



Institute for
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Productivity Commission
Transitioning Regional Economies Study
Productivity Commission
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Initial Report Transitioning Regional Economies

The Institute for Resilient Regions is a specialist and strategic research initiative of the University of Southern Queensland focussed on research collaborations with industry, community and government that assist regional Australia to be innovative and thrive and a great place to work and live. Launched in 2014, our mission specifically is to deliver research excellence that enables regional communities to be resilient and adaptive, liveable and prosperous, healthy, active and well and connected and collaborative.

Scope of the study

A study by the Productivity Commission into “the geographic impacts of the transition of the Australian economy following the resources investment boom” is highly relevant to a raft of policy agenda shaping the future of our regions. But those wanting a comprehensive multidisciplinary study of the processes and challenges of change in regional Australia (beyond the major metropolitan centres) will not find it in the *Initial Report Transitioning Regional Economies*. What they will get instead is an economic analysis of the most recent adjustments arising from the resource boom and some preliminary musings about how to measure social and economic change. For the purposes of this Inquiry, ‘regions’ are a place-focussed ABS statistical unit of analysis that excludes specific socio-cultural connotation and extends to city suburbs where many of the resources companies are based and where the FIFO workers are domiciled.

Sifting amidst the patchwork of regional economies across the country, the Commission was tasked with identifying the winners (those “successfully transitioning”) and losers (those with “significant challenges”) of the resources boom. To enable comparative analysis between regions, the Commission was asked to assess “the scope for economic and social development” and produce a

“single economic metric” that would enable regional rankings and identify those “most at risk of failing to adjust.” Beyond this the Inquiry was also to identify the key drivers and inhibitors of adaptive capacity in at risk regions with a view to better targeting policies that might assist them deal with changing economic conditions.

Besides revealing that the least adaptive parts of Australia economically predominate in the poorer parts of the major cities and most remote regions, the resultant interim report confirmed several truisms about the importance of depth and diversity as foundations for economic resilience. The major themes of the modern Australian economic narrative were re-visited with the Inquiry finding mining regions tending to have the greatest economic volatility, agricultural economies growing steadily with employment consolidation through innovation, and manufacturing dependent regions scoring low on growth and adaptability. Nothing new or controversial there but a useful tabling of empirical evidence to support the view.

While the specific brief of its terms of reference meant the Inquiry would not develop a regional ‘resilience index’, the feasibility of creating such a useful tool is made more difficult by the lack of robust multi-disciplinary frameworks for mapping, measuring and analysing complex regional social and economic systems. Complex systems are difficult to reduce to a single meaningful metric, but this should not prevent further attempts to do so – especially involving cross-sectoral collaboration.

A major implication of the current Inquiry is that in acknowledging that its measure of ‘relative adaptive capacity’ was “an unobservable attribute of a region” inferred only through proxy factors, the Commission points to why a national multidisciplinary research project should be undertaken which empirically models comprehensively the resilience and adaptivity of regional systems. We are not too critical here, because the Inquiry acknowledged the limited “suitability of the metric as a guide for policy decisions”. This research problem can be resolved only with further research and development involving multidisciplinary and inter-institutional collaboration.

So rather predictably, in choosing to restrict the criteria for regional adaptive economic capacity to a “summary” of factors spanning employment, infrastructure, business and natural resources, the Commission concluded that “regions with higher adaptive capacity” had the attributes which meant they were more likely to “transition successfully following an economic disruption”. Significantly, the Inquiry also found that the wherewithal of adaptive capacity in itself was not necessarily an accurate predictor of the nature and scale of such transition. With so many other critical determinants of regional adaptivity omitted from the Inquiry’s analysis again no surprises here.

While the economic bases are essential, regional transitions are shaped substantially also by the health and well-being of the people and other psycho-social factors like community integration, capacity for learning and cultural dynamism. And if a regional resilience or adaptive capacity index is to be developed, it will require data at an individual and local level with a granularity not yet published by government. The Inquiry’s Table 2.1 (p56) “Indicators of adaptive capacity” is just a start in highlighting the dearth of data informing change processes in regional Australia.

Crucial for the current Inquiry is the Commission’s acknowledgment that its findings are made in a field which it sees as largely unresolved when it comes to defining and measuring regional resilience and adaptive capacity. In this uncertain context, there are risks associated with the Inquiry’s rather orthodox citation of disruption as a prerequisite “event” for analysis of regional resilience and adaptive capacity. Arguably, in the resource-dependent regions of Australia, it is the volatile,

uncertain and disruptive nature of the commodity cycle, including especially the scope and speed of the investment and construction stages, which shapes local economic systems.

Beyond the resources regions themselves, in broader rural Australia episodic disruptive events are more likely to be associated with climatic impacts such as floods and drought which, while impacting on regional resilience, have attracted policy interventions enabling a viable, innovative and highly competitive farming sector. Indeed, much of the narrative of regional Australia suggests subtler longer-term patterns of change. Social-economic-technological megatrends have greater formative impact on the adaptive capacities of most regional economies than have droughts or mining booms. These changes, many of them of a global magnitude, also suggest that the adaptive capacity of a particular region is likely to be determined as much by how it enmeshes with the world beyond as by what it does locally.

So, in its scope the interim Inquiry report tells us little new about the complexities of change in rural and regional Australia, but importantly it demonstrates clearly the economic impact of the resources cycle and the critical pathway risks associated with it in both metropolitan and regional Australia. In so far as adaptive capacity is concerned, with top end city suburbs coming out on top of this measure, the Inquiry leaves us with a definitional dilemma. Clearly, the impression is given that cash flow, power and networks matter most in determining a region's capacity for change, so the reader can be forgiven for asking: "Has the Commission devised a metric of regional adaptive capacity or of regional influence, status and privilege?"

Framing transitions – moving regional Australia forward

There are many possible or plausible futures for a region. Regional development and transition is the outcome of a complex interplay of a myriad of factors, reflecting the various sources of capital in play as well as local leadership and decision-making and community understanding and involvement in developing the narrative and exploring the possibilities. Compounding these considerations is the magnitude of innovation happening more generally in the world which bears directly on the future for regional communities.

The human capital factor is crucial to building sustainable development, making regions resilient and achieving a preferred future for the people. In itself resilience (or adaptive capacity for the purposes of this Inquiry) is not an end, but is actually a function of a thriving regional system. To build resilience, crucial enabling factors in a region or community have to be assured and developed.

To that end, the Commission's recommendation that Governments "should avoid providing 'ad hoc' support to regions without an underpinning framework that aligns with clear principles focused on supporting people in regional communities to transition to ever-changing circumstances" is strongly supported by the Institute for Resilient Regions.

In its guiding principles "to support transition and development of regional communities", the Commission lists:

- A locally owned, strategic and coordinated approach
- Building on a region's strengths and endowments
- Investing in the capabilities of people and regional connectivity
- Achieving sustainable regional development.

The Institute for Resilient Regions agrees with the Commission's Initial Finding 5.1 (p33) that:

"The best strategies are those that:

- are identified and led by the regional community itself, in partnership with all levels of government
- remove barriers to people or businesses relocating, both within or to other regions
- are aligned with the region's relative strengths and inherent advantages
- are supported by targeted investment in developing the capability of the people to deal with adjustment and the connectivity of the region to other regions and markets
- facilitate private economic activity that is not dependent on ongoing government financial support (beyond general government transfers)".

To this list could be added:

- Leverage regional identity and position where it creates value and opportunity;
- Invest in community development and deliberation so people can be aware, learn, consider and agree on new directions (cf Inquiry Finding 5.4);
- Create new links, relationships and opportunities and better integrate existing ones;
- Ensure regional governance that is accountable and accessible and facilitating of adaptivity and self-initiative and organisation;
- Make the health and wellbeing of the people part of the plan;
- Reward and recognise entrepreneurship and innovation in regional enterprise;
- Orient the future-focus inwardly and outwardly and engage local to global

The Commission argues that "Governments cannot and should not shield people in regional communities from all possible adverse events or ongoing pressures for change". This Institute for Resilient Regions would add that confusing regional development and transition with interventions designed to camouflage or minimise the implications of change are actually counter-productive and encourage "deficit", "hand-out" and mendicant behaviours. There is nothing to be gained long term by government policies that attempt to prop up unsustainable economies or regions.

Government policy intervention should be constructive of sustainable social and economic transition in Australia's regions and promote change where it delivers benefit. There is a difference between assisting some "squeaky wheel" regional economies in need of limited structural adjustment or supportive policies assisting diversification, for example, and other regions whose challenges beg a fundamental review of the basics of what we might expect in some parts of then continent. In the mainstream, a virtual doubling of the services sector in Australia over the past 30 years to 10 million people suggests that regional non-metropolitan Australia will not fully participate in future economic development if cannot access a good slice of the services pie and the digitalisation megatrend. It will also not fully participate and maximise its potential if it is not as healthy and well as urban Australia. This is why the business agenda for the Institute for Resilient Regions specifically includes behavioural and social sciences research that aims to help build adaptive capacity to enable regional Australian communities:

- create and exploit new development options, navigate transitions and live healthier lives;
- realise additional economic value through knowledge-based digitally enabled initiatives;
- frame governance and decision-making processes to support regional resilience;

Thank you for the opportunity to comment on the initial Inquiry report and I look forward to reading the final report later this year.

With good wishes

Yours sincerely

Professor John Cole OAM
Executive Director