IS THERE A REGIONAL AUSTRALIA, AND IS IT WORTH SPENDING BIG ON?

Paul Collits argues that regional policy in Australia requires clear principles based on a proper understanding of the nature of the regions

Following the election of Labor in 2010, the rural independents holding the balance of power in the federal Parliament negotiated a deal with the minority government that saw a raft of new arrangements and some new spending initiatives for regional Australia.[1]

This was hailed by some as indicating a 'new paradigm.' The new paradigm was meant to usher in a fundamental shift in the way governments deal with regional Australia and develop policies towards it. What this paradigm has wrought for Australia as a whole I will let others determine. But what, if anything, has it achieved for regional Australia?

To answer this question, I first provide some context to the ongoing debates about regional Australia, its problems and prospects, and the proper role of government in 'managing' regional Australia. I then argue that, first, the notion of regional Australia is itself problematic; second, any considerations about regional policy must take into account certain economic realities, especially those related to Australia's economy and settlement pattern; third, views about the efficacy of regional policies reflect a philosophical debate over 'people' versus 'place' policies; fourth, regional policy in Australia often gets confused (wrongly) with overall government spending on regional Australia; and finally, while less is nearly always better in terms of regional policy, some regional policies are decidedly better than others.

Is there a place called 'Regional Australia'?

Recently, I was asked what I thought were the biggest issues facing 'regional Australia.' The first thing I said, before attempting to answer the question, was that there was actually no such thing as 'regional Australia.' Rather, there are *many* regional Australias. This is not to say that places outside the capital cities (that part of the country normally thought of as 'regional') do not share at least some common characteristics and problems, but rather that there are many issues specific to particular kinds of regions—the differences among regions might actually be as significant, or more significant, than the differences between the cities and 'regional Australia.'

Regional variations in economic opportunity and performance reflect, among other things, distance from, and connectivity to, the city; make-up and skills of the population; infrastructure; size of the economy; the degree dependence on one industry; access to investment capital; the relative impacts of global trends on them; and so on.

Hence, investigating 'the biggest issue confronting regional Australia' is not a profitable exercise.

Of course, it is a truism that people in the cities don't really know much about, or understand, life in regional areas. The same probably goes for perceptions in the other direction.[2]

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Indeed, the prisms through which most city people view issues in regional Australia are quite inaccurate in at least three respects. First, exposure through the national media to the big stories that occur in regional areas—often natural disasters, extreme weather events, and new economic opportunities like the resources boom—and to the ongoing perceptions of a lack of services (shortage of doctors and so on) tends to exaggerate both the negatives and the opportunities, and miss many of the underlying complexities of regions and the substantial differences among regions.

Second, the common urban narrative of regional Australia—declinism—also often misses the mark. Many regions are performing well economically and many regions are growing. Many also have vibrant cultures. And regional problems do not always relate to decline, if decline is taken to mean people, businesses and services leaving town. Regional problems also include skills shortages and high unemployment, and some regions arguably can have too much growth and too many people.

Third, regional Australia is not just a giant farm or mine. In many ways, regional economies now mirror the national economy, in terms of their industry structures and employment patterns, and are certainly not all dominated by agriculture or mines.[3]

Despite these caveats, and while not all regions are the same or in decline, they still do share some important characteristics, so contrasts with the city are therefore reasonable.

Regional economic realities

One of the great features of economic geography is the persistence, even growth, of urbanisation in the globalised age, an age where cheaper and better access to telecommunications technology was meant to reduce the need for most of us to live in large cities.[4] Yet the cities keep growing, their success built on the enduring strength of agglomeration economies and the importance of face-to-face interactions.[5]

This is a central issue in debates over regional Australia: extreme urbanisation, the relative absence of mid-sized cities, and the vast, empty inland. This has been termed the 'feedlot' settlement pattern and is a source of ongoing astonishment to many who live in regional areas.[6]

Yet the enduring strength of cities should not come as a surprise. Large cities offer households and businesses one great advantage over regional locations—you can move house without changing your job (or business location), and you can change jobs (or sell your business) without moving house. It is far harder to do this in regional areas that lack the cities' thick labour markets, and hence, broad opportunities for employment and career enhancement. This provides a measure of economic security to people in the cities, as do real increases in housing values, increases that (along with superannuation) provide most of the wealth in one's senior years beyond the limits of a government pension.

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Regions will always struggle to compete with cities as a result of this reality. Their economies are more narrowly based and more fragile. Lacking diversity and scale ('critical mass'), they are prone to external shocks, which they cannot control and typically cannot easily ameliorate. The impact of the high dollar on tourism is but one of many current examples of this.

Broadly speaking, regional Australia relies for its economic fortunes on two things—first, its capacity to sell resources, goods and services for good prices to the outside world (which includes Australian cities), and second, the movement of city dwellers to the regions for 'lifestyle.' In rural regions that rely on agriculture and mining, favourable commodity prices and/or good seasons keep the local economy buoyant. In lifestyle (or 'sea' or 'tree' change regions), employment grows and declines largely on the back of in-migration by city people, including retirees and cashed-up people in their 50s.

There has been a process of continuing migration to regions from the cities that compensates for the inevitable out-migration of young people from the regions. This is how regional populations remain relatively stable, even if they are now ageing considerably.

(Cities continue to grow, not because of population drift to the city from the country, as is often believed and stated, but because of the location preferences of overseas migrants and natural increase).[7]

Regional prosperity is therefore enhanced by this demographic churn—the continued mobility of city people willing and able to move out—which in turn depends on them continuing to be confident about their financial futures. This is under threat because of ongoing nervousness following the global financial crisis, and we may be witnessing the early stages of a structural shift in our national economic psyche—one that could have profoundly negative consequences for many regions, especially lifestyle regions.

If regions are in decline, or suffering from the impacts of some economic shock, then policy should encourage people to leave and move to places with greater economic opportunities.

In summary, opportunities for businesses and households in regional Australia vary over time and across space. Regional development processes are complex. Regional economic problems vary in type and intensity. For some regions it is high unemployment, for others it is the loss of population and skills. While economic opportunities abound, it can be genuinely difficult to build careers and wealth because regional economies are inherently lacking scale, narrowly based, and fragile. In most regions, incomes are lower than in the cities, and skills shortages are often endemic because of structural mismatches between the skills people living there have (or more accurately, do not have) and the (often limited) opportunities available.

Policy interventions in regional Australia

The varying conditions and structural fragility of regional economies raises the question as to what, if anything, should be done by governments to address these fundamental regional deficits.[8]

There are (broadly) two ways of looking at the 'problem' of regional development and regional wellbeing. Recognising that there will always be regional disparities of some sort, one can simply ignore the disparities and pursue what might be called 'people policies,' that is, encouraging the most productive use of national resources irrespective of where economic activity and people might happen to be located. If this means having a few large cities and lots of empty spaces, so be it. If regions are in decline, or suffering from the impacts of some economic shock, then policy should encourage people to leave and move to places with greater economic opportunities. This is the so-called neoclassical or economically rational approach that is, essentially, 'spatially blind' and leaves it to the market and to the individual location decisions of households, businesses and investors to determine where economic activity occurs.

A second, more interventionist, approach is to provide policy support to regions that experience problems like population decline or high unemployment. Such an approach might recognise that resources (labour and capital) are mobile and move more or less freely to and from regions and cities, and may concede that governments cannot control all the drivers of regional development. It still, however, sees a role for government in ameliorating regional problems. In some more ambitious attempts at supporting regional wellbeing, policies seek to achieve a measure of spatial equality by lifting 'lagging' regions to be closer to the performance of other regions. These are so-called 'place' policies (also known as regional or spatial policies).[9]

We have certainly had our fair share of place policies in Australia over many decades, though nowhere near on the same scale as (for example) Europe since the creation of the European Union.

Traditionally, state and national governments in Australia have sought to address problem issues in regional areas in four ways—first, by providing services that aspire to replicate the standard of services offered in the cities, for example in health and education, to support rural and regional lifestyles (notwithstanding the difficult realities of distance); second, by providing economic development support for regions to

address the narrowness of their economies or the effects of economic shocks through a range of programs; third, by providing modest funding for a structure of local and regional institutions to help organise regional development; and fourth, by compensating regions for the negative impacts of other government policies. These policy instruments are shaped by the reality that local government is weak almost to the point of powerlessness in Australia and that we do not have genuinely 'regional' government to match our regional economies.[10] While the level of policy support to regions has generally not been substantial, from time to time there have been ambitious, even grandiose, attempts at resetting Australia's settlement pattern and the location of economic activity, but these (mercifully) have been rare.

How big is my commitment? Does size matter?

One of the big problems for regional policy debates in Australia is equating regional policy with 'spending on regions.' There is an unfortunate tendency to see regional policy as nothing more than spending money on regions, either as a vote buying exercise in particular regions (electorates) or as a demonstration of government 'commitment' to regional Australia as a whole.

An example of the first problem was the Howard government's Regional Partnerships Program, which was subjected to the criticism that its implementation was politically motivated.[11] Many other regional policies have suffered from similar criticisms, including the Gillard government's rollout of the National Broadband Network (NBN), and such criticisms are often deserved.

The second problem means that whatever the intent or shape of the various types of policy intervention over time, most people (especially politicians) outside of cities have seemingly worried more about a government's 'commitment' to regional Australia (generally measured by the size of the spend) than about the thoughtfulness of the policies, their relevance to particular regions, or their likely effectiveness. This is why governments and their spin doctors routinely emphasise the dollars spent on regional programs (which include just about anything that could be seen as contributing to regional Australia) in their election and budget documents. But this only shows how much they *care* about the regions, not whether the policies are warranted and appropriate.

Part of the problem, of course, lies in seeing 'regions' outside the capital cities as equalling something called 'regional Australia,' then comparing this thing to the evil capital cities that get everything, own everything, dominate the government, and ignore regional Australia. (Having an Australian prime minister once liken living outside Sydney to 'camping out' might be seen as feeding the regional-policy-as-addressing-grievances mindset that is so common). This continues to be a large part of the narrative about 'regional Australia.'[12] Redressing perceived political inequalities is the rationale behind the regions-first rollout of the NBN and the fetish for big-ticket infrastructure projects such as new regional hospitals or university campuses. Again, this demonstrates political 'commitment,' not policy efficiency or a new paradigm.

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The reduction of regional policy to spending money on regions is unfortunate because not all regional policies are worthless or motivated by politics, and not all regional policies are equally worthy of criticism. Equating 'big spending on regions' with 'regional policy' is particularly disappointing for those of us who want more thoughtful, evidence-based policies for regions. Politicians and bureaucrats should be able and willing to defend their spatial interventions by referring to the objectives of the spending, explaining what the policies have achieved or are likely to achieve, and demonstrating an awareness of the opportunity costs of regional spending.

Equally, the tendency of regions and their leaders to focus on a government's 'commitment'

and the level of spending rather than on the quality of the policy means they often mistake 'big' policy for 'good' policy. This can be seen in the longing for EU-style interventions or the mistaken belief that simply diverting funds to regions experiencing economic difficulties will turn the fortunes of those regions around.

And what of the 'new paradigm' that was said to have arisen following the 2010 election and the emergence of the rural independents? Despite its attempt to embed new structures in government in Canberra that gave greater recognition to regional Australia, the new paradigm looks a lot like the previous peaks of political interest in regional matters. Despite glib references to the 'patchwork economy' and 'localism,' neither the government nor its backers on the crossbenches have narrated a convincing account of what regional Australia is, what its problems are, and why it is important to support it in various (particular) ways through policy and government spending. There is more to justifying regional policy than just reflecting on the fact that a third of Australians live outside the capitals, or that the cities get unfair advantages.

Good regional policy should have clear objectives. These should relate to the problems of different regions.

In terms of the specifics of the current approach, there continues to be the familiar mixture of apparently unconnected regional programs; inadequately resourced regional structures (the Regional Development Australia committees) looking for a serious role; and an unflinching faith that spending large amounts on infrastructure projects big and small across most regions is the best way to fund regional development. The latter is seen in the substantial spending on the Regional Development Australia Fund (RDAF), which resembles in many respects the Regional Partnerships Program of the Howard government, only with more dollars.

What does good regional policy look like?

Spending big (or bigger) on regional Australia is not the same as good regional policy. This begs the questions: What would good regional policy look like? Would we know it if we saw it? Can it be justified? If so, under what circumstances?

These are questions every government should ask and answer before either choosing to ignore regions in their policies or starting big ticket spending initiatives.

The questions are fundamental yet relatively straightforward, and generally are never asked or answered by Australian governments and political parties. Strangely, especially in this era of endless references to 'evidence-based policy,' no government to my knowledge has sat down upon winning office (or in opposition beforehand) and asked them. Again, this has a lot to do with politicians seeing regional policy as being about 'commitment.' (Ironically, perhaps the one exception here was the Whitlam government, which, whatever its other foibles, did try to name the regional problem and address it systematically. It is just that the problem it identified—the fundamental imbalance in Australia's settlement pattern—is impossible for any government to solve).

The core questions of regional development are as follows: What are we trying to achieve (or, put another way, what is the 'regional problem')? Whose responsibility is regional wellbeing and regional development or (which level of government is responsible, or is it not the role of government at all but rather of local communities and business)? What really drives regional growth and decline? What can government policies do about these drivers? What has actually worked in terms of strategies and programs, and at what cost? When should government intervene (what triggers intervention)? Where (that is, in which regions) should government intervene? And, how much should government intervene?

Some of these questions can be answered empirically using appropriate metrics and research, while others are a matter of ideology and philosophy. And governments tend to ignore them, at least partly because, as John M. Keynes once said, 'There is nothing a politician likes so little as to be well informed; it makes decision making so complex and difficult.'[13]

Good regional policy, which I believe will turn out to look very different from 'big'

regional policy, must address these questions. The following modest proposals might take regional policy in a better direction than hitherto experienced:

- Above all else, good regional policy should have clear objectives. These should relate to the problems of different regions, as measured against previous regional performance and the performance of other regions.
- It should be up to regions to identify their own issues and priorities. Spending decisions should be radically de-politicised and given to regional bodies, and central governments should do less. At least this should be debated.
- Interventions should reflect the drivers of growth and decline in the region concerned.
- Failure standards (yes, the idea that spooked 'Sir Humphrey Appleby') should be embedded and should inform policy decisions. Realistic evaluations must be part of the policy cycle.
- Regions should determine their own regional boundaries. Designated regions should be real economic regions with definable communities of interest.
- The impacts of non-regional policies on different regions should be routinely examined.
- Local governments should have a bigger role, more powers, and fewer constraints. Their staff should be better trained in regional development.
- Regional development authorities should either be funded properly or disbanded, and not simply used as filters for centrally determined funding decisions.
- A statutory authority at some distance from ministers could assist in embedding good regional policy in central governments.
- Finally, regional policy must get let go of the conviction that big infrastructure projects like the NBN or indeed hundreds of smaller infrastructure projects will 'save' regional Australia.

While there is no doubt the Europeans squander untold monies on chasing the unreachable dream of spatial equality of outcomes, they do at least analyse what they do in regional policy, measure it, evaluate it, and debate it robustly. They engage researchers and practitioners through various mechanisms that lead to policy learning.

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They also have a very good principle called 'subsidiarity,' which accords responsibility for the delivery of policy to lower and more local levels of government. This is a very worthwhile philosophy that recognises regional differences and remembers that the views of people in the regions are significant when determining how best to support them through policy.

Where to from here?

Finally, will good (or better) regional policy save regions experiencing the structural difficulties described above? The short answer, from the foregoing analysis, must surely be 'no.'

I believe regional policy sceptics make a powerful case. The case is made even more powerful by the many examples of poor regional policy initiatives that abound, and which so often can be shown to be based on not much more than electoral white boarding. More importantly, the drivers of regional wellbeing are so complex, and so recognisably beyond the control or even influence of central governments, that extreme policy caution is advised. Regional policy is no panacea.

On the other hand, achieving far better regional policy is quite achievable, and given that policy interventions to 'help' regions will no doubt continue till the end of time, why don't we at least have a better go at getting it right?

Endnotes

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