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## **NON-AGENDA**

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With the view of causing an increase to take place in the mass of national wealth, or with a view to increase of the means either of subsistence or enjoyment, without some special reason, the general rule is, that nothing ought to be done or attempted by government. The motto, or watchword of government, on these occasions, ought to be — Be quiet. . . Whatever measures, therefore, cannot be justified as exceptions to that rule, may be considered as *non-agenda* on the part of government.

— *Jeremy Bentham* (c.1801)

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### **The Multifunction Polis: Australia's New Infant**

**David Pearce**

**I**t is always surprising how often old and discredited ideas reappear in new guises. Take protection. In the 1960s and 1970s the most common argument for providing tariff protection to manufacturing industries was the 'infant industry' argument. Certain industries, it was argued, were essential for Australia's development; but as they were not yet quite mature enough to stand on their own feet, they had to be protected until they could. It turned out, of course, that these infants never grew up. And correcting the mistakes of the past has been a long and costly process.

Despite this lesson, policy-makers haven't yet dispensed with the idea of infants that need nurturing. Of course, today's infants seem different. They are generally 'high tech' and the arguments for supporting them, referring as they do to 'strategic trade theory' or 'new growth theory', sound convincing and sophisticated. But all the indications are that these new infants are just as unlikely to grow up as were the old ones.

One of today's potential infants is the multifunction polis (MFP).

#### **Origin and Development of the MFP**

During Australian-Japan ministerial meetings in 1987, the Japanese minister for international trade and industry put the idea of an MFP to John Button, then Australia's minister for industry, technology and commerce. The MFP was to be:

a multifunctional 'City of the Future' which would present new ideas for new industry and life in the 21st century while serving as a centre for cultural and technological exchange in the Pacific. . . The MFP will involve the growth of 'high-tech industries' in information and life sciences technologies and 'high-touch industries' oriented to resort life, fashion, and culturally oriented pursuits. These unique industries are expected to promote the germination and fusion of a wide variety of technology and knowhow and spur the growth of new industries, and thereby boost the restructuring of Australian industry. (MITI, 1987:4-5)

Coming at a time when Australia's industry policy was changing direction, the idea of developing new industries for the future was appealing to Australian officials. Further discussions on the MFP took place between the Australian and Japanese governments.

The Australian government's response to the proposal evinced the desire to develop new industries but was also clear about the risks of subsidising the project and misallocating private and public-sector resources. In the words of DITAC (1988:11):

a fundamental principle on the Australian side should be that the project should not proceed other than on the basis that it is privately driven and involves no location specific subsidies from the Commonwealth or States.

The government did not want a white elephant. Perhaps it had the infant-industry lessons still clearly in mind.

From mid-1988 to mid-1990 the project went through feasibility studies and a site selection process; and in July 1990 Adelaide was recommended for the site. In July 1991 the Commonwealth government signed an agreement for the establishment of the MFP Development Corporation and approved funding for the project of A\$12.3m over three years. In February 1992 the Commonwealth provided \$40m from its Building Better Cities program to accelerate the development of the MFP.

### **The BIE Review**

In December 1993 the Commonwealth government asked the Bureau of Industry Economics (BIE) to review Commonwealth funding for the MFP. It was a tough job. Comprehensive analysis of something as nebulous as the MFP is almost impossible, especially as the alleged benefits of the project are so general that techniques such as cost-benefit analyses can give almost any result.

Nevertheless, the BIE (1994) report, published in June 1994, produced a number of interesting findings. First, it pointed out that 'performance in achieving the objectives of MFP has been disappointing' (p.xi). Second, in looking at the causes of this lack of progress as well as the general aims of the MFP, the BIE found that there was a serious conflict between the principles set out by the Australian gov-

ernment — that the MFP should rely on private-sector capital and not involve specific state or Commonwealth subsidies — and the objectives of the MFP project. The BIE concluded ‘the principles laid down by Government to guide development of the MFP are no longer capable of exact fulfilment. It is doubtful that they ever were’ (p.144). In other words, the MFP is an infant unlikely to grow up. Its viability would require continued government support.

The BIE’s recommendations to the government were blunt. They suggested:

either that the Commonwealth revise the 1988 Principles by increasing its support for and commitment to the MFP, or that it wind back its support for MFP and cease giving it especial national status. (p.162)

### **Is More Support Needed?**

Is increased support justified? Arguments in favour of government subsidies for particular projects are old and familiar; variants of them were put forward in submissions to the BIE. The arguments pointed to various forms of ‘market failure’ related to the unwillingness of market participants to bear the risks associated with the MFP or their lack of incentive to undertake research when they cannot themselves appropriate all the benefits.

Some of these arguments set great store by the fact that the MFP will develop ‘knowledge based industries’. Market failures in these industries are apparently pervasive. Why this should be so is not clear. Very little economic activity could take place without knowledge; and economising on knowledge is something that the market appears to do particularly well. In any case, essentially the same arguments were cited in favour of protecting manufacturing industries years ago: that protecting them would lead to the development of essential new technologies. Overall, the arguments advanced for the MFP are not new, and many do not in fact justify government funding. None of them gets around the problem that prevented Australia’s manufacturing infants from growing up under protection, namely, that protecting infants gave them no incentive to do so.

### **A Flawed Concept?**

Perhaps the key problem with the MFP lies in the implicit assumptions underlying it. An interesting insight into the rationale of the MFP is revealed in the original Australian response to the idea. In commenting on Japanese support for the project, DITAC (1988:9) said:

Long-standing observers of Japanese society detect a desire on the part of many large corporations and agencies such as MITI to strengthen the country’s capacity for intellectual inquiry and creativity — features not traditionally associated with Japan.

Indeed, the broader concept of the 'technopolis' seems to reflect a desire to produce 'creative, well rounded people': to hot-house the development of creativity where it would not otherwise occur.

Is it possible to force the development of creativity, new technologies, and so on, in this fashion? Probably not. A subsidised development creates the wrong incentives; it may encourage creativity, but it does not impose any test of survival. In any case, an artificial hot-house environment is unlikely to generate competitive enterprises. The history of creativity in the West is a history of diversity of enterprise: small creative developments on many fronts in response to real-world, not idealised, environments. Indeed, some of the most significant developments in 'knowledge-based' industries occurred in garages without any hot-house support. Both Microsoft and Apple Computer famously began with tinkering at home.

Experimentation is essential; trying new ideas and new ways of doing things breathes creative life into society. Such experimentation goes on all the time. But experiments must be put to the test of survival. Once a particular approach has captured a political interest, it never faces that test.

The government's original instinct to maintain a level playing field was right. It should resist the temptation to create another infant.

## References

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