12 Achieving better outcomes for country Australia

The smaller size of markets in country Australia limits the number of competitors, but does not necessarily mean that small communities will receive no benefit from competition reforms. There are also regulatory arrangements in place to limit abuses of market power.

Governments have long used measures such as fiscal equalisation and community service obligations to reduce the cost of living and of doing business in country areas.

New measures designed to provide country people with reasonable access to services which have developed as a result of stronger competition in metropolitan markets are being put in place. Regional telecommunications infrastructure and rural transaction centres are examples. More could be done to enhance regional economic activity, especially by removing impediments to development.

12.1 Introduction

The terms of reference ask, that in looking at the impact of competition policy reforms on rural and regional Australia, the Commission give consideration to ways in which the benefits of NCP to country Australia may be facilitated and any adverse effects mitigated. That task forms the focus of this chapter.

This report has found that, on the balance of the available evidence, there are demonstrable net benefits for Australia from pursuing NCP reforms. The additional output and income generated by NCP reforms will be available to improve the economic and social circumstances of people in country and metropolitan areas. Country Australia as a whole is likely to benefit from NCP, although there is more variation in the incidence of benefits and costs among particular regions. Many parts of country Australia are already benefiting from a range of NCP reforms through reduced costs and prices for goods and services — particularly government provided infrastructure. Nonetheless, as noted in part B, some communities have been adversely affected by some NCP reforms. There is also a prevalent view that country Australia cannot capture the benefits of NCP reforms to the extent enjoyed by its metropolitan counterparts because competition is less intense in country markets. More specifically, there are concerns that the removal of anti-competitive measures which ‘reserve’ the market to certain local agents will encourage the formation of regional monopolies in the ‘thinner’ country markets.

This chapter discusses three groups of measures which have a bearing on outcomes for country Australia: those which have been in place for sometime; those which have been adopted more recently; and regional development policies. The first group includes:

- the role of the Australian Consumer and Competition Commission (ACCC) and the measures used to limit anti-competitive behaviour;
- intergovernmental transfers (horizontal fiscal equalisation) to help regions offset inherent locational disadvantages by providing each State and Territory with the financial capacity to provide ‘average’ standard services to its citizens; and
- approaches to ensure that governments do not use NCP as an excuse to abrogate their responsibilities to provide an adequate level of services to people in country Australia through widely agreed community service obligations (CSOs).

The second group includes measures such as:

- policies designed to provide country Australia with reasonable access to services and to reduce disparities in access to important services (eg Regional Telecommunications Infrastructure Fund and rural transaction centres).

The third group includes:

- regional development policies to maintain or increase the level of activity in particular communities, including the removal of impediments to development.

The nature of markets in country Australia and the mechanisms that are in place to limit anti-competitive behaviour which could unduly deny country communities the benefits of competition are a useful starting point in the consideration of these matters.

12.2 The nature of markets in country Australia

During the course of the inquiry, the nature of markets in country Australia was raised as an issue by participants. This is essentially about the ‘thinness’ of markets in many rural and regional areas which may constrain the abilities of individuals and businesses in country Australia to obtain in a direct way the benefits of competition.

Many participants pointed to a lack of competition in a range of markets in country Australia. For example:

> There is a lack of competition in remote markets, which is a function of their small size and their remoteness; … A particular concern in Yalgoo is the lack of competition in freight transport … there is no competition whatsoever for daily freight. … It is probably fair to say that there is considerable dissatisfaction throughout the community with the current freight services. Freight services have an impact throughout the local economy, and improvement through competition of the freight services to Yalgoo would enhance the competitiveness of every local industry. (Shire of Yalgoo, sub. 98, pp. 3–4)

> With a lack of competition obvious in the Australian marketplace as a whole, it is no surprise that in the smaller internal markets there is less and less competition. Certainly, in small rural markets, competition is minimal or non-existent. (Cootamundra Shire Council, sub. 6, p. 1)

Typically, the lack of competition in country markets is a result of distance and low population density – a point recognised by many participants. For example:

> It is axiomatic that distance confers monopoly on or, at the very least, reduces competition between producers and suppliers of goods and services …

> Generally speaking, the sparser the population, the more entrenched the local monopoly because the population has to incur the expense of travelling further to reach competitive alternatives. In contrast, we may regard the capital cities as a single highly competitive labour and retail market and a competitive infrastructure market. This is despite the fact that our cities have distinct regions with different socioeconomic conditions. High mobility enables residents, wherever they live, to access the opportunities provided by the whole city. (Sorensen, sub. 58, p. 6)

> The level of competition available generally decreases as a function of remoteness and lower population. (Mount Isa City Council, sub. 54, p. 1)

Given the low population density of many rural and especially remote areas, demand for goods and services in those markets is intrinsically lower than in metropolitan markets. As a result, the number of suppliers also tends to be small.

In deregulated country markets, the limited number of suppliers can bring about a geographic (or ‘spatial’) oligopoly or monopoly. In this situation, local suppliers may have a degree of market power, which they may use to extract higher than normal profits. If supply of the good or service from more distant locations is feasible, this will usually provide a higher level of competition to the market. However, if supply from more distant locations or other means of supply (eg mail order) is difficult, local suppliers may have a high level of market power.

In principle, the level of competition for a particular good (or service) in a town will depend on the following characteristics:

- the ‘portability’ of the good or service;

- the elasticity of demand for (that is, the degree of necessity of) the good(s) and service(s) in question, their substitutes and complements;
- the existence of barriers to entry to, or exit from, the market;
- the population of the town and its 'catchment area'; and
- the distance from surrounding towns and cities, their size and the range of goods and services available there.

All of these factors will influence the number of competitors in a particular market and the degree of 'contestability' of that market for entry by outsiders. Changes in technology, consumer preferences or the regulatory framework may also influence the number of competitors within the marketplace. For example, improvements in transport technology have enabled people to travel further to gain access to goods and services. This, in effect, has enlarged the catchment area of more distant towns and cities, thus reducing the range of suppliers of goods and services required to be located in small towns (see also chapter 2).

An important point to note is that a small number of suppliers is not necessarily indicative of excessive market power being wielded by those suppliers. There are many examples of a market being supplied efficiently by competition between a small number of producers, processors or retailers. Moreover, while there maybe only one or two major suppliers to a market, the market may still be 'contestable', in that barriers to entry may be sufficiently low that the threat of new entrants forces the incumbents to maintain prices and service at competitive levels. For example, the ability of a single supplier in a country town to raise prices is limited where an alternative supplier can easily establish within that town. This requires that there are no planning or regulatory restrictions which would act as a 'barrier' to an alternative supplier establishing in the town.

As soon as what Woolworths termed the 'offer' (including such things as price, service, quality, range and convenience) deteriorates below a certain level, it becomes profitable for outsiders to enter the market and establish themselves (for example, for more distant suppliers to supply into the local market). This, of course, assumes that the incumbent producer or supplier is not so dominant that it can engage in predatory behaviour — that is drive out and deter competitors to extract 'monopoly rents'.

If competition (or 'contestability') is low, incumbent suppliers may extract larger than normal profits — for example, by raising prices. In effect, they are using the market power bestowed on them by a lack of competition to extract 'monopoly rents' from consumers. Alternatively, the lack of competition may be reflected in lower levels of service and/or reduced quality.

So it is the degree of competition (actual and potential) rather than the level of market concentration which should be regarded as the key issue. The misuse of market power results in the benefits from trade flowing mainly to the producers, processors or retailers rather than consumers and, as such, is commonly regarded as both inefficient and inequitable.

Because of the detrimental effects arising from the misuse of market power, the Commonwealth established an independent statutory authority, the Australian Consumer and Competition Commission (ACCC) to promote competition and 'police' misuses of market power. The ACCC (which replaced the Trade Practices Commission) deals with all competition matters including mergers, unfair market practices and anti-competitive conduct through its administration and enforcement of the *Trade Practices Act 1974* and the *Prices Surveillance Act 1983*. Policy options available to the ACCC to rectify such situations are discussed below.

The role of the ACCC

In cases where competition in markets is waning, leading to market power being concentrated into the hands of a small number of suppliers, the relevant authorities will often intervene to achieve more equitable and efficient outcomes.

The major measures used by the ACC to limit monopolistic outcomes are:

- preventing acquisitions which may bring about a *substantial lessening of competition* — Section 50 of the Trade Practices Act (TPA) regulates market structure to prevent increases in market power; and
- prohibiting the *misuse of market power* — Section 46 of the TPA prohibits a firm with substantial market power from using that power to eliminate or damage a competitor, prevent entry of a competitor into a market and/or deter or prevent competitive conduct.

In addition, the TPA prohibits other anti-competitive behaviour such as anti-competitive agreements (eg agreements which fix prices or involve collusion to share markets), exclusive dealing arrangements and resale price maintenance.

The measures available to the ACCC under the TPA are often used to deal with concerns relating to collusion and predatory pricing, such as those expressed on behalf of suppliers to major supermarkets:

> … the increasing use of their economic muscle by the supermarket duopoly, in what would seem to be clear breaches of S. 46 of the Trade Practices Act. This has been especially evident for rural producers who have almost inevitably been price takers for a number of years. (Devonport City Council, sub. 44, p. 12)

> Major retailers … with predatory pricing, force small business out and at the same time down size employment. (Chinchilla Chamber of Commerce, sub. 27, p. 1)

If these claims can be substantiated, they can be dealt with by the ACCC under the existing regulatory regime. However, some participants pointed out that it is difficult and costly to collate the evidence necessary to bring about a successful action. Furthermore, some pointed to the possible adverse consequences of taking action against important customers. The ACCC (1999b) recognised that there are often difficulties in collecting evidence. In the case of 'cheque book' competition, whereby larger retail chains have been accused of predatory acquisitions of independent retailers, it said:

> … establishing anti-competitive purpose has proved to be very difficult in practice. For instance, to prove that the predatory nature of acquisitions breaches section 46, it would need to be demonstrated that prices paid in acquiring the independents were only rational in light of some longer term strategy to capture market share and harm competitors by reducing competition in the expectation of future profits in excess of current opportunity costs/losses. (ACCC 1999b, p. 35)

In the case of regional oligopolies or monopolies, however, the situation is more complicated. Many participants have argued that various factors have pushed markets closer towards a monopoly. NARGA (sub. 8 and sub. 139) said that 'more rigorous enforcement' of the TPA and 'if necessary forced divestiture by legislative means (as done in the USA)' is essential to reduce the market power of national retail chains. It further argued that:

> The inertia obstacle of being forced in most instances to 'prove' at great expense a breach and also to the detriment of our purposes, the watering down of Section 50 some five years ago, with the doing away of the *dominance* test (under which a test case could have been mounted as to 'cheque book acquisitions' being in fact part of an overt scheme to inhibit, damage, misuse etc) and replacing it with a more ambiguous — in our view — *substantial lessening of competition* test, under which 'creeping acquisitions' as a concept of concern, really does not get a look in. The focus is on the anti-competitive activity, not the anti-competitive outcome. (sub. 139, p. 39)

However, the dominance test prohibited only the acquisition or enhancement of unilateral market power by a firm which would be in a position to dominate a market. The dominance test, unlike the substantial lessening of competition test, did not prohibit mergers which were likely to facilitate the use of coordinated market power through explicit or tacit collusion.

There will be cases where all the signs point to monopolistic power being exercised in a particular market in a particular area. The National Farmers' Federation argued that a broader approach should be taken to competition policy to include such cases:

> Developing more competitive markets requires careful design of regulatory systems that acknowledge the nature of the products, the participants and the markets in question, so as to produce outcomes that are efficient and maximise economic benefits. (sub. 144, pp. 2–3)

However, the demarcation of a regional market is sufficiently complex that it may not be possible to formulate a general policy on regional oligopolies. For example, in considering the geographical dimension of a market in respect of the likely effect of a retail chain acquiring an independent supermarket in a country town, a wide geographical definition of a market (eg at the regional or State level) would lead to the conclusion that there was no substantial lessening of competition. Alternatively, using a narrow geographical definition of a market (eg at the town level), it could be argued that the market is not sufficiently 'substantial' under the TPA (ACCC 1999b).

In practice, the ACCC has to take a commercially realistic view of what constitutes the market:

> In geographic terms, the view has been (as the Tribunal found in *Davids/CBL*) that as the chains are national players who make decisions at the national level, the market would be Australia-wide. Even if one took the alternative view that there are a series of local oligopolies in grocery retailing, it might be argued that the areas overlap at the margins and so are all interconnected directly or indirectly. It is unclear whether the Courts would determine if the "ripple effect" stops at the edge of towns and cities, or would conclude that the relevant market is at least regional. The Commission [ACCC] has endeavoured to take a commercially realistic view of the market, and has examined acquisitions of chains at the state level. (ACCC 1999b, pp. 32–3)

Importantly, the acquisition of an individual business by either a chain or another individual, particularly in smaller centres, simply involves a change of ownership and a transfer of assets and does not necessarily involve any lessening of competition. Furthermore, the ACCC's role does not involve protecting firms or individuals from competition, even where the intensity of the competition may result in the demise of the firm. The ACCC said:

> … while intended to prevent conduct which is anti-competitive, vigorous and effective competition may force rivals from the market. The section [Section 46] will not be breached merely because competitors in a market are being hurt. Damage to a competitor may be a manifestation of the competitive process. (ACCC 1999b, p. 28)

It is clear that the more isolated and smaller a town is, the less competition there will be between providers of goods and services. However, this of itself does not mean that intervention is a solution to a (natural) lack of competition. In many respects, it is the nature of business and markets that dictates less competition due to lower throughput, and it would not be reasonable to expect uniform national prices or standards of service.

Nevertheless, there are many cases where the involvement of the ACCC has brought about demonstrable community benefits for people in country Australia and the community more generally. Some examples of the ACCC's involvement are provided in box 12.1.

Box 12.1 **ACCC action against anti-competitive behaviour**

- The ACCC took action against BHP in the Queensland Wire Industries case, which involved BHP refusing to supply fence posts to a small firm which was competing with BHP in retailing wire fences to rural producers.
- Action was taken against Pacific Dunlop for fixing the price of foam used in furniture.
- An ACCC investigation stopped the price-fixing by a group of aerial spreaders of superphosphate.
- The ACCC opposed Coles Myer's attempt to acquire 75 per cent of the West Australian grocery market.
- McPhees was fined $4 million for fixing freight express services in Victoria.
- North West Frozen Foods was fined for fixing the prices of frozen foods supplied to restaurants, hotels and other food outlets in Tasmania.
- Ampol-Caltex provided an undertaking to the ACCC to allow Woolworths and other players to enter regional markets so as to provide greater competition in the supply of petrol.

Sources: Asher (1998); Fels (1998).

12.3 Community and universal service obligations

A community service obligation (CSO) is essentially a requirement to engage in non-commercial activity in order to meet a social objective. More specifically, a CSO arises when a government requires an enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government would not require other businesses in the public or private sectors generally to undertake, or which it would do commercially only at higher prices.

As CSOs would not normally be provided by competitive business enterprises, governments have instituted a range of delivery mechanisms. A common approach is through cross-subsidisation. This entails charging one group of users more than the costs of a service (ie taxing the use of the service) so that the service can be provided to another group of users at less than full cost (ie partly subsidising provision of the service). In addition to 'taxing' certain groups of consumers, the restrictions on entry that is usually necessary to use cross-subsidies to promote social objectives lessens competition.

For example, Australia Post provides a nationally uniform 45 cent letter service which is not sufficient to cover delivery costs in many parts of country Australia, but more than covers most costs in metropolitan areas. A cross-subsidy typically requires the creation of a government monopoly service provider to stop others from competing (and reducing prices and returns) on commercially viable activities. Consequently, the introduction of competition reduces the ability of the CSO provider to use cross-subsidies to fund the services. Telstra said:

> As competition erodes Telstra's margins in profitable areas, the ability to fund community service obligations in rural areas and make the necessary investment to compete with new players, becomes increasingly constrained. (sub. 137, p. 3)

The use of price controls funded by cross-subsidies to promote social objectives may deter new competitors from entering the market and providing consumers with a wider choice of services. For example, in relation to the price capping of telephone access charges, Telstra said:

> Price caps currently set the cap for customer access charges below the cost of supply. … The access deficit is currently recovered by transfers from local calls, and national and international long distance calls, thereby inflating the costs of these services. Whilst the price controls are important in ensuring affordable access, mandating uneconomic pricing raises the barriers to entry in high cost areas and inhibits competitors from providing alternative services. (sub. 137, p. 17)

Furthermore, the use of cross-subsidies, means that it is often difficult to determine the actual cost to the community of providing the service.

To overcome these problems, another approach is for governments to fund the cost of a CSO through the budget — ie with funds from taxpayers in general rather than other users of a specific service. This would involve a direct payment to a private business or GBE for the delivery of the CSO (eg for private airlines to subsidise the cost of flights to remote communities).

CSO issues arise in a number of instances under NCP reforms. For example:

- the 'public interest' criteria include 'social welfare and equity considerations, including community service obligations';
- before exposing a public monopoly to competition, governments need to review 'the merits of any CSOs undertaken by the public monopoly and the best means of funding and delivering any mandated CSOs'; and
- governments review CSOs provided by their businesses when assessing how to apply competitive neutrality reforms.

NCP and the provision of CSOs to country Australia

Commonwealth, State, Territory and local governments direct their government business enterprises (GBEs) to provide CSOs over a range of services such as telecommunications, mail, water, rail and electricity. The objective of many of these CSOs is to ensure that people in country Australia, as well as householders in metropolitan areas, are not disadvantaged. Metropolitan areas benefit from CSOs, particularly to subsidise urban transport. For example, in Queensland the average subsidy per urban rail passenger is more than five times the average fare paid by passengers (PC 1999e).

The provision of CSOs, which often involve large amounts of money, is important in meeting the commercial and social needs of country Australia. For example, the universal service obligation (USO) which provides country Australia with access to adequate and inexpensive telecommunication services is important in overcoming the disadvantages faced by people and businesses outside metropolitan centres. The USO enables many consumers to be provided with telecommunication services at prices which do not cover the cost of their provision. Table 12.1 illustrates the costs of providing telephone services to different geographic regions.

Table 12.1 **Line and call conveyance costs by geographic area**

	CBD	*Metropolitan*	*Provincial*	*Rural/ remote*	*Average*
Line costs ($ per year)	132	347	287	590	349
Call conveyance costs (cents per minute)					
Trunk exchange	0.40	1.20	1.50	2.80	1.41
Local exchange	0.20	1.10	1.40	2.70	1.25

Source: ACCC (1999a).

The ACA recently assessed the cost to Telstra of providing the USO at $580 million. However, the Commonwealth Government has legislated to cap the USO at $253 million for 1997-98. The Commonwealth Government intends to continue to cap the USO until new arrangements are introduced in 2000-01, following a review of the USO funding arrangements (Alston 1999). The USO is being extended to provide all Australians with suitable telecommunications services to enable faster downloading of material from the Internet.

Similar benefits are provided to country Australia by Australia Post through the standard letter service which provides a letter service to all parts of Australia at a single uniform rate. Australia Post estimated the net cost of providing this CSO at $67 million in 1996-97.

Many participants expressed concerns that NCP required governments to remove or reduce CSOs. This is not the case. NCP does not preclude governments from providing CSOs. The Government in tabling the NCP legislation said:

> It [NCP] includes no mechanisms or incentives for governments to reduce their commitment to the effective delivery of these CSOs. (Commonwealth of Australia 1995)

The Industry Commission noted that:

> The national competition policy reforms are not intended to reduce the commitment of governments to effective delivery of CSOs. On the contrary, they will facilitate a more careful and systematic consideration of the identification and implementation of these requirements. (IC 1997a, p. 1)

The Hawker Committee also noted similar concerns. It reported that:

> Competition reforms are not about winding back CSOs, but are more concerned with the most cost effective means of delivery … NCP has reinforced and encouraged a greater awareness of what CSOs are, what they cost, how they are funded and how they are able to be delivered. (Hawker 1997a, pp. 4.60, 5.42)

Under the NCP, governments are able to continue or increase the level of CSOs to meet these needs. The NCC has stated that reviews may recommend retention of, or increases or decreases to, any CSOs provided by a government business. Indeed, the NCC's review of Australia Post (NCC 1998d) included twelve recommendations to maintain or strengthen CSOs and to provide guarantees that services would be maintained.

Nonetheless, there is a widely held view that services will be lost if governments achieve greater transparency through mechanisms such as full cost accounting and/or pursuit of a commercial rate of return on assets. It is contended that this will put pressure on uniform pricing approaches and lead to the unwinding of the cross-subsidies needed to fund CSOs. For instance:

> The increased focus on profitability has greatly increased pressure on [Government Trading Enterprises] to eliminate cross subsidisation and loss making social services in order to improve their commercial performance. The most vulnerable and affected customers are businesses and residents located outside the metropolitan area. (Regional Development Council of Western Australia, sub. 33, p. 6)

> CSOs will be diluted over time and become subject to political power of the metropolitan constituency. (Mount Isa City Council, sub. 54, p. 1)

> … cross subsidisation avoids the sovereign risk associated with government budgetary funding, which can be subject to varying political pressure from year to year. (Regional Development Council of Western Australia, sub. 33, p. 7)

During the Commission's visits, many participants raised objections to the (prospective) introduction of cost-reflective, rather than uniform, State-wide charges. Often these complaints reflected State government policy choices which are separate from NCP (see chapters 5 and 6).

The extent and level of subsidised services provided as CSOs is a political decision for governments. As the Australian Chamber of Commerce and Industry pointed out:

> … it is open to governments to deliver subsidised services to regional/rural Australia under national competition policy; that they may choose not to do so is a matter for political resolution. (sub. 195, p. 12)

Indeed, all jurisdictions reviewed their approaches to the delivery and funding of CSOs prior to NCP. This has resulted in a shift towards greater transparency and direct funding rather than cross-subsidisation (Hawker 1997a). The Commission endorses the recommendations of the Hawker Committee that:

- all CSOs be defined explicitly and their details made publicly available (Hawker 1997a, p. 30); and
- governments require their businesses to include in their annual reports and corporate/business plans detailed information on the objectives, definition, costing, funding and contracting arrangements for CSOs (Hawker 1997a, p. 40).

The Commonwealth Government has agreed to these recommendations.

FINDING 12.1

NCP does not mean that the provision of community service obligations to country Australia must be curtailed. However, it will enable the wider community to assess, in a transparent manner, the costs and benefits of providing these services.

FINDING 12.2

The provision of community service obligations reflects political judgements about the equitable provision of services to people throughout Australia. The Commission's recommendations relating to better provision of information about NCP should help to ensure that governments do not abrogate their responsibilities to provide an 'adequate' level of services to communities in country Australia by claiming that cost-cutting measures are dictated by NCP.

In view of the level of funds being provided and the legislative arrangements in place, it would appear that Australian governments remain committed to using CSOs as a key measure in meeting the economic and social needs of country Australia.

12.4 Provision of services to country Australia

The services provided by governments and the private sector are part of the social infrastructure of communities in country Australia (eg education, health, employment, training and welfare services). Also, these services have helped to maintain the viability of many country communities by acting as 'stabilisers' which can assist communities to ride out short-term adjustment shocks.

Professor Quiggin pointed to the past role of many services (both government and private) as 'stabilisers' for country communities:

> In the past, the existence of stable employers like banks, post offices, and so on tended to cushion the impact of adverse economic shocks. These stable activities helped towns faced with a temporary downturn in key industries to ride out the storm, and permitted a more gradual adjustment to permanent changes requiring a contraction in activity. In an increasingly market-oriented economy this stabilising effect is lost. (sub. 12, p. 25)

Consequently, many participants were concerned with declining access to services (often as a result of rationalisation and contracting of services by governments) and more generally about the impact of the withdrawal of services on the viability of country communities. For example, the Tamworth City Council drew attention to:

> ... the viability of regional centres which are constantly under threat from a wide range of government policies/funding/service level cuts. (sub. 57, p. 3)

Cooma-Monaro Shire Council spoke of:

> ... the added burden to rural towns of the State Government's centralised policies, where Government agencies have been closed and staff transferred to metropolitan centres. (sub. 48, p. 4)

The Murray and Riverina Regional Development Boards commented:

> The loss of many basic services to rural and remote Australia has meant more than just the loss of access to government agencies and other services. In many cases, the loss of these services threatens the viability and sustainability of entire communities. (sub. 109, p. 3)

The Cattlemen's Union of Australia drew attention to some of the less tangible, but important, social consequences of the loss of government employees:

One possibly unforeseen consequence of government and semi-government services leaving country towns is that the relatively well-educated young women who come to work in these places often married the local rural boys and stayed … With most country girls seeing little future for themselves in the rural areas and moving to cities there is a severe shortage of young women to be life partners for the young rural men. (sub. 89, p. 5)

Smaller country communities sometimes have a declining population base which has led to a surplus of some social infrastructure. Often the declining population base is the result of improved economic infrastructure which enables a community to take advantage of a wider range of services provided in a larger centre or (sponge city). Dick Adams MP said:

It's building the road. Some communities have spent 40 years saying, "We need to get the road in here". When the road comes in there everybody leaves or every body moves out. (trans., p. 405)

As this excess capacity typically costs more (per capita) to maintain, services tend to become centralised in provincial centres (or sponge cities). In turn, this can bring about a further decline in population. Many participants raised the 'domino' effect on a country community's population from the loss of a service. The Junee Shire Council said:

… if all those people left town that have lost their railway jobs, their families go with them. … But then that has a domino effect in that those children leave school, the school gets downgraded and – the banks close etcetera etcetera and our town is just left a shell. (trans., p. 980)

De-Anne Kelly MP said:

The steady erosion of a small town develops its own rapid momentum downhill. As small business fails, Governments respond to the decline in population by, for example withdrawing school teachers, downgrading a whole range of services including police, health and transport and generally consigning such communities to the scrap heap of history. (sub. 47. p. 4)

There is no precise population size or critical mass at which a town begins to lose services and population. However, the use of formulas such as student-to-teacher and police-to-population ratios by governments act to reduce services as population declines. Sorensen and Epps (1993) pointed out that the 'fulcrum point' of population size for a town — above at which there is potential for growth and below at which towns may be struggling to retain their population and services — varies.

In more isolated areas, smaller towns (eg Longreach) usually perform the functions carried out in larger towns closer to the coast. Consequently, the 'fulcrum point' or critical mass of population required to retain services and population in a town will be lower in isolated areas than in the more closely settled areas.

The analysis undertaken to model the regional impacts of the NCP reforms shows that growth in employment in government services tends to be highest in regions with the fastest population growth.

With the shift to more centralised service provision, many residents in country Australia felt their needs were being ignored. For example, the Tumut Shire Council, in relation to the provision of employment services, said:

> These unfortunate citizens of Australia now have to access these services in Wagga Wagga 100 km away, with no public transport available between the two centres. When challenged, a manager of an organisation providing these services in Wagga Wagga said that if they can't travel to Wagga Wagga they could access the services (training etc) by telephone. (sub. 43, p. 6)

This has lead to a sense of frustration in having to deal with both public and private service providers over the telephone in distant call centres rather than through face-to-face contact. Consumers in urban areas also face similar problems in dealing with call centres located out of their area.

Policy responses

Governments have recognised that the rationalisation of government services has caused problems for country Australia. As a result, a number of measures have been taken to improve access to services and increase the level of services in country Australia. These measures are likely to go some way in addressing the concerns raised by inquiry participants and improving the competitive position of country Australia, particularly in relation to improved telecommunications services.

Rural transaction centres are being established to provide primary transactions services such as banking, Medicare claims, postal and fax services to communities in country Australia experiencing the closure of bank branches and other services. Nearly 500 of the centres are to be established and are to be funded by $70 million over 5 years (Department of Transport and Regional Services, sub. 207).

Some governments are now offering inducements for doctors to set up practices in country Australia. The Commonwealth Government has announced that it would spend $43 million over four years to provide additional incentives for general practitioners to practise in country towns. Also, the Commonwealth will provide around $42 million to establish 30 Regional Health Service Centres in rural and remote areas, nearly $4 million to establish community legal services in regional centres without access to these service and $8 million to provide a 'fly-in, fly-out' general practitioner (GP) service for women living in rural and remote areas who do not have access to a female GP. To improve Centrelink services in country

Australia, $27 million is to be provided to establish rural call centres in Maryborough (Queensland) and Port Augusta (South Australia) to provide tailored service to Centrelink customers in country Australia (Anderson and Macdonald 1999, sub. D301).

In addition, to improving access to services, other measures have been taken to improve the level of services in country Australia. For example, the Regional Telecommunications Fund, *Networking the Nation*, will provide more than $250 million to reduce regional disparities in access to telecommunications services between regional, rural and metropolitan areas. In addition, the Commonwealth has undertaken to ensure that mobile phone users will have access to a network with the phasing out of the analogue network in January 2000.

Further expenditure for improved telecommunication services for regional Australia is to be provided as part of the 'social bonus' from the sale of the next 16.6 per cent of Telstra. This will include $120 million to provide SBS television to communities of more than 10 000 people and fill in television reception 'black spots', $150 million to provide untimed local calls to remote telephone users, $25 million to provide continuous phone coverage along Australia's major highways and $25 million to extend Internet access at local call rates to all Australians irrespective of location (Anderson and Macdonald 1999, sub. D301).

Such measures will benefit particular communities, but are unlikely to reverse the overall process of centralisation and the shift of services to the provincial centres. Public finances are limited and it would be impossible to provide every country community across Australia with the equivalent level of services available in larger centres and metropolitan areas.

Other communities have developed their own alternatives to the loss of services. For example, community banks have been established in some towns to replace services lost as a result of the closure of branches of major banks. The reforms to the regulatory framework covering the financial sector have facilitated the entry of new competitors and the emergence of innovative ways of providing services.

These policy measures are aimed at improving the access to services for those outside the larger centres. They will also help to improve the quality of life in these communities and provide a 'stabilising' effect for some country communities to short-term adjustment shocks whether market-induced, such as a decline in commodity prices, or from government policy, including any transitional impacts of NCP.

Horizontal fiscal equity

While many of these policy responses are relatively recent, ongoing measures are in place to support the provision of services to country Australia through the system of intergovernmental transfers according to the principle of horizontal fiscal equity (HFE). Under this principle:

- The Commonwealth, through a system of grants, provides each State and Territory with the financial capacity to provide the 'average' standard of services to their citizens. It is assumed that the State or Territory will provide each service at an 'average' level of efficiency and make an 'average' effort to raise revenue from its own sources.
- The financial assistance provided is designed to achieve equal fiscal *capacity* across each State and Territory — not a similar level of services. The grants provided are untied general revenue grants, leaving each jurisdiction free to decide its own spending priorities.
- The Commonwealth Grants Commission (CGC) is responsible for recommending the level of Commonwealth grants provided to each State and Territory. As the formula used by the CGC standardises expenditure and revenue capacities, most States — particularly the smaller jurisdictions such as the Northern Territory and Tasmania — receive larger amounts of Commonwealth funds on a per capita basis than the larger States (see table 12.2).

Table 12.2 **Horizontal fiscal equity, 1997-98**

	Actual financial assistance received	*Actual per capita financial assistance received*	*Donor/recipient status*[a]
	$ million	$	$
New South Wales	6 326	1 005	-140
Victoria	4 640	1 008	-137
Queensland	4 046	1 170	25
Western Australia	2 037	1 125	-20
South Australia	2 083	1 399	254
Tasmania	841	1 776	631
ACT	339	1 090	-55
Northern Territory	1 016	5 518	4 373
Total	**21 328**		

[a] Difference between actual per capita assistance received and assistance based on equal per capita grants ($1145). Note: All numbers have been rounded.

Source: CGC (1998).

In addition to promoting HFE between States and Territories, the Commonwealth Government provides funding to local government authorities to meet the 'average' standard of local government services to their citizens under the provisions of the *Commonwealth Local Government (Financial Assistance) Act 1995*. Under this legislation:

- Each State and Territory is required to establish a local government grants commission to make recommendations on the distribution of funding to local government authorities to the appropriate State or Territory Local government Minister, and subsequently the Commonwealth for approval.
- The grants to local government authorities are untied. The grant for local governments across Australia in 1997-98 was $1.213 billion, made up of an equalisation component of $840 million to equalise the financial capacity of local government authorities and a roads component of $373 million.
- The equalisation component is distributed on a population basis (eg New South Wales with 34 per cent of the Australian population receives 34 per cent of the funds) and the local roads component is distributed on a formula related to each local government authority's population, local road length and bridge length (New South Wales Local Government Grants Commission 1998).
- The grants commission in each State and Territory then makes determinations to distribute the equalisation component to equalise the fiscal capacity of shires and councils within each jurisdiction. This results in rural and regional local government authorities receiving significantly larger amounts on a per capita basis than metropolitan local government authorities (see table 12.3).

Table 12.3 **Financial Assistance Grants entitlements for selected New South Wales local government authorities, 1997-98**

Local government authority	*Total recommended grant*	*Total recommended grant on a per capita basis*
	$ '000	$
Rural		
Tenterfield Shire	2 007	287
Moree Plains Shire	3 430	210
Parkes Shire	2 815	191
Cowra Shire	2 227	180
Regional		
Lismore City	3 684	81
Albury City	2 830	68
Orange City	2 164	62
Metropolitan		
Blacktown City	9 916	42
Strathfield Municipal	516	19
Woollahra Municipal	945	18

Note: All numbers have been rounded.

Source: New South Wales Local Government Grants Commission (1997).

The South Australian Government (sub. D298) and the Northern Territory Department of Local Government (sub. D299) raised the issue that fiscal equalisation does not apply fully to local governments as the funding is allocated to provide a similar level of local government services within each State instead of across Australia. However, allocation of funds to enable local governments to provide a similar level of services across Australia would raise a number of issues.

- The roles and responsibilities of local government vary between each State. Given these differences, distributing funds using the average standard of services provided by local governments across Australia instead of within each State could disadvantage local governments in jurisdictions where they have greater responsibilities and advantage those in jurisdictions where they have lesser responsibilities.
- Local government, unlike the States and Territories, is not constitutionally recognised and owes its existence to State and Territory legislation. This could lead to jurisdictions engaging in strategic behaviour to configure their local government structures and/or boundaries in such a manner to maximise the grants provided to local government within their jurisdiction.
- There may be opposition to change from certain jurisdiction. If the grants were distributed to equalise the fiscal capacity of local governments across States instead of within States the distribution of these funds between jurisdictions would alter significantly.

The system of grants provided to State and local governments does not require a similar level of services to be provided — only that each government has the fiscal capacity to provide a similar level of services. To attempt to provide similar levels of services would require the Commonwealth to make general revenue assistance conditional on the recipients following similar policies. This approach would run counter to the operation of a Federal system. Nevertheless, in areas where specific outcomes are sought, the Commonwealth does provide conditional or specific purpose payments to State, Territory and local governments.

This system of Commonwealth transfers to State, Territory and local governments in the pursuit of HFE is based on disadvantages and systematically accommodates changes in the fiscal disadvantages faced by citizens in country Australia.

12.5 Regional development

Regional development, and the benefits it provides to recipient locations, continues to be an issue for country Australia. As Sorensen said:

> There is hardly a rural community that does not hanker after the benefits of economic growth and its corollary, population expansion. It is not difficult to understand the attractions of more community services, a greater diversity of employment and social activity, better retail and commercial services, and rising property values ... (1990, p. 36)

Commonwealth and State governments have had a long involvement in promoting regional development. Many of participants expressed concern that governments are no longer committed to the development of country Australia. Many believed that what Sorensen (1994) has termed the strong moral obligation felt on occasion by Commonwealth and State governments to reduce regional disparities no longer exists.

Government regional development policies

What actually constitutes a regional development policy is not always clear. For example, capital works expenditure or infrastructure provision in non-metropolitan areas contribute to the development of a particular region. Other government policies are specifically labelled as regional development policies. Generally, these policies have been targeted at reducing regional disparities and balancing the development of country Australia with metropolitan centres by dispersing economic and population growth away from metropolitan centres. They may also target specific firms or industries to establish or relocate into a certain region. The discussion focuses primarily on the latter group of policies.

The Commonwealth's direct involvement in regional development has varied over time. Its most significant involvement was through the development of regional growth centres in the early 1970s and with the Regional Development Organisation (RDOs) in the early 1990s. The Commonwealth's current administrative capacity on regional development rests with the Department of Transport and Regional Services. However, regional development policies are undertaken across different departments in a 'whole of government' approach. For example, the Agriculture-Advancing Australia programs, which provide rural adjustment assistance in addition to extension services, such as farm business skills and assistance for the development of rural communities, are delivered by Agriculture, Fishing and Forestry - Australia (AFFA). Telecommunications programs, such as The Regional Telecommunications Fund, *Networking the Nation*, to reduce regional disparities in access to telecommunications services between regional, rural and metropolitan areas, are delivered by the Department of Communications, Information Technology and the Arts.

Unlike the Commonwealth, most State governments have had a longstanding involvement in promoting regional development through the decentralisation of economic activity. State government regional development policies provide grants, information and facilitation services to 'revitalise' regional towns on a general basis. They also provide targeted assistance, such as tax concessions or subsidised infrastructure, to attract specific businesses to regional areas.

Have regional development policies been successful?

There is a widespread acknowledgment that many regional development programs have had limited success.

The decentralisation policies to develop regional growth centres during the 1970s are a case in point. While Albury–Wodonga, with the largest share of funding, fared the best, expected population growth was never realised. The Monarto Development Corporation was wound up in 1980-81 after a long period of declining support and the Bathurst–Orange Development Corporation sold off its land stocks in response to slower than expected growth. The Murray Valley Voice said:

> I think you'll find is that Albury, to some degree, received millions of dollars in assistance to try to grow and it had basically very little effect. It is only in the last 10 years I think that growth has actually re-occurred. (trans., p. 312)

Sorensen commented that:

> … the Department of Urban and Regional Development was a by-word for grandiose ideas and wasted expenditure. (1994, p. 33)

The Department of Urban and Regional Development was abolished in 1976 after these policies were judged to be relatively unsuccessful in promoting regional development (IC 1993b).

The Regional Development Program launched by the Commonwealth in 1994 was intended to facilitate the creation of regional leadership structures through RDOs. The IC (1996c) found considerable uncertainty and scepticism in local government about the intended role of the RDOs and the reason for their establishment. Some local governments held the view that they were vehicles to marginalise or bypass State governments, or vehicles to abolish local governments. More importantly, there was scepticism about the ability of the RDOs to achieve anything substantial. Considerable time and resources were spent on meetings, travelling, studies and consultancies with little to show in terms of measurable benefits to business in the region. As the Department of Commerce and Trade Western Australia said:

> We couldn't really find any economic advantage or participation improvement as a result of the scheme. (IC 1996c, p. 71)

In 1996 the Regional Development Program was abolished.

State government regional development schemes have not been as large scale as Commonwealth schemes and are more numerous given the continuous involvement of state governments in promoting regional development. However, they too tend be viewed as ineffective. As the Economic Planning Advisory Council (EPAC) commented:

> Despite the popular and political appeal of these ideas, there is a fairly general perception that they have been relatively unsuccessful, and major new schemes seem unlikely for the foreseeable future. (1991, p. 45)

The lack of success is due to the inability of these policies to counteract the broad long-term economic forces affecting country Australia. Given that governments have limited budgets, attempts to reverse these long-term economic forces are likely to be costly and at the expense of other policy areas where there is a greater return on government expenditure. As Sorensen noted:

> Attempts to resuscitate particular localities by swimming against the economic tide are apt to be difficult and expensive. (1994, p. 37)

As regional development policies promoting decentralisation or special growth centres have been ineffective in reversing long-term economic forces, governments have turned increasingly to policies based on attracting a specific firm or industry to a region through the use of incentives. The IC (1996c) report into *State, Territory and Local Government Assistance to Industry* found that governments provide incentives or selective assistance for a variety of reasons which included:

- the need to be seen to be doing something about problems, such as unemployment, in certain regions;
- a misunderstanding of the benefits, as a result of flawed use of evaluation techniques which overstate benefits; and
- a fear that the project will be 'lost' to other jurisdictions or regions.

The report found that providing selective assistance in competition with other jurisdictions to attract investment at best shuffles employment between regions and, at worst, burdens the tax and rate payers, while imposing costs on other jurisdictions and the economy as a whole.

The Organisation for Economic Cooperation and Development (OECD) said:

> While such incentives may allow firms to lower their production costs, the resultant advantages are only marginal; their impact is temporary and, in the view of many studies, limited and uncertain. (1997, p. 53)

The dilemma for government is that, if assistance does not improve the underlying competitiveness — or attractiveness to investors — of the region, there may be pressure for it to become permanent. This would most likely reduce the overall efficiency of the economy over-time and involve transfers from the wider community. The Bureau of Industry Economics (BIE), in regard to the use of selective assistance to promote regional development, said:

> There is a danger of perpetuating a culture of rent seeking, and wasting large amounts of public money. (BIE 1994, p. 98)

Furthermore, the dangers of 'lock-in' effects are greater where assistance is targeted at individual firms. Governments have never found it easy, politically or administratively, to terminate assistance to industry. This difficulty is multiplied where the fortunes of a region (electorate) are connected to that of a specific firm.

Despite their lack of success and the high cost associated with many regional development policies, governments want to 'do something' in respect of regional development and the people in country Australia continue to express a desire for further development. Consequently, in many cases government involvement in regional development appears to have taken the form of statements which focus on objectives such as enhancing the overall quality of life in the region, attracting skilled jobs, strategic leadership and community empowerment without any clear policies as to how such objectives are to be achieved.

Given that regional development policies are unlikely to be able to reverse, or even halt the broad long-term economic and social forces affecting country Australia and the large costs involved in providing selective assistance to target particular firms or industries, what is an effective role for government in regional development?

The role for government in regional development

There are a number of areas in which governments at different levels can be effective in promoting regional development. These largely involve activities where normal market forces are unlikely to meet the needs of regional communities. They include assisting in the provision of information, self-help initiatives, removing impediments to development and improving policy coordination.

A number of earlier Industry Commission reports addressed these matters in some detail. These include the report on *Impediments to Regional Industry Adjustment* (IC 1993b), *Taxation and Financial Policy Impacts on Urban Settlement* (IC 1993c), *State, Territory and Local Government Assistance to Industry* (IC 1996c), and *The Textiles, Clothing and Footwear Industries* (IC 1997f).

Information

Governments can assist in providing firms and individuals with accurate information concerning the benefits or performance of different regions or by making resources available to local governments for such information provision. The Cowra Shire Council said:

> There is a great deal of ignorance by city based people concerning lifestyle, professional expertise, workforce skills and locational factors in the bush … One great difficulty which faces country towns is for them to project the reality that industry can and will prosper in the bush. (cited in IC 1993b, p. 344)

Information problems are likely to be addressed most effectively by the local communities themselves. A number of towns have taken initiatives which utilise their local knowledge and infrastructure to encourage regional development. EPAC said:

> Such approaches identify and/or build on specialties or capacities of regions and so make the unique features of a particular area more attractive. (1991, p. 46).

Self-help initiatives

Local governments and regional development organisations can play a useful role in facilitating regional development and improving a region's capacity to adjust to changing economic circumstances. The South Australian Regional Development Taskforce (1999) recognised the importance of harnessing the energy of the people in the local community to promote regional development. The Commission visited towns and regions which have taken initiatives to utilise local knowledge, infrastructure and services to encourage regional development.

For example, the LaTrobe Shire Council told the Commission that despite the restructuring which has occurred in the Victorian electricity industry during the late 1980s and early 1990s, the region possesses a comparative advantage in providing energy-intensive industry with access to power. It said:

> Latrobe shire has suffered a dramatic turn around due to restructuring, which has not been driven by national competition policy of course. … Over 6 000 jobs have been lost directly through the restructure of the power industry, which is around 10 per cent of our total population. …Whist there has been a population decline as a result of the restructuring, we don't see that that has to remain a position of decline. Certainly there is significant infrastructure that has been built up over the many years of public sector involvement.
>
> So there's excellent comparative advantages, and the ability to sustainably support larger population and industry base. (trans., pp. 542–4)

To this end, the Council has proposed an energy park to provide industrial consumers with lower cost power supplied directly from the region's electricity generators. Similarly, as noted above, some country towns have set up community banks in response to branch closures by major banks.

Removing impediments to development

Removing impediments to regional development is a longer-term undertaking which will not provide quick fixes for the plight of some small country towns.

NCP has an important role in removing impediments to regional development by encouraging governments to review anti-competitive legislation through the legislative review process. The National Rural Health Alliance said:

> Substantial elements of it [NCP] do have a positive regional development impact – reforms to regulations constraining Queensland sugar production are a case in point. (sub. D289, p. 9)

One area which could have implications for regional adjustment is progress with labour market reform. While regional labour markets have probably always allowed greater informality and flexibility than those in the cities, further moves to widen the scope for decentralised and unfettered workplace bargaining, coupled with other positive attributes of regional labour markets such as a stable and reliable labour force, could help to make regional communities relatively more attractive to investors.

There was concern that Commonwealth Government regulations which restrict the number of general practitioners had, in turn, limited the availability of medical services in country Australia. For example, the Cattlemen's Union of Australia raised concerns about:

> … a decision by the Immigration Department to police a regulation requiring foreign doctors to complete their Medical Board Examinations before they come to Australia to work in the Public Hospital system with Australian Residency status. Previously, doctors were being allowed Residency Status and to practice in the Public Hospital System but were only able to take on private practice after completing their board examinations. This change of attitude has already led to problems in some rural and regional hospitals. (sub. 89, pp. 4–5)

Other participants expressed concern about the Commonwealth's decision to restrict the provision of Medicare provider numbers. For example, the Australian Doctors Fund said:

> … the decision by the federal Minister for Health, Dr Michael Wooldridge, to deny Medicare rebates to patients who choose to be treated by a recently graduated doctor who is not part of a General Practitioner training program is an unjustified government

> created impediment to the supply of medical services particularly in rural and regional Australia.
>
> Young doctors who may be happy to enter solo practice in a country town early in their careers when they are free from the burdens of family responsibilities are now forced to jump through a maze of hoops to obtain a permanent Medicare provider number. (sub. 105, p. 14)

This latter decision has also come under scrutiny by the NCC which in its 1996-97 Annual Report, stated that 'the Commonwealth is yet to provide evidence of a substantive net public benefit assessment in support of its 1996 legislation limiting Medicare provider numbers available annually to new doctors, thus restricting entry to medical practice' (NCC 1997a, p. 69).

A further impediment relates to the degree of 'red tape' imposed on businesses, particularly small businesses which are heavily represented in country Australia. This impediment has been acknowledged by governments. For instance, in March 1997, the Prime Minister, announced the Government's response to the Small Business Deregulation Task Force (Bell 1996):

> Too often in the past, government has been a burden for small business … What we are hearing is that small business wants to get on with the job rather than be bogged down in paperwork and forced to deal with a multiplicity of overlapping regulatory bodies. Small business is saying that it cannot afford excessive overheads and on-costs … (Howard 1997, p. iii)

The Government's response ranged over issues as varied as statistical burden, taxation, employment, assistance and streamlining regulation. It established performance indicators against which to measure the success of these initiatives to reduce red tape. Some progress has been made, but more remains to be done.

Improving policy coordination

The policies of different levels of government — and sometimes the policies of a single government — can interact in a way which means that they pull in different directions. For example, there may be inconsistency between government policies that consolidate or withdraw services from regional centres and policies to promote regional development. In other instances, policies may be poorly designed and/or lead to unintended consequences.

Australia-wide policies which cannot accommodate the differing circumstances of individual regions can also impede regional development and impair a region's capacity to adjust to change by seeking new activities. For example, city-based development approval processes may be inappropriate for some regional conditions.

Similarly, pollution standards, such as emission standards for motor vehicles, designed to protect the amenity of people residing in major urban residential areas may be less relevant for inland communities. Although not always feasible, tailoring environmental criteria to regional conditions could provide some communities with a competitive advantage against the coastal cities.

Some policies intended to benefit country Australia have had the opposite effect. For example, State government policies which forced mining companies to build towns created the conditions for significant adjustment problems once the resource was exhausted. Likewise, the well-intentioned soldier settlement policies created lingering adjustment problems in certain regions of Australia. Diversification policies which subsidised TCF factories in some country areas without due consideration to the long-term viability of these factories have had much the same effect. Another example is the practice adopted in some States of putting disadvantaged people into public housing in areas of high unemployment, or in areas where there is a strong mismatch between their skills and the skill requirements of the region, which is simply bad policy. Governments need to consider carefully the ramifications of policy actions which, at first blush, seem desirable.

Sustaining regional economic growth

In effect, to sustain regional economic growth, government policies need to be able to raise the productivity of a region or lower its costs to overcome any inherent locational disadvantage. Policies which serve to create an economic climate conducive to growth and investment across *all* regions, and for *all* industries, are the most likely way to achieve these objectives, with benefits both regionally and for the wider economy. Consequently, governments have a vital role to play in setting the scene for economic development.

This approach of ensuring that the fundamentals are right, is a trend that is evident other advanced economies. The OECD said:

> Among regional policy practitioners, this more broad-based, more economic approach is gaining ground. First, it revives the traditional approach to regional policy, by addressing all regions. It might contribute to a widening of the performance gap in the long term, given the competitive advantages and clustering effects that dynamic regions may benefit from. However, in the medium to long term it will help to strengthen growth, the potential for competitiveness and the capacity to create lasting employment in all regions. (1997, p. 13)

The OECD also said:

> The aim is to work on the region's potential for development not on development itself. (1997, p. 13)

Importantly, policies which focus on creating an economic climate conducive to growth, in contrast to policies which target particular firms or industries, help to create a competitive environment in which the benefits of NCP are likely to be realised more widely.

In short, Australian governments have had an ongoing role in the provision of compensation to lower the costs of living and doing business in country Australia through the use of CSOs, the provision of infrastructure and the system of intergovernmental grants to provide an average standard of services to Australians irrespective of location. These measures are likely to have an effect in mitigating the costs of implementing the NCP. The need for specific adjustment assistance for country Australia is discussed in the following chapter.