

GETTING THE RIGHT BALANCE

LABOR'S FISCAL STRATEGY

Under a Rebecca White Labor Government

- The Budget will be in surplus by 2023 and larger ongoing surpluses will be maintained from 2024 onwards
- Investment in health, housing, education, skills and key industry sectors will ensure a better balance between economic growth and social needs, and will create 35,000 jobs
- A balanced program of infrastructure and capital spending will drive productivity growth and improve the quality of Tasmania's schools, hospitals, roads, ports, community facilities and environment
- Financial partnerships with key business sectors will create the right balance between public and private investment
- Fiscal policy will be used to encourage a more balanced and diversified economy

Labor's financial policy is **Working for Tasmania**. A better and fairer Tasmania.



Working For Tasmanians

Tasmania's Economic and Social Challenge

Tasmania's economy has long term structural and social challenges that pre-date the COVID-19 crisis.

We are particularly exposed to national and international economic shocks. Our private sector is heavily dependent on trade exposed sectors in tourism, hospitality, international education, agriculture, fishing and forestry, and around 30% of merchandise exports are accounted for by China. Changes in exchange rates, terms of trade, international supply chains and geopolitics have a big impact on the State's economic fortunes.

The biggest sources of employment are concentrated in a relatively narrow range of sectors - health care and social services, education and training, construction, public administration, professional services and hospitality, tourism and recreation.

Government consumption expenditure is around 24% of Gross State Product (the highest of any State), but Government investment is around 12% below the national average (at \$350 per head) and Government gross fixed capital formation per capita is around \$2400 (21% below the national average).

We have Australia's lowest GSP per capita (79% of the national average), lowest average wages (\$12,000 below the national average) and lowest labour force participation rate (4% below the national average).

And on key social indicators – educational attainment, life expectancy, obesity rates, literacy and numeracy rates, health waiting lists and housing affordability – Tasmania lags the rest of the nation by a substantial margin.

Tasmania can and should do much better. Labor's fiscal policy is designed to achieve this.

Labor will lift public and private investment to drive economic growth and job creation in a more diversified Tasmania economy. And our social investments will close the gap between Tasmania and the rest of Australia in health, education and housing

Fiscal Policy and the Covid-19 Crisis

Governments all around the world are using debt and deficits as necessary tools to deal with unemployment and economic downturn, particularly as central banks have reached



Working For Tasmanians

the outer limits of monetary policy – with interest rates at record lows and quantitative easing approaching its maximum point.

The Tasmanian Government is no exception. The 2020-21 Budget forecast deficits of \$1.12 billion in its first year followed by \$282 million in 2021-22, and net debt was expected to reach \$4.38 billion in 2023-24.

While these debt and deficit numbers were high, Labor supported an expansionary fiscal policy. We noted that the Budget net debt forecast for 2023-24 was manageable at around 14% of Gross State Product (GSP) and relatively low compared to the debt incurred by the Commonwealth and other States.

As a result of underspending on infrastructure and increased GST receipts, the latest Treasury update has reported an improved budgetary position.

Labor acknowledges this development and has adjusted its fiscal policy accordingly, but we are conscious of possible economic headwinds in the near to medium term. Fiscal policy needs to balance these risks.

Fiscal Policy and the Economic Outlook

Tasmania's improved economic position is fragile and wider economic conditions are volatile. According to the latest Deloitte forecasts Tasmania's relative economic performance will deteriorate sharply by 2024-25 - with economic growth at 2.3% (the lowest of any State and below the national average of 3.1%), business investment growth at 6.2% (below the national average of 7.9%), employment growth at 0.8% (only half the national average of 1.7%) and per capita GSP falling to only 78% of the national average.

The latest jobs data for March 2021 have seen Tasmanian unemployment rise to 5.9% with underemployment rising to 10% (an increase of 1.6%), and youth unemployment rising to 15.4% (up 2.5%). Unemployment is well over 7% in many parts of regional Tasmania

And there are plausible downside risks to Tasmania's economy including the impact of Jobkeeper withdrawal, delays in vaccine rollouts, an earlier than expected rise in interest rates, a possible downturn in the property market and continuing geopolitical tensions. Any combination of the risks could undermine growth and employment.



Working For Tasmanians

Fiscal policy should strike the right balance between returning to surplus and lower debt levels and continuing to provide economic stimulus in uncertain economic conditions.

Labor's Economic and Social Plan

Prior to the election Labor foreshadowed four year costed policies in our November 2020 Jobs Plan. These set out plans for new Budget spending designed to create 35,000 jobs.

Key initiatives included more adult and junior apprenticeships, rebuilding TAFE and providing free TAFE in areas of skills shortage, regional jobs hubs, support for small business, a comprehensive package for tourism, hospitality and the arts, and a large Jobs and Innovation Fund. Labor's Jobs Plan also set out important initiatives in social housing, disability services and employment, and Government procurement.

And the Jobs Plan proposed new infrastructure spending to upgrade ports in Northern Tasmania.

As part of the election campaign Labor has announced or will announce new major policies for economic development, housing, health, education, transport, women and family violence, sport and racing, community grants and facilities, agriculture, fire services, climate change and the police service.

And Labor has announced or will announce new infrastructure investments for health, education, roads, housing, tourism, agriculture and TAFE.

Labor's program will lift public and private investment to drive economic and productivity growth through upgrading skills, supporting small businesses and encouraging medium-scale manufacturing and value adding businesses to innovate and expand. And our social investments will tackle the ongoing health crisis, housing shortages and homelessness, low educational attainment and regional disadvantage.

Labor's policies properly balance economic growth and social equity.

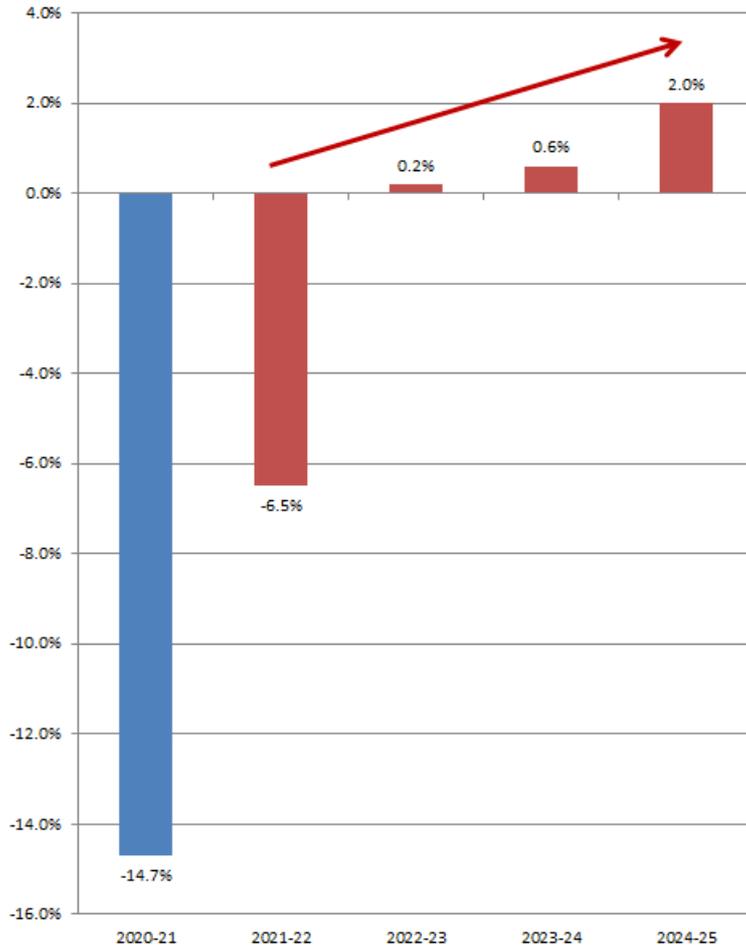
Labor's Fiscal Plan

Labor will deliver a surplus in 2023 and maintain larger and sustainable surpluses from 2024 onwards. We anticipate sustainable surpluses of at least 2% of Budget revenues based on present economic conditions and forecasts.



Working For Tasmanians

Net Operating Balance - Current vs Labor Plans (% of Revenue)



These surpluses will be more modest than the most recent 2023-24 Treasury Budget forecasts, but Labor believes it has struck the right balance in the prevailing economic and social climate. Tasmania needs urgent investment in better health, housing and schools outcomes while maintaining realistic surpluses. This is achievable without any new taxes or asset sales.

Noted Tasmanian economist Saul Eslake has observed that Tasmania is the only jurisdiction in Australia that did not provide Treasury forecasts for economic growth and employment in the last two years of the Budget forward estimates, and it is difficult to understand the basis of Treasury's surplus forecasts in 2024. In these circumstances Labor has chosen to be cautious. Improved economic performance driven by our policies should result in an improved surplus position in 2024 but we have chosen to leave Treasury's assumptions unchanged until better data is available.



Working For Tasmanians

Labor will boost investment in, and improve the delivery of, important infrastructure. We estimate that our new capital commitments to ports, roads, schools, hospitals, housing and community facilities will have net debt running between 13% and 15% of Gross State Product (GSP) by 2024-25 depending on the detailed timing of projects and the pace of Tasmanian economic growth. Tasmania's net debt will remain amongst the lowest of all State and Federal jurisdictions. Infrastructure spending will boost growth and productivity and the debt incurred is sustainable, particularly in the current low interest rate environment.

Labor published a fully costed Jobs Plan and will release a full costing of its entire policy program later in the election campaign period.



*Working **For** Tasmanians*