21 August 2026

SUBMISSION TO THE TASMANIAN GOVERNMENT'S ECONOMIC DIVERSIFICATION AND INVESTMENT STRATEGY

e61 Institute is a not-for-profit, non-partisan economic research institute, and welcomes the invitation to provide a submission to inform the Tasmanian Government's Economic Diversification and Investment Strategy.

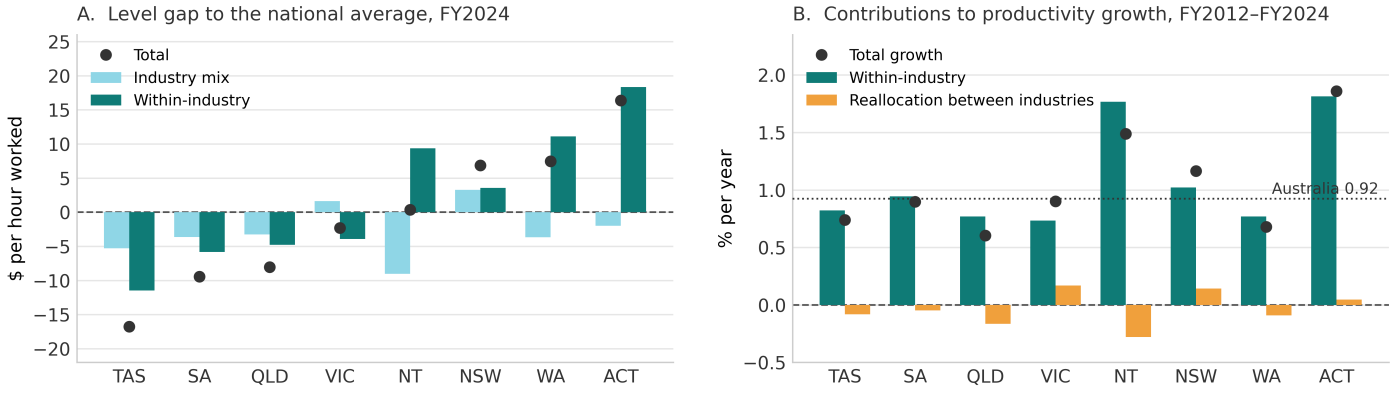
This submission focuses on problem identification: the first step in getting any successful reform strategy right. We also focus on the issues of private investment, innovation, competition and productivity. That reflects the data we happen to have readily available rather than a value judgement against the strategy's other priorities like infrastructure and workforce participation.

Industry mix does not fully explain Tasmania's productivity gap

It is well documented that Tasmania runs at a persistent productivity disadvantage to the national average. Using publicly available data on gross value-added (GVA) and hours worked by industry and state, we establish that this is not just a result of the large health care industry in Tasmania and challenges with measuring its productivity growth. Even within the market sector, including when excluding the mining industry, Tasmania runs at a lower level of productivity than the mainland states and territories. Much of the market sector productivity level gap reflects gaps within ANZSIC division industries, indicating that the causes of the productivity gap run deeper. In terms of recent market sector productivity growth ex mining, Tasmania has only been a little below the national average and well within the bounds of the range of mainland states.

Figure 1: Industry decomposition of Tasmania's productivity disadvantage

Market sector excluding mining, labour productivity



* Mining (ANZSIC division B) is excluded from every calculation, including the national benchmark: Australia = $91.36 per hour in FY2024 and 0.92 per cent growth a year. Panel A splits the FY2024 gap to the national average into an industry-mix effect and a within-industry effect. Panel B splits annualised labour productivity growth into within-industry gains and reallocation of hours between industries. Components sum to the total in both panels. Built from ABS State Accounts value added and modelled state × industry hours worked, 15 market-sector ANZSIC divisions. An e61 construction, not official ABS estimates.
Source: ABS State Accounts, ABS Labour Account, e61 Institute

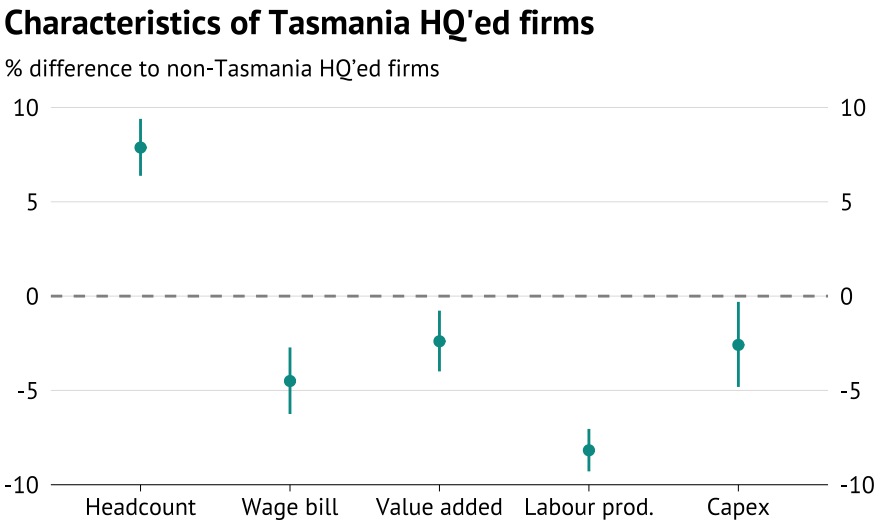
The productivity gap is apparent in detailed firm-level comparisons

ABS BLADE allows for a more detailed analysis of where the productivity gap arises. We compare Tasmania-headquartered firms[1] to other Australian firms, controlling for differences in detailed industry (4-digit ANZSIC, which distinguishes between firms at the level of, for example, florists from garden shops), firm age, financial year and whether the firm operates in a single state or in multiple states.

We find that otherwise similar firms that have their headquarters in Tasmania have around 8 per cent higher employee head-count but lower average wage bills, which together points to lower employee wages or hours. Tasmania HQ'ed firms also do about 2.5% less capital expenditure than others and have 8% lower estimated labour productivity (based on the ratio of firm turnover to estimated full time equivalent labour input).

1 There are limitations to the headquarters measure, which is what firms nominate to the tax office. More work could be done to understand where Tasmanian HQ'ed firms concentrate their economic activity, and the interstate firms that have significant operations in Tasmania.

Figure 2

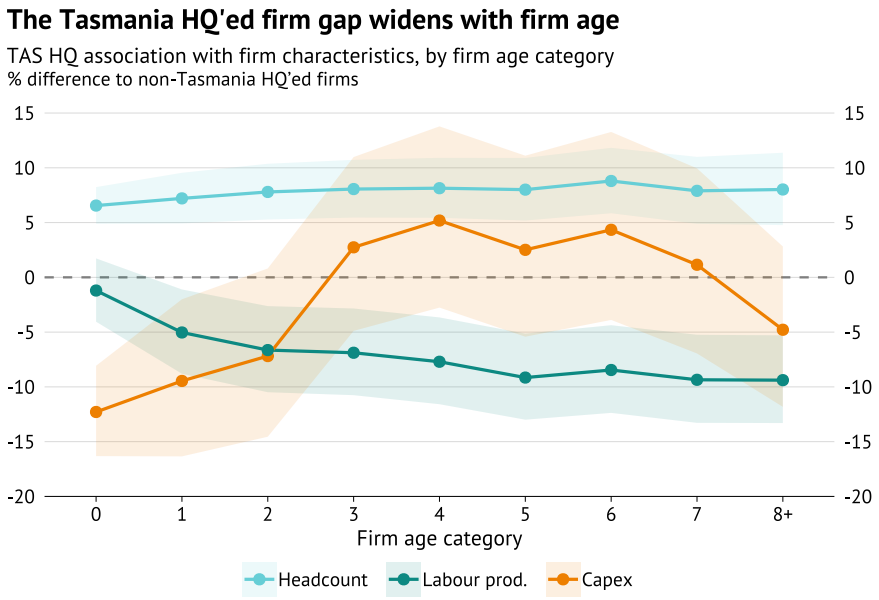


* Estimates come from OLS regressions of logged outcomes with controls for firm age category, whether the firm operates in one state only, financial year fixed effects and ANZSIC class (4-digit industry) fixed effects. 95% confidence intervals shown.
Source: ABS BLADE and PLIDA, e61 Institute

The productivity gap opens over the firm lifecycle

Interacting Tasmania HQ status with firm age, we see that Tasmanian firms begin life with a broadly similar productivity level to others. But Tasmanian firms invest less in their first few years and it is over this period that the productivity gap emerges.

Figure 3



* Estimates come from an OLS regression of logged outcomes (Model 1 controls) with TAS HQ status interacted with firm age category; firm age category 0 is the omitted base level. Shaded bands are approximate 95% confidence intervals that assume zero covariance between the TAS HQ main effect and each interaction term.
Source: ABS BLADE and PLIDA, e61 Institute

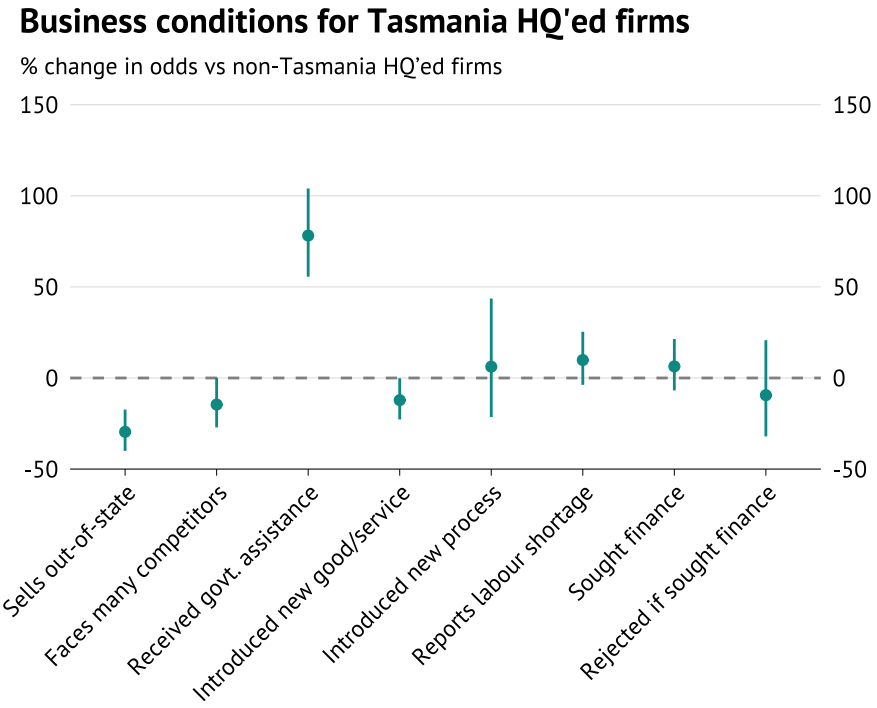
There is also evidence of lower competition and innovation among Tasmanian firms

ABS Business Characteristics Survey (BCS) firm-level microdata within BLADE points to a number of other differences in Tasmanian headquartered firms' characteristics, after controlling for the same firm factors as the broader BLADE analysis above.

Tasmanian headquartered firms have 35% lower odds of reporting that they sell across state lines. They also have 15% lower odds of reporting that they have at least 3 competitors and 12% lower odds of having introduced a new good or service. By contrast, Tasmanian firms have 78% higher odds of reporting receiving financial assistance from Australian government agencies.

Other firm attributes that we assess, like reports that labour shortages are hampering core business activities, were not found to be significantly different to zero. Note that many of the confidence intervals on this analysis are large, since even when we pool BCS observations across 2005-06 to 2019-20 the sample size of Tasmanian headquartered firms is not large.

Figure 4

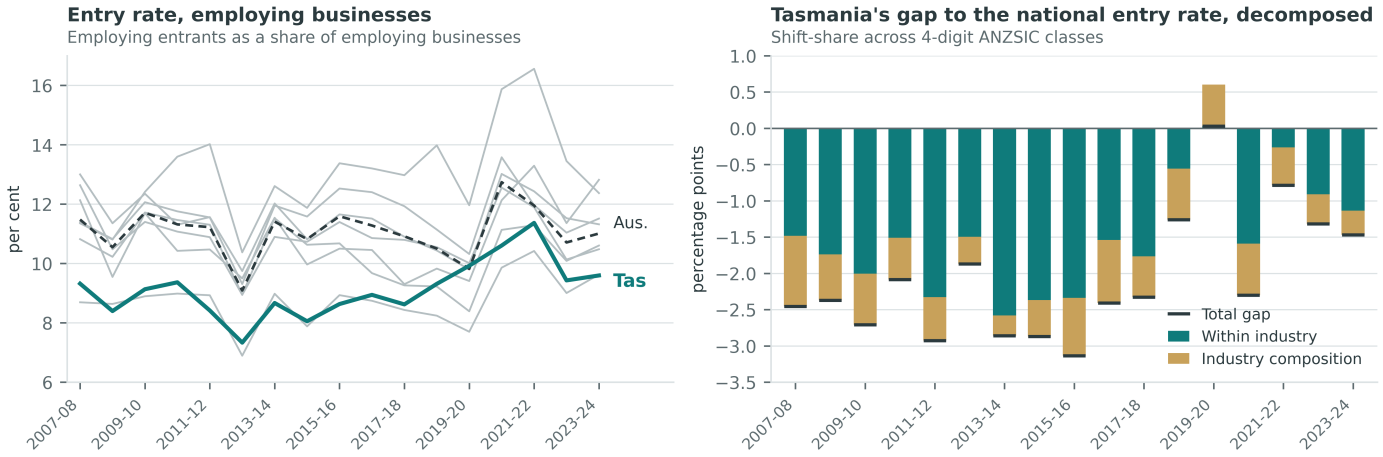


* Estimates come from logit regressions of each outcome on TAS HQ status, controlling for firm age category, whether the firm operates in one state only, financial year and ANZSIC division. The 'Sells out-of-state' estimate excludes the one-state control, since that outcome is mechanically related to it. 95% confidence intervals shown.
Source: ABS Business Characteristics Survey, e61 Institute

Tasmania has a lower level of business dynamism than other states

Other typical indicators also point to a lower level of business dynamism in Tasmania. Using publicly available data from the ABS' Counts of Australian Businesses release, we show that Tasmania has a low rate of new business entry including among employing firms. The gap between the Tasmanian entry rate and the Australian average can be traced predominately to gaps in firm entry rates within industry divisions. In a promising development, the employing firm entry rate has increased notably in Tasmania since 2020 and the gap to the national average has shrunk.

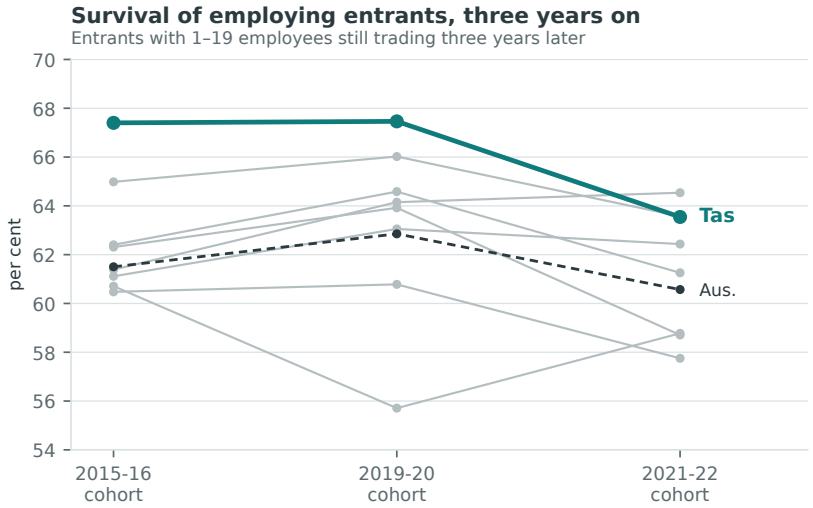
Figure 5: Tasmania's low firm entry rate does not owe much to industry composition



Source: e61 calculations using ABS Counts of Australian Businesses, including Entries and Exits, state × ANZSIC class × employment size extract, 2007-08 to 2023-24.
Employing businesses are those with one or more employees. Grey lines are the other states and territories. The decomposition is symmetric and exact: the gap equals the sum of the two components.

Another indicator of business dynamism is firm exit. While firm exit can be challenging, including material costs of job loss among employees, it is also a fundamental ingredient of a productive economy. e61 Institute analysis of Australia-wide firm exits shows that the typical exiting firm is 20% less productive than the industry average even 5 years prior to exit. Tasmanian employing firms see among the highest rates of business survival over the early years of the firm lifecycle.

Figure 6



Source: e61 calculations using ABS Counts of Australian Businesses, including Entries and Exits, data cubes 4 and 5, Jul 2015–Jun 2019, Jul 2019–Jun 2023 and Jul 2021–Jun 2025 releases.
Grey lines are the other states and territories. Employing means annualised employment of one or more in the year of entry; entrants with 20 or more employees are excluded.

Scope for more work

Further research into Tasmanian headquartered firms, as well as the broader set of firms with Tasmanian operations, would be possible with Australia's rich employer-employee linked microdata sources. Such research could further explore firm productivity gaps, utilise detailed information on worker outcomes and assist with the development of precise versions of the key indicators discussed in the draft strategy document.

A.1. Further details on firm-level regression analysis

Table A.1: Business Characteristics Survey: Tasmanian-headquartered firms, logit estimates

	(1) Base			(2) + single-state control			
Outcome	$\hat{\beta}_{TAS}$	Odds	Pseudo R^2	$\hat{\beta}_{TAS}$	Odds	Pseudo R^2	d.f.
Sells outside home state	−0.3504*** (0.0817)	0.704	0.175	−0.2116*** (0.0811)	0.809	0.243	156,810
Faces many competitors	−0.1955** (0.0814)	0.822	0.062	−0.1575* (0.0810)	0.854	0.068	107,080
Received government assistance	0.5026*** (0.0701)	1.653	0.148	0.5776*** (0.0691)	1.782	0.166	157,280
Introduced new good or service	−0.1680** (0.0661)	0.845	0.055	−0.1296** (0.0655)	0.878	0.059	166,580
Introduced new business process	0.0444 (0.1548)	1.045	0.040	0.0603 (0.1539)	1.062	0.041	13,490 / 134
Labour shortage hampered operations	0.1070 (0.0673)	1.113	0.028	0.0939 (0.0675)	1.098	0.028	163,940
Sought finance	0.0094 (0.0676)	1.009	0.034	0.0616 (0.0674)	1.064	0.043	160,560
Rejected for finance | sought	−0.0981 (0.1466)	0.907	0.034	−0.0990 (0.1467)	0.906	0.034	34,750

Each cell is a separate logit model; 16 models in total. The reported coefficient is the indicator for a Tasmanian-headquartered firm. Standard errors in parentheses. $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.10$.

All models include fixed effects for ANZSIC class, year and firm age category. Specification (2) adds a control for whether the firm operates in a single state only. Coefficients on fixed effects are not reported.

The odds ratio is $\exp(\hat{\beta})$; a value of 1.65, for example, indicates 65 per cent higher odds relative to non-Tasmanian firms.

Sample: BCS firm-year observations from 2005–06 to 2019–20 with a valid postcode and a valid response to the relevant question. Coverage varies by question because not all waves carried all questions. Residual degrees of freedom are rounded for clearance.

Source: ABS Business Characteristics Survey, accessed via the ABS DataLab. e61 Institute estimates.

Table A.2: BLADE firm outcomes: Tasmanian-headquartered firms, sensitivity to controls

	Headcount	Wage bill	Turnover	Labour prod.	Capex
Model 1: industry FE, year FE, firm age, single-state control					
Tasmanian HQ	0.0758***	−0.0460***	−0.0242***	−0.0853***	−0.0262**
	(0.0071)	(0.0094)	(0.0084)	(0.0063)	(0.0118)
Operates in one state only	−0.5827***	−0.6864***	−0.6617***	−0.2180***	−0.6521***
	(0.0090)	(0.0106)	(0.0109)	(0.0074)	(0.0130)
R^2	0.132	0.103	0.168	0.281	0.065
Resid. d.f.	9,575,890	9,394,820	9,109,180	3,277,060	3,227,760
Model 2: no industry FE					
Tasmanian HQ	0.1414***	−0.0494***	0.0320***	−0.0752***	0.0117
	(0.0076)	(0.0098)	(0.0093)	(0.0082)	(0.0128)
Operates in one state only	−0.6016***	−0.7964***	−0.7399***	−0.3178***	−0.6902***
	(0.0095)	(0.0113)	(0.0120)	(0.0090)	(0.0137)
R^2	0.015	0.042	0.047	0.028	0.009
Resid. d.f.	9,576,240	9,395,170	9,109,530	3,277,420	3,228,110
Model 3: no industry FE, no single-state control					
Tasmanian HQ	0.1427***	−0.0477***	0.0336***	−0.0780***	0.0094
	(0.0076)	(0.0098)	(0.0093)	(0.0082)	(0.0129)
R^2	0.010	0.037	0.042	0.024	0.006
Resid. d.f.	9,576,240	9,395,180	9,109,530	3,277,420	3,228,120

OLS estimates. All outcomes are in natural logarithms, so coefficients approximate proportional differences relative to non-Tasmanian firms; the exact percentage difference is $100 \times (\exp(\hat{\beta}) - 1)$. Standard errors in parentheses. $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.10$.

All models include firm age category indicators and year fixed effects. Model 1 additionally includes ANZSIC class fixed effects. Coefficients on fixed effects are not reported. Comparing Models 1 and 2 isolates the effect of controlling for detailed industry.

Labour productivity is turnover per full-time-equivalent employee and is calculated only for firms with three or more FTE, which accounts for the smaller estimation sample. Capital expenditure is likewise available for a restricted sample.

Sample: BLADE firm-year observations from 2005–06 onward with positive headcount, drawn from the indicative data items, BIT, BAS and PAYG. Residual degrees of freedom are rounded to the nearest 10 for clearance.

Source: ABS BLADE, accessed via the ABS DataLab. e61 Institute estimates.

Table A.3: BLADE firm outcomes: Tasmanian HQ interacted with firm age (Model 4)

	Headcount	Wage bill	Turnover	Labour prod.	Capex
Tasmanian HQ (age category 0)	0.0635***	−0.0938***	−0.0199	−0.0121	−0.1312***
	(0.0080)	(0.0127)	(0.0121)	(0.0149)	(0.0240)
× age category 1	0.0061	0.0166	−0.0163	−0.0395***	0.0318
	(0.0075)	(0.0125)	(0.0117)	(0.0143)	(0.0325)
× age category 2	0.0116	0.0276*	−0.0162	−0.0566***	0.0566
	(0.0090)	(0.0143)	(0.0130)	(0.0154)	(0.0347)
× age category 3	0.0140	0.0326**	−0.0037	−0.0592***	0.1582***
	(0.0095)	(0.0147)	(0.0136)	(0.0157)	(0.0312)
× age category 4	0.0148	0.0506***	−0.0089	−0.0681***	0.1817***
	(0.0101)	(0.0153)	(0.0141)	(0.0160)	(0.0321)
× age category 5	0.0136	0.0393**	−0.0235	−0.0838***	0.1560***
	(0.0109)	(0.0163)	(0.0149)	(0.0163)	(0.0334)
× age category 6	0.0208*	0.0504***	0.0020	−0.0763***	0.1736***
	(0.0115)	(0.0171)	(0.0156)	(0.0166)	(0.0344)
× age category 7	0.0125	0.0588***	−0.0046	−0.0861***	0.1426***
	(0.0120)	(0.0178)	(0.0162)	(0.0170)	(0.0352)
× age category 8+	0.0137	0.0700***	0.0030	−0.0865***	0.0821***
	(0.0134)	(0.0188)	(0.0174)	(0.0169)	(0.0310)
R^2	0.132	0.103	0.168	0.281	0.065
Resid. d.f.	9,575,880	9,394,810	9,109,170	3,277,050	3,227,750

OLS estimates, outcomes in natural logarithms. Standard errors in parentheses. $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.10$.

Specification follows Model 1 (ANZSIC class fixed effects, year fixed effects, firm age category indicators and a single-state control), with the Tasmanian HQ indicator interacted with firm age category. Age category 0 is the omitted base, so the first row is the Tasmanian differential for the youngest firms and each interaction is the additional differential at that age.

The cumulative Tasmanian differential at age category a is $\hat{\beta}_{\text{TAS}} + \hat{\beta}_{\text{TAS}\times a}$. For labour productivity this runs from −1.2 per cent at age category 0 to −9.4 per cent at age category 8+.

Source: ABS BLADE, accessed via the ABS DataLab. e61 Institute estimates.

Table A.4: BLADE firm outcomes: Tasmanian HQ interacted with time period (Model 5)

	Headcount	Wage bill	Turnover	Labour prod.	Capex
Tasmanian HQ (2005–10)	0.0603***	−0.0737***	−0.0192*	−0.0649***	0.0434***
	(0.0088)	(0.0118)	(0.0103)	(0.0080)	(0.0140)
× 2011–15	0.0109	0.0162	−0.0261***	−0.0358***	−0.1272***
	(0.0077)	(0.0108)	(0.0092)	(0.0078)	(0.0173)
× 2016–22	0.0307***	0.0563***	0.0051	−0.0252***	−0.1319***
	(0.0096)	(0.0129)	(0.0114)	(0.0089)	(0.0229)
R^2	0.132	0.103	0.168	0.281	0.064
Resid. d.f.	9,575,900	9,394,830	9,109,190	3,277,070	3,227,770

OLS estimates, outcomes in natural logarithms. Standard errors in parentheses. $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.10$.

Specification follows Model 1 but replaces year fixed effects with time period indicators interacted with the Tasmanian HQ indicator. The 2005–10 period is the omitted base, so the first row is the Tasmanian differential in that period and each interaction is the change relative to it.

Source: ABS BLADE, accessed via the ABS DataLab. e61 Institute estimates.

A.2. ABS BLADE data disclaimer

This paper uses unit record data held in the BLADE data environment which is hosted by the Australian Bureau of Statistics. The results are based, in part, on Australian Business Register (ABR) data supplied by the Registrar to the Australian Bureau of Statistics (ABS) under A New Tax System (Australian Business Number) Act 1999 and tax data supplied by the Australian Taxation Office (ATO) to the ABS under the Taxation Administration Act 1953. These require that such data are only used for the purpose of carrying out functions of the ABS. No individual information collected under the Census and Statistics Act 1905 is provided back to the Registrar or ATO for administrative or regulatory purposes. Any discussion of data limitations or weaknesses is in the context of using the data for statistical purposes, and is not related to the ability of the data to support the ABR or ATO's core operational requirements. Legislative requirements to ensure privacy and secrecy of this data have been followed. Only people authorised under the Australian Bureau of Statistics Act 1975 have been allowed to view data about any particular firm in conducting these analyses. In accordance with the Census and Statistics Act 1905, results have been confidentialised to ensure that they are not likely to enable identification of a particular person or organisation.

Legislative requirements to ensure privacy and secrecy of these data have been followed. For access to MADIP and/or BLADE data under Section 16A of the ABS Act 1975 or enabled by section 15 of the Census and Statistics (Information Release and Access) Determination 2018, source data are de-identified and so data about specific individuals has not been viewed in conducting this analysis. In accordance with the Census and Statistics Act 1905, results have been treated where necessary to ensure that they are not likely to enable identification of a particular person or organisation.