

South Australia, which votes next Saturday, will be one of the first states to face the nation's future economic challenges, writes Roy Eccleston

WHEN Robert Hill left the Senate last week he lamented his home state South Australia had everything to offer "except economic opportunity", which meant that while he would always call Adelaide home, his children would not.

Actually Hill is expected to call New York home pretty soon as the former defence minister becomes Australia's new ambassador to the UN.

But his parting shot highlights the looming challenge SA faces as it works to strengthen and diversify its one-time rustbelt economy, and heads to an election next weekend.

Despite Hill's gloomy analysis, there's no doubt the state is in a much better economic position than five years ago, although there's an argument about how much better. It has its AAA credit rating back, unemployment is low and the Government is running a small budget surplus.

But it has structural problems that are difficult to overcome, such as distance from markets, a lack of diversity in the economy and perhaps most important, the population. Too many of the state's 1.5 million are elderly and not enough are young and skilled. And many of those young and skilled people, such as Hill's children, will leave.

The state has had the nation's lowest population growth, of just 0.5 per cent, during the past five years. This means it faces a challenge to provide enough workers, skilled and otherwise, to cope with a surge in new projects and to drive further economic growth.

The \$3 billion-plus investment in Adelaide for the air-warfare destroyer project and up to 23,000 jobs from the mooted \$5 billion Olympic Dam copper and uranium mine expansion are key elements of a more diverse, stronger economy. But who will do the work?

"Skills will have to be imported into South Australia," admits SA Treasurer Kevin Foley. "I think the skills shortage is both a threat and a huge opportunity." Foley says workers will have to be brought from other states and overseas "with a progressive migration system. But he cautions that the size and make-up of the state's population is "a chronic and critical problem we have to address".

The problem is twofold. SA had a surge of foreign migrants in the 1950s and '60s, but had a very slow economic period in the '80s and '90s, when fewer people came and many young people left.

Today, that means more retirees and fewer skilled workers. The potential problems are obvious when big new projects begin: delays, bottlenecks, the possibility of wage inflation and missed economic opportunity.

SA has one of the lowest unemployment rates in the country, at 5.1 per cent. Graeme Hugo, a geography professor at the University of Adelaide, says it is already experiencing "some tightness" in the job market even before the big new projects go on stream.

"Part of the strategy has to be to bring people on through the training and apprenticeship systems," Hugo says. Luring migrants will also be important but won't be easy and may need more direct government support.

"It isn't a tap to be turned on and off," he warns. "People with skills are not in abundant



Problems ahead: Opposition Leader Rob Kerin, left, and Premier Mike Rann are shepherded by Ray Martin to their election debate

supply. European countries are looking for people with skills, Canada is, the US is. We're in a competitive market and it is a bit ambitious to suggest people are just going to come here without special schemes to grease the rails."

During the past decade Australia has focused its migration program increasingly on skilled workers who speak English. Britons and New Zealanders, as well as Indian and Chinese students who have studied here, are big components. According to Hugo, SA has increased its share of the migration intake and now takes about one-quarter of those who apply for a new visa that requires them to work in regional areas for several years.

But with just 6300 people out of the 123,000 who came here in 2004-05, it's not taking anywhere near as many per head as Western Australia, which also is struggling to find workers in areas such as the booming mining sector.

WA is an example of what SA needs to do, chides Peter Vaughan, chief executive of the lobby group Business SA. The state had a much larger population than WA at the turn of the

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previous century, was on a par in the early '80s, but today trails significantly. WA has a population one-third larger, at about two million.

Vaughan says while the Rann Government has a population target of two million, neither side of politics is treating the issue with the urgency needed. SA needs to convince Canberra to agree to a special deal that would direct the bulk of skilled migrants to the state rather than the overcrowded east coast, he argues.

The state would provide space, job opportunities and infrastructure. In return it would become a zone of special significance for 10 years. Canberra would provide incentives, rebates and tax breaks for business to invest, set up new plant and base headquarters in the state.

"The result is that within a decade SA's population grows to two million and forms a critical mass, and overcomes the lack of too many old people and not enough young people," Vaughan claims. "Also, there would be an investment in infrastructure that wouldn't have occurred in less than 100 years."

Without urgent measures, he says, the state will drift into "gradual senility and obscurity", while the rest of the country powers ahead.

Credit rating agency Standard and Poor's analyst Danielle Westwater says there's evidence the state's economy is more resilient. "When carmaker Mitsubishi decided to close its engine facility [last year] the economy absorbed the decision fairly well," Westwater says. She adds that she suspects it would have had a bigger effect a decade ago.

The challenge, though, is to build on it.

The state is relatively small in population, isolated from markets and its reliance on exports and manufacturing make it more vulnerable to economic shock than the rest of the nation, says Business SA.

done my bit for population growth". But Lucas claims part of the blame must go to the Labor Government for making it less attractive to move to the state.

"It comes back to cost of living. When you're working out how much money you've got and how many kids you can afford to have, and you've got a state Government taxing the hell out of you, then you're not going to be inclined to have bigger families," Lucas says.

But he says there's no silver bullet to boost the population and rejects the Business SA idea that the population could quickly rise to two million: "I don't think it's possible."

Some economists think it's wrong-headed to focus on increasing the population for the sake of it.

"The focus on stronger population growth being a panacea for stronger economic growth is misplaced," says Kevin Kirchner, editor of the briefing report of the South Australian Centre for Economic Studies. "The reality is if we develop economic growth and employment opportunities then population growth will follow." The key focus should be on increasing the productivity of workers and the innovation of business, he says.

How SA tackles the population problem will be watched by planners in the rest of country because the state is a harbinger of a problem that will have outcomes that may not appear obvious today. For example, an ageing population will mean that the state will have trouble finding not just workers in skilled specialist jobs but also in semi-skilled and even unskilled work.

One instance is that SA's retirees will trigger a significant demand for more workers in the paid-care sector. In a tight labour market it's very tough to get people to work in paid care, says Hugo, so the state may also have to import carers as well as mining and defence technology specialists. The plus is "we've got time", he says. Australia's workforce is still increasing, which isn't the case in many European countries.

"But we do have to plan or the crunch will come," Hugo says. And the first to be squeezed will be SA.

His opponent in the election, shadow treasurer Rob Lucas, jokes that with four kids, "I've