

OFFICIAL



Speech Notes

Adrian Tembel
Chairman

Building a Bigger, Better South Australia
The Advertiser campaign event

Event Date: Friday, 4 March 2022
Event Time: 12.00 pm
Event Location: Sky City

"A STEPPING STONE TOWARDS BUILDING A BIGGER AND BETTER SOUTH AUSTRALIA"

The SAPC was established by the Premier in 2018 to provide him with independent advice and ideas on how South Australia can lift its economic growth and the incomes of households.

And so part of my job, as the chairman of the SAPC, is to keep reminding everyone that without competitive economic growth, over time:

- South Australian children become less educated and skilled;
- South Australian sick and elderly less cared for and protected; and
- South Australian households earn less, than all other Australians.

But with it, our children, elderly and households will not be left behind the rest of our country.

So, I want to begin today by looking at how we are performing on this vital metric.

Well, our recent GSP growth performance has been encouraging and of course is welcome.

In 20/21 we grew by 3.9%, topping the national ladder.

But, the SAPC is charged with focusing on the long term evidence. Not going back by months or years, but back by decades.

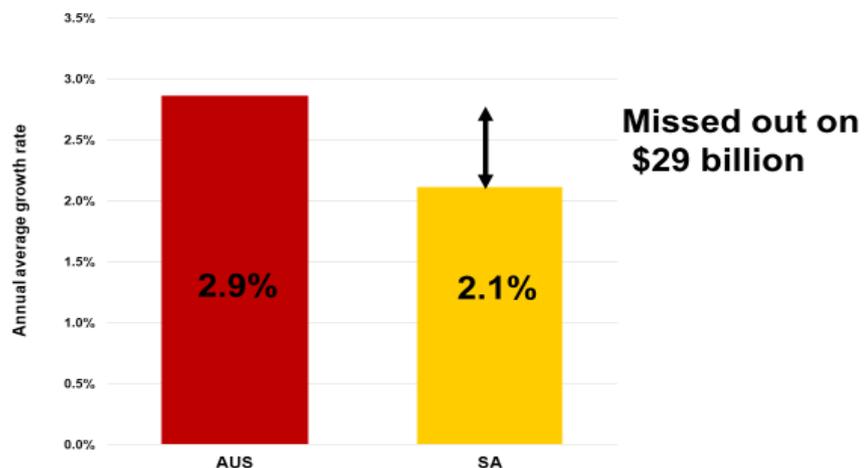
We are here to analyse structural change, not cyclical change.

So, what does this long term evidence show?

CHART 1

Economic Growth

Annual average growth in economic output from 1989/90 to 2020/21



As you can see from the first chart, over the last 3 decades our economic growth versus the country's average has been uncompetitive.

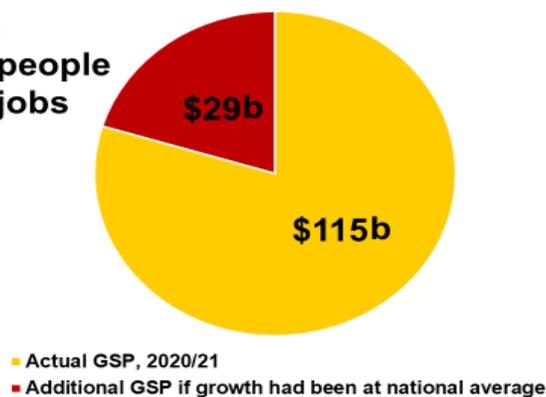
The cost of that uncompetitive growth has been the loss of \$29b of economic activity.

CHART 2

Actual and Potential Economic Output

Actual GSP in 2020/21 and potential GSP if growth had been at the national average since 1989/90

**Missed out on
387,000 more people
233,000 more jobs**



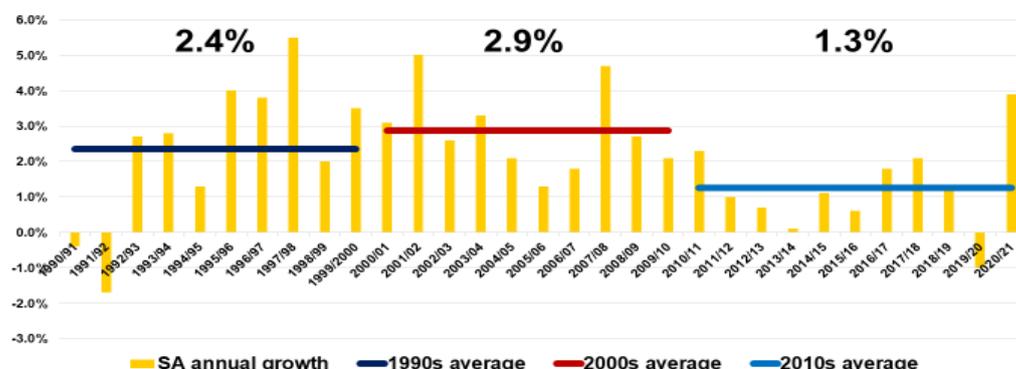
Put another way, if we'd grown at the country's average, not the top performer, just the average, we would today have:

- Nearly 400,000 more people living in our state; and
- Have nearly 250,000 more jobs.

CHART 3

Decadal Trends in GSP Growth

Change in real GSP, 2010s decadal average covers 11 years to 2021



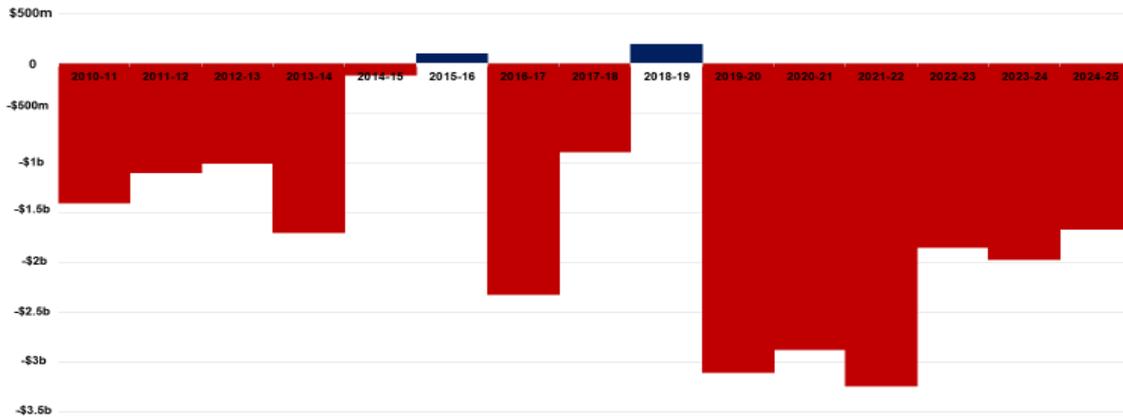
Your first query may be – well, what is the trend over the last 30 years?

The average performance over the last decade, notwithstanding last year's 3.9%, was the worst of all three decades. Your next query may be – well, has there been sufficient government support?

CHART 4

Net Lending/Borrowings

Actual to 2020/21 and 2021/22 Budget projections for subsequent years



Over the last decade, our level of government borrowings have been at record highs. This chart shows, that apart from two very small surplus years, our state governments have been structurally borrowing throughout the whole of the last economic cycle and are forecast to continue to do so well into this decade.

Our underperformance has not been due to a lack of government support.

What other factors could explain our underperformance?

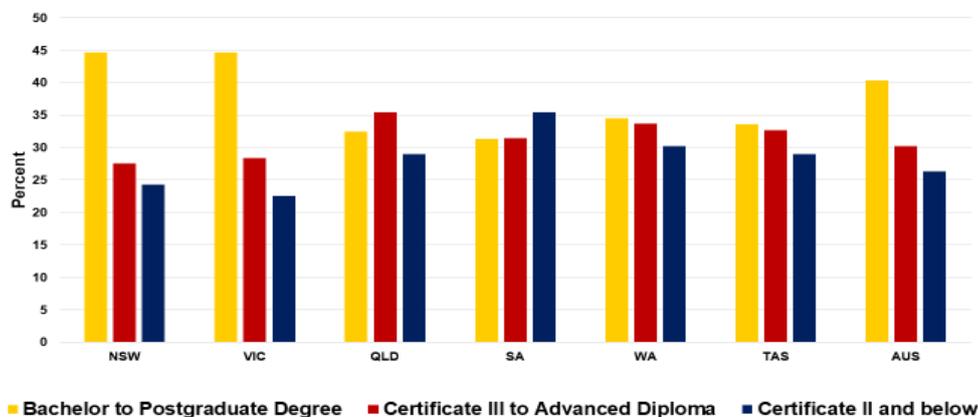
Today, I look at three:

- Education;
- Exports; and
- Productivity.

CHART 5

Education Levels

Proportion of the population aged 25 to 44 by highest level of qualification, May 2019

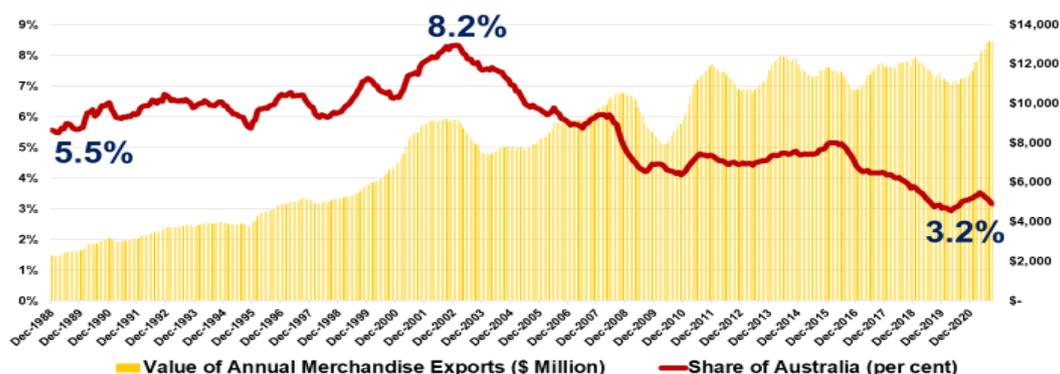


This snapshot of our education standards at the end of our last decade is significant. We are the only state in Australia where the biggest portion of our young people have the lowest classification of education. We also have the lowest portion of our young people with a university degree.

CHART 6

South Australian Exports

Annualised value (blue) and share of national total

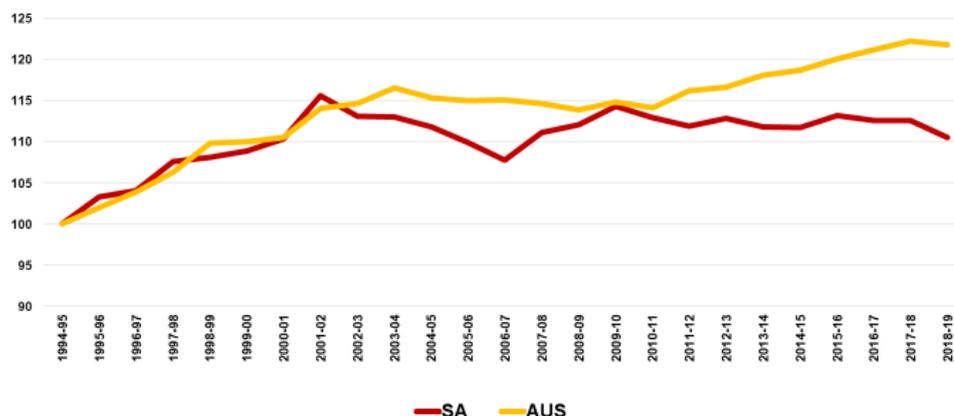


Meanwhile, our export performance has steadily fallen behind the other states. While so far this century our exports have risen modestly in absolute terms, our share of national exports has fallen from over 8% to a little over 3%.

CHART 7

Productivity

Multifactor productivity indexed to 1994-95



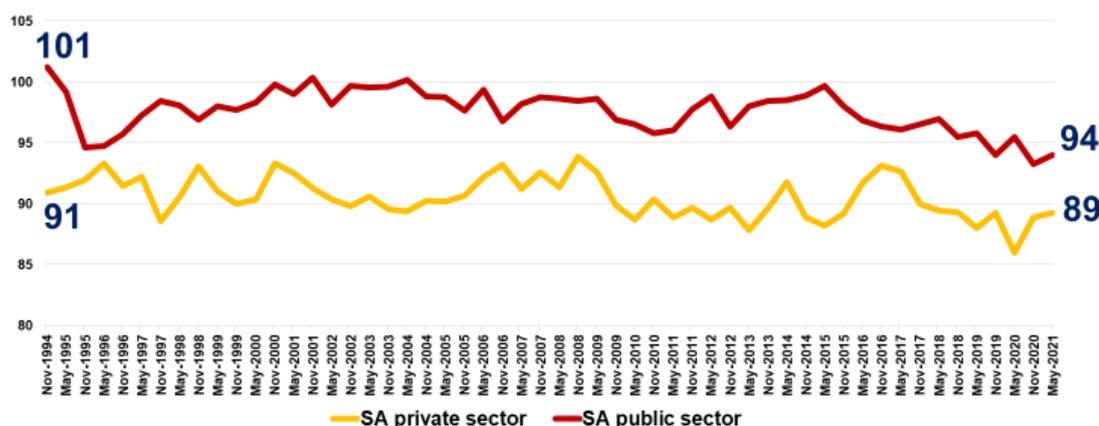
In parallel with this, our productivity – that is, what we produce per unit of capital and labour – has actually declined over the last 2 decades. This has occurred in parallel with the nation's productivity increasing.

We are not winning in the national education, export or productivity contests.

CHART 8

Wages – Public and Private Sector

Average weekly ordinary time earning, per cent of the Australian average



Another real effect of our growth performance is that our households are falling behind the rest of the country. What this chart shows is that in the mid-90's our public sector workers were actually paid more than the national average. Now, as you can see, they are paid materially less than the national average.

Equally, our private sector workers were paid materially less 25 years ago and that has only weakened further.

What does all this evidence prove?

First, competitive economic growth matters.

Second, we have structural challenges.

So, while we can take comfort in recent improvements, we must continue to take all economic actions necessary to lift our performance.

These actions, to be effective, must be correspondingly:

- Structural; and, I add,
- Almost certainly, bipartisan.

What are the answers?

Historical research of all great economies usually settles on two key prerequisites for economic success:

- Highest levels of education; and
- Highest levels of innovation – particularly through the conduct of the highest levels of research and development.

I acknowledge the leader of the opposition's passionate focus on education policy.

Of course I acknowledge the premier's demonstrated commitment to driving innovation in our economy.

While I do not comment on education and broader innovation policy today, I do wish to focus on research and development.

Research & development

Economic history, analysis and the SAPC's own extensive work in this area consistently suggests that the level of research and development taking place in our State today will almost certainly decide to a very significant degree our future economic prosperity.

But the facts are that:

- First, South Australia's business R&D as a percentage of GSP has halved since 2008; and
- Second, state and local government investment in R&D in South Australia has also halved over the same period.

Now I ask a simple question.

If we lifted our research and development levels every year over the next 10 years by materially increasing the number of scientists, engineers, mathematicians and medical specialists working in South Australia on solving the world's big problems in areas such as:

- Automation and space;
- Defence;
- Creative industries;
- Decarbonisation; and
- Human health,

Does anyone doubt that over the subsequent 20 years our economy would become more productive, securing higher growth?

CONCLUSION

Our hearts, based on our instinct and anecdotal insight, and minds, based on history and the data, should take us all to the same conclusion – research and development carried out in South Australia must increase.

But how?

To have the impact we need, the increase in r&d levels needs to be driven by bold and fundamental reform.

Now, I used the words structural and "bipartisan" before. So my idea is not for this election campaign. But it is something I put forward for further considered thought after the election.

WHAT DOES THIS REFORM LOOK LIKE?

The structural reform picture I have is of new South Australian government sponsored research and development, being carried out through the establishment of multiple large new research institutes and centres charged with producing new technologies to solve the world's future challenges.

Today is conceptual, and time doesn't allow me to detail the design of these new South Australian research institutes to ensure they achieve the correct levels of:

- Focus;
- Efficiency;
- Industry connectivity; and
- University collaboration.

But that would of course be a prerequisite to their creation.

How can this be funded?

The South Australian government currently spends around \$10b a year on public sector wages and benefits.

Through steady, sensitive and thoughtful reform over 10 years, it is possible that 10% of that public sector wage spend, \$1b annually, could be transitioned towards new public sector R&D jobs.

I stress this would not be a reduction in net public sector employment.

But a transition of up to 10% of our public sector workforce, at the rate of 1% per year, to R&D jobs of the future, wealth creating jobs, jobs overflowing with world class knowledge and entrepreneurial potential.

It would be completely unfair for anyone to portray this as a plan for job cuts.

It is nothing of the sort.

It is an idea for steady and sensitive reform of our state's economy to develop our public sector workforce from being the most important service provider in the state to also becoming our main engine room of technology and innovation.

Properly planned, funded and agreed between all stakeholders, and implemented steadily over the long term, this reform can be handled in such a way that those public sector workers and families affected by change are fully supported through:

- Retraining;
- Further education; and
- Financial support,

To ensure all families are protected.

While in parallel, services to all South Australians are not compromised.

This would herald a new partnership between our State government and opposition, universities, industry and unions to collaborate together on the future of our State.

And of course, the possibility of the federal government financially supporting this reform, in return for higher growth and therefore higher tax receipts in the future, just as it was provided through the highly successful Hilmer reforms of the 1990's, cannot be ruled out.

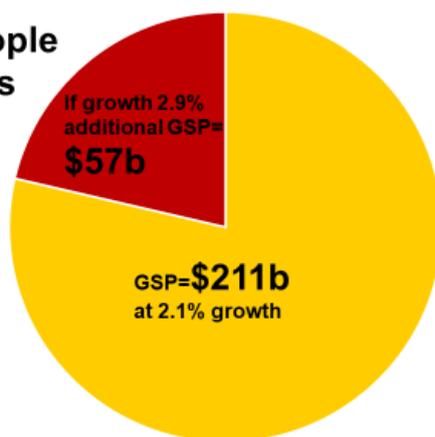
I want to conclude with two key points.

CHART 9

Potential Future GSP, 2050/51

Projected GSP if growth was at the SA average annual rate for 1989/90 to 2020/21, and if growth was at the Australian average, \$'billions

459,000 more people
293,000 more jobs



First, this chart shows what we are fighting for.

It extrapolates for the next 30 years growth at our historical 2.1%, and at a competitive level of 2.9%.

The red is the slice of the economic pie we can enjoy in the future if we fix our growth problem, another \$57b of economic activity, 460,000 more South Australians and nearly 300,000 more jobs.

It is a State changing prize.

I am putting forward just one bold idea that could help us go a long way to winning that prize.

Second and finally, I learnt something as a young boy growing up in Adelaide's manufacturing north west in the 70's and 80's as tariff protections were withdrawn.

In this modern world, if we really want to protect South Australians from the pain, anguish and disadvantage of being economically uncompetitive, we must, no matter how hard or unpopular it may initially be, relentlessly and continuously pursue the vision of being bigger and better.