial loss of income and opportunities to individuals, households and South Australia overall.

Figure 8 Pre and post monthly hours worked by State, Trend, August 2008 = 100

Source: ABS, Cat No. 6202.0, Table 19.

Participation rate

The labour force participation rate in aggregate for all aged groups has increased over the last two decades with the most significant contribution coming from the participation of women in the labour market. Behind the aggregate picture, however, there are several interesting trends that are partly the result of ‘ageing’ and ‘deyounging’ demographics.

The participation rate for younger people declined in the period shown in Table 11 principally due to higher school retention rates and greater numbers flowing into post-school education and training opportunities. On balance, delayed entry into the workforce and entering with higher skills and training is a positive trend for the nation as a whole.

Table 11 Participation rate by age group, 1991/92 and 2014/15, South Australia, Victoria and Australia, per cent

		1991/92	2014/15
15 – 24 years old	South Australia	70.2	65.5
	Victoria	67.5	65.1
	Australia	68.9	66.4
25 – 54 years old	South Australia	79.9	82.3
	Victoria	80.4	82.8
	Australia	79.6	83.1
55 – 59 years old	South Australia	55.1	73.6
	Victoria	54.7	75.1
	Australia	54.5	73.1
60 – 64 years old	South Australia	29.7	53.9
	Victoria	32.1	55.5
	Australia	32.4	54.7
65 years and over	South Australia	4.0	11.1
	Victoria	5.8	12.6
	Australia	5.2	12.1

Note: Calculated as financial year averages of monthly data, original data.

Source: ABS (2015), Labour Force, Australia, Detailed - Electronic Delivery, Jul 2015.

Not shown in Table 11 is a marked decline in the participation rate of 15-19 year olds of 8.4 percentage points between 2001/02 and 2014/15 in South Australia. This accounts for most of the larger decline in South Australian participation in the 15-24 group but does not appear to be reflected in a commensurate lift in education participation.

The most significant changes have been the increase in the participation rate of the older aged groups – 60 to 64 years and 65 years and over. The participation rate has risen as the “baby boomers” – a larger demographic than decades before – have worked their way through the system.

That people at retirement age are now more numerous and generally healthier translates into continuing to participate in the workforce. Whether the age demographic and the higher retention rate of those aged 60+ contributes to a “lock-out” effect for younger, new entrants to the workforce is not considered in this paper. In the longer term the balance will shift in favour of younger entrants. The Productivity Commission (2005) estimated that the South Australian labour force participation rate will fall to 52.6 per cent by 2044/45, substantially lower than the average Australian rate (56.3 per cent).

Implications for gross state product

Population growth has been stronger in other states and Australia overall than in South Australia and this is reflected in the relative rate of economic growth for the various states/territories. From 1989/90 to 2016/17 South Australian real GSP grew at a relatively healthy annual rate of 2.1 per cent compared to Victoria at 2.8 per cent and Australia at 3.0 per cent. The strongest growth was in the mining states that ‘pulled up’ the Australian average.

In per capita terms, as shown in Table 12, South Australia’s real Gross State Product growth broadly kept pace with Victoria and Tasmania to 2009/10 but has since grown more slowly and declined faster relative to the Australian average.

The differentials in the State/Territory relative per capita growth rates and population growth rates contributed to changes in the share of national GDP as show in Table 12 with South Australia’s share declining from 7.7 per cent in 1989/90 to 5.9 per cent in 2016/17. In real terms the South Australian economy grew by 73 per cent from \$58.8 billion in 1989/90 to \$101.8 billion in 2016/17; Victoria by 112 per cent, Tasmania by 74 per cent and Australia by 125 per cent.

State Private Business Capital Formation as a share of Gross State Product in current prices averaged 11.9 per cent per annum since 1999/2000, compared with 13.4 per cent annually, likely contributing to the weaker South Australian employment outcomes and the slower growth in productivity and per capita incomes. A weaker export performance over the last decade also likely contributed. South Australia’s Exports of Goods and Services as a share of GSP in current prices averaged 12.5 per cent in the five years to 1994/95 and peaked at an average of around 17.6 per cent in the five years to 2003/04. In the five years to 2016/17, this measure averaged 14.5 per cent, with a falling share of Goods Exports offsetting an increasing share in GSP of Services Exports such as Tourism and Education.

Table 12 South Australian and Victorian percentage share of Australian GDP

	Real GSP per capita, 1989/90=100				Real GSP per capita, Australia = 100			Current price GSP as percentage of Australia		
	SA	Vic	Tas	Aust	SA	Vic	Tas	SA	Vic	Tas
1989/90	100.0	100.0	100.0	100.0	92.8	97.3	80.4	7.7	25.8	2.2
1994/95	102.0	104.0	105.8	106.4	89.0	95.1	80.0	7.4	24.4	2.2
1999/00	118.2	124.6	117.8	124.0	87.9	98.7	78.2	6.7	24.6	1.9
2004/05	129.9	139.2	133.4	137.2	87.9	98.7	78.2	6.5	23.7	1.9
2009/10	141.2	143.0	145.7	144.7	90.6	96.2	81.0	6.5	23.7	1.9
2014/15	142.0	144.4	151.6	153.3	86.2	91.7	79.5	6.1	22.9	1.7
2015/16	141.4	146.3	153.1	155.4	84.5	91.6	79.2	6.0	23.3	1.7
2016/17	143.6	147.6	153.9	156.0	85.0	92.1	79.3	5.9	23.2	1.7

Source: ABS (2016), Australian National Accounts: State Accounts, 2016/17, cat. no. 5220.0 and SACES calculations.

What would South Australia’s GSP be if the South Australian population had grown at the same rate as Australia and assuming a very similar skilled migrant intake with neutral impact on productivity? The Australian population grew by 41.8 per cent between 1989/90 and 2015/16, compared with South Australia’s 19.7 per cent increase.²³ If the South Australian population had grown at the same rate it would have been 2.02 million in 2015/16 (approximately 315,500 more than it actually was). Assuming a consistent increase in economic activity, trend growth in exports and some small productivity gains (due to the higher labour force skill profile) South Australian current price GSP per person would have been \$56,680 and GSP in 2015/16 would have been \$111.29 billion (\$16 billion more than it actually was).

Public Sector and Business Sector

South Australia is a geographically large state with a small population. In the past this has often been cited as a reason why scale economies have been more difficult to achieve in many areas of the economy, including the Public Sector. This may be a factor as to why South Australia should have a higher ratio of public sector employees per population. (see Table 13.)

However, Queensland and Western Australia are respectively two and three times the geographical size of South Australia but each has fewer public sector employees per head of population (Table 13) and a higher proportion of all employees in the private sector. So land size per se does not seem to be a main factor in the relative size of the public sector.

Table 13 State government public sector employment, headcount, ratio and share of total employment, 2016

State/Territory	Total employment, December 2016	Public sector employment (Headcount) (2016) ^(a)	Ratio of population/public sector employment	Share of total employment	
				Public sector	Private sector
New South Wales	3,800,385	393,442	19.6	10.4	89.6
Victoria	3,087,257	285,692	21.2	9.3	90.7
Queensland	2,341,835	254,073	19.1	10.8	89.2
South Australia	815,279	104,317	16.4	12.8	87.2
Western Australia	1,333,202	137,746	19.0	10.3	89.7
Tasmania	238,311	28,000	18.5	11.7	88.3
Northern Territory	-	-	-	-	-
Australian Capital Territory	-	-	-	-	-
Total	11,616,271	1,203,270	19.5	10.4	89.6

Note: (a) = Headcounts for Victoria and Tasmania are for the financial year 2015/16

Source: ABS, Australian Demographic Statistics, Cat No. 3101.0, TABLE 4, Labour Force Australia, Dec 2016, Cat No. 6202.0, Table 12 and various state government public sector annual reports for 2016.

The dispersion of population factor also seems problematic. South Australia has the highest proportion of any of the States of the population living in its capital city, at 68 per cent. This has risen only marginally since 1980 which was about the time Adelaide's population was passed by those of each of Brisbane and Perth.

In addition, Queensland and Western Australia have, since 1980, seen increased geographical dispersion in their respective populations compared with South Australia. Despite rapid growth in the populations of each of Brisbane and Perth, Queensland and Western Australia each increased the proportion of their populations outside of their respective capitals by around 10 per cent to 62 per cent and 41 per cent respectively. By number, Queensland and Western Australia's non capital city populations increased respectively by some 1.7 million (130 per cent) and 0.6 million (160 per cent), compared with South Australia's 0.16 million (40 per cent).

In South Australia, national and state industry policy changes affecting heavy manufacturing, e.g. Whyalla, and rail transport, e.g. Port Augusta and Peterborough, have meant that what were in the 1960s large regional centres by national standards have shown little population growth or even decline. This compares with the tourism and mining driven regional centres in Queensland and Western Australia. Our regional centres are now on average much smaller than those in other states.

However, it is not axiomatic that functions and the administration of government (and services) must all be centralised in Adelaide City. This is especially the case with the recent rapid advances in communication technologies, data analytics and other systems' management.

Government employment

Table 14 shows the changes in the share of government employment as a percentage of total employment for two time periods-1985/86 and 2014/15. Care needs to be exercised in analysing government employment in its own right and as a share of total employment as there have been considerable changes to the composition of "government employment" for the period shown, where agencies once classified as government were privatised or, otherwise transferred off-budget, or functions were outsourced or simply closed down.

It is also well to remember that the composition of government employment has been significantly influenced by these decisions such as for example, agencies and utilities such as SA Rail, ETSA, SA Water and nationally in telecommunications (i.e. Telecom) that much of the "old employment" was technical in nature with a significant production/manufacturing output. Significant numbers of employees 'produced things' while holding

multi-trade qualifications, mechanical, chemical, civil and design engineering qualifications, highway construction, etc.

Table 14 South Australia, Victoria, Australia: government employment, number and per of total employed

	Commonwealth Government		State Government		Local Government	
	Number employed '000	Percentage of total employed	Number employed '000	Percentage of total employed	Number employed '000	Percentage of total employed
South Australia						
1985/86	36.6	6.2	105.2	17.7	8.3	1.4
2014/15	15.4	1.9	115.0	14.3	10.7	1.3
Victoria						
1985/86	101.7	5.6	304.3	16.7	41.8	2.3
2014/15	44.1	1.5	334.2	11.4	50.9	1.7
Australia						
1985/86	434.7	6.3	1,131.3	16.5	155.9	2.3
2014/15	235.3	2.0	1,476.2	12.7	187.2	1.6

Source: ABS (2007), Wages and Salary Earners, Public Sector, Australia, Jun 2007, cat no 6248.0.55.001; ABS (2014), Employment and Earnings, Public Sector, Australia, 2013-14, cat no 6248.0.55.002; and ABS (2015), Labour Force, Australia, Aug 2015, cat no 6202.0.

The composition of public sector employment has changed while government has also taken-up, absorbed and created new responsibilities. Hence we reiterate the need for care in examining the data.

The caveat notwithstanding, there is considerable information contained in Table 14. In 2014/15, total government employment in South Australia (i.e. Commonwealth, State and Local) was 17.5 per cent of all employees (down from 25.3 per cent in 195/86) whereas in 2014/15 it was 14.6 per cent in Victoria and 16.3 per cent nationally.

The share of state government employment was highest in South Australia at 14.3 per cent in 2014/15 and although the proportion had decreased since 1985/86 the aggregate number had increased. Relative to Victoria over the same period, if South Australian state government employees made up the same proportion of total employment that they do in Victoria, there would be 23,000 fewer state government employees in South Australia.

While it is fair to moderate that statement because Victoria is more able than South Australia to achieve scale economies in a number of important service and policy functions, this is not the full story.

The latest headcounts (as at 2016) of public sector employment across Australia show South Australia maintains its place in having the largest public sector as a share of total State employment and the highest ratio of public sector employees relative to the total population.

A look back at Table 13 shows South Australia has one public sector employee for every 16.4 persons with the national average at one public sector employee for every 19.5 persons. Conversely the share of private sector employment is 2.0 percentage points below the national average.

In recent times (post 2010) there has been relatively little growth in private sector employment in South Australia. Over the five year period June 2010 to June 2015 total employment in South Australia increased by only 7,846 jobs while for Australia there were 736,861 jobs created. Whereas South Australia accounted for approximately 7 per cent of national employment in June 2010, the state's job creation rate was only 1.1 per cent of the national total.

Even for the slightly longer period June 2010 to April 2017 there were 20,056 jobs created net in South Australia, this was only 1.8 per cent of the more than 1 million jobs created across Australia. The job creating capacity of the private sector has virtually stalled.

This is further indicated by noting from Table 15 that the job starter subsidy (\$4,000 and \$10,000) provided by SA Treasury in the 2016/17 Budget accounts for much (reportedly more than 10,000 positions) of the increase in employment post June 2015 when comparing the two columns in Table 14.

Table 16 for public sector employment (ABS for financial years 2009/10-2014/15) shows that public sector employment increased by 5,800 jobs in roughly the same time period that total employment increased by 7,846. (Note: Monthly ABS labour force data does not completely align with public sector employment data provided in financial years). That is to say, nearly 75 per cent of the increase in total employment in that time was in the public sector, a situation that is clearly unsustainable.

Table 15 Change in total employment from June 2010 - South Australia and Australia

Jobs created	June 2010 to June 2015 (5 years)	June10 to April 2017 (< 7 years)
South Australia	7,846	20,056
Australia	736,861	1,086,655

Source: ABS Cat No. 6202.0 Labour Force, Australia, Table 1 & 7.

Table 16 Change in public sector employment from 2009/10 - South Australia and Australia

Jobs created	2009/10 to 2014/15 (over 5 years)	2009/10 to 2015/16 (over 6 years)
South Australia	5,800	7,300
Australia	56,100	80,800

Source: ABS Cat No. 6248.0.55.002, Employment and Earnings, Public Sector, Australia, 2015-16.

The respective compound average growth rates for total employment including public sector employment are shown in Table 17. The growth rate of public sector employment has been in Health, Human Services, Aged and Community Care, Education, Police and agencies supporting economic development. Principally it is in those human service areas that are labour intensive.

Table 17 Growth rate in employment: from 2009/10 – South Australia

Jobs created	2009/10 to 2014/15 (over 5 years)	2009/10 to 2015/16 (over 6 years)
South Australia	1.1	1.8
Australia	10.3	9.0

Source: SACES calculations.

Public sector employment growth rates have been higher in South Australia than other states in part as a response to 'crisis issues' within some agencies (e.g. previously named Families SA).

But a major driver relative to other States is likely to be the lack in South Australia of arrangements for competitive or contestable markets in service provision compared to other States where the focus is increasingly on services provided out of government but under the stewardship of government.

The protection provided by the South Australian Government to TAFESA in the Vocational Education Training Sector by directing most of the Federally funded training subsidies to TAFE is an extant example of what seems to be an antipathy to contestability. In this case, there has been a direct adverse impact on private sector employment as private providers were forced out of the market.

We note this explicit protection of TAFESA (principally because of a lack of flexibility in the existing industrial agreement) seems at odds with the particular needs in South Australia for an increasing volume and quality of VET services with, *inter alia*:

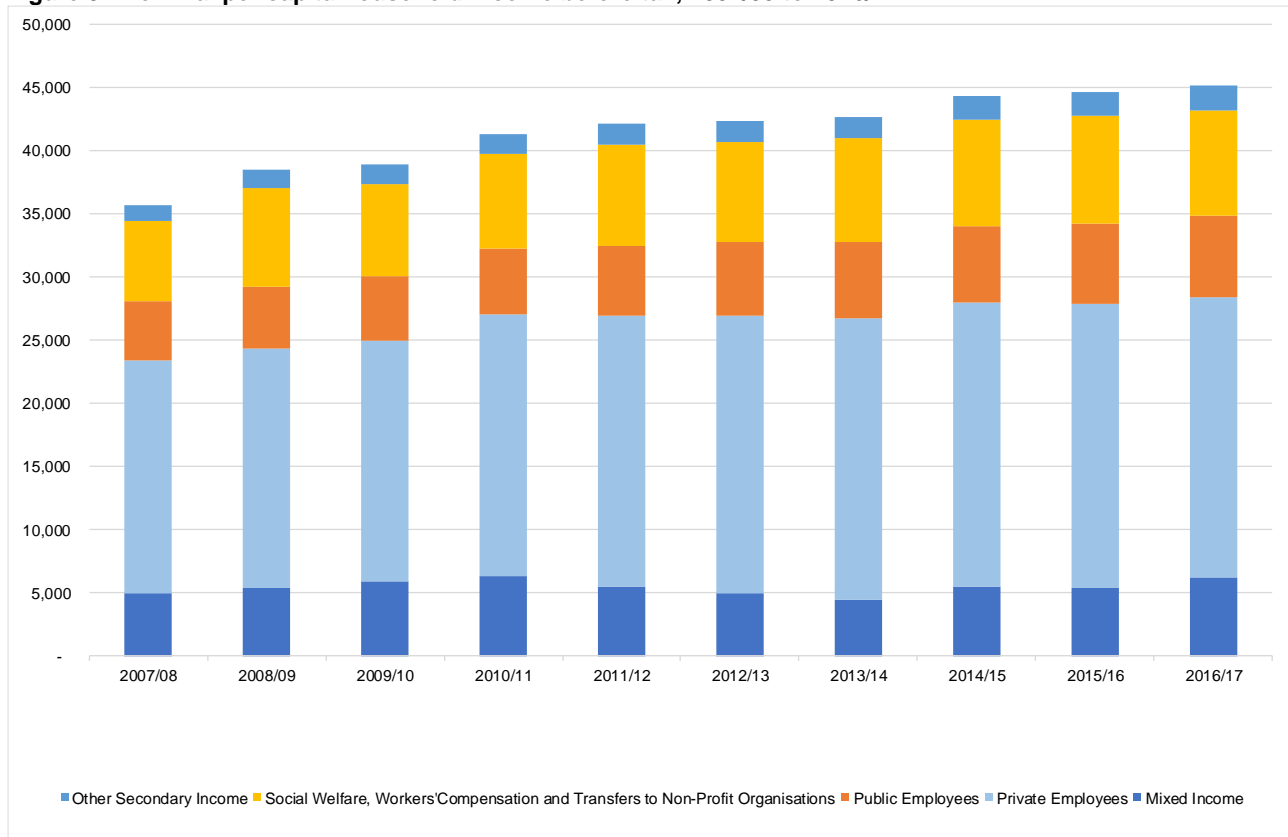
- the current rapid increase in education capabilities in competitor nations in Asia;
- accelerating structural change in industry and employment being imposed by global, national and local forces; and
- historically high levels of unemployment and labour underutilisation.

At the same time, the 2017 report by the Australian Skills Quality Authority (ASQA) on certain administrative and marketing irregularities in a number of TAFESA courses does not suggest the lack of contestability is necessarily based on higher standards than in the private sector. ASQA reported non-compliance and major deficiencies in 16 courses and suspended enrolments in 14 courses. TAFESA also had a high rate of sick days taken by employees which suggests poor internal management practices. The credibility of TAFE has recently been questioned by industry when it was publicised that students across a number of courses were given pass grades despite actually withdrawing from their course.²⁴

There seems likely however, to be broader consequences of the relative absence of contestability. An important one could be in the weaker development and lack of scale of private sector and NGO capabilities in these services areas compared with similar organisations in the larger states. With increasingly national services markets, this could have adverse employment consequences both immediately and longer term although it could also drive South Australian organisations to strive harder (e.g. Ubercare, a South Australian start-up in home and community care).

The deterioration in the labour market with an increase in unemployment and more people experiencing longer-term unemployment, a marked slowdown in employment growth in the private sector and increased employment in the public sector is reflected in ABS data on pre-tax 'compensation of employees' or employee income as shown in Figure 9.

Figure 9 Nominal per capita household income before tax, 2007/08 to 2016/17



Note: Excludes gross operating surplus of dwellings and property income.

Source: ABS, Cat No. 5220.0 Australian National Accounts: State Accounts 2016-17, Table 15. Household Income Account and Per Capita, South Australia: Current prices.

Real per capita pre-tax incomes (i.e. adjusted for Adelaide Consumer Price inflation) have increased in the period shown by source of employment or income received from social assistance transfer payments at a compound average growth rate for:

- private employees: 0.24 per cent;
- public sector employees: 1.32 per cent; and
- social welfare recipients at 1.35 per cent.

Very notable and of concern is the performance of real Gross Mixed Income per capita. This largely represents the income of unincorporated small businesses and the health of the small business sector is of relatively more importance to South Australia, as noted above.

Part of the volatility in this measure reflects the ups and downs of farm income, with the well above average cereal and legume harvests boosting income in 2016/17, but there seems to be a longer term issue. While in real per capita terms Gross Real Mixed income has grown since 2013/14, it is still lower than in the late 2000s.

This may reflect a fall in the number of the self-employed in the total South Australian population. Anecdotally, however, it seems more likely to reflect the slow growth and rising regulatory costs in the South Australian economy impacting on existing businesses, along with rising self-employment of contractors and consultants following loss of employee roles.

Overall, this analysis of household incomes shows we have an increasing dependence on social welfare transfers, on total public sector employment and a declining contribution from private sector employment, confirmed obviously by until very recently the rising level of unemployment and underemployment.

Local Government Employment

Referring back to Table 14 it is of note that Local Government employment as a percentage of total employment in South Australia is well below that in Victoria and the national average. An examination of the composition of local government employment in South Australia relative to state government employment provides a very interesting insight into the centralisation of functions at the state government level with the result that local government in South Australia is less diversified by functions and occupations than in other states.

For example, South Australian local government appear to employ proportionally less 'Community and Personal Service Workers' at 6.8 per cent of its own employment compared to the average of other states at 11.4 per cent. It also employs more 'Technicians and Trades Worker' at 12.8 per cent, almost twice the average of other states at 6.6 per cent.

While South Australian local government employed less 'Community and Personal Service Workers' compared to other local governments, the South Australian government employed proportionately more 'Community and Personal Service Workers' than other state governments. This is mostly due to the narrowly defined occupation groups of 'Health and Welfare support workers' and 'Carers and Aides'²⁵, accounting for 5.7 and 5.9 per cent respectively of South Australia's state government employees in comparison to the average of 2.3 per cent and 2.1 per cent in other states.

That is to say, local government in South Australia (while having very much more diversified responsibilities than in years gone by) is still much more "roads, rates and rubbish" in comparison with other states where the occupational profile illustrates much more diverse functions and responsibilities that are associated with larger scale of operations, the population size of communities, greater local provision of human services and much greater decentralisation by level of government in service delivery than in South Australia. This relatively lower diversification is especially the case for the smaller councils in South Australia, where revenue constraints mean some have difficulty in even meeting statutory compliance obligations.

It is true that South Australia's geography (i.e. a large state with a sparse population outside of its major capital city) does not enjoy the same advantages in terms of centralising services in major regional centres as the more populous eastern states.

It can equally be argued that given geography, a number of human/personal services and service support functions (those that are principally labour rather than capital intensive) need to be located closer to regional and rural populations, but would require greater size, scale and capacity of local government to assume service delivery.

This is more than an argument about respective roles of government; it is about "care management" working locally in a community setting with NGOs and local government (that claims it is closer to local communities!) than "case management" which is the language and practice of large, central bureaucracies.

"Care management" is what communities and families are demanding, not "case management."

Apart from the expected benefits to the local communities and the service consumers, there would be important employment and community capability building outcomes of a more decentralised Care Management approach. Employment growth is shifting more and more to human services - in aged care, child care, mental health, disability care, etc. and these areas collectively now represent the largest areas of employment in South Australia. They also represent strongly growing fields for higher education and vocational training, research, construction and other services. These local opportunities will be increased by the roll out of the NDIS.

The general trend, however, driven by public policy and the market and private investment decisions is that providers will merge and get bigger. The risk is that scale economies and access to finance could see the ownership and management and consequent decision making of these providers increasingly concentrated in Adelaide or interstate.

With more scale and the right focus, however, overseas and interstate experience would point to local government and local-based non-government organisations (NGOs) being best placed to provide these human service delivery functions, including more broadly community development and links to local employment opportunities.

Much economic development planning is conducted on a regional basis (i.e. RDA structures) and there would be related benefits of bigger councils including scale economies in development assessment and land use planning; access to a larger revenue/rate bases; in meeting compliance and regulatory/inspectorial functions (as regional economic and health alliances demonstrate) and in more general support for 'civil society'.

Institutional Reforms

Government is responsible for leadership in the task of transforming the South Australian economy through the decisions it makes, the reforms it introduces, institutional changes it orchestrates and the signals it provides to the private sector. This is all the more important when as we have illustrated the public sector is a more significant component of the South Australian economy than in other states/territories.

There are 69 members of State Parliament and 14 Cabinet Ministers with the ratio of Members of Parliament and the ratio of Cabinet Ministers to state population the highest of all mainland states. There is one member of Parliament (47 in the Lower House and 22 Upper House representatives) for every 24,756 persons whereas in the eastern states the number of persons per Member of Parliament is more than twice this figure (e.g. nationally the average is 1.7 times that of South Australia). Each Cabinet Minister is responsible for less than one half to one third the "ratio of GSP per Cabinet Minister" as calculated in other States.

These low ratios are not a matter in South Australia of a relatively larger number of geographically rural electorates with small populations. In fact, as implied by the earlier comments about South Australia having a higher share of its population in its capital than Queensland or Western Australia and the other mainland States, the opposite is true.

In addition, while the number of electors in the South Australian non-metropolitan electorates is on average smaller than the average for the South Australia metropolitan electorates, the difference of 5.2 per cent would not drive the smaller average size of electorates overall compared to the other states. The number of electors at 30/6/2016 in South Australia's nine electorates that are wholly or principally outside of the metropolitan area ranged in size from 22,555 (Giles) to 25,033 (Goyder) for an average of 24,170. This compared with a range of 24,395 (Hartley) to 27,780 (Port Adelaide) for an average of 25,494 for the metropolitan electorates.

It is the small size of all South Australian electorates that is why South Australia has less population per Member of Parliament than the other mainland States. While there may be some justification for a smaller number of electors in South Australian non-metropolitan electorates, there must be some special features of the South Australian situation as to why South Australian metropolitan electorates should be so much smaller than metropolitan electorates in other States.

In the absence of compelling special features, there would seem to be a case for substantial reform to the size of electorates and hence it follows, representation of electorates.

The question is put: is South Australia more effectively and efficiently governed than other states? Are we getting more and/or better outputs in health, education, law and order, industry development etc. as a result of the higher costs of political representation and a larger state public sector?

The first response might be that the functions of government, the responsibilities are the same irrespective of state boundaries, population size and geography and hence Table 18 is mischievous. There is a degree of merit to that argument.

Table 18 Members of parliament by state and territory, number and ratio per head of population and \$m of GSP, 2016

State/Territory	Population and economy		Parliamentarians (number)		Population/parliamentarian (persons)		GSP/parliamentarian (\$m)	
	Estimated resident population (June quarter 2016)	Gross State Product (GSP), June 2016, (\$m) ^(a)	Cabinet ministers	Members of parliament	Cabinet ministers	Members of parliament	Cabinet ministers	Members of parliament
New South Wales	7,725,884	531,323	23	134	335,908	57,656	23,101	3,965
Victoria	6,068,042	373,624	22	128	275,820	47,407	16,983	2,919
Queensland	4,844,473	314,569	19	89	254,972	54,432	16,556	3,534
South Australia	1,708,183	101,096	14	69	122,013	24,756	7,221	1,465
Western Australia	2,617,172	255,214	17	95	153,951	27,549	15,013	2,686
Tasmania	519,128	26,039	9	40	57,681	12,978	2,893	651
Northern Territory	244,880	23,648	8	25	30,610	9,795	2,956	946
Australian Capital Territory	396,141	36,225	-	-	-	-	-	-
Total	24,127,159	1,661,739			211,855	40,981	14,514	2,807

Note: (a) Chain volume measures.

Source: ABS, Australian National Accounts: State Accounts, 2015-16, Cat No. 5220.0, ABS, Regional Population Growth Australia, Cat No. 3218.0 and State Government Parliaments.

Equally, the counter arguments are:

1. there are clearly service delivery functions currently within the South Australian government that should be shifted to Local Government, NGOs and the private sector;²⁶
2. there are responsibilities of the South Australian government that are truly national and should be negotiated to transfer to the Federal Government; and
3. some current activities of the South Australian government should not be undertaken at all.

Box 2 Contravention of National Competition Policy

In reference to the last point, SACES has experience of tenders, publicly released, that are subsequently awarded to another Government agency. The Government agency bids conflict with national competition policy, principles and costings; in one instance no allocation was made for salaries; in another instance, no allocation was made for appropriate on-costs and GST. Not only are national competition principles ignored, it is questionable whether a fully independent of government evaluation is assured and it is doubtful whether the requirement for open contestability is a reality in practice.

The choices are not simply matters of ideology or political preferences. There is a limit to the ability of all governments to absorb employment in low productivity, labour-intensive services such as health, education, human services and law enforcement – and we know that the higher people's income the more of these services they demand.²⁷ And we reiterate, there is a limit to a shrinking private sector taxpaying base to support a relatively large public sector.

There is much sloganizing about “transforming manufacturing”, “transforming health” in South Australia (and some successes) but very little discussion of productivity transformations, real monitoring of efficiency and an unwavering focus on outcomes across the public sector. The recent debacle of inappropriate appointments in the Department of the Premier and Cabinet instil little confidence about the capacity to clear policy principles and evidence based outcomes. Further, in recent times we note that the Chief Executive Officer of the Department of Premier and Cabinet urged staff to consider (and by implication, reduce) the number of meetings and staff attending meetings. We interpret this as encouragement to improve productivity.

In many areas we have little, if any, assessment of the efficiency and effectiveness of government expenditure, insufficient monitoring to measure and report outcomes and far too often decisions about resource reallocation are taken to simply address the next crisis. Decisions are often transparently political in nature with an ‘eye to the next election’ where the cost of resources and time devoted to defending a previous decision (that is simply overturned) are rarely considered. A recent example is the decision to now retain the specialist cardiac unit at the Queen Elizabeth Hospital after years of arguing the opposite case. Will upgrades take place at the Modbury Hospital and the now closed high dependency unit be restored?

It is now very difficult to identify any change champions in regard to what amounts to a lack of evidence-based policy defaulting almost continually to blaming the Commonwealth, blaming the bureaucrats or resorting to ‘spin doctoring’. South Australia has actually gone substantially backwards in this area over several decades, after being internationally recognised as one of the most innovative states in the mid-1980s in public policy. In fact in regard to evidence based policy decisions, the South Australian Government now seems to be putting into practice the old conundrum about the difference between ignorance and apathy: I don't know and I don't care.

Local Government

Much the same can be said for local government with 68 local councils in South Australia where populations in local councils in other states (see Tables 19 and 20) are twice to three times that found in South Australia (average 25,120 persons) that inherently provide some economies of scale.

Very small councils in South Australia are experiencing population decline or zero population increase and as a consequence are then faced with declining rate revenue. In turn they are increasingly reliant on grant funding to maintain services and infrastructure in their council area. They are also forced in some instances to increase council rates above CPI increases (at least to the local government price index or above). They are also excessively burdened with compliance issues.

Table 19 Councils by state and territory, number and average persons/council, June 2016

State/Territory	Estimated resident population (June quarter 2016)	Number of Councils (ABS, 2014-15)	Average persons/council
New South Wales	7,725,884	152 ^(a)	50,828
Victoria	6,068,042	79	76,811
Queensland	4,844,473	78	62,109
South Australia	1,708,183	68^(b)	25,120
Western Australia	2,617,172	138	18,965
Tasmania	519,128	29	17,901
Northern Territory	244,880	17	14,405
Australian Capital Territory	396,141	-	-
Total	24,127,159	561	43,007

Note: (a) There are now 128 councils in New South Wales, 96 regional/country, 32 metropolitan so average person per council is 60,000+.
(b) LGA listed 68 councils, there are 5 listed Aboriginal Community Councils and Roxby Downs does not yet have an elected council.

Source: ABS, Australian Demographic Statistics, Cat No. 3101.0, TABLE 4 and ABS, Regional Population Growth Australia, Cat No. 3218.0

Table 20 Councils, population, comparative earnings

	South Australia	Victoria	New South Wales
Councils			
Metropolitan (No.)	19	31	34
Non-metropolitan (No.)	49	48	94
Total Councils (No.)	68	79	128
Metropolitan (per cent)	27.5	39.2	26.6
Non-Metropolitan (per cent)	72.5	60.8	73.4
Population			
Largest (No.)	168,000	292,000	339,328
Smallest (No.)	1,200	3,917	1,917
Average metropolitan council population (No.)	70,526	150,645	154,412
Average metropolitan council land areas km2 (No.)	171.5	280.5	363.8
Average population/km2 (No.)	411.3	587.2	424.5
Local government employees 2015/16 ('000)	10.9	51.6	54.3
Local government cash wages & salaries 2015/16 (\$m)	735.1	3,021.7	3,558.1
Average per employee pa, 2015/16 (\$)	67,440	58,560	65,527
Per annum earnings; person, full-time; adult; total earnings; private sector ^(a) , (\$)	73,689	76,014	81,604
Per annum earnings; person, full-time; adult; total earnings; public sector ^(a) , (\$)	84,422	88,670	87,079
Ratio public sector to private sector (per cent)	114.6	116.7	106.7

Note: (a) May 2016.

Source: LGA website. ABS, Population and Housing; ABS, Employee Earnings.

On the basis of 'grants/subsidies' per person, the metropolitan councils are heavily subsidising their small and regional partners (Table 21).

There is very little if any scope in individual small councils for an efficiency dividend and savings in the absence of scale economies, notwithstanding that some councils have implemented shared services as a way to address small size, declining rate revenue and the demand for more services.

As in New South Wales, it is well to ask: is local government in its current structure "fit for the purpose" when some councils are experiencing real difficulties in meeting even their legislated obligations.

Equally important is that the 'voice of local government' (particularly smaller regional councils as measured by population) is muted relative to the voice of metropolitan and larger councils that may encompass one or two voting electorates.

We are not advancing a case for amalgamations but serious consideration should be given to the formation of much larger metropolitan and regional councils to provide a voice for all communities but especially regional and rural communities (e.g. Eyre Peninsula – 11 councils, 9 of them with an estimated resident population between 1,200 to 4,300 persons, 58,000 people in total across the region).

Table 21 Average GRP and ERP per council employee and rates revenue as a share of operating revenue, metro and non-metro councils, financial years 2004/05 and 2014/15

Type of council	Average GRP/Council employee (\$m)	Average persons per council employee (number of residents) - Efficiency			Average rates revenue as share of operating revenue (per cent) - Revenue raising capacity			Average grants and subsidies per person (\$) - Self sufficiency		
	2014/15	2004/05	2009/10	2014/15	2004/05	2009/10	2014/15	2004/05	2009/10	2014/15
Metro (18 councils)	12.2	269.0	259.4	254.8	73.5	74.9	81.4	73	105	126
>100,000 persons	12.3	264.1	272.6	274.6	75.6	77.2	83.7	78	98	108
50,000 - 99,999 persons	10.9	266.5	249.7	265.6	75.2	76.4	85.9	73	88	103
0 - 49,999 persons	13.1	245.2	233.5	208.6	71.7	73.1	76.8	71	117	153
Non-metro (50 councils)	5.7	141.6	127.3	122.3	53.2	54.9	58.7	393	578	863
>10,000 persons	7.2	187.4	172.1	171.2	61.2	64.2	71.2	151	219	294
5,000 - 9,999 persons	6.9	148.4	132.9	131.6	56.6	60.0	59.8	248	362	488
2,500 - 4,999 persons	4.6	135.5	122.0	97.9	55.6	57.5	57.1	332	489	796
0 - 2,499 persons	3.8	86.0	73.2	71.6	39.6	38.6	44.6	824	1,216	1,815

Sources: id. the Population Experts, SA Local Government Grants Commission Database Reports 2004-05, 2009-10 & 2014-15 and ABS, Regional Population Growth Australia, Cat No. 3218.0.

It is unfortunate that the politics of conflict has stymied virtually any rational debate on the role of local government in the C21st and the potential role they might play in future.

Take the situation of urban in-fill and the once debated policy of 'transport oriented development', the basic necessity to congregate more people in higher density environments to generate local employment, contain costly infrastructure requirements, reduce urban sprawl and favour efficient public transport over private transport.

It might be assumed that the policy objectives of State Government, of local government and a good deal of private investment capital might 'all be on the same page' sharing the same objectives. It seems this is not the case in South Australia.

Councils are often genuinely concerned about some property development proposals and have an obligation to improve civic and community amenity. On the other hand, developers often have genuine concerns about the application of council development guidelines, slowness of approvals and regulatory issues.

The Property Council considers that the "LGA should seriously take stock and reconsider the dark shadow it has cast over the property sector, the mum's and dad's investors, young tradespeople and landlords who have invested in property as part of their superannuation". The LGA responds that the "Property Council was on an ideological crusade and had no intention of playing a constructive role in the debate". The Property Council talks of the benefits of council amalgamations and the LGA responds using the term "forced amalgamations" when no party used the word 'forced' at all.

End result: no sensible debate, policy paralysis and no leadership (the 'change champion') by the relevant Ministers and/or Government. Young people, young families and the less well-off are forced to locate further out from the city centre into more marginal employment environments and so need to travel longer distances for employment. At the same time the low density outer suburban populations and long distances mean public transport systems cannot cost effectively or at reasonable subsidies move people to where the jobs are. The North Terrace centric approach of Government also means an absence of policies to "shift jobs to where the people are".

The end result is that many new urban settings simply lack the full range of opportunities that others enjoy, civic amenity lags the increase in population, there is 'forced' greater reliance on the private motor vehicle in the outer metropolitan suburbs and infrastructure costs increase. Adelaide CBD centric policies can further disadvantage outer metropolitan populations and negatively impact on local employment opportunities.

Is there something special about business in South Australia?

Business counts (as at June 2015) from the Australian Bureau of Statistics (ABS) show relative to other states South Australia's private sector is more reliant on small business activity, especially sole traders (non-employing businesses), to generate private sector employment.

Notable statistics regarding the South Australia's public/private sector and business structure include (see Table 22):

- lowest share of employment accounted for by the private sector of all states (87 per cent c.f. 90 per cent average across other mainland states);
- highest share of non-employing businesses of all states (65 per cent of total c.f. 61 per cent average across other mainland states); and
- likely highest proportion of employment in businesses employing less than 20 people.

What does this simple categorisation imply? South Australia has a disproportionate reliance on owner managers of unincorporated business with an older age structure, it has more non-employing businesses and it has the challenge of a workforce older and ageing more rapidly than any of the other states.

Recent changes to Australian migration policy will likely have a significant impact on many businesses, particularly in the regions.

The changes are making it harder to recruit both skilled and semi-skilled employees and, under the Business Investment Program, harder for small business owner/managers to identify a potential purchaser for their business. The latter problem is because the value of investment required for the Business Innovation Stream of the BIIP visa is high relative to the typical value of South Australian small and medium enterprises.

Table 22: Businesses by state employing and non-employing, number and per cent, June 2015

State/Territory	Businesses by state (number)					Businesses by state (share of all businesses)				
	Non Employing	1-19 Employees (Small)	20-199 Employees (Medium)	200+ Employees (Large)	Total	Non Employing	1-19 Employees (Small)	20-199 Employees (Medium)	200+ Employees (Large)	Total
New South Wales	409,589	270,325	15,936	1,303	697,153	58.8	38.8	2.3	0.2	100
Victoria	333,244	199,164	12,623	919	545,950	61.0	36.5	2.3	0.2	100
Queensland	255,818	149,669	10,704	577	416,768	61.4	35.9	2.6	0.1	100
South Australia	93,184	46,795	3,357	174	143,510	64.9	32.6	2.3	0.1	100
Western Australia	135,659	75,922	6,684	377	218,642	62.0	34.7	3.1	0.2	100
Tasmania	22,127	13,921	954	30	37,032	59.8	37.6	2.6	0.1	100
Northern Territory	-	-	-	-	-	-	-	-	-	-
Australian Capital Territory	-	-	-	-	-	-	-	-	-	-
Total	1,249,621	755,796	50,258	3,380	2,059,055	60.7	36.7	2.4	0.2	100

Source: ABS, Counts of Australian Businesses, Including Entries and Exits, Cat No. 8165.0.

It is already the case that South Australia receives only 4 per cent of all permanent Business Innovation and Investment Program (BIIP) visas granted in Australia lodged by individuals investing and/or living in South Australia (relative to 7 per cent of Australia's population and businesses employing less than 20 employees and 6 per cent of national GDP).²⁸

The paper burden of regulation and compliance costs needs to be far more comprehensively reviewed in part because of the 'small business nature of the domestic economy' but also because much regulation reflects an unwarranted aversion to risk. What would be the benefits to business if we were able to reduce avoidable compliance cost by 25 per cent? What are the administrative cost to government of regulation and compliance and are there more effective and efficient ways to process forms, approve licences, handle applications and verify compliance?

What are the Economic Policies for Reinventing South Australia?

Public trust of politicians and confidence in Government is at an all-time low. The Productivity Commission (2017) considered that “confidence is low between governments in Australia and confidence in governments is also low. Surveys suggest that Australian’s trust in public institutions is at historic lows” (p. 180). The Commission points to at least one contributing reason

“historically, there is strong evidence of a relationship between economic growth and trust in governments. In short, people tend to trust – or ignore – governments when economic conditions are good. Fears are magnified and governments are noticed more when they are not “ (2017, p. 181).

As Gary Banks, (former) Chair of the Productivity Commission notes “good process and hence good policy in the public interest” has withered on the vine. The erosion of public support is further exacerbated by policy decisions that have no factual, evidential basis, the suspicion of ‘deals done behind closed doors’ and reversal of policy decisions without explanation. It is worth restating the mantra that “good process leads to good policy’ as it is arguably the case that the roles and responsibilities of government have become confused, most certainly with respect to acting in the public interest and promoting the economic well-being of citizens. Whatever the case and whoever one wants to apportion blame, evidence of the highest electricity prices in the world demonstrate a failure to act in the public interest including impact on the business environment.

The fundamental policy responsibilities of government are often characterised as those that are ‘low risk’: the provision of essential services such as water, energy, education, transport, community safety including the protection of children and the most vulnerable, the availability of land (and perhaps land use planning). It would be reasonable to add the provision of skilled labour and assistance with employment. The lower the cost of these services the less drain on family budgets and enhancement of business competitiveness. Problems arise for individuals, families, communities, business and government where there is an absence or failure to properly address these low risk services or public goods. That is to say, problems arise in their absence.

On the other hand, medium and high risk activities such as business subsidies, support for R&D, ‘picking winners’, chasing major events and a range of so called ‘assistance policies’ are characterised as ‘looking for a problem to solve’, they often are described as ‘strategic’ without any supportive evidence base and in application they become highly selective. A case in point are what are often called industry assistance programs or ‘co-investment initiatives’ which in administration become highly selective “discriminating between activities, firms and industries. Because the evidence of the benefits for high risk programs is so shaky, advocates need to resort to overblown claims about their benefits”.²⁹ Claims of economic benefits arising from government sponsorship of major events are rarely if ever transparent, they are overblown and almost always report gross economic impacts and not the net benefit. And by the way, the reports are rarely if ever released.

What then to do? The first and necessary action is to reform government

Policy Objective: Restoration of cost effective democracy in South Australia

Based on current arrangements and in line with interstate Parliamentary productivity (*as Members of Parliament are paid on a national pay-scale and should therefore be required to meet national productivity outcomes*) it is reasonable to require South Australian State Members of Parliament to represent the same (or near to the same) voting constituency or total population as the national average.

We ask the question: is South Australia more effectively and efficiently governed than other states? Is the community and business sector getting more and/or better outputs in health, education, law and order, industry development etc. as a result of the higher costs of political representation?

There are 69 members of State Parliament and 14 Cabinet Ministers with the ratio of Members of Parliament and the ratio of Cabinet Ministers to state population the highest of all mainland states. There is one member of Parliament (47 in the Lower House and 22 Upper House representatives) for every 24,756 persons whereas in the eastern states the number of persons per Member of Parliament is more than twice this figure (e.g. nationally the average is 1.7 times that of South Australia). Each Cabinet Minister is responsible for less than one half to one third the “ratio of GSP per Cabinet Minister” as calculated in other States.

In addition, South Australian Lower House Parliamentarians sit less days than in Victoria, or New South Wales (50 compared with 52 and 57 respectively).

In line with the standards of interstate Parliamentary productivity, South Australia should reduce the number of Parliamentarians by 12 and reduce the number of Ministers by 4. Reducing the number of Cabinet Ministers to 10 would lift the ratio of the number of Cabinet Ministers per resident population to 1:164,464, which is still

well below that in New South Wales, Victoria and Queensland. It would provide for more streamlined administration while reform in itself would be a signal to the South Australian population of greater co-ordination and efficiency in decision making.

It is estimated that the savings in Members' salaries, adviser and office support costs would be approximately \$70 million over 5 years, equivalent to an additional Full-Time Equivalent (FTE) 140 nurses, teachers or police or payroll tax elimination on some 16,000 employees.

It is recommended:

1. Reduce the size of House of Assembly by 4 electorates to a chamber of 43 seats;
2. Restrict the size of Cabinet to no more than 10 Ministers;
3. Reduce the size of the Legislative Council by eight members to a chamber of 14 seats with an election every four years;
4. Remove the Legislative Council powers to not pass legislation (as per the Victorian model). The Legislative Council will become a genuine house of review and referral.

At the time of writing (then) Senator Nick Xenophon publicly proposed to reduce Lower House representation by 13 seats (from 47 to 34) and the Upper House by 5 (from 22 to 17) and those in the Upper House would face an election every 4 years instead of 8 years. Whatever the merits of each proposal outlined here, the fact is they both point in the same direction: South Australia has too many Members of Parliament, it has too many Ministers and no person can seriously claim that South Australia is better or more effectively and efficiently governed when compared to other States.

Implementing a Sustainable Budget Policy Framework

A robust, consistent policy framework for government budget policy and service delivery decision making has been outlined previously in the report by the Sustainable Budget Commission (Audit Commission).³⁰ What is now required is the authority to make this happen.

The Commission set out four key management principles in budgetary considerations:

- 1) Financial sustainability;
- 2) Policy priorities;
- 3) Accountability for budget and performance outcomes; and
- 4) Process transparency, certainty and compliance.

In regard to policy priorities (the key policy responsibilities of government that we call 'low risk') examples being the Adelaide 30 Year Plan, long-term transport plans, population target and raising the educational profile of the population, these represent broad objectives and long-term commitments and are the umbrella under which more specific proposals should then be considered.

The Commission also set out seven expenditure criteria including, *inter alia*, community benefit, productivity/competitiveness, cost recovery, COAG objectives and six savings criteria, *inter alia*, provide an economic rationale, eliminate duplication, benchmark service levels and cost and cease the least effective programs and/or transfer programs to non-government organisations. Policies, programs and services should be consistently assessed against expenditure and savings criteria.

Efficient and effective delivery of government services and a culture of continuous improvement requires proper program and service evaluation to provide the evidence for policy making and change. Evaluation is a critical component of any Performance Management Framework (PMF) that includes initial planning, resource allocation, implementation, monitoring and evaluation and reporting. Government and its agencies too often refer to inputs (e.g. \$m), outputs (e.g. a program) but rarely to outcomes – that is, how effective has the program/intervention been, is it cost effective, what results have been achieved, has it improved service levels.

Box 3 Ministers adopt the same refrain

How often do we hear the same refrain from Government Ministers “that we make no apologies for public sector numbers because we are hiring more teachers, nurses, doctors, caregivers and police officers”. All reading from the same song book these are statements of inputs not outcomes.

With more teachers are our educational qualifications reaching or exceeding those of other jurisdictions? Are student NAPLAN results rising faster? Are our hospital waiting lists shorter or falling faster than comparative jurisdictions? Are elective surgery waiting lists declining faster? Do we have fewer wards of the state; fewer children in state care? A lower and still declining crime rate or less recidivism? Better systems of aged care? Are we developing new and innovative ways of delivering existing services?

The continual and bland focus on inputs, the announcements of “new programs” and reference to “we have increased expenditure on program X by \$\$” without reference to quantifiable targets and outcomes is little more than spin. It tells us nothing at all about performance or improvements.

In the absence of a Performance Management Framework that includes the component of ‘independent evaluation’ it is debateable as to whether government and agencies are accountable for expenditure and investment of public money and possess real insights into actual outcomes.

The Government’s response to the Sustainable Budget Commission’s Second Report (September 2010) agreed with the Commission’s recommendation (Number 17) that:

“... the Department of Treasury and Finance should be the agency responsible for assessing policies with economic implications both before and after implementation” (p. 9)

The Public Finance and Audit Act gives the Treasurer the authority to create Treasurer Instructions. A Treasurer’s Instruction should require any new budget initiatives (expenditure and revenue measures) to be formally evaluated after 3 or 5 years of being implemented. The Department of Treasury and Finance should be central to this. It is through the Treasurer and Treasury (DT&F) that the commissioning of reviews, evaluations, impact assessments, and future policy options should take place. This provides a major policy lever for the Treasurer and indeed Premier and Cabinet (DP&C) to exercise a review function and greater policy control over Departmental budgets, programs, outcomes and spending.

Formal evaluation of budget initiatives: policy and program evaluation

The authors of the Sustainable Budget Commission report strongly urged that “a greater focus on measurement, reporting and evaluation is needed to judge the effectiveness of programs. A long term aspiration of the Government should be a more comprehensive evaluation framework for all its programs”³¹

The Audit Commission recommended that the “Government implement a centrally driven measuring, reporting and evaluation framework of programs and projects for both operating and investing expenditure” (SBC Section 10 p114). The Australian Productivity Commission and the Annual Report of the South Australian Auditor-General have made similar recommendations for the purpose of developing sound, evidence-based, public policy.

It is clear that agencies appear to undertake minimal evaluation of programs and evaluation criteria are not built into existing program design or part of the annual budget process (SBC Section10, p113). The lack of independent evaluation and measurement, including the lack of oversight and involvement of a central authority, too often means that agencies conduct their own limited or no evaluation of programs, inputs are recorded but there is little if any measure of appropriateness, effectiveness, efficiency and, most critically, outcomes.

A group such as an Independent State-based Productivity Commission (see below) and/or the Program Budget Office (PBO) within the Department of Treasury and Finance (DTF) should be established to oversee all program evaluations. Sponsor and delivering agencies would provide input into the evaluation but as they have an inherent conflict of interest, an ‘at arm’s length’ program evaluation unit should ultimately be accountable.

Longer term, all historical programs over a certain dollar limit should be evaluated. All program evaluation reviews should be made public. We note this is currently not happening despite being promised by the Government following its response to the *Reducing Red Tape for Business in SA 2010-11* Report. That response included the South Australian Competitiveness Council being wound up.

In addition, consideration should be given to US and European style regulations that mean many new spending initiatives have sunset clauses. This then reverses the onus of proof, which currently makes it too easy to continue funding programs whose benefits are either unknown or limited or whose relevance has passed. Implementing good, open and accountable process will create a more powerful environment for good policy outcomes (i.e. efficient and effective program outcomes and reform). All major programs should have a sunset clause.

Resourcing of an independent or external evaluation group should be through a mix of public sector and private contributions, including from specialist economic houses with demonstrated experience in program evaluation.

Consideration of a State-based Independent Productivity Commission

Whatever the cause there is little doubt that there has been an erosion of public support and confidence in public policy decisions of government at the national and state level. There is too often little debate and discussion of the details of public policies and even less appraisal of the options and challenges faced by government. It is important to restore public trust in policy development and review including more open and transparent government.

An independent body such as a State-based Productivity Commission is potentially a vehicle for good public policy. A Commission or similar body would be charged to provide assessment, review of public policies and research taking an economy wide perspective (i.e. the promotion of community interests rather than one sector, industry or group). An Independent Commission providing apolitical and non-partisan advice is capable of providing government with information, argument, evidence and advice of a kind “that may not be generated by any other process (including from Royal Commissions or from commissioned reports from a commercial consulting firms). It would operate at arm’s length from government similar to the national Productivity Commission and have no role in policy implementation.

The value add of such an Independent Commission is that it would not just provide better policy advice on complex and/or contentious policy issues, but also build community support for good policy decisions. For that essentially political function to be realised requires an institution that is seen to have integrity, credibility as well as competence, with processes open to public scrutiny. An Independent Commission must also be transparent so that use of such a body for ‘confidential advice’, especially on sensitive policy matters, would not be permitted as it would impact its credibility and wider influence.

As evident in the work of the national Productivity Commission the end result is that their research, reports and advice carry a degree of authority, including and because of the independence of the Commission, objectivity and the process of open, public inquiry. The process of open public inquiry in itself reveals community interests as well as that of pressure groups, vested interest and rent seekers. The process of open public inquiry can build consensus and acceptance of the need for reform through a public examination of the evidence and the options.

A State-based Productivity Commission should be empowered to conduct research on its own initiative ‘in support of its core functions’ such as research reports, reviews of best practice and literature reviews on relevant topics. This is an important function in educating the community, the business sector as well as policy makers. Research report would be issued as public documents for public comment.

The relevant responsible Minister should be the Treasurer and it is through the Treasurer and Treasury (DT&F) that the commissioning of reviews, evaluations, impact assessments, and future policy options should take place. This provides a major policy lever for the Treasurer and indeed Premier and Cabinet (DP&C) to exercise a review function and greater policy control over Departmental programs, outcomes and spending.

Government service delivery

The share of South Australian state government employment was highest in South Australia at 14.3 per cent in 2014/15 and although the proportion had decreased since 1985/86 the aggregate number had increased. Relative to Victoria (11.4 per cent state government employees: Australia 12.7 per cent) over the same period, if South Australian state government employees made up the same proportion of total employment that they do in Victoria, there would be 23,000 fewer state government employees in South Australia.

There are thousands of South Australian public servants who are working extremely hard and doing what they do very well, but ultimately have very little impact on real services for the public.

Despite the outsourcing of many activities that for the pure service element has generated lower per unit activity costs, a substantial network of contractual/governance layers has grown across government that has diminished the budget and economic efficiency dividend and ultimately created an intra-government “red-tape” industry. An inherent bias against frank and fearless advice has been created and progressively strengthened.

Many of the “blue collar” jobs of government pre the 1990s *inter alia*, road maintenance, construction and design, public transport provision, water supply, electricity supply services, building design and construction and maintenance are now delivered by the private sector yet the total public sector headcount is higher. In addition as the Commissioner for Public Sector Employment recently noted, “South Australia has a higher proportion of public sector employment compared to most other states in Australia.”³²

There is no reason that with good contractual management, governance and transparency that Government public housing, financial services and social programs cannot be contestable and delivered by the private sector, not-for-profit NGOs or local government. In human services and social assistance the role of government, unless there is clear evidence of market failure, is to act as the “market steward”. Government effectively sets the level or quality of service, it maintains the important functions of policy, funding and regulation (and accreditation), but the provision of the service should be contestable/competitive.

“Without implementation of genuine innovations in the public sector – including human service programs – the relatively highly labour-intensive nature implies that the cost of public sector activities are likely to rise relative to the (average) costs of private sector activities. Over time, either the tax burdens would have to rise in real terms, or service delivery and/or quality would have to decline, or, most likely, some of both, unless productivity – enhancing innovations occur in public sector service delivery – and in policy formulations, implementation and management.”³³

Separating policy functions from the delivery of services frees up government to drive reforms and exercise independence in decision making (i.e. play a creative role in public policy innovation). It is able to experiment with different service models, establish independent regulatory authorities, support and encourage diversity and reward services that exceed performance-based standard. In some human service areas great care is required in developing future arrangements – e.g. payment on outcomes may incentivise a range of unsuitable behaviours – but many of the concerns can be covered by contracting, longer-term funding, reverse bidding by providers and the credible threat of de-funding.

In fact recent experience in South Australia points to the public interest need, in addition to likely more efficient delivery, of separation of the various roles of policy formulation, setting and measurement of standards, service funding and delivery, oversight and reporting of service standards and delivery etc.

The terrible service standards and outcomes that have emerged as occurring at Child Services and the Oakden Mental Health Service (see Box 4) are testament to the impact confused and overlapping roles within Government can have, including the often frightening conflicts of interest that have been seen to exist at various levels within the State Government. These do not seem to be isolated examples. The lack of contestability for VET training funds arguably was one factor in the poor performance of TAFE accredited courses including because there was no private sector competitor.

Previous transfer of services in South Australia and other jurisdictions to private sector, not-for-profit NGOs or local government has either delivered the service at lower cost, at a better standard or reduced the risk of serious service interruption or a combination of all three. The Government of the day can decide on its priorities (i.e. it could be same service at lower cost, or improved service for the same cost).

The Renewing Our Streets and Suburbs program is an example where Renewal SA will transfer approximately 4,000 public housing tenancies to NGOs for management and development. Anglicare (SA) has recently taken over the management of 1,100 former South Australian Housing Trust (SAHT) properties and on all feedback to date, the management and maintenance program is significantly less costly and more efficient than when under the SAHT.

Employment services that provide stability in funding, that do not duplicate Commonwealth services and that link to other services for those with complex barriers to employment are another example. Equally, as the long term unemployed are now more than 25 per cent of all unemployed in South Australia, more integrated and coordinated responses are required.

Box 4 Oakden Mental Health Service: What is the true cost?

The alleged mistreatment of elderly residents at this facility is now the subject of investigation by the Independent Commissioner Against Corruption. We make no comment as to the ultimate findings and recommendations of that investigation.

The most important costs has surely been the alleged mistreatment of elderly residents. Reputational costs (thus far) have been incurred by the Government, the Minister (at the time), SA Health, staff at the facility and those involved in the accreditation and regulatory supervision of the health service.^(a)

Counterfactually, if the facility had been operated by the private sector and equivalent mistreatment had occurred, the most likely result would have been that the CEO of the facility would have been sacked (or immediately asked to resign) and the Board of Management asked to resign. Immediate steps would have been implemented to address the situation.

As a Government-owned and operated facility the taxpayer will now bear additional costs, including:

- a lengthy inquiry by the Independent Commissioner;
- additional staff allocated to the Office of the Commissioner;
- reportedly six staff in SA Health allocated to assist the inquiry including to discover documents;
- reportedly some 37,000+ documents, 300,000 pages presented to the Office of the Commissioner;
- time and cost associated with gathering evidence from family and loved ones, interviews with management and staff;
- involvement of the Coroner's Office; and
- publication and presentation of the draft and final report.

These are the real hidden costs to the taxpayer.

There are clearly challenges in outsourcing the delivery of human services, but government has to determine which human services are essential to supply and how best to supply them.

The Oakden debacle is a classic example of the failure of government to professionally examine the supply question and in so doing define basic service standards that either government or a private provider would be required to achieve. Achieving above the baseline standards at the same cost effectively raises the service standard overall.

And further, government assumed to itself the role of funder, the role of the regulator and the role of service provider when clearly they need to be separated.

Oakden is an example of the ultimate failure of government – a lack of policy development, a failure to critically examine the role of government as “market stewards” and total confusion as to the responsibilities of funder, regulator and service provider.

Note: (a) It is important to acknowledge the inadequate performance of the accreditation and review process of the Commonwealth and the apparent failure of all agencies to address matters of concern arising from regulatory/accreditation review.

Currently there are multiple agencies, multiple programs and short term funding often ostensibly to deliver the same outcome, that taken as a whole are not capable of assisting the long term unemployed and those with multiple barriers to employment.

There can be no doubt that an integrated services framework is required and to be underpinned by good contractual management, governance and transparency.

An example of integration and preferred industry assistance is where one arm of government such as investment attraction secures new investment and jobs with skill requirements. The skills in demand would be specifically referred to the relevant Regional Development Australia (RDA) agency and training agencies (e.g. TAFE, private RTOs) so that a potential skilled labour force can be provided to the incoming employer. It would also be preferable to support any new company to conduct internal training, employer sponsored training in preference to financial subsidies as a form of industry assistance.

The high order principle under which all forms of assistance should be developed is that all policy interventions should be explicitly time limited and directed to improving business competitiveness and productivity for long term sustainability, rather than just financial support which often does not require the building of additional long term capabilities and may be, directly or indirectly, to the detriment of performance of other local businesses.

Ultimately it is improved competitiveness and productivity that is the goal of owners/business management that will attract and retain businesses in South Australia. That is, in preference to financial subsidies. We have seen too many times that when the financial subsidy is exhausted the company often leaves the state. A locally trained, highly productive workforce with high productivity and sophisticated business practices provides the tangible incentive for a business/company to stay in South Australia.

Industry assistance

State Government economic development assistance should focus on key inputs (for all sectors of the economy) including water, energy, transport, telecommunications, human capital, regulation and an efficient and fair taxation system. It is these key inputs that are the foundation of competitiveness and a positive and supportive business environment.

However, a considerable amount of state-based “industry development assistance” particularly by use of direct grants has become ‘company-specific assistance’ where:

- assistance that is provided is high risk;
- the outcomes are uncertain (and rarely specifically identified before the grants are provided or subsequently evaluated); and
- the question is rarely asked why isn’t the company/business implementing this activity/strategy in the absence of government funding?

In many of the cases of “firm specific assistance” the Centre has reviewed there has been no *ex ante* justification for government involvement or funding. Policy and programs have to be evidenced based.

Further, the claims of regional impacts in terms of direct and indirect employment are over blown. Regional Impact Assessments (RIA) are infrequently conducted (or published) and little or no evidence is advanced for selective interventions that are justified as some form of ‘strategic industry assistance’.

Rarely if ever is the ‘problem’ clearly stated to justify state-based intervention and/or whether there is a more appropriate Commonwealth assistance measure. Too often it is the case of selective industry assistance and impact assessment of major events that what is reported is gross impacts rather than the net benefits.

We have seen reports of economic benefits that independent economic modelling experts assess “would not pass the laugh test”, where grant applications have been supported to publicly listed companies and private business on spurious assertions that the grant enabled “companies to bring forward their own investment” or added “further value that would not otherwise have occurred” without any evidential basis to make these claims. The applications are not subject to benefit cost analysis.

One wonders why State Government funds are effectively providing ‘further value to interstate and overseas shareholders’. There are instances of claims that the number of jobs to be created in a region as a result of government assistance programs exceed both the current number of unemployed and exceed the projected increase in population growth over five year period. Fanciful to say the least!

Also needing to be considered as part of the cost benefit analysis is the current, and seemingly rapidly escalating, administrative cost of delivering these programs.

The Annual Report of the Auditor-General (30 June 2017) pointed to a lack of consistency in government assistance processes and argued “there is value in establishing a whole-of-government industry assistance framework” (p.103). Such an approach would guard against a number of industry assistance programs and schemes where it would appear that the specialist expertise is not available in some agencies to properly determine a rationale and clear and measurable guidelines for assistance programs.

The Auditor-General suggests that the Department of Treasury and Finance, as a central agency should develop a whole-of-government industry assistance framework including proper evaluation to ensure the effectiveness of assistance programs and schemes.

Evaluation of all budgeted funded programs should be required in order that they “are integrated into the budget process” and that Cabinet can consider the effectiveness of programs and improvements to the operation and management of programs can be determined. As the Productivity Commission advises, there should be sunset clauses, program lapsing guidelines, continuation of a program should be conditional on completion of an evaluation. Good process leads to good policy outcomes – proper program evaluation is integral to improving policy and program delivery.

Review of grant programs required

The Audit Commission referred to the need to ‘question whether government or the NGO sector delivers a particular service (and that) it “should be determined by who can deliver it in the most cost effective manner”. (Section 8 p 67). It compared the situation in other states and South Australia noting that “service delivery reforms that have been carried out in other states have not been implemented in South Australia ”... including

that other states “have implemented reforms in child, youth and family support services, providing greater focus on community based point of contact, screening and case management that better utilises and coordinates the resources of both government and the NGO sector” (Section 8 p67)

There are multiple grant programs in government. Many provide annual, short term funding but the issues they seek to address are “wicked problems” where long-term, stable funding is required with a clear specification of outcomes to be achieved. Short term funding cycles tie up public servants in grants/application/assessment processes, leaving no time for even incremental or process-oriented innovations/reforms.

In addition, there are NGOs and broad based community sector organisations better placed than government to secure engagement of the more disadvantaged that require strengthening and stable funding to achieve high levels of engagement.

A policy prescription in this regard would be having NGOs, broad based community sector organisations and appropriate for profits being considered as the default providers of the services to be funded. The South Australian Government would then be required to provide a cost benefit analysis and policy reasons why the grants were to be provided in-house.

Local Government/State Government

Local Government employment as a percentage of total employment in South Australia is well below that in Victoria and the national average. With more scale and the right focus, overseas and interstate experience would point to local government and local-based non-government organisations (NGOs) being best placed to provide many human service delivery functions.

Individual Councils have attempted shared services and formed alliances with other councils to deliver services in recognition of the fact that there are benefits in scale economies. It would be preferable to have greater decentralisation by level of government in service delivery in South Australia, including and because, human services are best delivered locally/organised regionally, they are labour rather than capital intensive and need to be located closer to regional and rural populations. They are also the source of direct increased local employment generation and can be important sources of longer term capability building.

Employment growth is shifting more and more to human services – in aged care, child care, mental health, disability care, etc. and these areas collectively now represent the largest areas of employment and employment growth in South Australia.

The State Government should not engage in cost shifting to local government. What it should do however, is to ask two questions:

- 1) are there services, programs and/or functions that are best delivered by local government, including is there state government involvement in delivery of ‘same services’ and why?; and
- 2) what does the current structure and performance of local councils offer the opportunity to do? How best to improve the scale and capacity of local councils to assume a greater role in the provision of services, planning and economic and social development?

There are excellent examples of shared services, or collaborative arrangements across local councils and a capability, if adequately resourced, to expand the scope of activities in the health, aged care and human assistance more generally.

Health

Recommendations to improve the health care system are outside the scope of this paper. The Productivity Commission concluded that current funding models are problematic.

“Australia’s fragmented and governance systems for health care – which largely reflects Australia’s federal system and its hybrid private-public nature – work against achieving the best outcomes for a given overall expenditure.

The policy response to the problems posed by fragmentation has been one of pragmatic incrementalism, which has sought to improve the quality and efficiency of the system within its own limits, rather than to start again.” (2017, p. 51).

In principle, the Rudd Government’s proposal for a pooled Health funding model set out an economically efficient way to improve health performance in the hospital sector. Health is still, however, disjointed between primary health care (GPs), hospitals, allied health practitioners, and nursing homes, and a whole of patient focus with limited emphasis on public health and systems that prove difficult to fully integrate care (e.g. primary

and in-hospital care are insufficiently integrated). Complex funding arrangements, the division of responsibilities and significant overlap (e.g. Oakden as an example) creates significant problems in service delivery, arguments over cost shifting and a lack of clarity about responsibility and accountability.

The Commission further noted that Australian Government expenditure accounted for 61 per cent of total public expenditure on health of \$108 billion and health and education combined represent some two-thirds of special purpose payments under COAG National Partnership Agreements. They concluded:

“Significant time and resources are devoted to negotiating and monitoring adherence to the terms and conditions of funding agreements. In health and aged care, the mix of funding and policy responsibilities among the various tiers of government has undermined the capacity for genuinely integrated care” (2017, p. 195).

The simplest solution might be for the Commonwealth to be totally responsible for Health care.

If it is to work a Commonwealth delivered model would need to cut the States out entirely. What you would have is a set of local health authorities (as you have in South Australia at the moment, or the regional structures the Commonwealth has for primary care) which would have responsibility for managing all levels of direct health expenditure in their region from primary health care, through hospitals to nursing homes.

That would mean, for example, if it were more cost effective to focus on keeping those with chronic disease out of hospital the LHA would have both the incentive and the budget to do things like pay GPs for treatment plans, deliver ancillary services via outpatient clinics etc. Or similarly if the key issue for the region was elderly hospital patients, not being able to be discharged due to a shortage of high dependency beds in local nursing homes then the LHA would be able to assess (and act on the assessment) whether it is more efficient to keep those people in hospital or pay for more high dependency nursing home places.

Some thoughts on expenditure reduction and payroll tax

An example of the analysis that should be carried out by a South Australian Productivity Commission or Program Budget Office (BDO) is the assessment of the State’s tax system and in particular payroll tax. This is the single largest source of “own” revenue for the State, budgeted at \$1,156 million for 2017/18, and one of the major costs for South Australian businesses that the State Government directly controls.

Payroll tax is a relatively efficient economic tax, so consideration should be given to making it more efficient by broadening the base and limiting exemptions in the context of reducing South Australian Government expenditure overall and restructuring other taxes.

There is no doubt that reducing payroll rates and increasing the threshold is a positive thing for individual business, but collectively what is the evidence that this encourages economic growth and business would employ more people. Has a business made a decision to shift to South Australia, or expand or increase capital expenditure because of an incremental changes in payroll tax parameters?

Shifting or restructuring in a more fundamental sense the payroll tax burden on business would, however, be expected to result in time in increased employment, exports, consumer spending and overall higher South Australian Government revenues.

If payroll tax was applied to all business, irrespective of size and payroll turnover, and be applied at a substantially lower rate it would:

- be simpler to administer and so reduce government collection and compliance costs;
- be non-discriminatory to business size and cease the practice of creating artificial company structures to enable avoidance of the payroll tax threshold; and
- reduce the need for programs to attract or retain businesses in South Australia, thereby saving other costs and reducing non-market differences between businesses which are or are not supported.

An efficient payment/collection solution would be required to ease the administrative burden of many small business that would come within the scope of payroll tax.

The removal of the threshold would require strong political courage and skill to sell. In its absence, alternative actions could be taken to substantially reduce the rate of payroll tax from 4.95 per cent.

The following set of policy changes would be expected to have a substantial impact on economic activity and business locational decisions:

1. remove the current threshold (\$600,000) exemption and other exemptions from Payroll tax and remove the small business rebates. At the current payroll tax rate of 4.95 per cent, the overall costs of these measures are estimated by South Australian Treasury in the 2017/18 Budget Papers to be some \$817.9 million and \$26 million respectively in 2016/17;
2. allow part of the natural attrition in the South Australia public sector employment, which is now estimated at 10 per cent per annum or some 8,400 FTE per annum, and measures described above in relation to Parliamentary reform and shifting service delivery by other organisations, to reduce the South Australian public sector FTE employment by June 2018 by 3,600 to the 78,700 as projected in the 2015/16 South Australian Government Budget. This would save some \$367 million on Budgeted salaries;
3. South Australian Public Sector FTE salaries are some 12-15 per cent above the average for FTE employees in the South Australian private sector. This suggests there is some scope to cap average South Australian public sector pay rises in future (N.B. the government recently agreed on a 2 per cent rise). A cap of 0.5 per cent over 2 years would provide a saving of some \$80 million on employee expenses, excluding superannuation;
4. use the combined savings of the above, i.e. \$1,060 million, to introduce a 1.65 per cent payroll tax on all employing businesses;
5. alternatively, use the \$447 million of savings identified in 2 and 3 along with the removal of the small business rebate (\$26 million) and Investment Attraction programs (\$30 million) to retain the current threshold but cut the rate as it currently applies to 2.5 per cent; and
6. Commit to reducing the rate and raising the threshold as total collections rise with the expected stronger employment and economic growth.

In the South Australian context this change would bring many business within scope of payroll tax. This would require strong political courage and skill to sell. If the objective was to reduce the overall payroll tax take, many small and medium sized business would see:

1. a reduction in tax; and
2. removal of the distortions that currently exist as businesses approach the current thresholds or compete with those provided with exemptions or Government business incentives.

If the One-touch super reforms that have been introduced can be replicated, then those business are currently exempt (i.e. payroll of less than 8-12 FTE employees) will see the cost processed simply like super and work cover levy.

If it is tax/cost that grows with the business from day 1, you avoid the big hit when you reach the threshold level.

Transparency in contractual relationships

With the technology available there is no reason why the total spend per annum with any supplier cannot be made transparent and public. An IT systems undergraduate could design a program where by using ABN this could be posted on the web.

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