Regional Development: Some Issues for Policy Makers
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I wish to acknowledge inspiration derived from discussions with countless regional leaders over many years. They helped shape the views contained in this paper. I was also privileged to attend the Regional Australia Summit in October 1999, from which I derived numerous insights into conditions in the bush and the processes shaping them. Several anonymous readers commented on an earlier draft of this paper and I thank them for their useful contribution.

About the author

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He is part author of many books, chapters, and articles on those subjects. These include Contemporary Australia and Prospects and Policy for Rural Australia and he is currently working on Reinventing Rural Australia. Associate Professor Sorensen has also written on the electoral support of Pauline Hanson's One Nation.

Until recently, he edited Regional Policy and Practice, the journal of the Australia–New Zealand Regional Science Association and has been President of that organisation. Associate Professor Sorensen is a member of a taskforce on the Sustainable Rural Business Enterprise set up by the International Geographical Union's Commission on Sustainable Rural Systems and recently undertook study leave at the University of Wisconsin's Center for Community Economic Development where he focused on the regional availability of risk capital and on improvements to entrepreneurial capacity in small towns.

He has participated in numerous government inquiries into rural and regional conditions, including the Productivity Commission's investigation of the regional impacts of National Competition Policy. He has undertaken a variety of consultancies in the regional development field and attended the 1999 Regional Australia Summit and the two Country Summits organised by NSW MP Tony Windsor.

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Contents

1. Major Issues ....................................................................................................................... i
2. Introduction ....................................................................................................................... 1
3. Disparity and Diversity ..................................................................................................... 2
   Measuring Well-Being .................................................................................................. 2
   Interregional Disparities and Diversity in Economic and Social Well-Being .............. 3
   Concluding Remarks ..................................................................................................... 7
4. Development Processes ................................................................................................. 8
   Factors in Regional Prosperity and Development ......................................................... 8
      Biophysical Resource Endowment ........................................................................... 8
      Geographical Accessibility ....................................................................................... 9
      Human and Social Capital ......................................................................................... 9
      Demography ............................................................................................................ 10
      Changing Lifestyle Preferences .............................................................................. 10
      Space Transforming Technologies ........................................................................... 10
      New Production Technologies ................................................................................ 11
      Expenditure on Public Infrastructure ...................................................................... 12
      Business Management and Development ........................................................... 12
      International Events ................................................................................................ 13
      Regional Development—An Integrated Perspective ................................................ 13
4. Development Dilemmas .................................................................................................. 14
   Biophysical Constraints .............................................................................................. 14
   Interest Group Conflict ............................................................................................... 15
5. Assessment of Policy Dilemmas ..................................................................................... 17
   Outcomes ..................................................................................................................... 20
   A Note on Education ................................................................................................. 20
List of Tables

Table 1: Household Income Differentials: Australian States and Canadian Provinces . 4
Table 2: Interregional Disparity: Incomes at Statistical Division Level. . . . . . . . 5
Table 3: Government Control and Influence Over forces for Regional Development. . 18
1. Major Issues

Economic and social crisis stalks regional Australia. This widespread perception arises from a large flow of academic and newspaper articles, numerous assertions by regional leaders and political revolt that has toppled governments. Australia's political landscape has been transformed by the rise of Pauline Hanson's One Nation and Independents. Political leaders call Summits of regional leaders to declare problems and fashion solutions, the latest being the Regional Australia Summit at Parliament House, Canberra, in October 1999. One entrepreneurial response to this turmoil is a burgeoning conference circuit featuring visiting regional development gurus from the United States. Another inhabits Australia's universities, where new centres focus on diagnosing regional conditions and rehearsing policy prescriptions.

This paper **questions the proclaimed crisis** and the industry it has spawned, and assesses the implications for policy. To do this, it examines critically the claims of regional disadvantage and examines the factors that influence regional economic and social conditions. These matters provide a policy context that contains several other important dilemmas—including the extent to which the biophysical environment acts as a constraint and the ways in which interest group conflict shapes community preferences and people's understanding of their difficulties.

**Policy-makers also confront a slate of dilemmas.** The policy context is not just intrinsically complex. Governments do not control or influence many of the important causes. There are many different policy approaches to choose from and difficulties with inter-agency coordination. Policy impacts are likely to be subtle and long-term, but policy stability is elusive. Moreover, regional policy operates across three tiers of government and responsibility for it has recently shifted towards the Commonwealth on the one hand and to fragmented and under-resourced local government on the other. This makes it exceedingly difficult and frustrating task.

Undoubtedly, **many parts of regional Australia are disadvantaged** compared with metropolitan areas but the picture conventionally portrayed is flawed. In practice, conditions are spatially diverse. Some remoter areas and those lying off major transport routes lag on many conventional indicators of well-being like income, unemployment, activity rates and access to services. Yet, many areas experience good access to services, strong social institutions that enable communities to manage change effectively, high quality living environments, interesting and well-paid jobs and excellent lifestyles. We should not forget that many non-metropolitan residents live in regional service centres...
whose quality of life and level of services often matches suburban living conditions. Of course, there is a variety of intermediate conditions.

Several of the typical indicator measures of regional well-being are suspect. For example, use of reported taxable income may create a false picture in some rural areas dominated by small business enterprises that legally employ family trusts, income splitting or averaging, and other tax devices. Crucially, there are no data on several aspects of well-being whose importance tends to rise in line with incomes. These include accumulated wealth, the cost of living, quality of lifestyle, personal security, access to information, happiness and contentment and harmony with nature.

Regional conditions are dynamic. Rapid economic expansion in some places leads to the acquisition of improved or higher level services. Others experience a pattern of circular and cumulative decline as reductions in population and services interact in a downward spiral. Others may hold their population numbers but that often belies large economic and social adjustments as communities fall within the orbit of nearby regional centres. Yet others painfully struggle to reinvent their functions with little outside assistance.

Consequently, there is a wide range of circumstance. Some places may have little difficulty warranting public policy attention. Elsewhere, there are many different kinds of regional problem: lagged adjustment to changing economic circumstances, the cumulative decline of services, loss of environmental quality, excessive in-migration, community desire for faster economic expansion than currently prevails and temporary shocks. Problems also differ according to the scale of analysis: federal, state or local.

The factors that create this diversity are themselves numerous and diverse. This paper identifies 10 major groups of factors. Moreover, they form a large interlocking system of cause and effect that makes public management very difficult. Interest group conflict exacerbates that difficulty. Such conflict arises especially over managing Australia's unforgiving environment that serves increasingly as a fairly rigid policy constraint. In a similar vein, regions have different infrastructure priorities, service needs or economic imperatives. Likewise, the residents of any region have diverse tastes, preferences, and business interests. This suggests that regional development policy will be highly contested and that one-size-fits-all approaches are inappropriate.

This contextual complexity leads to large policy dilemmas. To start with, governments do not exert much control or influence over many of the variables that heavily influence regional prosperity—especially social capital, demography, lifestyle preferences, new technologies and globalisation of economy and polity. And there are many alternative conceptions about the role of government in a primarily market economy. The paper argues that regional economic development ultimately depends on the entrepreneurship of farmers and businesspeople aided by risk capital, business skills, social and human capital and civic entrepreneurship, among others. If so, education in all its facets will be the crucial ingredient in regional improvement, in contrast with the usual regional pleas for better infrastructure, health care and banking facilities.
Several other policy difficulties confronting policy-makers are **competitive federalism, inter and intra-governmental coordination, and the problem of policy instability**. The first signals a potential dissipation of effort. The second raises interesting questions about the viability of the current bureaucratic mantra: the whole-of-government approach. The last reflects the long lead time for regional policy to take effect against a background of frequent changes in government and the fact that the complex regional development policy arena guarantees a disjointed, incremental, learning approach.

The **responsibilities for regional development policy** are spread across numerous departments and agencies from all tiers of government. Moreover, the de facto allocation of responsibility and resultant policies have changed rapidly in the last two decades. Although constitutionally the States are responsible for the development of their territories, the Commonwealth effectively controls most of the key policy mechanisms. This situation will be reinforced if the Commonwealth continues to emphasise business-led local development. Simultaneously, local communities have acquired more responsibility for their own well-being. State Governments roles have changed towards being that of service provider and environmental manager, coupled with that of change agent and mentor.

Regional policy-making is ostensibly about **creating the future**, yet there is perpetual tension between sometimes unrealistic community demands for governments to protect present interests and familiar lifestyles, while simultaneously trying to fashion adaptive communities. The latter task is made more difficult in turn by the accelerating pace of change. These contested and fluid conditions suggest that governments' regional development strategies ought to focus mainly on the facilitation of change and on ameliorating its adverse effects, two fields of endeavour that appear to be increasingly divorced despite some conceptual overlap.
2. Introduction

This paper focuses on regional development, one of the critical policy issues which emerged during the 1990s for reasons of social equity, national development and environmental management, as well as electoral considerations. The term *regional development* is somewhat amorphous. Its definition varies according to context, although a common thread concerns some kind of economic and social improvement. Such improvement can take the form of more and better quality infrastructure, improved community services, a greater and more diverse volume of production, lower unemployment, growing numbers of jobs, rising average wealth, improved quality of life, and so on. These dimensions are, of course, interconnected in some degree, though not invariably so.

Regional development is a difficult policy arena in which all tiers of government have had limited success. We explore the reasons for this outcome and indicate a possible approach to the management of Australia's regional problems. The document draws attention to the considerable diversity of non-metropolitan regional conditions and explains the processes underlying them. Next, it identifies the potential for considerable community conflict on many issues. Apart from the complexity of the problem, policy-makers confront several difficulties of their own. These include the breadth of the subject, covering most individual portfolios, participation by all tiers of government, lack of public control or influence over many important causes and our inability to predict the speed and path of technological change.

Several policy dilemmas of a more philosophical kind overlay these uncertainties. A combination of community sentiment and parliamentary process has to decide the form and extent of government participation in regional development. Given the difficulty of this policy arena and the prospect of considerable wasted expenditure, this paper suggests several possible approaches. These represent an important, if subtle, shift from the policy approaches of the early 1990s. Realistically, the Regional Australia Summit flagged this shift but omitted or insufficiently developed some dimensions of a rounded policy. [See Appendix 1 for a brief review of regional policy in Australia culminating in the Summit.]

The observations in this paper reflect a variety of published sources and the personal views of a writer who has observed the evolution of regional development policy over the last 25 years.
3. Disparity and Diversity

Much has been written recently about economic and social disadvantage in regional Australia, in government publications, academic papers, and the quality press [see, for example, Academy of the Social Sciences, 1998; Barker, 1999; Bureau of Rural Sciences (BRS), 1999; Ekersley, 1998, 1999; Grant and Sorensen, forthcoming; The National Institute of Economic and Industry Research (1998); Productivity Commission, 1998, 1999; Senate Legal and Constitutional References Committee, 1996; Sorensen (1999); Walmsley and Weinand, 1997; etc.]² There is little point in rehearsing this material here, except to say that it paints a generally gloomy picture of relatively low incomes, high unemployment, low activity rates, and shortage of service sector jobs. While that material is readily available and almost common knowledge, there are some major problems with the image conveyed. So, instead of yet another statistical presentation, this section comments critically on the quality of the data and their interpretation. Two main themes emerge. First, there are serious deficiencies in the variables used to measure regional well-being. Most studies are, in fact, only assessing selected regional conditions and omit many important considerations. Secondly, there is much greater disparity and diversity in economic and social conditions across regional Australia than is commonly supposed from reading the press or listening to the advocacy of regional lobby groups. Disparity concerns inequities in the level of well-being between places, while diversity relates to differences in economic and social structures or conditions. Both disparity and diversity appear to be increasing.

Measuring Well-Being

Well-being has inter-acting economic, social, cultural, environmental, medical, attitudinal, and geographical dimensions.³ The dimensions are internally multi-faceted, complexly interrelated and evolving dynamically. Except for the analysis of poverty, there is little agreement on the weights that one might assign to component variables, simply because lifestyle options and preferences diversify enormously with increasing wealth.

At or below the poverty line, the scope of well-being narrows to focus on individuals capacities to satisfy basic needs of food, clothing, decent shelter and good access to essential medical or social services. Such capacity is usually defined primarily by income and by its close correlates—unemployment, occupation, educational attainment, age, and marital or family status. Even here there are many difficult measurement problems, not least the appropriate definition of income and its adjustment for spatial variations in purchasing power. Poor people, like the population at large, also need different combinations of goods and services according to their stage in the life-cycle.

The closer people lie towards the top of Maslow's hierarchy of needs,⁴ where self-actualisation replaces survival, the more important become such issues as job quality, personal security, access to information and knowledge, leisure opportunities, environmental quality, social participation, contentment and satisfaction. Of course, no
two people value these matters in the same way and they are intrinsically difficult to measure. Indeed, almost all studies of well-being omit such lifestyle aspects entirely and probably do not come close to assessing accurately the well-being of middle to high income earners who value them highly.

Even the measurement of poverty is fraught with difficulty. Our use of employment, income, educational, age and family data, which are readily available from the census, is at best a rough guide. Ideally, we need to assess people’s purchasing power relative to needs and that depends on the costs of goods and services (which show great variation spatially), accumulated wealth (important for retirees who are often asset rich and income poor), taxation regime (superannuation income is taxed at concessional rates and small businesses can split their income to reduce tax), stage in the life cycle and propensity to consume (a behavioural consideration), in addition to income. A final important consideration concerns the extent to which people convert their resources into quality of life (Lovell et al., 1993). Thus people who have a low level of resources may have a high quality of life and vice versa. Such information is mostly unavailable and therefore excluded from most analyses.

Such omissions may seriously distort the assessment of well-being in regional Australia. They lead to an underestimation of economic and social conditions in areas where retirees concentrate, especially coastal regions and provincial cities. Regional Australia also has a larger proportion of small business-people than capital cities. They legally split income for tax purposes and, according to Meager et al. (1996), consistently under-report income. Many significant living costs, especially housing, are lower in rural areas and even the provincial cities. Also, large differences in age structures between country towns make it difficult to compare social and economic well-being directly. In the Northern Statistical Division of NSW, for example, the populations of Armidale and Moree recorded median ages of 28 and 31 respectively in 1996, compared with Barraba’s 42 and Bingara’s 43.

Thus, the complexities of measuring well-being are sufficient to raise doubts about the claimed extent of regional disparity. Rather, we have a set of indicator variables about several important aspects of regional economic and social conditions, whose interpretation must acknowledge aspects that are treated partially or omitted altogether.

**Interregional Disparities and Diversity in Economic and Social Well-Being**

We may examine disparity and diversity at several spatial scales—for instance, the states, city/country, Australian Bureau of Statistics (ABS) statistical divisions, and among local government areas. The picture portrayed differs at each level. For example, inter-state differences in income are relatively low by international standards. Table 1 compares inter-state (inter-provincial) variations in household income for Australia and Canada. The key figures are the mean/standard deviation and median/standard deviation ratios which reflect income disparity and reveal slightly less overall disparity in this country if we exclude the effect of Canberra. This situation probably reflects the operation of the
Commonwealth Grants Commission and its long-standing policy of reducing horizontal fiscal imbalance between the States.

Disparities between city and country have been reported several times. The Productivity Commission's report *Impact of Competition Policy Reforms on Rural and Regional Australia* (1999, pp.39–45) is a recent and useful example, covering such topics as housing, family structures, medical and aged care services, mortality rates, suicide and lifestyle issues. However, when we combine such indicators into a single national index of relative socio-economic disadvantage, most regional areas return average scores (ABS, 1998a.). High or very high disadvantage tends to occur either in remote areas across north and central Australia, or on the North Coast of NSW, a rapidly growing retirement region, and the Wide Bay-Burnett region of Southeast Queensland, which also receives retirement in-migration. While the disadvantage of remote regions is palpable, that of locations attracting large scale inward migration is suspicious. It is probably much over-stated once we add in largely unmeasured lifestyle criteria.

### Table 1: Household Income Differentials: Australian States and Canadian Provinces

<table>
<thead>
<tr>
<th>State</th>
<th>Median Weekly Household Income (A$)</th>
<th>Index Australia = 100 (1996)</th>
<th>Province</th>
<th>Average Annual Household Income (C$)</th>
<th>Index Canada = 100 (1995)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>640</td>
<td>100.0</td>
<td>Canada</td>
<td>48 552</td>
<td>100.0</td>
</tr>
<tr>
<td>NSW</td>
<td>660</td>
<td>103.1</td>
<td>Newfoundland</td>
<td>41 064</td>
<td>84.6</td>
</tr>
<tr>
<td>Victoria</td>
<td>647</td>
<td>101.1</td>
<td>Prince Edward Island</td>
<td>42 028</td>
<td>86.6</td>
</tr>
<tr>
<td>Queensland</td>
<td>619</td>
<td>96.7</td>
<td>Nova Scotia</td>
<td>41 466</td>
<td>85.4</td>
</tr>
<tr>
<td>South Australia</td>
<td>556</td>
<td>86.9</td>
<td>New Brunswick</td>
<td>41 090</td>
<td>84.6</td>
</tr>
<tr>
<td>Western Australia</td>
<td>659</td>
<td>103.0</td>
<td>Quebec</td>
<td>42 229</td>
<td>87.0</td>
</tr>
<tr>
<td>Tasmania</td>
<td>533</td>
<td>83.3</td>
<td>Ontario</td>
<td>54 291</td>
<td>118.2</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>824</td>
<td>128.8</td>
<td>Manitoba</td>
<td>43 404</td>
<td>89.2</td>
</tr>
<tr>
<td>ACT</td>
<td>905</td>
<td>141.4</td>
<td>Saskatchewan</td>
<td>42 685</td>
<td>87.9</td>
</tr>
<tr>
<td>Mean</td>
<td>675.4</td>
<td></td>
<td>Alberta</td>
<td>51 118</td>
<td>105.3</td>
</tr>
<tr>
<td>Median</td>
<td>653.0</td>
<td></td>
<td>British Columbia</td>
<td>50 667</td>
<td>104.4</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>127.5</td>
<td></td>
<td>Yukon</td>
<td>54 953</td>
<td>112.6</td>
</tr>
<tr>
<td>Mean/stddev</td>
<td>5.3</td>
<td></td>
<td>North West Territory</td>
<td>60 506</td>
<td>124.6</td>
</tr>
<tr>
<td>Median/stddev</td>
<td>5.1</td>
<td></td>
<td>Mean</td>
<td>47 125.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Median</td>
<td>43 044.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Standard deviation</td>
<td>6 801.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mean/stddev</td>
<td>6.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Median/stddev</td>
<td>6.3</td>
<td></td>
</tr>
</tbody>
</table>

Sources: ABS (1998b.), Statistics Canada
Interregional disparity appears to be greater when we move to finer spatial scale—at statistical division or sub-division level. Here, too, the data must be viewed cautiously. For example, Table 2 shows income data for the 10 statistical divisions with the highest and lowest income levels. Regions with a strong mining or government sector clearly have much higher average incomes than rural regions in Tasmania, South Australia or Victoria. Ignoring for a moment the unusual cases of Canberra and Darwin, there are grounds to suspect that these disparities, too, are over-stated. High nominal incomes in remoter and more inhospitable places like the Pilbara compensate for a high cost of living and access, social dislocation, the riskiness of the mining industry, stage in the life cycle, and a premium necessary to attract workers.

Table 2: Interregional Disparity: Incomes at Statistical Division Level

<table>
<thead>
<tr>
<th>Regions With Highest Ratios</th>
<th>Ratio</th>
<th>Regions With Lowest Ratios</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pilbara (WA)</td>
<td>160.6</td>
<td>Southern (Tas)</td>
<td>52.6</td>
</tr>
<tr>
<td>South Eastern (WA)</td>
<td>150.5</td>
<td>Yorke and Lower North (SA)</td>
<td>54.3</td>
</tr>
<tr>
<td>Canberra</td>
<td>136.2</td>
<td>East Gippsland (Vic)</td>
<td>67.6</td>
</tr>
<tr>
<td>Darwin</td>
<td>131.3</td>
<td>Gippsland (Vic)</td>
<td>67.8</td>
</tr>
<tr>
<td>North-Western (Qld)</td>
<td>126.7</td>
<td>Murray Lands (SA)</td>
<td>68.0</td>
</tr>
<tr>
<td>Kimberley (WA)</td>
<td>121.6</td>
<td>Eyre (SA)</td>
<td>70.0</td>
</tr>
<tr>
<td>Balance (NT)</td>
<td>120.1</td>
<td>Mid-North Coast (NSW)</td>
<td>71.0</td>
</tr>
<tr>
<td>Sydney</td>
<td>120.1</td>
<td>Wide Bay - Burnett (Qld)</td>
<td>71.4</td>
</tr>
<tr>
<td>Mackay (Qld)</td>
<td>117.7</td>
<td>Far Western (NSW)</td>
<td>73.7</td>
</tr>
<tr>
<td>Melbourne</td>
<td>107.7</td>
<td>Outer Adelaide</td>
<td>73.8</td>
</tr>
</tbody>
</table>

Source: Adapted from Productivity Commission (1999), Table 2.10

At the local government level, regional variations in well-being become larger and much more confused. This is amply portrayed by *Country Matters: Social Atlas of Rural and Regional Australia* (BRS, 1999). The Atlas reveals often large differences between adjacent Local Government Area's (LGAs) in scores on a wide range of socio-economic indicators. Sorensen (1999) takes an even wider slate of variables and combines them into a single index of regional conditions in a trial study of the New England region. Map 1 shows the spatial distribution of four classes of index score. It demonstrates in particular (a) the relatively good social and economic conditions in the two regional centres, Armidale and Tamworth; (b) the beneficial spread effects around them; (c) the moderately good conditions in the highly productive agricultural regions around Moree and Narrabri; and (d) the disadvantage experienced by places lying away from the major transport routes. Such spatial variations in conditions are probably common across regional Australia.
Given that regional LGAs frequently cover large areas, and that many people still live out much of their lives within the confines of their home LGA, conditions at the LGA level may well be the best determinant of interregional disparity. Yet all the reservations about measuring well-being that were voiced earlier apply here too. For instance, the Sorensen study does not include wealth, environmental quality, happiness and contentment; and the income data may be suspect. The owners of small businesses (including farms) that tend to dominate regional economies are often able to stretch their incomes legally through income splitting or averaging and the use of family trusts.
Strong interregional economic and social diversity intersects these complex and unclear disparities. There is no such thing as typical regional Australia. Rather it is functionally and socially fractured. Fundamental cleavages exist between mining, agricultural, retirement and recreational regions; between pastoral, cropping and horticultural regions; between regional centres and smaller country towns; and between remote and more densely settled areas. Moreover, some types of economy are more internally diverse than others. The most diversified places are, of course, the regional centres, whose considerable employment in health, education, public administration, financial services and manufacturing buffers them to some extent against drought and low commodity prices. Compare this with small service centres of maybe one or two thousand people whose narrow economic base makes them particularly susceptible to swings in commodity prices or seasonal conditions. Functional distinctiveness does not necessarily correlate with disadvantage, but it does lead to different values, beliefs, outlooks and cultures.

Finally, there is a mass of evidence that both disparity and diversity are widening almost everywhere. The *Country Matters Atlas* (Bureau of Rural Sciences, 1999), Productivity Commission (1999) and Sorensen (1999) all document various aspects of the trend. The regional centres and coastal strip are growing at the expense of their smaller competitors and the inland respectively. Service quality in remoter areas lags behind that in more densely settled regions. Per capita income in marginal agricultural regions is falling behind the returns to irrigation agriculture. Incomes in the pastoral sector were particularly depressed during the 1990s. The standard of living of Aboriginal peoples in general continues to decline relative to that of non-Aboriginals.

**Concluding Remarks**

There is a large and increasing disparity and diversity within some parts of regional Australia, although the definition of problem locations is vexed. In the first instance it depends on how one measures the rather plastic concept of well-being. Second, it depends on the threshold level of disparity in well-being or service provision that society finds intolerable. Third, problem definition tends to reflect governments' and the community's ability to remedy matters.

It is clear, however, that many regional localities are prosperous by anyone's standards. This includes the larger regional centres, fast growing coastal resorts, peri-metropolitan communities, specialist horticultural districts like those hosting the wine industry and some broad-acre agricultural areas specialising in cotton and other capital intensive cropping. Of course, such regions have their share of disadvantaged people but not noticeably more than the capital cities.

It is often difficult to provide some high level specialist services for regional residents, especially in more sparsely settled areas. Examples, which affect many people almost irrespective of income, include complicated surgical procedures and university education. Accessibility to such services is rarely included in indices of well-being. Instead they are
measured by such inadequate surrogate variables like morbidity, mortality or educational attainment.

4. Development Processes

This section has two aims. The first is to identify the principal forces for regional economic and social change. The second is to draw the threads together indicating the complexity of process, the extent of interaction between the forces for change and their relative importance.

Analysis of process enables us to understand the origins of the problems identified above, to assess development dilemmas, to evaluate the scope of governments' control or influence over events and to allocate management responsibilities optimally to different tiers of government.

Factors in Regional Prosperity and Development

Economy and society in regional Australia are shaped by a myriad of interlocking factors. The following 10 items, which are not listed in order of importance, are critical among them.

Biophysical Resource Endowment

It is now recognised that valuable biophysical resources range well beyond the traditional inputs to viable primary production: for example, good soil quality, the level and timing of precipitation, a reliable water supply, accessible forests, abundant fisheries or in some places, low extraction cost mineral deposits.

To these we must now add a set of increasingly important lifestyle resources: equable climate, scenic views, delicate ecosystems, rugged landscapes and recreational opportunities ranging from high cliffs and deep canyons to tall waves and white water. The husbandry of both sets of resources requires that we strike a balance between exploitation and conservation.

Unfortunately, commodity producers and those who passively enjoy the environment for lifestyle reasons tend to define the appropriate balance differently. This has the potential to generate conflict wherever the two parties both lay claim to resources, two obvious cases being forests and wetlands. While such conflict could rise in line with growing demand for lifestyle resources, the increasing unease, in both scientific and primary production quarters alike, about environmental degradation caused by current primary production practices may be a mitigating factor.
Geographical Accessibility

Economic theorists have known for nearly two hundred years that a place's economic prosperity depends on its accessibility to markets, everything else being equal. This is still true, despite all the distance shrinking improvements to transport and telecommunications (see 'Space Transforming Technologies' below).

Although von Thünen developed his ideas about accessibility and economy in an agricultural context, they apply equally to tourism and recreation operators, developers of hobby farm allotments, or businesses strung along main highways linking the capital cities. This helps explain the relative prosperity of peri-metropolitan regions or villages around provincial cities.

Human and Social Capital

As we enter the 21st Century, human and social capital are increasingly key determinants of economic prosperity. Human capital includes knowledge, skills, understanding and the ferment of ideas. Collectively, they serve to open up people's horizons, create new industries, perform existing tasks better and more competitively, assist in personal and institutional adaptation to changing situations, and generally help individuals to anticipate change and fashion their lives accordingly. Education is also personally enriching because it enables people to live fuller lives and to secure more financially intellectually rewarding jobs.

Furthermore, it aids effective leadership. Leaders need realistic visions and these, in turn, require an understanding of situation, process, opportunity and competition. Yet, education supply, accessibility and achievement are incontrovertibly one of the main areas where regional Australia seriously lags the rest of the nation. Education received considerable, although ill-focused, attention at the Regional Australia Summit and, unlike health, elicited no integrated and synoptic strategy. In this writer's view, health issues come second to education for the future development of non-metropolitan regions.

The precise definition of social capital is unclear, although the term generally has three dimensions: a community's range of social organisations, its pool of social skills, and the extent of purposeful interaction between the various parties for collective ends. The effectiveness of social capital also depends substantially on the depth and quality of the participants' knowledge, ideas and information. Despite claims to the contrary, social capital often develops spontaneously within a market framework unassisted by government (Fukuyama, 1999) and it is possible to argue that the tele-communications and neo-liberal individualist revolutions—what Fukuyama terms The Great Disruption—are simultaneously destroying and replacing social capital.

One problem for regional Australia may be its lower ability to jettison old social capital and replace it with newer forms because of innate conservatism or narrowness of economic and social bases, poor networks, small or thinly spread populations and lack of critical mass. The Regional Australia Summit talked of the need to increase social capital,
without recognising sufficiently that its quality is crucial and that we assess its quality largely according to its capacity to facilitate rapid adaptation to future opportunity.

**Demography**

Several interconnected demographic variables affect the form and pace of regional development: population size, density and growth; domestic migration; levels of immigration; and population ageing.

A potential, though unmeasured, handicap to economic growth in regional Australia lies in its often low population size and density, which may impair its quality of leadership, entrepreneurship, networking, trust or social capital—all important economic development ingredients. In a chicken and egg dilemma, the often static or declining populations in regional communities also deter investment that might beneficially increase population.

Meanwhile, adults in all age groups tend to seek out pleasant living and working environments. Inland Australia simply cannot expect to retain people if it fails to match coastal locations in these respects. The resulting out-migration is a significant circular and cumulative component in regional decline (see Sorensen, 1993 for diagrams of such circular and cumulative processes).

The national rate of population growth also affects regional Australia, although indirectly, by boosting domestic markets for regional goods and services, including food, tourism and recreation. Thus overseas immigration rates, which contribute significantly to national population growth, also influence regional prosperity even if few arrivals move beyond the capital cities.

Finally, Australia's ageing of the population works to the benefit of larger regional towns and retirement regions (especially in coastal NSW and Southeast Queensland), whose generally better access to social and medical services attracts elderly migrants.

**Changing Lifestyle Preferences**

Changing lifestyle preferences currently favour coastal and waterfront locations. However, fashions have the habit of changing and we might recall that the rush to the beach and its mountain hinterland has principally occurred in the last 40 or 50 years. This already considerable element in shaping regional prosperity may well become more dominant in coming years as people become more residentially footloose.

**Space Transforming Technologies**

Developments in transport and telecommunications technologies and related patterns of investment in these by public and private agencies are crucial to regional well-being.
Throughout the 20th Century, they have telescoped distance and enabled metropolitan cores to expand at the expense of peripheries.

Paradoxically, regional residents set great store by better roads, faster railways, more airline services, cheaper fuel and lower telecommunications costs. Inevitably, they facilitate the domination of regional business by metropolitan chains and the eradication of small town business by firms based in regional centres.

We have only just begun the third great wave of space transforming technologies—the Internet and mobile telephony. They are not only converging functionally, but are rapidly dropping in purchase price and operating costs. The potential damage to regional retailing—including even the largest regional centres—is immense as metropolitan e-commerce firms siphon off local trade. As George Riedel (1999) implied at the Regional Australia Summit, one of the most important immediate questions for regional Australia is whether it has the ability to master and adapt these technologies to its own ends and benefit. Time is desperately short. Indeed, the telecommunications train may have departed early!

**New Production Technologies**

Fortunately, many other technological developments might compensate for the impact of telecommunications and either generate new industries or permit more efficient (and increased) production in existing industries. They include:

- the genetic modification of plants and livestock
- the adoption and improvement of Australian native plant and animal species for domestic and international markets
- the development of water-saving irrigation methods in conjunction, perhaps, with a full cost recovery pricing regime for irrigation water
- improvements in the efficiency of (and consequent investment in) renewable energy sources
- new methods for reducing salination and restoring environmentally damaged landscapes
- improved methods of materials handling
- the development of improved farm chemicals and application procedures
- new materials and machines of all kinds
- the use of modern telecommunications to improve service delivery in education, health, banking, etc. to rural and remote communities, and
• improved mineral prospecting technologies.

These have the capacity to diversify and/or intensify the output of commodities, goods, or services, to raise their quality and therefore price, to generate completely new industries; and to raise or reduce the demand for labour. Depending on their speed and incidence of adoption, such technologies could rewrite the structure of production and employment across regional Australia. We can almost guarantee large geographical variations in their economic impacts.

**Expenditure on Public Infrastructure**

The level, kind, and location of expenditure on public infrastructure by governments and/or private business can have important regional consequences, although perhaps this is over-stated by rural residents. We may distinguish strategic and basic infrastructure that differ primarily in purpose.

Strategic investments are large one-off projects that aim to kick-start or accelerate the development of specific locations; basic infrastructure is usually allocated on a per capita or social needs basis across all regions. Obviously, then, the former will have much more spatially variable impacts than the latter. The level of development impact for both types of project is sometimes measured by their Net Present Values (NPVs) or Internal Rates of Return (IRRs).\(^{10}\)

From national and local perspectives, projects with low returns in the medium to long-term will presumably impair both regional and national development, especially given the nation's scarcity of capital and high opportunity costs for wasted investments.\(^{11}\) Economic theory also suggests that the concentration of limited funds in a small number of substantial projects may well yield higher overall returns than scattering them thinly. Such a strategy would benefit some places and not others and may be unpalatable socially and politically.

Of course, regional development might be given substantial overall assistance by increasing governments' Community Service Obligations (CSOs). However, such an approach may not save communities in the longer term if their economic base is struggling to survive.

**Business Management and Development**

This brings us to a variety of business management and development issues. A long list of items plays an enormous role in regional business start-up, survival and growth. It comprises:

− availability and distribution of capital

− entrepreneurship and adaptability
networking and trust

rate of invention and innovation

trends in business organisation like the rise of franchising and national or global enterprises

macro-economic policy and its effects on inflation, interest rates, currency valuation, wage rates, inter-industry competitiveness, demand, etc., and even

National Competition Policy.

At the end of the day, most regional communities will only survive through the efforts of entrepreneurial business people continuously making successful investment decisions so that the local economy constantly reinvents itself. In effect, regional economies perform like any single business: if they stand still they are dead. This Schumpeterian view is uncomfortable but unavoidable.12

One of the major fears among small business operators in country towns is encroachment by big business. This can be both an opportunity and a threat depending on how adept owners are at finding their niche in the changing business environment.

International Events

A slate of international events affects regional conditions. These include treaty arrangements; Australia's shifting comparative and competitive advantages with respect to the rest of the world in the production of goods and services; international shifts in demand for, and supply of, Australia's export items; and shifting distortions to world trade. One cannot overemphasise their importance to the prosperity of the many regions whose economies still depend on export markets. Commodity prices and export volumes flow straight through to producer profitability and employment levels. They also have indirect flow-on effects for most business in country towns through consumers' expenditures on goods and services.

Regional Development—An Integrated Perspective

This section briefly considers how all these factors mutually interact to influence regional well-being and complicate public policy making.

First and foremost, all ten groups of processes, containing perhaps 50 key variables, are coincident and may reinforce or contradict each other in their spatial effects. It requires little imagination to see that the processes are immensely complicated.13 There have been many attempts to build integrated general equilibrium models that work at the national
level, but few that seek to disaggregate regional effects. Given the large interregional economic differences identified earlier in this paper (p. 3), it is useful to develop models that reflect them. The Productivity Commission (1999) commendably does this and provides interesting insights into the diversity of regional economic causes and effects.

Secondly, the impact of variables on others is not necessarily linear, but frequently circular and cumulative. In a simple example, A affects \( \Rightarrow \) B, B \( \Rightarrow \) C, C \( \Rightarrow \) D and D \( \Rightarrow \) A.

Of course, thirdly, a variable's effects on others may vary from one region to another depending on local economic and social structures. For example, the price of the Australian dollar could be crucial to export-oriented primary industries, but have little immediate consequence for domestically focused primary producers.

Fourthly, suppose that we could identify all the key factors contributing to a region's development, have modelled all the relevant interactions and want to forecast the effects of a change in public policy on the prosperity of its industries in the medium term—say 5 years. We can only do so if we make the implausible assumptions that there is no significant technical progress over that time, that there are no new products and services, that input prices remain static and so on. In effect, this means that it is usually very difficult to assess the future impact of public policy, even a few years into the future.

The problem compounds in the regional development arena because there are so many different departments at all tiers of government whose changing policies potentially influence the 10 classes of variable discussed above. Indeed, regional policy has claims to be the most difficult of all policy arenas because just about everything government does affects regional well-being in one way or another. However, the regional consequences of actions by individual line departments have traditionally received little analytical attention. We will return to this theme shortly.

5. Development Dilemmas

This section investigates several critical dilemmas confronting the residents of regional Australia and relevant governments in their revitalisation efforts. They come in two main types. First, we examine problems in adapting to Australia's biophysical constraints. The second type of dilemma focuses on reconciling conflicting economic and social interest groups. Each involves potential trade-offs and we must assess how far common ground is achievable or whether some goals or courses of action take precedence over others.

Biophysical Constraints

There two related issues here. How can we best create the long-term sustainable primary industries (other than mining) on which much of regional Australia ultimately depends? How, simultaneously, can we protect high quality environments that have intrinsic
economic value for the leisure and recreation industries, and other life-style related
development, especially at some future date?

Some of the major looming dilemmas for the farm sector are:

- the possibility of having to take considerable tracts of marginal farmland out of production
  in order to prevent further soil erosion, salination, loss of native vegetation, or reduction of
  habitat for native wildlife

- changing irrigation, land clearance and land management practices to prevent such
  environmentally destructive outcomes as salination, the formation of toxic algae,
  excessive nutrient run-off into streams and oceans, the draining of wetlands, the removal
  of fish spawning grounds, loss of habitats for often endangered native wildlife, and

- managing scarce water supplies to achieve the simultaneous goals of increasing
  sustainable agricultural production and environmental protection. This might mean
  increasing the price of water towards full cost recovery including the cost of capital works.
  More expensive water would have the twin benefits of reducing consumption and
  encouraging a switch to higher value adding crops. The production of horticultural crops is
  also more labour intensive.

In each case, environmental capacity is a substantial limiting factor (see, for example,
Smith (1994) and Young (1996) for detailed analysis of themes, issues, causes and options
in Australia's environmental management). Simultaneously we must acknowledge human
capacity to modify environmental constraints in constructive and long-term beneficial
ways. Given that damaged environments are difficult to restore, it seems sensible to pursue
the precautionary principal and require that attempts at environmental modification be
justified scientifically.

The conservation of natural environments for leisure, recreation and lifestyle purposes also
has its difficulties. One is the tragedy of the commons: temptation to overuse an attractive
resource, thereby damaging it for other (future) users. The two solutions are public
management through the creation of National Parks and the like, or, in some cases, the
private ownership of natural reserves. Another arises from changing community tastes and
preferences, where sentiment is moving progressively towards the greater appreciation and
use of the natural environment. Thus conservation policies based on current sentiment may
fail to anticipate future needs, and pre-emptive strategies may be more appropriate.

**Interest Group Conflict**

Potential interest group conflict exists in profusion. This section highlights briefly some of
the more obvious clashes of interest.

*Coast versus the Inland:* rapid population growth in many coastal districts has produced a
shortfall of infrastructure. At a time of severe budgetary constraint, governments are
tempted to switch basic infrastructure expenditure from the inland to the coast where it is
needed. One example is the expensive upgrade of the Pacific Highway in NSW at a time when many rural roads are crumbling.

**Regional Centres versus Small Peripheral Country Towns:** there is little love lost between competing service centres struggling for commercial advantage. Larger centres have grown during the last century at the expense of weaker competitors and this is not about to change. There is even a splinter group in the NSW Country Mayors Association (the large towns' advocacy group) designed to further the specific interests of three of the largest centres: Dubbo, Tamworth and Wagga Wagga.

**National Development versus Regional Development:** there is eternal tension between wider national interests and the well-being of specific places. A good example is the operation of National Competition Policy which will contribute net benefits to Australia as a whole, although a few individual regions stand to lose (Productivity Commission, 1999). Indeed, overall national development may be compromised any time the government makes a rural infrastructure investment with a lower return than an urban alternative. This raises the question of the efficacy of place subsidies, even if the effect is uneven development. The provision of more generous CSOs for rural residents raises a similar question, because higher service entitlements will tend to occur at the expense of national output.

**Conflict Between Alternative Infrastructure Investments:** Australia is full of groups pushing particular infrastructure projects: diversion of the headwaters of the Clarence River; a railway line from Melbourne to Darwin via Moree; the Parkes International Airport; an east-west road link ultimately connecting Cairns and Uluru; and a proliferation of alternative telecommunications investments. If and when they are constructed, they have the potential to benefit some places at the expense of others in at least three ways: direct economic stimulus in construction and operation; on-going public subsidy because few if any will ever turn a profit for their private backers; and opportunity costs—preventing better projects elsewhere seeing the light of day.

**Infrastructure versus Services:** we may spend public money, other than social security, on either infrastructure or services or some combination of the two. Infrastructure often aids private producers by reducing input costs, enabling the extension of existing production or encouraging new business development. Expenditure on educational services might have the same, but less obvious, effect. On the other hand, infrastructure investment usually generates fewer direct jobs than, say, educational investment, which generates a particularly high employment multiplier.

**Regional Residents versus Shareholders:** recent suggestions that governments impose CSOs on private companies like banks, forcing them to deliver unprofitable services to small communities, amount to a tax on shareholders and discrimination against selected companies. Interestingly, such a strategy also discriminates against large country towns that might pick up extra custom otherwise.
6. Assessment of Policy Dilemmas

Governments not only have to mediate between such conflicting interests, but do so:
- within their overall limits of competence and available resources
- according to their beliefs about what constitutes good government
- taking into account Constitutional responsibilities, and
- bearing in mind the interests of future generations.

Here we will consider briefly the first two of these complex issues. A subsequent section treats the third.

Limits of Competence

This topic returns to the ten-fold list of regional development processes noted previously. Table 3 indicates schematically the extent of government control (col 3) or influence (col 4) over each item, the appropriate tier responsible (col 5), its importance as a development catalyst (col 6) and notes where appropriate (col 7). The Table considers each variable in isolation.

Governments generally have low to moderate control or influence over many of the significant variables affecting regional development and well-being. If this is so, the difficulties of synoptic policy-making across all ten development variables noted previously become insuperable. This is before we acknowledge that many of the variables are managed in varying degrees by all three tiers of government, posing major coordination problems. Then, different sections of the community have varying ideas about appropriate resource distribution and entitlements. The final hurdle is that regional development is ostensibly about creating futures at a time when the speed of technological change is accelerating almost out of control and we can only dimly perceive the opportunities confronting us. This makes regional development a very difficult policy arena.

Good Government

Without entering into an ideological debate about the ends and means of government, one might draw attention to dilemmas and possible coping strategies in especially complex and rapidly changing policy arenas. The critical problem confronting government is to arbitrate between current interests that are besieged by rapidly changing circumstances and the inevitable need to create adaptable communities that are able to adjust to and take advantage of new technologically driven opportunities. In one sense these desiderata are opposite sides of the same coin. If we assist those who are seriously disadvantaged by
Table 3: Government Control and Influence Over forces for Regional Development

<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>Control (1)</th>
<th>Influence (1)</th>
<th>Tier (2)</th>
<th>Importance (1)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Biophysical Resource Endowment</td>
<td>H</td>
<td>H</td>
<td>F, S, L</td>
<td>H</td>
<td>Governments have strong reserve powers to quarantine or regulate the use of resources, or exert moral suasion over resource owners</td>
</tr>
<tr>
<td>2</td>
<td>Geographical Accessibility</td>
<td>L</td>
<td>M</td>
<td>F, S, L</td>
<td>H</td>
<td>Governments can influence accessibility through infrastructure investments</td>
</tr>
<tr>
<td>3</td>
<td>Human and Social Capital</td>
<td>L</td>
<td>M</td>
<td>F, S, L</td>
<td>H</td>
<td>Governments lack control over Human and Social Capital in a free society, although they can exert some influence over their development</td>
</tr>
<tr>
<td>4</td>
<td>Demography</td>
<td>L</td>
<td>L</td>
<td>F</td>
<td>M</td>
<td>Apart from immigration, governments exert little control over demographic change</td>
</tr>
<tr>
<td>5</td>
<td>Changing Lifestyle Preferences</td>
<td>L</td>
<td>L</td>
<td>F, S</td>
<td>H</td>
<td>In market economies, lifestyles are chosen by private citizens subject to certain generally acceptable standards</td>
</tr>
<tr>
<td>6</td>
<td>Space Transforming Technologies</td>
<td>L</td>
<td>M</td>
<td>F</td>
<td>H</td>
<td>Governments exert little control over technologies themselves, but can influence the pace, form, and location of adoption</td>
</tr>
<tr>
<td>7</td>
<td>New Production Technologies</td>
<td>L</td>
<td>L</td>
<td>F</td>
<td>H</td>
<td>This is largely a private sector affair, subject to some control over ethical issues</td>
</tr>
<tr>
<td>8</td>
<td>Expenditure on Public Infrastructure</td>
<td>H</td>
<td>H</td>
<td>F, S, L</td>
<td>M</td>
<td>One of the main areas in which governments influence events</td>
</tr>
<tr>
<td>9</td>
<td>Business Management and Development</td>
<td>M</td>
<td>M</td>
<td>F, S</td>
<td>H</td>
<td>Governments have little direct influence over business methods, but play a major role in shaping the environment in which business operates</td>
</tr>
<tr>
<td>10</td>
<td>International Events</td>
<td>L/M</td>
<td>L/M</td>
<td>F</td>
<td>H</td>
<td>Though nominally in control of external affairs, overseas events weigh heavily on domestic policy settings</td>
</tr>
</tbody>
</table>

Notes: 1. L = low, M = moderate, H = high 2. F = Federal, S = State, L = Local

Source: Sorensen 2000
change, the community as a whole may more readily embrace it. On the other hand, overly generous assistance runs the risk of moral hazard that retards the impetus for change and simply increases welfare dependence.

Thus there are difficulties about (a) the definition of seriously and (b) the appropriate form of assistance. Life chances are inevitably unequal and governments cannot compensate everyone for bad luck or poor decisions. However, federal and, to a lesser extent, state governments are generally charged with assisting those unable to reach a minimum standard of living through their own efforts. There are two main ways of doing this: social security transfers to individuals and the provision of public services of a standard range and quality (CSOs). The latter can be open access or sometimes means tested. The scale of both financial transfers and CSOs to regional Australia is for government to determine.

The form of assistance is also open to debate. For example, welfare recipients might receive help in situ or be assisted to move to locations where a better quality of life is available. Australia has long had policies to help primary producers exit from industries under reconstruction schemes, the latest concerning the deregulation of the dairy industry. Previous recipients include, for example, the sugar and grape industries. But no such programs help small town business people or elderly residents. Alternatively, governments might encourage the growth of social capital (or civil society), although the track record in this regard is limited. The Regional Australia Summit drew attention to this possibility by providing some excellent examples of effective community entrepreneurship, including Hyden (WA) and Mitchell (Qld).14

The Summit also gave considerable attention to creating entrepreneurial, adaptive economies, and rightly so. Realistically, regional Australia will only survive by continually renewing itself: developing new industries or growing and adapting existing ones. This requires several main ingredients, including entrepreneurship, risk capital, business skills, perhaps good business support (e.g. networking), a favourable investment climate and a slate of good ideas. Governments have typically encouraged a range of business skills, and the current low inflation-low interest rate environment facilitates investment. Virtually no programs have sought to develop entrepreneurial cultures or an adequate supply of risk capital. The latter is in short supply nationally and is probably scarce in regional Australia if United States parallels are anything to go by.15 Few attempts worldwide have successfully stimulated entrepreneurship.

In all these respects governments play the role of change agent, a role that has developed throughout the 1990s. At the Federal level, the Strengthening Local Economic Capacity (SLEC) program of 1992 sought to improve regional business and local government skills and Working Nation in 1994 targeted expanding business horizons, workforce skills, and institutional leadership. Both were flawed conceptually (Sorensen, 1994; Sorensen and Baker, 1996). Working Nation, for example, over-estimated the capacity of regional development institutions to transform business cultures, had a token infrastructure component, and did nothing about risk capital. On the other hand it represented a useful shift towards the ultimate recognition that regional economic and social development rest largely in the hands of local communities. In this model, superior tiers of governments set
the context in which development takes place and act as back stop for the victims of change.

Outcomes

The outcome of such a market driven approach to regional development will be uneven development. This simply reflects the fact that some regions, unsurprisingly, have much better resources (widely construed) than others. Those that do are likely to prosper, especially where resources are matched by strong social and human capital, good leadership, and a risk accepting culture. Places that share these attributes, but lack resources, may offer their residents a good quality of life (which is a kind of resource in its own right) but experience little economic or population growth. We may term these 'can do' communities. Governments' principal role in these self-help cases is to provide the environment in which business and community effort is rewarded.

Other regions, which have some combination of poor adaptive skills and modest resources, may well experience continued decline or struggle for survival. We might term these either 'won't do' or 'can't do' communities. The policy dilemma here is to decide on the appropriate form, level and duration of support, as noted previously and, in the case of the former, try to engineer a cultural shift towards future orientation and risk acceptance.

A Note on Education

The discussion in this section so far raises an over-arching policy issue. Any strategy that is future oriented, risk seeking, and entrepreneurial, or which relies heavily on human and social capital, is dependent on all facets of education. These include work force and management skills; professional qualifications and continuous professional development; general interest courses focusing on public policy, politics, heritage or sociology; the environmental and rural sciences. The educated regional leader or business-person might benefit from leadership programs; knowledge of forecasting techniques; or understanding new technologies and their potential business or community impacts. Education increases our individual and collective abilities to look after our interests and to adapt.

Competitive Federalism

One policy dilemma arises from the nature of federations. Federal systems of government that have, like Australia, constitutionally powerful second tier states or provinces often find the latter engaging in mutual competition. Competitive federalism sometimes entails bidding for footloose developments with inducements of a financial, infrastructure or reduced environmental regulation kind. Such strategies have the capacity to be economically inefficient or environmental damaging nationally, with often only short-term
gains for the winning jurisdiction. The question, then, is how can we develop cooperative rather competitive inter-State approaches to development?

Wholesale of Government Policy Approaches

One of the current policy mantras at state and federal levels is the so-called whole of government approach. When examined closely from outside government it seems an empty facade. The problem it confronts is real enough: ten or more simultaneous and often conflicting main regional development factors, which are the responsibility of many different government departments across three formal tiers. The policy dilemma is that the greater the need for policy coordination the more difficult and expensive it becomes. And, in regional development's case, the massive complexities outlined in this paper serve to make coordination vexed and expensive. For instance, the transactions costs of coordination could be very high in terms of bureaucratic time and effort, not to mention policy delay at a time of rapid economic and social change.

Of course, some policy coordination may be easier than others. But this writer cannot state which or readily identify the resulting benefits.

Policy Stability

One of the pleas from the Regional Australia Summit was for consistent and enduring regional policy. We may readily endorse this view, as the creation of entrepreneurial and adaptive communities has a long time horizon extending well beyond the normal span of a parliamentary term. The same argument applies to such issues as environmental management, the establishment of venture capital funds, plans to improve the quality of education and infrastructure investment. There are good grounds to suppose that effective regional policy will be politically bi-partisan.

7. The Responsibilities and Roles of Different Tiers of Government

Section 51 of the Constitution does not list regional development as an area where the Commonwealth has policy-making responsibility. Since the Second World War, most Federal Coalition Governments have acknowledged the primary responsibility of the States in this policy arena. The main exception has been the operation of the Commonwealth Grants Commission, which operates in effect as a regional development organisation with the States as regions.

Table 3 shows that, in practice, the Commonwealth is the most influential tier of government. In a basically market economy, where business investment decisions have a major impact on regional well-being, its control or influence over the national economy and Australia's international trading relations are decisive. On top of this, the
Commonwealth has primary responsibility for the telecommunications infrastructure that is vital to business growth and for immigration. It also increasingly regulates the environment through the Foreign Affairs powers of the Constitution because Australia is signatory to many international environmental conventions. In practice, too, it seems that the Commonwealth is best placed of all governments to influence entrepreneurial culture, develop programs to improve research, development, innovation and the supply of risk capital. It also controls the social security system that helps disadvantaged individuals overcome the misfortunes of economic and social change, engineers structural adjustment packages for primary industries, controls university education, and strongly influences National Competition Policy which is serving to integrate State economies more closely.

This mix of responsibility gives the Commonwealth de facto, if not de jure, a lot more control and influence over regional well-being than the States.\textsuperscript{17} And its role is increasing as we have seen recently through control of the social dividend from the partial sale of Telstra, and the processes of globalisation.\textsuperscript{18} In short, the Constitution's original intentions in designating the powers of the Commonwealth are now a fiction when it comes to Australia's spatial development.

The role of the States is restricted increasingly to the role of service provider and environmental manager. The problem with this from the regional development perspective is that environmental regulation is generally uniform, and the provision of services is heavily influenced by population based formulae. There is limited scope for tilting expenditures on services towards small and remote communities in order to meet CSOs, we should be aware that this strategy may do little ultimately to reverse regional decline that is largely driven by lack of resources and private investment.

Although not a State example, it is worth noting that over 60 years of substantial fiscal transfers to Tasmania have neither diminished the need for such transfers nor produced a strong State economy. It may simply be less bad than it would be in the absence of such transfers. This example demonstrates the large financial transfers and long-term commitment necessary merely to maintain some semblance of inter-regional equity given the formidable and disequilibrating forces—environmental, macro-economic or lifestyle—discussed above.

Local government has steadily assumed a greater role in regional development for the good reason that community entrepreneurship and leadership are exercised mainly at this level. Moreover, mayors and their CEOs are often the people with the greatest leadership capacity and, therefore, ability to engineer the necessary cultural shifts. In a way, this places awesome responsibility on one or more key people who, paradoxically, have little power to influence over-arching global or national events.

Increasingly, however, local leaders are being helped in their task by State government programs designed to increase local entrepreneurial or leadership capacity and access to programs developed by 'superior' tiers of government. Indeed, the emerging cooperation between governments engaged in the sphere of cultural change is timely and potentially crucial to regional well-being. One detects no over-arching strategy, but rather a steep and increasingly productive learning curve.
8. Taking Stock

No one can deny that citizens in parts of regional Australia are experiencing tough economic and social conditions and missing out on the rising prosperity of the last decade. They do not have access to the levels of employment, range of jobs, essential services, or quality of life that most Australians take for granted. It is equally obvious that this is not a universal problem: current conditions vary greatly from place to place, as do prospects for high quality economic and social development in coming decades.

Such diversity of experience springs from numerous complexly and dynamically interwoven factors. These include the quality of local resources, location, lifestyle preferences, demographic change, technological developments, infrastructure supply, business economics and the forces for globalisation. For a century or more, such factors have operated mainly beyond government control to dramatically re-shape the economic and social life of regional Australia. It appears quite likely that these forces for change will both accelerate and intensify during the medium term.

A variety of public programs from all tiers of government have sought to influence the course of events, especially since the mid-1960s. Familiar examples include decentralisation (e.g. NSW 1966 to 1985?), new cities (1972 to 1980?), or Working Nation (1994 to 1996), with the first two lingering to a slow death. There is little evidence that these over-arching attempts at regional development policy have significantly changed the growth dynamics of regional Australia. In other words, Australia's geography looks roughly similar to what would have occurred had those programs not existed.

Numerous more focused but smaller scaled programs lie interspersed between, dealing with as diverse a range of issues as rural leadership, local government capacity building, business skill enhancement, developing workforce skills, industry restructuring or development, infrastructure delivery, improving social capital or helping people access essential services. Undoubtedly, many of these smaller programs have materially improved the personal quality of life of regional residents and, in some cases, the inhabitants of our larger cities. Yet they, too, may have had little ultimate influence on the spatial organisation of regional Australia, which is largely shaped by the 10 mega-factors discussed above.

This commentary suggests that governments have little capacity for directly engineering the development of particular places. The main exception in the past has been government's role in providing often heavily subsidised infrastructure of all kinds to the regions. This era has passed as infrastructure projects are progressively privatised, subjected to increased cost recovery and stringent benefit-cost analysis and scrutinised carefully for their adverse environmental consequences. Consequently, the last two decades have seen governments increasingly emphasise two distinct, but contradictory, roles. The first is to facilitate adaptation and change; the second is palliative and seeks to ameliorate the economic and social damage imposed by change on less adaptive individuals and communities.
This paper has already noted the important ingredients for a strategy of enhanced adaptation: including knowledge, skills, research and development, entrepreneurship and leadership, supply of risk capital, investment friendly macro-economic settings and a risk accepting community culture. These are generic, or nationwide, criteria. Governments traditionally have a substantial role in their delivery but that role may be larger in rural areas than in the capital cities. This conclusion arises from the disabling effects of large numbers of small producers who are scattered at low density over vast distances, and who suffer from lagged innovation diffusion and a lack of the critical mass so important in fostering the new economy.

The low density of regional populations sometimes also greatly hinder government attempts to improve the quality of life for people adversely affected by change. It is much easier to help the disadvantaged in the larger cities which offer readily accessible social and educational services and highly diversified job markets. Governments have long financed industry restructuring schemes for primary producers that help weaker producers exit their industry. Similar schemes, which might help the residents and businesses in small declining service centres move to larger places, have never been implemented. Instead, current policy emphasises community improvement through the creation of social capital. Time will tell if this is an effective means of improving quality of life in the myriad of static or declining rural settlements.

9. Where to From Here?

This paper has unearthed numerous uncertainties about conditions and processes in regional Australia that provide fertile ground for less than watertight assertions about the scale and form of regional disadvantage.

The measurement and analysis of regional economic and social well-being in Australia requires in-depth clarification, focusing especially on the more intangible lifestyle, wealth, taxation, demographic and cost of living aspects noted earlier. Such work would enable policy-makers to clarify claims of regional disadvantage.

We need to understand better how Australia's regional economies operate and are evolving. One particular focus should be on lagging regions, the sources of their difficulties, their problems in adjusting to changing circumstances and especially the role played by such matters as lack of resources, entrepreneurship and finance, human or social capital. On the reverse side of the coin, it would be useful to examine and codify the economic and social ingredients contributing to successful development.

Some communities have successfully improved their residents' lifestyles through the development of social capital. At this stage, however, we have anecdotal rather than research evidence on how this was achieved. Once we study the relevant strategies and ingredients systematically, policy-makers might better develop guidelines to help communities overcome similar problems.
There is always need for considered analysis of public policy in order to identify what measures work and those that do not and why that is the case. This is extremely difficult to do in the regional development field on account of the difficulties in assessing cause and effect in open systems where governments control or influence events at the margin and there are many processes at work.

One research tool which has the potential to be of significant assistance to analysts and policy makers is medium term scenario construction for regional economies. Far too little Australian work focuses on the future, but it could be rewarding to illustrate likely trends in events.

Taken together, these issues represent a large research agenda and a significant policy challenge for all stakeholders.

Endnotes

1. For the purpose of this paper, Regional Australia excludes all metropolitan and major industrial statistical divisions, together with the Gold and Sunshine Coasts and the NSW Central Coast. Conversely, it includes provincial cities, country towns, agricultural districts, mining provinces, most coastal resort areas, traditional Aboriginal communities, and even wilderness areas. This definition explicitly excludes disadvantaged urban regions from the analysis. Despite this, many of the difficulties in framing effective regional development policy noted in this paper also apply to such urban regions.

Rural Australia is perhaps less easily defined. It includes not just primary producing areas but realistically also the country towns depending upon them. This approach excludes resort and retirement areas – both coastal and inland (for example, mountain resorts). Unfortunately, the last 50 years have witnessed the large-scale blurring of the distinction between city and countryside resulting from the growth of hobby farms, rural retreats, and tourist destinations in the peri-metropolitan fringe. In Sydney's case, the peri-metropolitan zone stretches well over 200 km outwards from the core.

There is substantial overlap between Rural Australia and Regional Australia and the terms are often used interchangeably. Although it is tempting to restrict the former to inland locations, this does not do justice to the many primary producing coastal locations that are especially prominent outside of NSW and Southeast Queensland. Many writers distinguish between rural and remote areas. The latter are a subset of the former defined by their great distance from metropolitan cores, economic and social isolation, low density of population, and often tenuous service provision.

2. Many community groups have also weighed into the debate, including The Brotherhood of St Laurence (see Vinson, 1999), and the Human Rights and Equal Opportunity Commission through its Bush Talks program (see http://www.hreoc.gov.au/human_rights/rural/index.html).

3. Much of the content in this section is taken from Sorensen (1999), which reviews in detail the extensive literature on measuring regional well-being or conditions.
4. The well-known idea of a hierarchy of human needs was developed by a psychologist, A H Maslow, in 1943

5. Admittedly, those low property values often trap poor households in smaller, declining, or inadequately serviced communities.

6. Standard deviations measure the dispersion of a set of values around the mean (or average). Medians are the middle values in set of observations. When we divide the standard deviation by the related mean or median we get a relative index of dispersal. Both countries show relatively similar and low distributions about the mean or median, which suggests reasonably equitable income distributions.

7. For example, in 1996, 36.7% of people living in NSW outside of the Hunter, Sydney and Illawarra Statistical Divisions lived in the often prosperous centres whose populations exceed 10,000. Slightly fewer, approximately 36.4%, lived in small centres whose populations range from 200 to 10,000. These figures differed little between the coast and the inland.

8. Von Thünen (1826), noted that farmers' net returns depended on their accessibility to markets and that locations with higher transport costs typically experienced lower land rent (and hence land values). If true, it suggests that lower transport costs sought by primary producers and rural residents through cheaper fuel will translate in the longer term into higher property prices rather than higher operating profit! See Hall (1966) for a translation of the German original.

9. The rural health lobby would appear to have been 'rewarded' for their efforts with the announcement in the May 2000 Budget of a $562m regional health package to increase doctor numbers and improve services.

10. These investment procedures compare projects' benefits and costs, both of which are discounted to present values. Even then, these techniques may not be able to measure all relevant impacts, especially in the case of basic infrastructure which seeks to meet social needs.

11. Opportunity costs can be regarded as benefits foregone by not investing in another project.

12. Joseph Schumpeter (1943) coined the term 'the gale of creative destruction' to describe the effects of modern capitalism. His prescient view describes perfectly the contemporary effects of the Information Technology revolution. More generally, it accurately describes the evolution of regional economies over the last 50 years.

13. The maximum number of first round interconnecting links between 50 variables is (50 x 50) – 50 = 2450, excluding the possibility of self influence.


15. Shaffer (1999) has written on this subject and Markley (1999) discusses the problems involved in setting up rural venture capital funds. I am aware of no comparable work in Australia.

16. A leader in the classic mould has sound knowledge of the task at hand, formulates logical and achievable goals, develops appropriate strategies, and motivates sufficient supporters or followers to achieve them. In a risk accepting culture, individuals and communities routinely
seek and implement innovative ideas. Of course, while accepting risk, innovators simultaneously attempt to minimise risks associated with their actions. Governments may help in this respect. Resource certainty legislation for forestry is a case in point. Guaranteed access to timber resources for a designated period helps the timber industry to plan for the future.

17. This comment is not inconsistent with the earlier observation that governments have low to moderate control over many of the variables affecting regional development. Rather, it concerns the balance of control or influence between state and federal authorities.

18. The Commonwealth’s constitutional responsibilities for trade and foreign affairs inevitably ensure its involvement in the increasingly important issues of economic and environmental globalisation. These issues have large and rising implications for regional well-being.
Appendix 1

A summary of regional initiatives over the last 20 years

Both the Commonwealth and the states have pursued formal regional policy over the last thirty years. The former has participated spasmodically. The Whitlam Government’s *New Cities* program (1973 to 1975) represented the first significant Commonwealth foray into regional development since the Chifley years. Conservative governments, especially in the Menzies years, eschewed regional policy, and the Fraser Government (1975 to 1983) followed that line by withdrawing once again from the field.

The election of the Hawke Government in 1983 did not see an immediate resumption of formal regional policy. Apart from a few such forays as the *Country Centres* and *Strengthening Local Economic Capacity* (SLEC) Projects, it took another 11 years before Prime Minister Keating launched the short-lived *Working Nation* package in 1994. Its regional component expired in the first Howard Government budget in 1996.

The style of policy-making changed significantly during this thirty year period. *New Cities* represented a top-down strategy developed by the Commonwealth with little local input. Over the course of time, policy increasingly began to emphasise community self-help and by the time of *SLEC* and *Working Nation* focused on developing community skills and leadership.

Regional development policy has been much more enduring at the state level, though it, too, demonstrates a shift from top-down to bottom-up community development approach. Thus, NSW strategy evolved from decentralisation in the 1960s and 1970s to a raft of skills development programs today.

The resurgence of interest in regional development policy since 1997 stems from several critical political events that collectively herald a rural revolt. Its genesis lies in:

- declining rural terms of trade created especially by low commodity prices
- enduring drought in many areas
- outmigration
- inadequate or declining services partly brought on by the fiscal squeeze experienced by all governments
- poor representation of the *new economy*, and
- rising perceptions of economic and social inequality, among others.
Skilful regional advocates, including members of parliament, have exploited the resulting economic and social stress for political ends, often at the expense of established political parties. The most significant events were the June 1998 Queensland state election and the October 1998 Federal election (Grant and Sorensen, forthcoming). The One Nation party polled strongly in many electorates, especially those experiencing great stress, and precipitated a change of government in Queensland. The subsequent election of Independent members in several rural electorates in both NSW and Victoria perpetuated the trend. Not surprisingly, all Parliamentarians representing rural and regional seats have sought to remedy or ameliorate the concerns of their electorates.

One important response was the Regional Australia Summit convened at Parliament House in October 1999 by the Deputy Prime Minister, John Anderson. This brought together over 200 leaders from across regional Australia to discuss potential strategies to propel economic and social renewal. The Summit was particularly interesting in its emphasis on community entrepreneurship and leadership rather than on direct government assistance to the regions. Subsequently, the May 2000 budget provided $1.8 billion over four years for service and infrastructure improvement in the regions.
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