





# **Economic Issues**

**No. 44**

## **Should South Australians Really Be Down in the Mouth? Macroeconomic Performance**

### **Authors:**

**Assoc Professor Michael O'Neil, Executive Director, SACES  
Steve Whetton, Deputy Director, SACES  
Darryl Gobbett, Visiting Fellow, SACES  
Professor Christopher Findlay AM, University of Adelaide**

**June 2015**

**South Australian Centre for Economic Studies**







## Recent Issues Papers

43. “Exceeding the Limit: How Excessive Speeding Fines May Undermine Community Engagement with Government Road Safety Policies”, by Michael O’Neil and Lauren Kaye, June 2015.
42. “Structural Change: Lessons from Port Augusta’s Experience in the 1990s”, by Michael O’Neil, July 2014.
41. “The Labour Market, Competitiveness, Employment and Economic Prospects”, by Michael O’Neil, Lauren Kaye and Mark Trevithick, June 2014.
40. “Providing Local Economic Stimulus and Promoting Local Economic Development: Possibilities for Councils in South Australia”, by Michael O’Neil, Cliff Walsh, Anthony Kosturjak and Mark Trevithick, October 2013.
39. “The Task of Strengthening Regional Development”, by Michael O’Neil, September 2013.
38. “Localism: Learning from Federal Nation Building (Economic Stimulus) Projects”, by Michael O’Neil, Steve Whetton and Suraya Abdul Halim, September 2013.
37. “Re-Thinking Social Policy: Place-Shaped As Well As People-Focussed”, by Cliff Walsh and Michael O’Neil, May 2013.
36. “South Australian Centre for Economic Studies: 30 Year Anniversary”, by Gary Banks AO and Gary Sturgess AM, April 2013.
35. “Is Adelaide a University City?”, by Michael O’Neil and Mark Trevithick, April 2013.
34. “Assisting Regions and Communities to Cope with Structural Change: Context, Objectives, Principles and Good Practice”, by Cliff Walsh and Michael O’Neil, August 2011.
33. “The Economic Consequences of the Euro” by Colin Rogers, July 2011.
32. “Banking Competition: The Rhetoric and the Reality” by Dr Penny Neal, May 2011.
31. “South Australian Labour Markets: 2000 to 2010” by Michael O’Neil and Mark Trevithick, February 2011.
30. “Migration Trends in South Australia, 1998/99 to 2008/09” by Mark Trevithick, January 2011.
29. “Decline and Rejuvenation: The Provincial Cities of South Australia” by Michael O’Neil, Mark Trevithick, Daisy McGregor and Antony Pietsch, January 2011.
28. “Re-Thinking the Approach to Regional Development in South Australia”, by Michael O’Neil and Cliff Walsh, December 2010.
27. “Identifying the Main Economic Issues Facing the South Australian Wine Industry”, by Nicola Chandler, April 2010.
26. “Nuclear Power in Southeast Asia: Implications for Australia and Non-Proliferation”, by Andrew Symon, April 2009.
25. “The Global Economic Crisis of 2008: Some Thoughts on Causes and Remedies”, by Colin Rogers, January 2009.
24. “Assisting Injured Workers Return to Work: The Economy Needs You!”, by Michael O’Neil and Peter Lumb, November 2008.
23. “A Review of the Literature of Active Labour Market Policies”, by Michael O’Neil and Penny Neal, June 2008.
22. “Self Managed Superannuation Funds: Some Public Policy Issues Regarding Their ‘Decumulation’ Phase, by Owen Covick, April 2008.
21. “Australia’s Productivity Growth in the 21<sup>st</sup> Century”, by Dean Parham, September 2007.
20. “Building a Local Defence Industry: Workforce Requirements 2006-2010”, by Michael O’Neil, Steve Whetton and Edwin Dewan, March 2007.
19. “Running on Empty: The Risk of Continuing to Dither While the Empty Light is Flashing”, by Professor Peter Cullen, AO, FTSE, January 2007.
18. “South Australia’s Recent Productivity Performance” by Jim Hancock and Wing Hsieh, April 2006.
17. “Mining the Labour Market: The Estimated Demand for Labour in the SA Mining Sector, 2006-2014” by Michael O’Neil and Paul Huntley, April 2006.
16. “Australia’s New Trade Agreements: Beneficial Liberalisation or Harmful Policy?” by Andrew Symon, November 2005.
15. “Wind Generation and the South Australian Economy” by Stephen Nelson, April 2005.
14. “South Australia’s Overseas Exports” by Paul Huntley, March 2005.
13. “The 2004/05 South Australian Budget” by Jim Hancock, July 2004.
12. “The Relative Decline of Manufacturing Employment in South Australia” by Anthony Kosturjak and Joshua Wilson-Smith, July 2004.





*is keeping pace with the  
other manufacturing states*

*is slower employment  
growth is*



*is defence manufacturing  
as the start is*

The most important factor in pulling South Australia out of its prolonged slump was the relocation of substantial manufacturing activity to Adelaide during the Second World War (as Adelaide was seen as safe from attack) (Sinclair, 2009). This reinforced a notable shift in the economic development strategy of the Butler and Playford state government in the 1930s towards encouraging the development of a manufacturing sector. Although the extent to which manufacturing grew in South Australia after WW2 was not substantially different from the rest of the country it continued to grow as a share of GDP for longer, not peaking until 1967/68, whereas in the rest of Australia (except Victoria) its share of output peaked in Sshift7i6510a s

*is one factor in the delay  
cost state is*

and footwear) and which had neither the substantial services sectors of New

*í on-going compositional  
change in response to í*



This is a significantly greater rate of interstate migration than in Victoria, where the equivalent figures were 6 per cent and 4.5 per cent respectively.

If South Australia had had the same rate of outward skilled migration as Victoria, in 2011 it would have had 1,800 more residents with a postgraduate degree, and 4,700 more residents with a bachelors' degree.

This issue is of particular importance for South Australia's future growth prospects for at least four reasons:

first, economic growth globally is principally occurring in the more knowledge and skill intensive sectors;

second, in the "traditional" sectors such as Agriculture, Mining and Manufacturing it is the rapidly increasing application of more knowledge and skill that is driving growth;

third, the global workforce is becoming more educated with the emerging economies in particular increasing their "tertiary enrolment ratios", i.e. the proportion of the respective age cohort enrolled in tertiary education. The Economist magazine notes (28/3/2015) that over the last 20 years the number of countries with an enrolment ratio over 50 per cent rose from 5 to 54; and

fourth, South Australia has a likely lower than Australian average enrolment ratio for Qualifications above Certificate Level IV for domestic students. (In 2014 an estimated 8 per cent of the South Australian population 15 – 74 was at this level of study. This was about the national average. South Australia's proportion of tertiary students on Temporary Visas was 57.8 per cent, however, compared with the national average of 44.6 per cent.) Source: ABS, Education and Work, Australia, May 2014.

*í importance of building  
an educated and skilled  
population í*

We can therefore ill afford to lose many skilled people interstate or overseas.

### **In summary**

How then should we understand South Australia's economic history and performance including the trials and tribulations of the last two decades.

By the 1870s South Australia had achieved the highest per capita Gross State Product on the basis of our comparative advantage and trade in wheat, wool and the mining output of copper. Into the next century, our per capita GSP fell to approximately 85 per cent of the national average and remained at that level for some time. The labour force participation rate has consistently remained at some 2

*í a return to the past í*

Back to the future – or a return to the past – it is once again agricultural output and mining (still in embryo) that offer real prospects for economic growth, value adding, exports and income although how we approach the development of each sector will be different from the past. Mining is poised to take a larger role in the South Austr

*í not on a post-  
manufacturing path í*

turn, be some confidence that with the appropriate public policy settings, South Australia will maintain a strong manufacturing base.

These further ideas about appropriate policy settings will be set out in our third and fourth papers.



*Should South Australians really be “down in the mouth”?*

## **Endnotes**

---

1