

The Great Divide

Sydney or the Bush

David Trebeck

The bush is going bust while the cities boom. This seems to be the popular perception of what is often referred to as a rural crisis. Yet it is by no means all doom and gloom. Indeed, the popular view is very damaging to rural and regional interests.

Concern over an alleged crisis in rural, remote and regional Australia has increased dramatically over the past two to three years.

Indications of this crisis are invariably seen in terms of falling commodity prices, declining rural employment, and the withdrawal of traditional infrastructure (such as bank branch or hospital closures). These events have led to a general loss of self-confidence and self-esteem among sections of the rural community and, in some circumstances, the tragedy of suicide. Meanwhile the cities are thought to be 'booming', certainly while the dot.com frenzy was at its peak and real estate prices climbed to ever headier levels.

Clearly, there is both an absolute and a relative dimension to the problem: things are tough in the bush, and the grass appears greener in the cities (at least in Sydney and Melbourne). While it cannot be denied that parts of rural Australia are currently undergoing difficulties, the problems are often greatly exaggerated. There is also a great deal of woolly thinking about the underlying causes of what is being observed. Yet proposed solutions often make the problems worse.

Exaggerated claims of woe

It is often said (or implied) that problems are everywhere, when they are not; that problems are new, when they are not; and that they are uniquely Australian, or confined to the rural sector, when they are not. In other words, it is by no means all doom and gloom, as a recent detailed assessment of Australia's regions by the Productivity Commission (1998) has shown.

Quite apart from the coastal strip, where the influence of tourism or retirees seeking a milder climate has created numerous attractive, if non-traditional, regional centres,

there are many thriving regional towns and cities. The larger ones—Toowoomba, Dubbo, Albury-Wodonga, Wagga Wagga, Griffith, Bendigo, Mount Gambier, Geraldton and so on — have reached a size and diversity which will ensure their future momentum can withstand setbacks in particular industries. These cities often enjoy the benefits of local tertiary institutions, which attract young people. They can also be sensible locations for emerging service activities such as telephone call centres.

Then there are a range of medium sized towns which are bounding ahead because of the influence of expanding industries nearby. Examples include Emerald (grain, cotton and coal), Moree (cotton), Naracoorte (wine), Mudgee (wine and hobby farms), Port Lincoln (fisheries), Jindabyne (alpine recreation), Portland (blue gums), Mildura (horticulture) and Olympic Dam (minerals production).

Various smaller towns have witnessed a recent resurgence too. In Hillston (NSW), for instance, residential blocks of land have reportedly increased in value from \$4000 to \$18000 over the past three to four years, after the introduction of cotton and local recognition of the value of the town's location on the inland Cobb Highway. Another example is Nundle (NSW), a village between Tamworth and Walcha, whose decline has been dramatically reversed thanks to the enthusiasm, capacity and capital of a single person (Peter Howarth).

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Similarly, just as many regions and regional centres are performing well, so too are specific industries. It is perhaps inevitable that media coverage of a decade of woe in, say, the wool industry has outweighed the success stories. But consider the list of expanding rural industries: cotton, wine grapes, canola, blue gums, olives, pulses, and dairying, among others. Moreover, the finer end of woolgrowing is once again respectably profitable, and cattle prices have recovered strongly over the past year. Even the pork and citrus industries, which as recently as the 1998 election were berating the Commonwealth Government over insufficient handouts, have discovered promising export markets previously ignored.

It is also crucial to recall the old adage that 'averages conceal'. Analysis of rural business performance consistently establishes that the top 20% (by rates of return on capital) do much better than the average. Among woolgrowers for example, the top 20% earn two to three times the gross margins compared to the average (McLachlan Committee 1999). More importantly, the same businesses seem to do so year after year. This pattern is repeated in all other rural industries. Scale is part of the explanation, but quality of management is the main determinant. Nonetheless, there is still plenty of optimism among farmers. At a rural conference in Perth last February, 700 farmers attended out of a total of 900 people, all of them optimistic and thirsty for new information to improve the functioning of their business.

Adjustment to change since Cobb and Co

Variable performance and underlying structural change create the pressure for adjustment. While those with short memories may think adjustment is a recent phenomenon, it has been occurring in the rural sector—and in regional Australia more generally—for at least 150 years.

The withdrawal of Cobb and Co in the late 19th century, for example, meant that many small staging post villages became redundant. The arrival of motor cars accelerated the process. Improving the quality of country roads is doing likewise. The exhaustion of some mineral deposits has meant that settlements servicing them and dependent on them have faded away.

No-one is seriously suggesting that we reverse these trends to prop up struggling centres, just as no-one has picked up Bert Kelly's (tongue-in-cheek) solution for rural unemployment: 'ban tractors and return to the horse and plough'.

In my own direct experience, rural crises have been a regular occurrence—low wool prices in the early 1970s, low cattle prices in the mid-1970s, an accentuated cost/price squeeze in the late 1970s, a major drought in the early 1980s, the wool crisis and recession of the early 1990s and another difficult drought in the mid-1990s. The spirit of Hanrahan ('We'll all be rooned') has understandably come to the fore in the affected districts on each of these occasions.

It is human nature to think that one's own problems are more acute than anyone else's. When rural and regional people look to the cities, they are more inclined to see the bright lights than the drudgery or the squalor. There are also large differences in income, wealth and any other measure of welfare, both within and between capital cities. In fact, much of rural and regional Australia outranks such areas on all the relevant criteria. Corner street grocery stores and drive-in theatres are among some of the enterprises in the cities that have fallen out of favour.

Moreover, adjustment problems are not unique to this country. Even though it is common for Australians to think of the European Union's agricultural sector as a place totally removed from the real world and immune from competitive forces, there are now less than half the farmers in France and Germany than there were as recently as 1978 (*The Economist* 25 March 2000: 6). Those who are left may still have a long way to go. They may have adjusted less rapidly than the Australian dairy industry,¹ and they may not yet embrace free trade, but they are not cocooned in a complete time warp.

Misdiagnosis

If claims of crises in the bush are often exaggerated, identification of the underlying causes is also frequently wide of the mark. It has almost reached the Pavlovian to blame all current ills on three contemporary ogres: globalisation, economic rationalism and privatisation.

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¹ The number of dairy farmers has declined to about a fifth of its number 30 years ago. In that time, milk output (in total, per cow and per farmer) has increased significantly and the dairy industry has well and truly shed its previous straggletown image. It is now a star performer.

Yet, it is the failure/slowness of international trade reform rather than globalisation that has cost Australia's rural (and other non-metropolitan export) industries mightily over the years, and still does. Likewise, partial/delayed labour market reform rather than rampant economic rationalism has denied people and businesses in the bush the increased workplace flexibility that would otherwise have been possible. Centralised wage fixation (reflecting conditions prevailing in the capital cities) has been a significant factor in causing and perpetuating high rates of non-metropolitan unemployment.

Similarly, Telecom/Telstra asserted for years that rural telecommunications services would be decimated by privatisation, when in fact privatisation and the ending of Telecom/Telstra's monopoly would create opportunities for new technology to solve difficult problems. It would also create a raft of new teleservice small businesses in non-metropolitan regions. The same applies to the mechanism of regulated price caps on STD calls, which has existed since the mid-1980s. This has kept STD charges much higher for much longer than would have occurred under a more competitive regulatory regime. Again, non-metropolitan areas have suffered.

Falling commodity prices

As far as agriculture and low commodity prices are concerned, many people—including many farmers—fail to understand that farmers' ability to improve productivity and increase supply faster than demand, plus changing consumer patterns, are what constrain commodity prices. Aided by their own ingenuity and the results of research and development expenditure, farmers the world over are getting better at producing food and fibre. In the process, they are keeping the gloomy forecasts of the Rev Dr Malthus at bay. Farmers may lament that they are being forced to jump on the treadmill and run ever faster just to stand still, but they continue to do so because it beats the alternative: whingeing and falling behind.

The recent debate on dairy deregulation is a case in point. The substantial adjustment inducements on offer from the Commonwealth Government encouraged a strong dairy farmer vote in favour of the proposed changes. Nevertheless, there is still a strong sentiment in some quarters that 'the Government' (or other remote agencies) have been out to dud the farmers and that the outcome will be disastrous.

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Few of these protesters recognise that the adjustment pressures being imposed on them by changing policy settings and marketing arrangements are small compared with the impact of the new, more cost efficient 1000, 2000 or 5000 cow dairy farms that are now being established. It is much the same logic that says (most graphically in a drought context) that 'the worst enemy of a sheep is another sheep'.

As for changing consumer patterns, we observe every day what is happening, but we rarely pause to draw the broader rural or regional implications. For example, consumers now demand far more by way of food services than they previously did, whether it be packaged meat, pre-prepared meals, take-away food or eating at

restaurants.

All these shifts—which reflect tightening time pressures, two income families, increasing incomes and the like—mean that the percentage of the consumer's dollar finding its way back to the farmer falls. Similarly, when consumers are spending a higher proportion of their discretionary income on overseas holidays, mobile phones and computers, rather than woollen clothing or food, it is logical that rural commodity prices tend to fall over time in real terms. So too are the real prices of coal, cars and computers.

Misguided solutions

If the underlying realities relentlessly shaping the future of rural industries—and therefore life in non-metropolitan Australia—are poorly understood, it should come as no surprise that many of the proposed solutions have been ineffective, or worse, counterproductive. Australia's policy record is patchy, to say the least.

Probably the biggest mistake over the longest period has been closer settlement schemes. They were well-intentioned, but often made most of the participants non-viable—unless aided by a run of good seasons or prices, they were able quickly to expand by buying out the neighbours. Likewise, some irrigation schemes turned out to be disastrous, because the price of water was set well below its true cost, which led to inefficient water use, rising water tables and salinity.



Similarly, the benefits of concessional finance (government-provided interest rate subsidies or pressure on banks) tended to be capitalised into land values, meaning a transfer from taxpayer to recipient with little lasting benefit, and a lack of innovation on the part of the banking sector because it was 'crowded out'. Worse still, generous tax concessions for land clearing in the name of development often led to overclearing and the resultant problems of salinity and soil erosion, not to mention a loss of biodiversity.

Rural adjustment schemes often gave false hope to non-viable farmers, making it harder for neighbours or new entrants to acquire assets at sensible prices. Then there were the statutory marketing schemes—most notably the collapsed wool reserve price scheme—that sought to defy markets. Instead, they inflicted a decade of pain on all woolgrowers, and reduced the incentive for improved output quality and marketing innovation.

Given this litany of policy blunders, it seems almost fatuous to point out that people in rural areas have not always been well served by their elected leaders. Some have been patronising or have treated voters who did not agree with them as mentally deficient. Ballot box retribution is the only remedy available in such circumstances and, on occasions, it has been potently dispensed. Ultimately, there is nothing to be gained by fudging the truth, raising false expectations or attempting sophistry with core versus non-core promises—or summits and task forces, rather than action.

Most rural people far prefer to be told the truth, however unpalatable it might be. Most of them are very decent people with extensive commonsense born of experience. However, many are confused by new events and things they do not readily comprehend. This means that politicians need to understand the underlying issues much more clearly than most do, and they need to engage in patient explanation, which few seem to relish.

In these circumstances, where there is a gap in the political marketplace or incumbent politicians are completely on the nose with their constituency, an opportunity may be created for an alternative view to be espoused.

The One Nation Party is the most recent manifestation of this phenomenon. However, when it only offers glib explanations and simplistic solutions to complex problems, its credibility is unlikely to endure, even if the resentment which gave rise to it may do so. In my view, the main reason why the One Nation party was so appealing in the bush was the poor quality of incumbent political leadership and its failure to communicate the underlying changes occurring in the rural, national and international economies.

Solutions that may work

There are a range of measures which can improve the prospects for people in non-metropolitan Australia without resorting to the pork barrel.

Within agriculture, more action is required to remove bottlenecks to further innovation and adjustment.

This will entail rigorous questioning of how statutory levies for research and development are spent and, more important, whether they are needed at all.² Put bluntly, the provision of adjustment funds needs to facilitate adjustment, not impede it.

Within rural towns and communities, many of the local services being offered have not come to grips with the internationalisation that is now commonplace in our cities and export rural industries. Local government is often a major offender as it short-sightedly attempts to shelter its workforce from competition. The impact of occupational licensure is another costly obstacle (ACIL Consulting 2000). These 'old world' attitudes and practices are adding lead to the saddlebags of people and businesses in rural and regional Australia. They may appear helpful but they are actually counterproductive.

Within the States, impractical and bureaucratic government regulation is impeding (and sometimes closing down) entrepreneurial endeavour by small regional businesses. Although all State governments mouth positive rhetoric about their intentions, the reality of action by their administrators often runs counter. Putting more actual case studies on the public record would help identify the problems and build momentum for reform.

Apart from the need for quality, competitive and basic infrastructure in the regions (especially

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² This was a subject extensively canvassed within the McLachlan wool report (1999) and there is a growing literature in other rural industries questioning many of the activities undertaken on behalf of farmers by statutory authorities. Some of it is available at www.acilconsulting.com.au.



telecommunications), entrepreneurs and innovators who are leading the way should be encouraged. All too often, it is assumed that all good ideas emanate from the cities. Giving more prominence to regional success stories (whether it be what Peter Howarth has done at Nundle or the plans of one NSW town to use its locational advantage—on the junction of two major highways—to facilitate just-in-time delivery of key inputs to businesses and consumers) will encourage further new ideas and will motivate others to have a go.

Rural groups, perhaps through the National Farmers' Federation, should also counter the view that the bush is forever whingeing by reminding people in the cities of the extent of subsidies they enjoy, such as public transport and other areas of unfunded infrastructure.

Governments should be pressured to pursue policy consistency, especially to continue the difficult tasks of international trade liberalisation and labour market reform. With regard to trade, the recent setback at Seattle is wrongly leading some people to conclude that advocating trade reform is pointless. The methods being promoted by Australia, however, will need to change, as the obstacle is not disagreement over the gains from trade overall, but rather the effectiveness of domestic protectionists in the major economies.

With regard to policy consistency, several State Governments and the Federal Opposition are in the process of reversing recent reforms, despite the likely damage to non-metropolitan employment. The Federal Government's abject capitulation to the automotive and textile lobbies was another example of saying one thing

and doing another. In the process, it sent dreadful messages to other would-be mendicants.

Conclusion

Governments should be discouraged from thinking that every problem has a spending solution. A recent worrying example was the report of a Parliamentary Committee examining regional Australia (Fran Bailey et al. 2000). This report contained no fewer than 92 recommendations, most of which had some new spending tag attached—not to mention enhanced bureaucratic activity everywhere to deliver new programmes and pretend they will actually help.

Sadly, and despite the gains made in the decade from the mid-1980s to the mid-1990s, there is still too widespread a community view that all too often sees governments as the solution rather than the problem. Rural, regional and remote Australia has been a major victim of this misguided thinking. ■

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