

The Folly of Regional Policy

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Over the years, regional development has proved to be one of the Australian Commonwealth's more misguided policy endeavours. For example, in the early 1970s the Whitlam Government's Department of Urban and Regional Development (DURD) was a by-word for grandiose ideas and wasted expenditure. Likewise, the exaggerated resources boom of the early 1980s generated few immediate long-term benefits and some questionable investments like the Portland aluminium smelter. Then came the Multi-Function Polis. This ill-formed concept, like DURD's unlamented new city of Monarto before it, has sunk virtually without trace in Adelaide's hinterland.

Unfortunately, Canberra's resurgent interest in regional issues risks triggering a re-run of these events. This belief reflects three major difficulties. First, the formulation of regional policy stems from the Commonwealth's perception of unacceptable regional inequalities. However, one doubts that the correct problem has been identified. The second concern relates to our understanding of the issue — a critical precursor to effective policy formulation. The government appears to have at least three separate and widely contrasting sources of advice from the Industry Commission (1993a), its own 'Kelty Taskforce' (1993), and consultants McKinsey & Co. (1994). Of course, the utility of this advice depends on the extent to which the correct problems have been identified. The resulting decision-making fog is all the thicker because of a third difficulty. Although the Industry Commission's analysis translates readily into policy recommendations, the thinking behind the other two reports yields dubious prescriptions. How, for example, is the Commonwealth supposed to improve the quality of regional leadership, a key deficiency identified in the McKinsey paper? In short, a lot of money, including well over \$1 million in the case of the McKinsey Report, will have yielded little progress towards regional policy Nirvana.

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Defining the Regional Problem

Economic change during the last two decades has impacted unevenly across Australia (Walmsley & Sorensen, 1993; Sorensen & Epps, 1993a). Some locations, particularly in the heartland of rural Australia and in some of the older industrial regions, have experienced the full force of recession, international competition, and adverse terms of trade. Yet others attract a disproportionate number of the unemployed, offer their residents a narrow range of opportunity, have failed to realise their growth potential, or suffer from slow and long-term economic decline. Many areas have experienced severe production losses through the vagaries of drought and flood. Although endemic to Australia, such events are rarely anticipated sufficiently by primary producers, and exacerbate the damage to regional economies already inflicted by other mechanisms. In contrast, some places have benefited greatly from a combination of good fortune or sound management. Many of these are located in the areas of high environmental quality that drape our coastal fringe, or adjacent to the capital cities and larger regional centres, or in places blessed with great mineral wealth.

In short, place matters. One's wealth, occupation, and employment conditions depend significantly on where one lives. Moreover, such spatial variations in well-being are increasingly apparent to the average person in the street. Private travel, television, print media and a welter of government statistics, not to mention the arcane calculations of the Commonwealth and State Grants Commissions, provide ample testimony to the situation.

Unsurprisingly, numerous lobby groups have formed to draw governments' attentions to spatial variations in prosperity that they perceive to be excessive and growing. In New South Wales, for example, such groups include the Country Mayors' Association, which represents the larger country towns whose populations exceed 10,000; Regional Organisations of Councils like Sydney's WESROC; State-funded agencies like the New England and Northwest Regional Development Board; local chambers of commerce; private or public regional-development bureaux such as the Armidale and Tamworth Development Corporations formed to promote individual towns and cities; and environmental lobby groups who think that Sydney's growth should be curtailed.

'Balanced Development'

Many groups or individual participants, though by no means all, advocate the rather nebulous concept of 'balanced development'. This seems to mean the dispersal of economic and population growth away from city centres, capital cities or coastal locations towards suburban, rural and inland places. However, the scale of the shift, its precise location, and the type and quality of jobs involved are generally unstated. The proponents of 'balanced development' clearly imply, probably mistakenly, that Australia's current pattern of development is both unfair and inefficient.

Unfairness is seen to arise from the lower life chances that some people suffer because of where they live (see Sorensen & Weinand, 1991, for a recent discussion of the topic). Inefficiency, on the other hand, arises principally from three aspects of alleged market failure. The first is a form of opportunity cost: regional areas (those lying away from urban and coastal cores) offer many excellent development prospects that remain undiscovered because of investors' inadequate knowledge of the opportunities available. Second, negative externalities, especially in the form of pollution, congestion, and long journeys to work, may exceed the benefits arising from the concentration of economic growth. Finally, community infrastructure costs in core locations may exceed those in regional localities, especially if we take into account existing under-utilised facilities. If this is true, the *decentralisation* of growth could save government and the wider community considerable expenditure. These issues have been discussed extensively in recent reports (for example, Industry Commission, 1993b; House of Representatives Standing Committee for Long term Strategies, 1992; NSW Legislative Council Standing Committee on State Development, 1993).

These notions of unfairness and inefficiency, and therefore the merits of 'balanced development', still lack credible empirical and theoretical support, notwithstanding many public enquiries and the efforts of academic researchers. For example, the idea that spatial variations in life chances are intrinsically unfair is by no means self-evident and raises tricky moral issues. We could argue that people who choose to live in a disadvantaged area and could improve their lot by migrating elsewhere do not need special treatment. This line is reinforced if, as will nearly always be the case, the diversion of resources to improve the lot of disadvantaged areas has its own opportunity costs. Britain realised at least a decade ago (Hallett, 1981) the dubious merits of reducing the wealth of society as a whole in order to promote the interests of one or more broad regions. This is especially so if variations in intra-regional well-being exceed those between regions — as appears to be the case in much of Australia. The three aspects of alleged market failure are similarly open to question. Arguments about wasted infrastructure are particularly problematical where facilities are old and fully depreciated. And the benefits arising from the chaos of urban living, particularly technological advancement and the pace of innovation, are easy to underestimate (Jacobs, 1972).

None of these doubts has deterred lobby groups from demanding public intervention to promote regional development. Nor has it prevented State and Commonwealth governments from feeling on occasion a strong moral obligation to rein in regional disparity. The regional lobby is durable, though its vigour, cohesiveness, and political influence wax and wane according to regional conditions and the difficulty in assembling a coalition of interests with sufficient power to command political attention. At the federal level, this has occurred only three times in the last 50 years: in the late 1940s during post-war reconstruction; in the early 1970s leading to the Whitlam Government's New Cities Program; and in 1993-94. In contrast, State governments have been more consistently involved in promoting regional development, though often in only a token way. The States' somewhat schizophrenic

responses reflect two antithetical conditions: their constitutional responsibility for development of their territories, and lack of control over factors affecting regional well-being.

The Resurgence of Regional Policy

The current resurgence in regional thinking in Canberra arises from strident campaigning by regional interests coupled with an electorally driven commitment by the Keating Government to pursue remedial action for perceived regional disadvantage. The congruence of economic and political interests is primarily a child of the severe recession of the early 1990s, which greatly accentuated regional variations in well-being. This outcome results from at least five inter-related processes. First, much of rural Australia has been economically depressed by a combination of several years of low commodity prices; a long, severe and widespread drought; heavy debt servicing; out-migration to coastal locations; the decline in the textile, clothing and footwear (TCF) industries; a filtering up of service provision to regional cities; the rationalisation of State government administration; and reduced domestic travel.

Second, industrial centres like Newcastle, Wollongong, and Geelong, whose narrow economies depend heavily on comparatively few major activities or firms (such as BHP steel production), had not fully recovered from labour shedding in the early 1980s when they were hit by further job losses. These stemmed from an unusual combination of recession, industrial restructuring, and capital investment by major companies striving towards international best practice.

Third, Australia began to imitate the 'rust-belt' conditions of the north-eastern United States. Two states, Victoria and South Australia, shared above-average employment in manufacturing, a portfolio of mature, but increasingly less protected auto and TCF industries, and large government-inspired financial debacles. They also experienced a deeper and longer recession than the rest of the country. In contrast, Western Australia and Queensland rode out the recession comparatively well, relying principally on their modern mining and tourism sectors.

A combination of the 'rust-belt' phenomenon, earlier retirement, the rise of the *woopie* (well-off old person) class), and changing lifestyle preferences in favour of warmer and environmentally attractive regions saw continued large-scale migration towards northern New South Wales and south-east Queensland. This fourth event was reinforced by the rapid growth of international tourism.

Finally, the recession impacted differentially within the capital cities. Although the financial and property sectors shed considerable labour after 1990 and jobs were lost in many areas of middle management, growth in public-sector employment provided some relief. In contrast, those losing often un- or semi-skilled manufacturing jobs often found it difficult to acquire alternative employment. Thus industrial suburbs like Melbourne's Coburg in the federal electorate of Wills recorded up to 25 per cent unemployment.

Many of this enormous number of difficulties are discussed at length in Sorensen and Epps (1993a). Some of them, perhaps most, are cyclical and short-

term, while others are structural and sometimes long-running. Opportunities also display dramatic spatial variation, reflecting in part Australia's highly uneven distribution of resources. In turn, the conditions prevailing in metropolitan, country-city, coastal, rural and remote areas all differ greatly. In short, virtually no two places are alike. Moreover, many of the forces underlying these events — including changing demography, lifestyle preferences, transport and communications technology, business strategy, and international economic development — are substantially beyond the control of government (Sorensen & Epps, 1993b).

The policy implications are uncomfortable. Attempts to resuscitate particular localities by swimming against the economic tide are apt to be difficult and expensive. As well, different policy packages are required for each place. Given the Commonwealth's limited budget, care must be taken to target areas that have substantial regional problems to which the application of resources yields a significant positive return. Yet, paradoxically, places capable of generating such returns may well not need assistance. This agenda appears frankly impractical. Thus, it is doubtful that the Commonwealth, which is charged primarily with managing *national* well-being, should or can be interested in the well-being of individual places. An alternative, and more acceptable, approach to regional development is to eschew spatial particularity in favour of sound national macroeconomic management that has incidental and unforeseen regional benefits. Although this path may impact adversely on some localities, the harm is probably little different from what would have occurred under a spatially targeted regime.

The Industry Commission Report

The Commonwealth decided to develop a regional program in early 1993 for largely electoral reasons. In pursuit of its elusive goal the government is able to draw on three main but widely contrasting external sources of advice. The Industry Commission, which began its work in 1992 before the government announced its commitment to regional development, was first into print when its draft report appeared in late September 1993. True to the Commission's philosophy, its recommendations took an overwhelmingly national rather than regional perspective and advocated continued market-oriented microeconomic reform.

Key recommendations included:

- according greater recognition to regional labour-market conditions during enterprise bargaining;
- reviewing the costs and benefits of the Superannuation Guarantee Charge for casual and itinerant employees;
- examining the ways in which social-security arrangements, in conjunction with the tax system, exacerbate regional unemployment;

- enforcing those provisions of the Social Security Act that aim to discourage people moving to regions with lower job prospects;
- using greater flexibility in wages and work practices to increase training and retraining by employers;
- review of the number of Labour Market Programs (LMPs)
- revision of the eligibility criteria for various LMPs to meet the needs of smaller regions;
- differentiation of environmental regulations to take into account the circumstances of different regions;
- requiring comprehensive cost-benefit analysis for public infrastructure investments and publication of economic impact statements for major projects to ensure greater transparency in the decision-making process;
- making regions more attractive to capital in general rather than sponsoring individual firms to locate in target regions; and
- removal of regulations on intrastate aviation and coastal shipping and termination of the policy of cabotage for coastal shipping.

Not surprisingly, these recommendations met with hostility and vituperation from many trade unionists and members of the Labor Party. The report was construed as an attack on the working conditions of people living in locations already suffering from weak economic conditions and relatively high unemployment. It was also felt that the report's recommendations placed too big a burden of structural change on low-income earners, and insufficiently considered such matters as poor-quality management and the rights of individuals to live in communities where they experienced strong social ties.

Yet much of the logic of the draft report seems irrefutable when the 18 main recommendations are considered either separately or as a package. Moreover, the recommendations involve little cost. Indeed, the government stands to save money from some of the LMP and social-security reforms advocated. Unfortunately there is a real risk that many sensible ideas could be thrown out because the report has been branded with the pejorative 'economic rationalist' label.

The Kelty Report

The Kelty Report on regional economic development was launched in December 1993 with much goodwill and high hopes. This reflected two main factors. Most parts of 'regional Australia' are desperately seeking means to ameliorate employ-

ment difficulties and low incomes. Moreover, regional communities felt they owned the report given their substantial contribution to it through numerous workshops conducted by the taskforce around the country. The Report is certainly the most wide-ranging and ambitious attempt ever to revive regional fortunes. Since then, if press reports are anything to go by, the report has disappeared with little trace within the Canberra bureaucracy, to the alarm and despondency of many regional development practitioners and agencies.

This outcome should come as little surprise. The Kelty Report is flawed in many important respects: from problem definition and its analysis of regional processes through to recommendations and implementation mechanisms. There is an element of financial naivety when it deals with the four expensive and Canberra-dominated policy arenas that have greatest potential to influence regional well-being: finance, transport, the labour market and industry policy. For example, the recommendations aimed at resuscitating infrastructure bonds seem doomed to failure on account of the highly speculative nature of, and the difficulty in creating any meaningful market for, such financial instruments. The special treatment advocated for investors in (Regional) Pooled Development Funds appears to be an unwarranted distortion of investment opportunities. The latter's cost to Treasury is neither estimated nor justified. And where are the skilled fund managers needed to yield a sufficient return to attract investor capital to high risk regional areas?

The transport proposals amount to a wish-list of expensive projects. None of the cost-benefit calculations wisely recommended by the Industry Commission is supplied. Nothing is said about constraints on private involvement in new infrastructure supply that are imposed by the Loan Council. The proposals appear to place unproved reliance on the economic benefits of infrastructure expenditure. Yet the McKinsey paper (discussed below) sets little store by infrastructure improvements in Australian regional development.

Additional or augmented, but uncosted, vocational-training schemes are proposed to help reduce regional unemployment. This is despite the obvious point, subsequently embraced by the government and the ACTU, that a training wage might be more efficient. It also contradicts the Industry Commission's view that such programs should be rationalised. Unsurprisingly, no mention is made of wider labour-market reforms to give management greater flexibility in use of labour.

Finally, the recommendations on industry policy are, despite some protestations about focusing investment on industry sectors where Australia is internationally competitive, unashamedly interventionist. The report supports plans to develop the downstream processing of raw materials (whether minerals, crops or fibres), maintain the ship-building industry, develop information technology, and control the development of various industry sectors. There seems little merit in extending industry policy into the vibrant services sector or in courting excessive dependence on downstream processing industries. Once again, there is no statement of the relative costs and benefits of the strategies.

Apart from the absence of financial data, the Kelty Report makes no credible attempt to identify which regional problems deserve particular attention on account

of their severity and likely responsiveness to government action. The report also fails to notice that remedial action or investment in one place often exacerbates the situation elsewhere. For example, improved links between the capital cities have traditionally served to reinforce the competitive power of the cores at the expense of the periphery. It is therefore difficult to see how policy-makers can estimate either overall funding requirements or the allocation of funds between spending options. The effective allocation of funds is further complicated by the intrinsic difficulties of coordinating the separate plans of numerous government departments. These analytical black holes raise the possibility that resources will be wasted by scattering them too thinly. The Kelty Report therefore hardly constitutes the basis of a large-scale spending program.

On a positive note, the main report (Volume 1) is valuable both for its documentation of regional communities' aspirations and as a slate of ideas to promote their well-being. Many of the latter require further careful analysis, for inadequate information and analysis have raised more questions than they answer. Despite previous criticism, some recommendations relating to education, water, the environment, energy, business support, and empowering the regions generally reinforce current policy directions at various tiers of government. Few would disagree with the goal of creating an increasingly educated, efficient and environmentally sound society. However, the report's more considered policies seem likely to benefit Australians wherever they live rather than remedy the regional ills previously identified. The likelihood of this outcome interestingly mirrors the intent, though not the substance, of the Industry Commission's findings. Kelty's recommendations supplement rather than reinforce the Commission's preferences, a fact myopically ignored by a committee intent on promoting the welfare of particular places.

The McKinsey Discussion Paper

The McKinsey discussion paper, released in late March 1994, offers a third and quite different perspective on regional development by asking businesses for their views about impediments to investment and job creation. The accuracy or representativeness of the figures and opinions presented in the report is unknown, as no precise details are given of who was surveyed or of the questions asked. One potential problem with business surveys is that respondents are apt to blame governments, other firms, international markets, environmentalists and so on for their problems rather than such internal factors as inadequate financial skills, lack of vision, maladaptive organisational structures, poor product design, and inadequate marketing. A final worry about the report lies in its focus on business already located in regional Australia. While their perceptions may be useful, it is equally important to evaluate the reasons why metropolitan firms who could locate outside the capital cities choose not to do so.

McKinsey make three main findings. First, rejuvenation of regional leadership is the most important lever for improving regional investment. Second, regions need to increase the focus on growing existing local businesses, and businesses need

to pursue export opportunities. Regions can also foster investment growth by attracting people to the region through improved lifestyle, environment and entertainment. Third, establishment of a world-class investment environment is essential if businesses are to pursue growth opportunities. Reducing uncertainty is an important element of the investment environment.

The first finding is very important and corroborates current research being conducted by the author in Central Queensland. Much overseas research also testifies to the importance of leadership in the development of depressed or small communities (Gittell, 1990; Judd & Parkinson, 1990; Pigg, 1991; Sorensen, 1991). However, it is difficult to see any implications for Commonwealth regional policy. High-quality business and civic leadership appears to emerge accidentally rather than through policy initiative. Nor are lifestyle, environment and entertainment matters among Canberra's core interests! Thus, by inference, central government's core regional development interest revolves around export enhancement, especially through improving regional areas' access to existing programs, and the creation of a world-class investment environment.

The latter, together with the expressed view that the challenges facing regional Australia mirror those facing the nation as a whole, appear consistent with the Industry Commission's ethos. The key labour-market condition affecting investment is not, according to McKinsey, direct wage costs but rather labour flexibility, motivation and skills. Nor is overall spending on infrastructure the constraint that Kelty envisaged. What is important is the allocation of capital between competing investments so that returns are maximised and the stock of existing capital is effectively maintained. This approach to infrastructure investment would horrify members of the Kelty Taskforce, for it clearly implies that non-metropolitan growth would be maximised through investing selectively in infrastructure — almost certainly in successful localities where growth pressures are already substantial.

McKinsey's findings seem to omit several factors that are crucial to regional development: unwillingness of firms to undertake research and development, aversion to risk-taking and innovation, the failure of business to respond flexibly to changing circumstances, insufficient market orientation, and lack of critical mass (or the difficulty under Australian regional conditions of developing nodes of interrelated industries along the lines advocated by Michael Porter of the Harvard Business School). These omissions warrant several comments. First, these failings have, until recently, been endemic to Australian business — with a few exceptions. The picture appears to be changing nationally for the better, but best business practice seems to be slower at filtering to conservative provincial localities from the capital city cores. The change to a more entrepreneurial culture is yet again a national, not a regional, issue. Second, these deficiencies in business practice are not likely to emerge prominently in a business survey of the kind that McKinsey conducted. Firms find it much easier to criticise government, markets, and other external factors than their own internal shortcomings. The finding that 71 per cent cite lack of sales or demand as a constraint on investment (p.13) is an indictment of the blink-

ered vision, management incompetence, misplaced self-satisfaction, and lack of ambition among regional businesses.

Another peculiarity lies in the emphasis on increasing population as a mechanism to promote regional development — especially from a policy perspective. Regions offering a high quality of life have few development problems and, moreover, Australia has a large number of them. Unfortunately, most of the problem regions are not in the same league and never will be. In addition, some problem areas like the western suburbs of Sydney and Melbourne, or the City of Logan adjacent to Brisbane, might be better off with reduced population growth! Focus on the Cairns economy as a shining example of what a regional economy can achieve is also odd. The region is quite exceptional in terms of its external contacts, both nationally and overseas, and it is difficult to see the policy implications of its experience for the great bulk of regional Australia.

Implications for Regional Policy

This survey has demonstrated two things: lack of clarity about what, if anything, constitutes a regional problem when viewed from a national perspective; and uncertainty about the underlying causes of regional conditions. Moreover, three reports delivered to the federal government during 1993/94 are simultaneously contrasting, contradictory, and even, in places, mutually supportive. Many of the findings are trite, insufficiently considered, ill-conceived, partial (in the sense that important variables are omitted), or based more on theoretical expectations rather than observed fact. Taken as a whole, the reports offer little guidance to policy formulation, except in one interesting respect.

There is an element of agreement that pursuit of national efficiency rather than particular regional benefit is likely to improve both the sum of national wealth and, through a filter-down effect, regional well-being (albeit some places more than others). This may well be correct. Much regional development in the 1990s is likely to be a spin-off from metropolitan development, immigration, or the internationalisation of the Australian economy. Very simply, the growing wealth and size of Australia's population and that of its immediate region (Southeast and East Asia), coupled with greater opportunities for leisure and recreation, are having an enormous effect on place prosperity. It follows, ironically, that policies that indirectly reinforce metropolitan dominance may nevertheless bring increased prosperity to non-metropolitan areas through the spill-over effects of travel, recreation, hobby-farming, retirement, the demand for high-quality produce, and so on. Note, however, that these effects may largely be missing from the industrial cities and the outer areas of the capital cities, testifying once more to the diversity of problem confronting policy-makers.

Retrospective analysis also suggests that the federal policies most assisting the economic development of regional Australia in the last 20 years have been largely national policies: the winding back of manufacturing protection; increasing deregulation of the labour market; the adoption of the user-pays principle for the pricing

of public services; improved efficiency in public infrastructure brought about by privatisation, corporatisation, and deregulation; and a growing emphasis on training and research and development. Of course, some localities whose economies depend heavily on protected industries have been adversely affected by the process: for example, Wollongong, Geelong, and some regional centres with concentrations of TCF industries. But in view of the complexity and uncertainty of the regional policy environment from a Commonwealth perspective, prudence points towards the default option of chasing sound national management rather than the hare of place-specific policy.

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