



Meeting the challenge of change in regional Australia

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The fortunes of regional Australia have been getting considerable public and political attention in recent times. As is often the case, bad news drives out good. Hence the popular perceptions of rural crisis, struggling towns and declining population — as though they characterise all of regional Australia. And, when looking to apportion blame, the usual suspects are rounded up — foreign competition and corrupt world markets, national competition policy, and microeconomic reform — often summarised by the twin pejoratives, economic rationalism and globalisation.

It would be foolish to deny that the forces of global competition have placed significant pressure on people and communities to adjust, or that some areas are doing it tough as a result. But informed debate and good policy making needs to be based on a more balanced assessment of the facts. These reveal a diversity of experience within regional Australia, including here in Victoria. Rather than looking for scapegoats, the real forces driving change need to be identified and their effects understood. When that's done, policies promoting greater competitiveness and openness are shown in a better light.

This symposium provides a timely opportunity to develop a better understanding of these broad forces and to identify appropriate policy responses. Its title — Renaissance of the Regions — is a welcome change from the negativism that often pervades public discussion about regional Australia.

Drivers of change not well understood

The rising concern in regional communities that they were being devastated by reforms engineered in national capitals, led to a national public inquiry by the Productivity Commission into the *Impact of Competition Policy Reforms on Rural and Regional Australia*. An important part of the Commission's task was to document what had been happening and the broad forces at work.

It was a big job and we inevitably produced a big report. It was based on extensive visits and discussions with people in regional centres, as well as detailed empirical and other research. We came up with many findings, but three stand out:

- first, the forces driving change have had quite varied effects on Australia's regions, with some faring a lot better than others;
- second, long-term forces — largely beyond the control of governments — have been the main drivers of change; and
- third, competition policy reforms have been a lesser influence, but on the whole have brought net benefits to regional as well as urban Australia.

Contrary to the common perception, the population drift to Australia's capital cities — evident since the beginning of the century — actually ceased in the early 1970s. While larger towns have since experienced the fastest population growth, small towns appear to be holding their own in relative terms. Almost half of Australia's small towns had population growth of more than 10 per cent in the decade preceding the 1996 Census.

That said, the picture at the regional level is quite diverse. In the case of Victoria, regions losing population have included Western district service centres for agriculture (for example, Charlton and Ararat) and brown coal regions such as Moe-Yallourn. In contrast, areas along the Murray (for example, Rutherglen and Mildura) and at Lakes Entrance are growing mainly due to viticulture, tourism and retirement.

The Victorian experience mirrors two major demographic trends that are evident *across* regional Australia. One is 'coastal drift'. Small towns located along coastal Australia are growing fast because of people's lifestyle choices and the services employment that this generates. The flipside of that growth is relative (if not absolute) decline in many, but not all, smaller inland towns.

In addition, there has been a drift in population from some of those small towns to the larger inland regional centres: attracting them the rather ugly label of 'sponge cities'. This phenomenon is particularly evident in the wheat-sheep zones of New South Wales, Western Australia and Victoria. Albury-Wodonga is a well known example of a 'sponge city'. A smaller scale example is Horsham. Its population has grown steadily since the mid-1980s, whereas six of the seven surrounding municipalities — towns such as Dimboola, Nhill and Warracknabeal — have lost population.

Reflecting wider national and international trends which have favoured the expansion of services industries, those regions with bigger service sectors and more diversified regional economies have experienced consistently high rates of growth since 1981; while those regions with above average reliance on agriculture and mining have had relatively low rates of growth. The evidence seems pretty clear that the capacity of regions to adjust to structural pressures has depended in large part on their existing industry structures.

The demographic and structural shifts that I have briefly described reflect the interplay of a range of economic and social forces which are providing both opportunities and challenges for regional Australia.

Many of the changes are people driven. Lifestyle preferences and family aspirations lead people to move to larger centres seeking the additional amenity that city life

can provide. And the ageing of our population has contributed to the growth of coastal and regional towns as people exercise a range of retirement choices. Changes in consumer tastes also have regional implications — while the decline in the demand for wool has hurt some regional communities, increased demand for products such as cotton and wine and tourism has benefited others. Consumer preferences are also reflected in changing expenditure patterns. The trend towards prepared foods and takeaway meals, that appeal to time-strapped consumers, mean that a larger share of the value added in food services is taking place off-farm.

At the same time, technological change has asserted its own pervasive influence, often with both positive and negative regional impacts. For example, the increased mechanisation of farming has reduced labour requirements in rural industries but, through improvements in productivity, has been fundamental to industry survival and growth. Improved telecommunications and internet access may make a regional location more attractive for business, but may also mean regional clients are easier to service from a capital city. Better cars and roads have reduced the isolation of some smaller towns, but also made it easier for country people to travel to distant regional centres for work, shopping and leisure activities.

But if one had to point to a single, summary indicator of the pressures for change in rural Australia, it would surely be the terms of trade. Many rural industries depend on world markets and the prices they bring. Over the last four decades, world prices for many agricultural commodities have declined significantly in real terms, whereas the prices farmers pay for their inputs have been rising. The upshot has been that farmers' terms of trade have declined over this period by more than 60 per cent. And this has been imposed on the usual rural vagaries of weather and pests.

In these circumstances, farm survival and profitability have increasingly depended on management skills and scale economies to achieve significant productivity improvements. The productivity response has varied by industry and region — productivity growth has been higher in the wheat–sheep zone than in the pastoral or high-rainfall zones. But overall there has been a significant increase in farm size, and farming has become a less population-intensive activity, with predictable consequences for the local centres that service it. We must accept that, with less need for people per hectare, people will continue to leave some farming districts.

The right government policies wrongly blamed

In more recent years, policy reforms to expose the Australian economy to greater domestic and international competition have accompanied the long-term pressures. Those reforms — reducing the barriers to trade and investment, restructuring public utilities and extending the reach of competition policy — are seen by some as

discretionary, adding unnecessarily to underlying adjustment pressures in regional Australia.

The facts are that many of those reforms — by harnessing incentives for all Australian enterprises to be more cost-conscious, productive and innovative — have made it possible for Australia to transform its productivity from the lamentable performance into which it had lapsed in the 1970s and early 80s. This in turn has underpinned increased real incomes, which on average have been rising on a sustained basis for over a decade now.

The floating of the Australian dollar in 1983, for example, has helped farmers cope with the long-term decline in the terms of trade and, more recently, was an important factor in helping Australia to weather the Asian economic crisis. Consider how much worse off the farm sector would have been without the decline in the dollar. The current low value of the dollar poses inflationary risks which need to be managed, but it is also providing an additional competitive edge for exporters and import-competing industries alike, which should stimulate production and job creation in these sectors.

Similarly, reductions in tariff protection and other industry support have added to adjustment pressures for highly assisted industries, but improved the competitiveness of the more efficient sectors of the economy. The hoax perpetrated on rural communities reliant on export markets that manufacturing protection could be of benefit to them, under a bootstraps logic of ‘protection all-round’, hopefully has been set aside forever. Trade is a two-way street. A tax on imports inevitably becomes a tax on exports, and a liability for all industries and communities that rely on international trade.

Globalisation and the WTO

Trade has long been integral to the fortunes of Australia’s agricultural and mining industries. Indeed Australia could be said to have begun its integration into the global economy soon after colonisation, with the first export shipment of merino wool in 1807.

The latest fashion in some circles is to decry globalisation as a malevolent process pitting worker against worker, driving down wages and living standards in a race to the bottom. In fact, the increased integration of world trade and investment have been important factors in the unprecedented growth in living standards evident in the 20th Century. At a time of high population growth, real output per capita grew five-fold, with the bulk of the gain occurring in the latter half of the century —

following the dismantling of the barriers to trade and investment that had set back progress in the 1930s.

While the anti-globalisation movement has targeted a range of perceived ‘evils’ — including multinational corporations, the Americanisation of culture and the diminution of national sovereignty — the World Trade Organization has attracted particular ire. The influences driving globalisation are more pervasive than a single institution, but the GATT/WTO system of rules governing international trade has played a key role in post-war trade expansion and the prosperity accompanying it. That the WTO is under such heavy fire should therefore be of particular concern to regional Australia.

The WTO is sometimes portrayed as a big countries’ club, unhelpful to the interests of smaller trading nations like Australia. In reality, the WTO system is *built* on the principle of non-discrimination. Its core feature, the most-favoured-nation rule, requires that, with limited exceptions, all WTO members have to be accorded equivalent access to any member country’s market.

The WTO dispute settlement system keeps large and small countries alike accountable and provides a forum in which treaty rights of member countries can be defended. The stick the dispute settlement system received from domestic salmon producers recently has probably obscured the benefits of the system to Australia. For example, until the United States was challenged, Spencer Gulf prawns were denied entry to the US market because Australia did not mandate turtle-excluding devices on prawn nets even though there are few turtles in that fishery. Korean regulations discriminating against Australian beef have been struck down. The Japanese market for some Australian fruits has been prised open under the dispute settlement procedures. Most recently, Australia’s stand against US restrictions on lamb imports appears to have been vindicated.

There are of course deficiencies in the WTO. Not least of these from Australia’s point of view, is the fact that agriculture has largely escaped GATT disciplines. Nevertheless, the foundations for agricultural liberalisation have at last been laid in the Uruguay Round, when quantitative barriers were converted to more transparent tariffs. That said, they remain bound at very high levels, exceeding 100 per cent in some cases. Farm subsidies and export subsidies also severely distort world agricultural trade. A lot rests on reducing these distortions in the next WTO round of trade negotiations. It is important, therefore — particularly for rural interests — that Governments support the WTO by explaining more clearly to the electorate what is at stake.

National competition policy

Australia's increasing openness to foreign trade and investment has brought demonstrable benefits. It has also highlighted the costs, particularly for trade-exposed industries, of anticompetitive arrangements in the domestic economy. Nevertheless, measures to increase domestic competition have been viewed with suspicion and outright hostility in sections of the Australian community.

In its recent inquiry, the Commission found that many of the negative perceptions about national competition policy were not matched by reality. National competition policy reforms are having diverse but mainly beneficial effects on industries and people in country Australia. While implementation of the reforms still has some way to go, country-based industries are benefiting from reduced costs of major inputs such as energy, rail transport and communications. Country households are also gaining from lower charges, most notably for long-distance phone calls — though the concessional pricing of services such as electricity and water depends on community service obligations being maintained. Where the prices of some services have risen, these now more closely reflect their cost of production.

To date, the phased introduction of many of the NCP reforms has produced greater cost reductions for large businesses, and for business users rather than residential customers. Benefits are expected to spread to smaller users over time. And the improved competitiveness of businesses which supply regional firms and consumers indirectly benefits rural communities.

The evidence available to the Commission on the quality of service provision — such as electricity outages and phone connect times — showed a mixed picture, but no systematic bias against people in rural areas. More recently, the Besley report found that while Australians who live in metropolitan and regional centres enjoy pretty good telecommunication services, a significant proportion of those in rural and remote Australia have legitimate concerns about the adequacy of services, including the timely installation, repair and reliability of basic telephone services, mobile phone coverage and affordability, and reliable access to the Internet. These deficiencies were widely reported. Less attention was given to the Besley report's assessment that the continued development of competition, combined with key government initiatives such as contestability in the delivery of the Universal Service Obligation, would materially improve the services available to rural and remote consumers over the next few years.

NCP reviews of statutory marketing arrangements are causing particular angst in the bush. A case in point is the current review of wheat marketing arrangements, where the draft recommendation is for a trial removal of the export monopoly powers of

the Australian Wheat Board on a limited range of wheat products. In its submission to that review, the Commission argued that it is unlikely that the current wheat export marketing monopoly generates net benefits for Australia or, indeed, wheat producers themselves.

The current export monopoly powers are a blunt weapon. Most if not all of the potential benefits of the AWB's single desk could be achieved under competitive selling arrangements combined with, if necessary, targeted mechanisms to promote industry-wide activities and exploitation of export premiums in markets where they can be identified. The current lack of choice for wheat growers is likely to be impairing efficiency and innovation within the industry. The introduction of greater freedom of choice for those wheat producers who wish to explore alternative marketing, risk management, transport and handling arrangements would promote the performance of the wheat industry and contribute to wealth creation in rural areas. These issues were identified in the draft report and the Review will benefit from further information from participants. It is important that the Commonwealth Government reserves any decision until it has had an opportunity to consider the Review's final report.

NCP review outcomes which lead to the dismantling of statutory marketing arrangements may disadvantage some, but not all, producers. For example, while the deregulation of farm-gate controls on milk is reducing prices to consumers and forcing industry rationalisation and exit from higher-cost regions, Victorian dairy farmers as a whole are benefiting. Base farm-gate prices offered by the major manufacturers have increased by up to 17 per cent this season as a result of rising world prices and a weak Australian dollar.

Water reform is another contentious area of national competition policy. It is now all too obvious that our water resources have not been well used in the past. Water has been valued too low and used indiscriminately, and rising salinity has been a costly part of the legacy. Reforms to improve the economic viability and ecological sustainability of water supply have included unwinding the widespread incidence of cross-subsidies between water users.

No clear picture has emerged yet on the effects of reform efforts to date on the costs and prices of rural irrigation services. In some regions, however, the introduction of tradeable water entitlements is allowing water to flow to higher value uses, with significant benefits for sellers and purchasers. Victoria is at the forefront of such reform. The Mallee Catchment Management Authority reported that, since water was deregulated and became a tradeable resource, there has been more than 5000 hectares of new irrigation in the region, and the total annual production value at the farm-gate of new horticultural developments is estimated at \$50 million. Growth in new plantings of wine grapes has been strong — with seven wineries in the Mildura

district crushing 35 per cent of Australia's production — and there has been a similar expansion in vegetable production.

It is undeniable that some NCP reforms have contributed to job losses in rural and regional communities. Much of this has come from the elimination of overmanning, which had developed while government business enterprises faced weak incentives to perform efficiently. For example, in the decade to 1997, Telecom/Telstra employment declined by 18 per cent. There is no evidence, however, that labour shedding has been proportionately higher in rural areas than in metropolitan centres. Some of the apparent employment losses have been offset by employment creation in new service providers and by contracting-out.

Some misreporting of the Commission's findings focused on the regional losers from NCP reforms and implied that the capital cities were the chief beneficiaries. In fact, the Commission concluded that rural Australia as a whole is likely to benefit from NCP as much as the big cities, although there is likely to be more variation in the incidence of benefits and costs among regions. In the majority of regions, the estimated effect of NCP was either to increase employment or to reduce it by an amount which would be absorbed by less than one year of recent employment growth.

Importantly, the effects of NCP reforms on most regions are likely to be less significant than those resulting from the broad economic forces continually reshaping economic and social conditions in Australia.

Of course, reforms which are not strictly part of NCP are also having an impact. One is financial market deregulation. While there would be little considered support for a return to the old days of rationed credit — where those who had no luck at the bank were forced to borrow from higher cost sources of finance — bank branch closures are of widespread concern in rural and remote Australia.

The causes of bank closures are complex. Competitive pressures on costs structures are playing a part, especially where the volume of business is no longer profitable. But so too are the new bank technologies which have reduced the demand for and supply of traditional banking services and seen the emergence of new ways of providing services such as EFTPOS and ATMs, the convenience of which is valued by many customers. Bank closures affect city dwellers too, but the impact has clearly been felt more strongly by those reliant on traditional banking services in small rural communities, especially where all branches have been closed. However, the emergence of local, innovative responses gives cause for optimism that services which regional communities truly value can be viable. Some communities are seeking to find their own solutions — for example, credit unions and the 'community banks', set up by Bendigo Bank, which are extending beyond Victoria

— and governments are facilitating the establishment of nearly 500 rural transaction centres at a cost of \$70 million over 5 years.

What role for government?

I have provided only a brief overview of the major forces for change facing regional communities. But it should be clear that the dominant ones are not primarily policy-related. Of those that are, they are bringing benefits which generally outweigh the costs. In neither case would it be sensible or even feasible to attempt to insulate regional communities from change. That is not to imply that there are no policy choices. But if a prosperous and ecologically sustainable future is the goal, policy choices need to be loaded in favour of adaptation rather than resistance; accepting change as an opportunity, not just a threat.

There are limits to what governments can and should do to help. History is replete with failed attempts to subsidise rural development, and government policies which have ultimately hindered rather than enhanced the fortunes of regional communities. An eminent rural citizen of Victoria, Celie Moar, has taken an important stand in warning rural communities of the downsides from well-intentioned rural policies of ‘Big Government’.

Subsidies to regional investment have often led to major problems down the track. The location of highly protected textiles and clothing factories in rural towns is one such case. The provision of concessional finance to some farming activities has been another, with those subsidies becoming capitalised into land values, deterring new, potentially more innovative operators entering an industry. And the salinity and soil erosion created by generous tax concessions for land clearing are now widely recognised.

With the move of two Email whitegoods plants from Melbourne to South Australia announced last week, firm-specific investment attraction programs are in the headlines once again. A 1996 Industry Commission report estimated State, Territory and local government assistance to industry at around \$6 billion a year. Budgetary assistance to industry often involves competitive bidding for major investments and ‘events’. The Commission found that this, at best, shuffles jobs between regions. At worst, it burdens taxpayers and ratepayers, and reduces the competitiveness of Australian industry and the income of Australians as a whole.

To break the cycle of costly bidding wars, the Commission made a number of suggestions for mutually agreed disciplines akin to those which apply within the European Union. While these were not embraced at the time, recent events should encourage governments to revisit the issue. More certain and sustainable gains are

likely if governments compete for mobile capital on the basis of what should be intrinsic strengths — their general tax regimes, expenditure levels and administrative performance — rather than transitory artificial inducements.

Indeed, it is only by focusing on the ‘fundamentals’ that governments can make a sustainable contribution to regional development. As the OECD has said: ‘The aim is to work on a region’s potential for development, not on development itself’. Governments can enhance the capacity of regions to adapt and grow in a number of ways. Let me mention just three.

Labour market flexibility

In 1993, the Industry Commission conducted a major inquiry into *Impediments to Regional Industry Adjustment*. The Commission found that prescriptive conditions set out in centralised awards were inhibiting the scope for enterprise bargaining to account for the particular circumstances of workplaces in different regions. The potentially costly consequences of those constraints for regional development came to life for many Victorians at that time, when newspapers described the battle that the SPC cannery in Shepparton faced when it sought to implement a crisis plan to restore the company’s financial viability. Despite the agreement of 93 per cent of its workforce to reduce temporarily their terms and conditions of employment, the plan was opposed by the Victorian Trades Hall in Melbourne and almost defeated.

Since that time, there has been considerable progress in changing regulatory settings to increase the influence of workplace-based conditions over centralised prescriptions. But as shown in recent Productivity Commission studies of work arrangements in industries vital to the bush — container stevedoring, meat processing and black coal — progress in removing productivity-restricting work arrangements has been uneven and more needs to be done. How the industrial relations rules are framed is critical in ensuring that there are adequate incentives for productive outcomes. Currently, significant changes are being proposed within Federal and State jurisdictions. From a Victorian perspective, a key objective must be to ensure that enterprises throughout the State can come to arrangements that make sense for them given their activities, the people they employ and their markets, subject of course to some basic minimums.

Infrastructure

Australia is a large country, remote from many key markets and sources of supply. High quality and competitively priced transport and communications infrastructure is therefore of fundamental importance — and that has been a focus of competition reforms. While infrastructure is clearly important to people and firms in the regions,

it is not, as some see it, a panacea. A familiar refrain is that if only the government provided a port, a railway line or an airport, a region's economic future would be transformed. However, there are clear risks in attaching 'think big' or 'nation-building' labels to infrastructure projects with very uncertain commercial and social payoffs.

While public infrastructure investment can promote growth, it must be based on well-informed decisions about demand, scale, timing and funding of projects. It is important that such decision making takes into account social benefits that might be ignored under strictly commercial criteria. However, this can be a slippery slope and there will often be a political temptation to build in too much 'blue sky'. Where subsidies from the taxpayer are required on a large scale — such as with the Alice Springs to Darwin railway and Canberra to Sydney Speedrail — comprehensive benefit–cost analysis is essential. Not only that, the results need to be open to public scrutiny, as a discipline on the analysis and so that the community can judge the merits of its investment.

It should hardly need mentioning that the capacity of taxpayers to fund economic infrastructure projects is limited, and funds allocated to one region or project are necessarily denied to other ventures and regions, as well as to social expenditures such as health and education which are themselves of benefit to regional communities.

Furthermore, it is clear that governments have not yet achieved all they can in getting better performance from existing infrastructure. For example, the Commission's inquiry on progress in rail reform found that most government-owned railways still make losses or are barely viable, even after the inclusion of payments for non-commercial services. A mix of competitive contracting and franchising, privatisation and the entry of new operators is required to bring a greater commercial focus and the investment needed to secure the industry's future. This is an area where Victoria has led the way.

Moreover, some Commonwealth Government policies have been working against the provision of new infrastructure services to consumers and businesses in regional Australia. Adoption of the Commission's recommendations in its Broadcasting report on the digital television conversion plan and regulatory restrictions on multichannelling, would enable the provision of more regionally focused broadcasting services.

Building the skills base

Education and training are as critical to the bush as they are to the city. Skill acquisition is necessary for productivity improvements, innovation, business management and the quality of local governance in the regions. This is particularly so as the ability to use today's expanding range of information and communication tools is often the key to success, and technological developments are rapidly making old skills redundant or less valuable. In noting how the top 20 per cent of farming enterprises consistently outperform the rest by a large margin, David Trebeck has observed that "Scale is part of the explanation, but the quality of management is the main determinant." Education and training also provide important life skills which improve people's ability to adjust to changing circumstances and take up new opportunities.

Education policy may need to place a higher priority on regional areas. Youth in rural and remote areas commonly have lower rates of secondary school completion than those in urban areas. And while people in rural areas and towns are marginally more likely than those in cities to have a skilled vocational qualification, the university participation rate of 19 to 21 year olds in rural and remote areas is around 8 percentage points lower than in metropolitan areas.

This has to some extent been an inevitable consequence of the dispersion and low density of rural populations. The traditional distance education approaches to that problem have the potential to be greatly augmented, if not transformed, by internet delivery. It is an area where Australia has been leading the way. Realising its potential will of course depend on the economics of getting enough bandwidth into the bush.

A second, relatively recent development has been the expansion of regional universities. I visited a number of these during the West Review of higher education and became convinced that having local institutions can be a key to demonstrating the relevance and attainability of higher education, as well as providing centres for relevant local research and innovation.

It is regrettable that the policy development process that began with the West Review lost its way. A less centrally controlled and more demand driven higher education system is an imperative to ensure that Australian universities, including those in the regions, can best meet society's needs in an uncertain future.

Helping people to adjust

Policies directed at such fundamental determinants of economic capability are clearly important, but there is also an important direct role for governments in helping people cope with change. There is a range of generally available measures in place, such as job placement services, training support and social welfare, which can assist those dislocated by change. These have certain advantages in that they treat individuals in similar circumstances equally, address the net effect of all the forces impacting on people and concentrate on those in genuine need. They also support families and individuals rather than a particular industry or activity.

However, if adjustment pressures develop rapidly and are regionally concentrated, generally available assistance programs may not be enough. Governments may need to consider whether additional specific forms of adjustment assistance are warranted to help people in communities adversely affected by change.

Self help

Of course, governments cannot do everything. Harnessing the energy and skills of people in local communities is vital. During its inquiries on the impacts of competition policy and regional industry adjustment, the Commission visited towns and regions which have taken initiatives to utilise local knowledge, infrastructure and services to encourage regional development. Local governments and people in many regions across Victoria and Australia are asserting greater control over their own futures by:

- promoting their region's inherent advantages for investment (eg low cost housing, quality of life, dedicated labour force, excess capacity and cheaper sites);
- reducing the regulatory and administrative red tape which is a turn off for investment, improving the efficiency of local councils and avoiding wasteful and parochial competition between shires;
- diversifying into new activities (eg eco-tourism or niche horticultural products);
- seeking to retain certain services through community participation (eg community banking facilities); and
- improving sporting, social and recreational opportunities.

It is through such initiatives that a real renaissance of the regions is most likely to emerge. That said, it would be idle to pretend that all existing regional activities can be sustained. Indeed, regional success stories have generally involved innovation in the pattern of activity. Innovation and resourcefulness are qualities long associated with the Bush. They in themselves are grounds for optimism about its future.