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Tim Watling
Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Mr Watling

Senate Standing Committees on Rural and Regional Affairs and Transport – Inquiry into the future role and contribution of regional capitals to Australia

Thank you for the opportunity to provide a submission to this inquiry.

Grattan Institute's report *Investing in regions: making a difference* provides research, analysis and recommendations on many of the issues identified in the inquiry's terms of references.

The report shows that Australia's largest capital cities, and regions within an hour or two's drive of them, are growing quickly. Already concentrated populations tend to grow faster because they have larger markets, more high quality human capital, and more infrastructure that facilitates economic interactions.

Fast growing cities near capitals are not simply dormitories for commuters. These satellite cities provide economic and service hubs for their local regions, supported by proximity to capital cities.

Coastal areas, even those not close to capital cities, are also growing quickly because people want to enjoy coastal amenities.

By contrast, inland centres are generally growing slowly or even shrinking in some cases. Agriculture is no longer driving rapid economic growth in regional areas.

Historically, Australian governments have taken a "regional equity" approach to these disparities. They have tried to get slower regions to grow faster. Some wanted to alleviate congestion by encouraging growth outside Australia's capitals.

Australian governments spend billions of dollars each year on explicit programs to promote regional growth. Much more is spent on other programs where regional growth is an important goal.

However, government spending cannot make economic water flow uphill. Local job attraction schemes, regional universities, small scale roads and major infrastructure are all expensive, but they do not appear to materially accelerate slow-growing regions. By not investing in regions where we can get the best return for our taxpayer dollars, we sacrifice higher overall productivity and economic growth.

Worse, the regional equity approach has treated people unfairly. Governments have tended to divide recurrent and infrastructure funding between regions according to the number of *existing* residents, and have tended to underinvest in regions experiencing rapid growth.

Consequently, the people in rapidly growing regions near capital cities and on the coast get substantially less than their fair share of services and infrastructure. It would be fairer and more efficient to allocate more infrastructure funds according to the number of *new* residents.

Smaller and slower growing parts of rural and regional Australia remain great places to live and should not be left without services that increase wellbeing – such as schools, hospitals, transport and other community facilities. In many cases these services are what regional development policies are really funding. However, these should be clearly recognised as subsidies to be justified on equity or social grounds, rather than hoping that they will generate self-sustaining economic growth.

I attach a copy of *Investing in regions*. The report is also available for download at http://grattan.edu.au/report/investing-in-regions-making-a-difference/

If Grattan Institute can be of further assistance to the Inquiry, please do not hesitate to contact me.

Yours sincerely,

John Daley
Chief Executive Officer