Submission No 27

ESTABLISHMENT OF SPECIAL ECONOMIC ZONES

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Inquiry into the Establishment of Special Economic Zones

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Introduction

The Committee has been asked to inquire into and report on the establishment of special economic zones (SEZs) providing state tax and financial incentives to promote economic growth, employment and investment in regional and rural New South Wales.

The Committee's terms of reference do not specify any particular regions to which the SEZs would apply, nor particular mechanisms for delivering the incentives referred to, nor the types of organisations who might receive the incentives. In regard to the last, one might assume that businesses would be the recipients of the incentives, certainly in relation to the tax relief aspect of the assistance. However, institutions other than businesses might well be involved in SEZs, so the question needs to be clarified.

The Committee's terms of reference are very broad. In my view, the questions the Committee might best ask about SEZs are as follows:

- Should New South Wales have SEZs?
- What is the rationale? What would be the policy objectives? Are the policy objectives clear and measurable?
- Could the objectives be met through other policy instruments?
- On what basis should places be selected as SEZs?
- If the places to be selected are (as it seems) in rural and regional New South Wales, is it likely they would deliver the benefits sought?
- What is the record of SEZs in other jurisdictions? Is the evidence clear cut and what, if any, are the costs of introducing SEZs?
- What kinds of policy instruments would be used?
- Is the focus to be on cutting government costs and regulations or on industry assistance, or a mix of the two?
- Would the introduction of SEZs affect other regional policies, and, if so, in what ways?

This submission seeks to address some of the core issues for consideration by the Committee in reaching conclusions about the likely utility of SEZs. Its focus is on the broad question of whether establishing SEZs is justified, within the context of a broader and more significant discussion of the purposes and merits of regional policy. The submission provides an outline of the key arguments about SEZs. Separate papers (attached) address aspects of the issue in far greater detail, including a major (much earlier) paper on enterprise zones and papers on regional policy and regional development more broadly. The papers are listed at the end of the submission.

Special Economic Zones and Regional Policy

In a sense, the real argument is about the efficacy of governments intervening in ANY way to achieve regional development outcomes.

Regional development might be defined as follows:

> The deliberate attempt by government (at any level) and/or regional actors to influence regional outcomes, either in relation to the economy, the community or the environment, or all three, with varying objectives that generally relate to some notion of "regional well being" (Collits 2004: 4).

This begs a number of what might be termed "core questions" of regional policy, prior questions whose answers will determine whether a government might want to establish SEZs in any region.

The core questions of regional development are as follows:

- What are we trying to achieve (or, put another way, what is the "regional problem")?
- Whose responsibility is regional wellbeing and regional development (which level of government should be involved, or should local communities and business drive regional development instead of government)?
- What really drives regional growth and decline?
- What can government policies do about these drivers?
- What has actually worked in terms of strategies and programs, and at what cost?
- When should governments intervene (what triggers intervention)?
- Where (that is, in which regions) should governments intervene? and
- How much should governments intervene?

I believe that one cannot reach conclusions about SEZs, or any other kind of regional policy intervention, without first answering these questions. One's attitude to SEZs will, in large measure, reflect one's attitude to regional policies more broadly. Creating SEZs is merely one policy approach to achieving regional growth objectives.

A number of the above questions are close to the SEZ debate. In particular, the penultimate question is especially relevant to the issue of SEZs. What sort of places are we talking about?

Enterprise zones were created in the UK, and replicated in the USA, in the 1980s to address poverty and high unemployment in inner city areas, and were confined to relatively small areas, indeed often to specific urban parcels of land.

Internationally, several Asian, Latin American and Middle Eastern countries have designated certain cities/regions/ports to be SEZs over several decades, largely as a mechanism for increasing international trade by focusing on the key strategic locations in the trade/export process (Farole and Akinci 2011). These SEZs cover an incredibly broad range of cities and regions, governance structures, economic circumstances and timeframes, embrace a range of policy objectives and employ a broad spectrum of policy instruments. China in particular has launched a massive program of SEZs. These are not so much designed to assist struggling regions, but rather to achieve substantial future growth in specially selected places deemed suitable for accelerated development or useful for the Government's national objectives.

Other, more recent, calls for enterprise zones in Australia (in the early 2000s) by several groups including the Institute of Chartered Accountants of Australia and the Local Government and Shires Associations of New South Wales, wanted them established in regional New South Wales, largely to counter the economic dominance of the "NSW" conurbation (Newcastle-Sydney-Wollongong) and the urbanisation processes underpinning that dominance.

Most recently, the Institute of Public Affairs (IPA) and the Australians for Northern Development and Economic Vision (ANDEV) have proposed the creation of a SEZ in northern Australia. This proposal is much more about deregulation, tax relief and access to foreign labour and getting projects moving for specific industries that happen to be located in a particular (remote) area, than about more conventional regional policy objectives.

While these proposals vary in important ways, they have in common an appeal to the notion that certain places need and/or deserve special consideration in achieving economic development outcomes. Yet they are referring to very different sorts of regions in terms of scale and location, and they advocate very different kinds of assistance. The IPA/ANDEV proposal is focused on getting government off the back of industry as a means of promoting growth, while at least some of the earlier proposals proposed increased government interventions and greater government spending.

Hence different models of SEZs have applied to very different kinds of regions, and at different spatial scales. Here there is a real question for the Committee – what types of regions should "qualify" for SEZ status? As is noted below, regional policies can apply to so-called "lagging" regions, to fast growing regions, to non-metropolitan regions, or indeed to all regions within a jurisdiction.

Similarly, the question of the drivers of regional growth and decline, and the capacity of government to address these, are central to a consideration of SEZs. All forms of regional assistance are based on one or other theory of what drives regional development. Governments seek to understand the drivers, so as better to influence investment, employment and growth outcomes.

Of course, there are also questions specific to the establishment of SEZs, and these are discussed in the submission and in one of the attached papers (*What's Wrong with Enterprise Zones?*).

Regional Economic Realities

Any and all regional policy interventions, especially those in Australia which are exclusively pitched at non-metropolitan regions, occur in the context of a particular set of economic, geographic and historic realities, and these constrain any government's capacity to intervene effectively, especially in relation to less well-off regions. This includes interventions like the creation of SEZs, depending again on what kinds of region the SEZs are designed for.

One of the great features of economic geography is the persistence, even growth, of urbanisation in the globalised age, an age where cheaper and improving access to telecommunications technology was meant to reduce the need for most of us to live in large cities (See Polese 2009, Glaeser 2011 and McCann and Acs 2011 and the attached paper, *Country Towns in a Big Australia: the Decentralisation Debate Revisited*, recently published as a chapter in Martin and Budge 2011).

As I have noted elsewhere:

> But the enduring strength of cities should not come as a surprise. Large cities offer households and businesses one great advantage over regional locations – you can move house without changing your job (or business location), and you can change jobs (or sell your business) without moving house. It is far harder to do this in regional areas which lack the cities' thick labour markets and hence broad opportunities for employment and career enhancement. This provides a measure of economic security to people in the cities, as do real increases in housing values, increases that (along with superannuation) provide most of the wealth in one's senior years beyond the limits of a government pension.
>
> Regions outside the cities will always struggle as a result of this reality. Their economies are more narrowly based and more fragile. Lacking diversity and scale ("critical mass"), they are prone to external shocks which they cannot control and typically cannot easily ameliorate. The impact of the high dollar on tourism is but one of many current examples of this.
>
> Broadly speaking, regional Australia relies for its economic fortunes on two things – first, its capacity to sell resources, goods and services for good prices to the outside world (which includes Australian cities), and second, the continued mobility of city dwellers who migrate to the regions for "lifestyle". In rural regions reliant on agriculture and mining, it is favourable commodity prices and/or good seasons that keep the locals smiling. In regions like the one I live in (in coastal Queensland), employment grows and declines largely on the back of out-migration by city people, mainly retirees and cashed up fifty-somethings. The key industries in these kinds of regions are generally construction, retail, health and education.
>
> There has been a process of continuing migration to regions from the cities that compensates for the inevitable out-migration of young people from the regions. This is how regional populations remain relatively stable, even if they are now ageing considerably. (Cities continue to grow strongly, not because of drift to the city from

> the country, as is often believed and stated, but because of the location preferences of overseas migrants and natural increase).
>
> Regional prosperity is therefore enhanced by this demographic churn – the continued mobility of city people willing and able to move out – and this in turn depends above all on their continuing to be confident about their financial futures. This, of course, is currently under threat and we may be witnessing the early stages of a structural shift in our national economic psyche that could have profound negative consequences for regions (Collits 2011: 1-2).

In summary living in regional Australia has considerable advantages (different to those of the city), though circumstances vary over time and across space, and it can be genuinely difficult to build careers and wealth for individuals and businesses in regional Australia. This is because regional economies are inherently lacking scale, often narrowly based and (certainly at present) fragile. Regional problems vary. For some regions it is high unemployment, for others it is too many people leaving. In all kinds of regions though, incomes are lower than those that people can earn in the cities, and skills shortages are often endemic because of structural mismatches between the skills people living there have (or more accurately, do not have) and the often limited opportunities available.

In view of these regional realities, any proposals to assist non-metropolitan regions (as per the Committee's terms of reference) can be problematic, simply because they go against the grain of urbanisation and the advantages of scale that size and broadly based economies bring to the cities.

Justifying Regional Policies Generally

Arguments for SEZs are inevitably arguments in favour of regional (or "spatial" or "place") policies generally, whether they relate to zones of extra government assistance or to zones of lower taxes and less regulation. Hence justifying SEZs necessarily implies justifying regional policies.

Essentially, regional policies exist because there are regional disparities in wellbeing, variously measured, and there is a desire on the part of central governments to ameliorate these disparities.

As might be imagined, arguments over whether regional policies are ever justified, and, if so, what justifiable place policies might look like, are highly contentious and often highly charged. This is especially so in the Australian context where regional policies invariably have meant policies for non-metropolitan areas, where many people feel a sense of entitlement to extra assistance (to make up for the lack of services) and where there is a perception of "metro-centrism" – that "the cities get everything". In my view, this perception has driven much of the debate in Australia over regional policies.

Most government policies are "spatially blind". They have no specific spatial intent, whatever their regional consequences might be. And, indeed, all kinds of government policies can have substantial positive and/or negative impacts on regions generally, and on particular regions.

There are two main ways of looking at the "problem" of uneven regional development and disparities in regional wellbeing, and so considering whether any regional policies (let alone SEZs) can be justified.

First, recognising that there will always be regional disparities on some sort, one can simply ignore the disparities and pursue what might be called "people policies", that is, encouraging the most productive use of national resources wherever economic activity and people might happen to be located. This approach is variously termed the free market or neo-classical or neo-liberal approach to spatial policy. If this means having a few large cities and lots of empty spaces, so be it. If regions are in decline, then people should be encouraged to leave and move to places that are not in decline (See also Collits 2011).

On one version of this view, regional disparities will resolve themselves over time as businesses move to places where labour costs are low and employ people in those regions. On another version, regional disparities may persist but this is simply part of economic life. Some places will do better than others.

The second approach, while recognising that resources (labour and capital) move freely to and from regions and cities (and within regions and cities), and conceding that governments cannot control all of the drivers of regional development, is to nevertheless provide policy support to regions that experience problems like population decline, economic restructuring or high unemployment (Collits 2011).

There is a third approach to regional policy, and, indeed, it is one followed by the current Australian Government and by the OECD. It is that all regions should be given some measure of assistance in relation to their development, based on the view that improving the performance of regions will boost national economic performance. Here there is a shift away from the tradition al approach, which has been to assist what used to be termed "lagging" regions. (How "all" regions might be assisted raises all sorts of questions, and, in the Australian context, many of the current Government's programs do exclude the cities).

The argument for regional policies generally, therefore, is that regional inequalities exist and should be ameliorated to assist people in less well off places. Problems (such as economic restructuring, external shocks to the economy, company decisions to close up shop, or the slow out-migration of young people) occur in place and in space, not in a vacuum. These socio-economic change processes leave places vulnerable, and their people exposed to their negative impacts. Government therefore has a role, at least on equity if not on efficiency grounds, in assisting these places to develop economically to promote the well being of the people who live there.

In the Australian context, regional policy has generally meant supporting regions outside the capital cities. This has occurred for a range of reasons related to history, geography and politics, and is often regarded by overseas observers – who regard cities as regions – as being quite peculiar.

The argument against regional policies is twofold – first, that governments should not intervene spatially because functioning market processes will generally encourage people and investment to locate in optimal locations, and second, that governments are poorly placed to intervene effectively and to advantage regions in the ways they intend.

In the Australian context, policies specifically designed to assist regions outside the cities are seen, on this view, as generally unjustifiable either on efficiency or on equity grounds. Highly populated cities are the natural products of our history, economics and geography, are productive and efficient, and attract resources (people and investment) for the right reasons (see, for example, Freebairn 2003, Grattan 2011).

Broadly speaking, I am sympathetic to the Freebairn/Grattan position, though there is still much room for debate over what I described above as the core questions of regional development, and how governments might best intervene in a limited way to support regions.

Clearly, support for proposals to establish SEZs presupposes a disposition towards the second approach – that governments owe support to less well off or more remote regions, and that governments are well placed to help drive economic development in these kinds of regions. Again, the question posed at the outset about which kinds of regions should be assisted is highly relevant to the question of SEZs – are they lagging regions, growing regions, regions involved in trade/export, and so on?

Forms and Purposes of Regional Policy

Many regional policies have been implemented in Australia, though nowhere near on the same scale as (for example) Europe since the creation of the European Union.

As I have argued elsewhere:

> Traditionally, State and national governments in Australia have sought to address problem issues in regional areas in four ways – first, by providing services that aspire to replicate standard of services offered in the cities, for example in health and education, to support rural and regional lifestyles (notwithstanding the difficult realities of distance); second, by providing economic development support for regions to address the narrowness of their economies or the effects of economic shocks, through a range of programs; third, by providing modest funding for a structure of local and regional institutions to help organise regional development; and fourth, by compensating regions for the negative impacts of other government policies (Collits 2011: 3).

It should be noted that local government is weak almost to the point of powerlessness in Australia and that we do not have genuinely "regional" government to match our regional economies. Rather there has been a mish-mash of local and regional institutions with only meagre funding, lacking coherence of aims, capacity and legitimacy, and often without tenure beyond the lives of individual governments (Collits and Brown 2004).

While mostly the level of policy support to regions has not been substantial, from time to time there have been more ambitious, even grandiose, attempts at resetting Australia's settlement pattern and the location of economic activity, but these have been rare.

One of the attached papers (*Regional Policy in Australia since World War II*) provides a more detailed analysis of regional policies in Australia to add some perspective for the Committee as to where the proposal for SEZs fits into the broader context and history of policy interventions.

The Efficacy of Regional Policies and of Special Economic Zones

My overall views about regional policy are as follows:

- There is considerable disagreement over policy objectives;
- There are many interventions at various spatial scales and these are typically very poorly evaluated, so we don't generally know the impacts of regional policies;
- Other areas of government policy affect regions in all sorts of ways, positively and negatively, and these policies probably outweigh the impacts that any regional policy interventions might have;
- There is no clear consensus in relation to the drivers of regional growth and decline. There are many theories, but little ultimate agreement;
- Governments are poorly equipped to control or even influence many of the drivers of regional development;
- There is ultimately no right answer to the question of which regions ("winners", "losers" or all regions) governments should support, though it should be noted that current OECD thinking favours the "help-all-regions-to-achieve-their-potential" approach;
- There are certain realities in relation to regional Australia that constrain government interventions, and therefore limit the effectiveness of regional policies;
- As a general proposition, responsibility for regional development strategies should be devolved to the localities and regions concerned, rather than being determined by central governments. The Europeans call this subsidiarity. (Devolution in Australia, of course, is constrained by the relative weakness of local government, their lack of revenue raising powers and by centralising tendencies over time.

Clearly, these propositions have consequences for how one might view the establishment of SEZs. I am highly sceptical of many regional policy interventions, and certainly of SEZs.

In relation to the SEZs themselves, I would argue as follows:

- The literature on enterprise zones, one of the key models for SEZs, is substantial. It is primarily North American. There have been many empirical analyses of enterprise zones, and in my opinion, though much of the evidence is very mixed and inconclusive, a substantial number of highly respectable and rigorous studies do find either little evidence of successful enterprise zones, or suggest that whatever success has been achieved has come at a high and perhaps unacceptable price (in terms of dollars per job created). A similar record of mixed success is recorded by Farole and Akinci in their study of international SEZs (Farole and Akinci 2011);
- The decidedly mixed record of existing SEZs suggests that whether they succeed will ultimately depend upon a range of factors other than the SEZ designation or the particular assistance involved. These include both the rapidly changing global trade environment (especially the globalisation of production networks, as noted by Farole and Akinci 2011) and the sorts of drivers of regional growth referred to elsewhere in the submission and analysed in one of the papers attached (*Successful Cities and Regions: the Search for the Regional Development Holy Grail*). That these drivers of success are complex and are often peculiar to particular times, places and circumstances should not be forgotten by those eager to adopt or adapt policies that may have been successful overseas;

- There will always be a view among some people that SEZs are unconstitutional, and implementing SEZs might well be tested in the courts on these grounds;
- There are powerful concerns in relation to SEZs about both deadweight effects and displacement effects, in other words, would the development have occurred anyway irrespective of the intervention, and will jobs and investment simply be transferred from one region to another;
- The selection of zones will always be problematic, either technically or politically or both – which regions should be in and which not in;
- If the SEZ is based on extra interventions and involves larger government outlays in the form of regional assistance, it will be criticised by many as being a waste of money; and if the SEZ is based on reduced tax and regulation, many will ask – why not extend the benefits to every region?
- One of the key assumptions behind SEZs, evidenced by the choice of policy instruments used to drive SEZs (tax breaks, financial incentives) is the old fashioned notion that business (and household) location decisions are based primarily on cost minimisation, and this assumption is highly questionable in the twenty first century;
- There are many kinds of SEZs or enterprise zones. The SEZ regions of the dynamic trade oriented port cities of Asia and the Middle East bear little resemblance to the depressed inner city areas of the UK and USA and to the wide open spaces of inland New South Wales envisaged by early 2000s proponents. Perhaps the different kinds of regions chosen and the wide variety of policy instruments deployed are so disparate as to render the notion of an SEZ meaningless, or, alternately, to suggest great caution in assuming that any success achieved by certain kinds of SEZs overseas is likely to be replicated here simply because they are commonly labelled "SEZs".

Summary and Conclusions

In many respects, despite the aura around SEZs, it might be argued that they are not that different from the many other kinds of regional policy interventions that have been tried in Australia with varying outcomes. Essentially, they apply a range of already existing regional policy instruments (mainly business location incentives) to selected places for the purposes of encouraging greater economic development than is already occurring. Hence they are not really that new.

Second, proposals for SEZs in regional, especially rural New South Wales, are really only a re-run of very old arguments for decentralisation. The NSW Government's current decentralisation scheme for households and initiatives such as EVO Cities are similar kinds of interventions with similar purposes. A separate paper attached analyses the core issues related to decentralisation and for the persistence of Australia's highly urbanised settlement pattern. It is sufficient to note here that most efforts at decentralisation have not worked, and for perfectly understandable reasons.

Third, the drivers of regional growth and decline are complex, imperfectly known and understood, and (perhaps) increasing in their complexity. Regional economies are evolving, dynamic and unstable, and increasingly subject to far greater mobility of human and capital resources than hitherto known. Regional economies are open and regional borders are highly porous. Location drivers are different in different regions and they are always changing in every region. Transformative technologies that were meant to herald "the death of distance" and which would allow the location of any business anywhere have decidedly not meant the decline of cities. Face-to-face transactions and co-location with cognate businesses are more important than ever and agglomeration economies mean that cities continue to rule. SEZs are most likely to work (perhaps perversely for their proponents) in large global cities, not in more remote non-metropolitan regions. (Again, already quoted international experts such as Mario Polese (2009), Edward Glaeser (2011) and Philip McCann (2011) have written widely on these subjects).

Fourth, there are simply much better ways for governments to help regional development than by creating SEZs or similar vehicles for development. SEZs, like the creation of bulky infrastructure designed to drive regional development and so many other under-analysed and under-evaluated interventions, are largely designed not so much to achieve sensible and measurable regional development outcomes but rather to provide evidence of government's "concern" for regional Australia.

The study of regional economies generally itself is under-resourced and underdone in Australia. Given the efforts devoted to establishing regional development institutions (including the current Regional Development Australia committees), it is unfathomable why governments would not properly resource them, give them greater decision making powers in relation to their regions and equip them to undertake greater analytical work on the drivers of their economies.

This last point is worthy of the Committee's attention, and I would welcome the opportunity of discussing this further.

Papers by the Author also Forming Part of this Submission

What's Wrong With Enterprise Zones? paper delivered at the 25th Annual Conference of the Australian and New Zealand section of the Regional Science Association International, Bendigo, October 2001

Great Expectations: What Regional Policy Can Realistically Achieve in Australia, paper delivered at the Bureau of Transport and Regional Economics' National Regional Research Colloquim, February 2004

Successful Cities and Regions: the Search for the Regional Development Holy Grail, Paper delivered at the 28th Annual Conference of the Australian and New Zealand section of the Regional Science Association International, Wollongong September 2004

"Country Towns in a Big Australia: the Decentralisation Debate Revisited" (Chapter in Martin J and Budge T (eds) *Country Towns in a Big Australia: the Decentralisation Debate Revisited*, VURRN Press 2011

"Regional Policy in Australia Since World War II" (in *Australian Government Policy in Rural and Regional Australia*, the Visioning the Future of Rural and Regional Australia project, National Institute for Rural and Regional Australia, ANU, 2011)

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What's Wrong With Enterprise Zones?

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Paper delivered at the 25th Annual Conference of the Australian and New Zealand Section of the Regional Science Association International, Bendigo, October 2001. The views expressed in the paper do not necessarily reflect any positions of the NSW Department of State and Regional Development or of the NSW Government.

In some areas, the paper draws upon previous articles and papers by the same author.

Introduction

The past year has seen increasing interest in the potential of "enterprise zones" (EZs) to lift economic performance in non-metropolitan regions. A number of papers and reports have been released as well as an intense lobbying effort aimed largely at the Commonwealth Government.

EZs are areas identified as performing poorly on a number of criteria and designated for assistance by government, usually but not exclusively through tax breaks and "incentives".

The idea is not new. EZs have been around in the United States and Europe for over twenty years, though their original application was to poor inner city areas.

The case for EZs rests on a number of assumptions that are questionable, for example, tax incentives are effective in attracting firms to regional areas; regional policy should be directed mainly at lifting poorer regions rather than assisting regions with greater growth potential; and regions will readily accept the label of poor economic performance.

There are other concerns about the case, as stated, for EZs. For example, would EZs merely draw investment away from adjacent regional areas in some case, and in others reward greatly firms that were going to expand or relocate in the region anyway? Would they lead to an increased drain on taxpayer funds with limited reward (some have argued for a $2.3 billion annual commitment to the scheme)? How would EZs fit with the existing program assistance mix? What are the regional policy opportunity costs?

The calls for EZs also raise a number of questions about current regional policy approaches, and about the complex factors drive regional economies and industry location decisions. The current preference of governments is not to direct development to specified areas, particularly against market trends, but to work as a partner with local communities to grow the local economy and develop strategies "from the bottom up". Support for EZs recalls similar older approaches long buried by governments of all colours.

Finally, supporters of EZs often fail to give any acknowledgement to existing government programs in regional development, at both State and Commonwealth levels. There is a suspicion too that the calls for EZs may be code for simply spending much more public money on regional development. This is at a time when recent OECD research has found that governments of developed countries across the world – the European Union's structural funds notwithstanding – are generally dispensing with big spending regional programs because they have not worked.

The paper places the case for EZs under the microscope, examining its central assumptions and arguments and its implications for Australian regional policy. It confirms the suspicion that the case for enterprise zones has serious flaws, and finds that at its heart lies an appeal to the old idea of "balanced development". This revives the long-held and still widespread resentment in non-metropolitan Australia about the role of capital cities as sponges or vacuum cleaners "sucking the life out of regional Australia".

Specifically, the paper argues that:

- Governments should be cautious about supporting EZs, despite some intuitive appeal in the arguments presented;

- The specific case for EZs has several important flaws and logic gaps, and a number of its key assumptions are open to question;

- Existing regional policies are not perfect, but governments are making serious attempts to come to grips with a wide range of complex regional problems;

- Big dollar solutions to regional disparities do not necessarily work, particularly where they rely heavily on tax based incentives for industry location – despite their ongoing use overseas;

- Regional policy requires a mix of top down and bottom up approaches, with selective or "strategic" targeting of both problem <u>causes</u> as well as problem <u>places</u> likely to offer greater returns for taxpayers.

The proposal for EZs raises interesting and important questions, both for regional policy and for regional economic theory, particularly location theory. A number of these questions are explored in the paper.

What are Enterprise Zones?

An EZ is a designated region which falls below certain agreed economic and/or social indicators of disadvantage, such as high unemployment, and is provided government assistance for a certain specified period of time.

According to the LGSA:

> They would be geographic areas comprising a local government areas, or group of areas, which are performing below defined standards. These areas would nominate themselves on a co-operative basis and would not be 'chosen' by government, but would be assessed against objective criteria. Such areas may cross existing state boundaries. Once approved and designated, a zone would offer a range of attractive benefits to businesses. Any business locating in the zone, or an existing business expanding in the zone, would be eligible for a range of benefits subject to that business creating new net employment for Australia...(LGSA 2001).

(Any implication that current government regional assistance programs do not involve "objective criteria" is quite inaccurate).

Or, as ICAA has stated:

> This is an economic tool that is designed to be a visible part of Government policy, to be accessed by regions that are economically depressed and to encourage enterprise to locate, or establish in the region, to create flow on benefits of increased employment and increased community prosperity.
>
> Typically the Enterprise Zone will offer a raft of tax and other forms of incentives to provide both a kick-start effect to investment and also to establish an economic climate for a given period of time (ICAA).

Designation can occur for a set amount of time, eg 15 years.

Companies locating or expanding in a designated EZs receive tax credits against defined government taxes and charges.

EZs are different from foreign trade zones, which allow freer trade access to specified areas.

EZs are said to provide a "win-win" situation for government and for the region, and are said to be not a subsidy, since the assistance is simply a tax rebate on the extra tax paid by a company for employing additional people. The company benefits as its costs (perhaps higher in a regional location) are reduced through the tax breaks available.

The Australian Chamber of Commerce and Industry (ACCI) sums up EZs as follows:

> The centrepiece of the enterprise zones proposal is financial incentives, particularly taxation incentives. The argument for such an approach is essentially that taxation incentives provide a powerful stimulus to investment. By designating particular areas as enterprise zones and offering taxation relief to attract business, new industry and private sector jobs will be created, thus also satisfying certain social welfare objectives. It is advocated a form of strategic regional development policy (ACCI 2001).

The Recent History of the Concept in Australia

2001 has seen the release of a major report on regional development commissioned by the Local Government and Shires Associations (LGSA) and the Institute of Chartered Accountants in Australia (ICAA).

The report *Enterprise Zones: Creating Jobs and Prosperity in Regional Australia* was released in April 2001 (Manning 2001). The central stated objective of the report is to create regional equity through business-driven economic development.

There has also been movement in relation to personal taxation zone allowances, which is quite a different issue to enterprise zones. The National Farmers Federation (NFF) has released a paper arguing for a restructuring of, and greater emphasis on, taxation zone allowances.

The emergence of these reports follows earlier work on EZs. In 2000 the Central Regional Organisation of Councils (CENTROC) commissioned a study of EZs by the Western Research Institute (WRI).

Graham Apthorpe of Cowra Shire Council has been instrumental in driving the debate and garnering support for the concept of EZs, particularly in local government.

A lobbying campaign commenced in early 2001, largely but not solely focused on the Commonwealth Government. This focus reflects the view of supporters of EZs that the Commonwealth has more resources to contribute to the funding of EZs, and a greater national responsibility for regional development.

Who Supports Enterprise Zones?

The case for regional tax incentives and enterprise zones has recently been put by the Central Regional Organisation of Councils (CENTROC) and by Cowra and Parkes Shire Councils, among others. The case is based partly on research done for CENTROC by the Western Research Institute (WRI) in June 2000.

As recently as 19 September 2001, the Parkes Champion Post reported that Parkes Shire Council had reaffirmed its support for EZs (Parkes Champion Post 19 September 2001). Armidale-Dumaresq Council has also been a consistent supporter. According to Mayor Brian Chetwynd, regional Australia would continue to be the "big loser" if EZs were not considered by the Commonwealth Government (Northern Daily Leader 2001).

(It is ironic that a number of the councils supporting the concept of EZs are those less likely to ever be nominated, according to the criteria thus far proposed. This will be explored further later in the paper. It is also interesting how quickly a number of Local Government Areas (LGAs) nominated themselves as EZs).

The Local Government and Shires Associations also supported the idea in its July 2000 report, *A Framework for Whole of State Development* (prepared by consultants National Economics), and further in a resolution at its subsequent 2001 Assembly, as follows:

> That the concept of enterprise zones as presented to the Assembly be investigated by a national independent task force to evaluate, develop and implement the proposal; and
>
> That this Assembly call on the Prime Minister, the Premier and the leaders of the Opposition parties, for a commitment to enterprise zones for the long term development of whole of state benefits (LGSA 2001b).

A number of country based Independent Members of Parliament have also supported the concept, including Richard Torbay MP, State Member for Northern Tablelands, Tony McGrane MP, Member for Dubbo, and Peter Andren MP, Federal Member for Calare (Central Western Daily 2001b).

For example, Richard Torbay has referred to the EZs proposal as follows:

> I believe, like many people in regional communities, that it is a winner. ... I believe the proposal enjoys strong support from regional communities, particularly from councils in country areas that have contacted me (Hansard Extract: 4 September 2001).

It is clear that Torbay saw the proposal as a potential solution to population drift from inland Australia. He also linked the EZ concept to the provision by the State Government of differential rates of payroll tax for the country and the city, stating that such incentives "... would provide population growth in communities that have not experienced it" (Hansard Extract: 4 September 2001).

In supporting the Torbay motion, well known supporter of balanced development and opponent of economic rationalism, Tony Windsor MP, links EZs to population shrinkage and links population shrinkage to competition policy, economic rationalism and current Commonwealth Government policy. He has stated that:

> The general theory of competition policy and economic rationalism is that the cheapest and most cost effective way of providing the highest number of resources to the greatest number of people at the lowest possible cost is to put people in a feedlot (Hansard Extract: 4 September 2001).

(That inland population loss has been occurring on and off in some areas since the 1950s, and before, and that competition policy was introduced in 1995 may have escaped the Member's attention, as may have the fact that regional New South Wales is generally a net gainer of population from Sydney – see Hugo in Rogers and Collins 2001: 61).

The Federal Opposition initially welcomed the idea. According to Shadow Minister for Regional Services, Sue McKay:

> The launch of this study is a much needed first step on the long road we must travel to ensure the future viability of our rural, regional and remote area. I agree with the study that employment is the fundamental measure of viability of these areas ...
>
> The Enterprise Zones Study represents a vital opportunity to rethink our approach to programs which support business enterprises in rural and regional Australia. It is clear that without the business certainty Enterprise Zones will provide, industry will not be motivated to look outside metropolitan areas for development opportunities (Mackay 2001).

However, a recent speech by the Opposition spokesman on regional development, Martin Ferguson, in which he outlined guiding principles for a Labor Government, contained no mention of EZs (Ferguson 2001).

There are a number of other adherents to the concept of EZs. Everald Compton, who is leading the ongoing campaign for an inland rail link from Melbourne to Darwin, has argued that:

> A strategy is needed to enable inland industries to absorb the heavy costs caused by the tyranny of distance – but there is none in existence. Taxation concessions or incentive grants based on employment and productivity are a major part of the answer and will encourage investment away from the cities. They should be implemented as a matter of urgency. The cost of those concessions will be less than the pointless handouts which government makes to the bush just to keep them quiet and get their votes (Dubbo Daily Liberal 2001).

Without mentioning EZs specifically, Compton is, in effect, supporting their introduction. Compton goes on to accuse governments of "failing to have a plan for the balanced development of the nation":

> They have not expressed the slightest interest in either preparing or implementing such a plan. In any objective analysis of Australian history this will be recorded as a national disgrace (Dubbo Daily Liberal 2001).

Opponents and Criticisms

A number of criticisms of EZs have emerged, and at least two recent regional policy statements have failed to implement them.

The National Farmers' Federation (NFF) has launched its own tax based proposal (NFF 2001), but this relates to taxation zone allowances for individuals. This proposal was regarded by David Trebeck as a second best option to eliminating current distortions in the tax system – including the application of capital gains tax to the family home – his preferred solution. Trebeck puts the interesting argument that these distortions have led to most of the problems of under-development in regional Australia:

> But of greatest importance by far has been the cumulative effect over many years of excessive investment in tax-free residential property by the population at large, sucking otherwise productive capital out of the regions …
>
> Virtually all the present woes stem from this – depopulation, withdrawal of services and infrastructure, reduced and poorer quality job opportunities, etc (Trebeck 2001).

The NFF rejected the EZ proposal in its discussion paper. According to the paper:

> … for reasons of sound economic principles, transparency and good governance, use of the Commonwealth's tax powers should be confined to setting the broad parameters of business rather than seeking to determine what activities are worthwhile, or precise recipes of how they should be organised (NFF 2001:24).

The NFF also has a fear that:

> … in their quest to host enterprise zones of the ad hoc type proposed, States might be drawn into any number of short-sighted inducements (NFF 2001: 24).

The Australian Chamber of Commerce and Industry (ACCI) has also found fault with the proposal (ACCI 2001). The ACCI is concerned about some regions benefiting from a selective policy at the expense of other regions, and compares the EZs approach to investment bidding wars among States.

While most individual local councils in New South Wales have not stated their public support for EZs, most have refrained from criticising the idea. However, not all local councils are supportive. For example, a Hastings Council representative has been reported as expressing misgivings about EZs.

According to the Port Macquarie News:

> But Hastings Council Economic Development officer said this would be to the detriment of regional growth areas – areas where more money should be spent.
>
> He said the report was a 'genuine attempt' but the organisations had 'gone down the wrong track'. "Whether they have come up with the best solution is doubtful as far as I am concerned"…
>
> Mr Sargeant said the best method of providing economic growth in regional Australia was to support regional growth centres such as Port Macquarie, the Tweed, Byron Bay and Wagga Wagga.
>
> "These are areas that have the grunt to support the high order services, to develop the cluster of business and to produce those specialties that many of the smaller areas just can't manage."
>
> "To me the report is the wrong way around in that it supports weaker centres … propping up poorer centres when in fact their best chance of survuval is to be supported by the growth and prosperity of the regional centres" (Port Macquarie News 22 June 2001).

This is perhaps not surprising, since Port Macquarie is a growing centre (even with a high relative level of unemployment), and may see EZs, probably correctly, as being about helping inland areas (many of which, ironically, have very low rates of unemployment but which may be losing population). It is questionable whether individual local councils have considered the full ramifications of the EZ proposal on their own regions.

Gray and Lawrence also find fault with the proposal for EZs, though from a very different perspective:

> The creation of 'enterprise zones', based upon a US model, is heralded as a possible solution to Australia's regional problems … It certainly represents one means by which fiscal equalisation can be attempted. But enterprise zones are almost exclusively focused on economic growth, not sustainable

> regional development. It is as if social benefits and environmental security will flow automatically from a host of taxation breaks and investment incentives – both linked to enhanced forms of local government cooperation … We believe such an approach (a legacy of the 'old thinking' is naïve and would provide a partial solution, at best. Moreover, unless taxation law is attuned to the objectives of regional fiscal equalisation very little positive change will occur in regional Australia (Gray and Lawrence 2001: 206).

The recent statement by the Commonwealth, *Stronger Regions, A Stronger Australia*, was notable for its apparent rejection of the concept of EZs. Equally, there has been a rejection of "magic bullet" solutions to regional distress. For example, Minister John Anderson states:

> For the past fifty years, state and federal governments have been searching for the single, perfect regional development policy. Their search has been marked by a succession of grand designs … and a conviction that there is one magic solution that will repopulate the country (Anderson 2001: 2).

This is relevant because the EZ proponents typically place their support for EZs in the context that there needs to be a (grand) national strategy for regional development.

However, it should be noted that the Sustainable Regions Program ($100 million over 4 years) bears some similarity to the concept of EZs, for example its focus on declining regions and its targeting of assistance from other programs to selected regions, and the Statement also includes provision for a Regional Business Development Analysis that will examine (among other ideas) the concept of EZs proposed by the LGSA and the ICAA.

The Prime Minister is said to be another opponent of EZs. According to Morse, referring to the Anderson announcement:

> Absent from the speech, though, will be the creation of special tax zones for rural Australia, an ingredient a number of groups were hoping the National Party leadre would hinge his speech on.
>
> After an assessment from Mr Anderson's office as well as the Treasurer and the Prime Minister, it was decided that the creation of enterprise zones or rural taxation zones would force the government to "pick winners" and risked being unconstitutional.
>
> Mr Howard, in particular, was warmly opposed to the regional tax plan.
>
> The Government was reluctant to draw lines on maps granting one area preferred taxation status, while preventing its neighbour from accessing the same opportunities (The Land 23 August 2001).

Again, according to the Lithgow Mercury:

> The PM's off hand rejection of the enterprise zone concept used so successfully overseas [more on this later], shows the Coalition isn't interested

> in anything which involves an active role for government in regional development (Lithgow Mercury 7 August 2001).

(Here we have not only evidence of the Prime Minister's apparent "off-hand" rejection of the concept of EZs – as if policy makers simply give policy ideas a momnent's unreflective thought befor dismissing them – but also the tendency of some EZ supporters and observers in the regional media to equate support for EZs with regional policy virtue and opposition to EZs as the sign of a lack of government interest in regional policy).

The recent NSW Government regional development statement, *Meeting the Challenges,* does not mention the concept of EZs. And, as indicated above, the Federal Opposition has failed so far to indicate that a future Labor Government will embrace the idea.

Yet despite the fact that governments and some others have not yet taken up the cause of EZs, there are still a number of vocal supporters of EZs. The question arises, what are the merits of their arguments? Can they withstand detailed scrutiny?

First, there is a need to define what is meant by an EZ, and to outline briefly the regional policy context into which the idea of EZs has been injected.

The Regional Policy Context in Australia

There has been an emerging consensus in regional policy thinking in Australia since the 1980s, shared by most governments at both the State and Commonwealth spheres, and embraced by many regional stakeholders and regional development practitioners. If you pick up a copy of the Western Australian regional policy document launched in the late 1990s, for example, or the 1999 report of the recent South Australian Task Force on Regional Development, you will read the kinds of words that featured among many presentations at the Regional Australia Summit in 1999, and in many other recent policy pronouncements.

The current approach to regional policy in most Australian jurisdictions can be summarised by reference to the 1990 NSW Government policy statement, which saw the need for

> ... a more sophisticated and refined approach. The resulting policy will not counteract economic, social and demographic trends. The policy will instead seek to steer the trends at the margin by recognizing and reinforcing the positive growth characteristics of regions and maintaining appropriate and viable indigenous economic activity...
>
> ... The policy is not restricted to incentives alone, but seeks to influence the economic environment in a manner which makes possible commercially viable location decisions that are beneficial to non-metropolitan N.S.W. (NSW Government 1990: 1-2).

On the face of it, this would not suggest that governments are likely to be amenable to a proposal targeting declining regions and reliant on incentives.

Key Elements of the Current Policy Consensus

The current policy approach includes the following elements:

- a recognition that the role of government is increasingly one of facilitation and partnership, not of central direction;
- a focus on regional competitive advantage;
- a stronger role for communities in determining their economic futures;
- an emphasis on sustainable development;
- local solutions to local problems;
- a focus on the individual community or region as the appropriate level for policy action;
- a preference for targeted rather than open-ended regional assistance;
- a reliance on community and regional leadership to drive development; and
- a recognition that most new regional jobs are created by existing regional businesses.

Regional problems have increased in complexity, and hence the policy response has been the progressive abandonment of blanket approaches.

A key premise of current thinking about community and regional development is that, despite the increasing degree to which economic outcomes are determined by global events, local community action can make a difference. This in turn assumes that communities are capable of driving economic development - that they are equipped to handle their increasing role.

Where communities are lacking in capacity, defined to include infrastructure as well as human resources such as leadership, entrepreneurship and economic development skills, government has an important role in building that capacity. The NSW Government's own community economic development programs have certainly moved in this direction in the 1990s.

The focus on local communities and on partnership naturally has the corollary that there is an important and increasing role for local government in the economic development process. Again, this is recognised more and more in our Departmental programs, such as Main Street, the Country Centres Growth Strategy and the Regional Economic Transition Scheme.

This policy consensus was particularly apparent at the Regional Australia Summit in Canberra in 1999. It represents a clear and probably irreversible shift away from the old top-down decentralisation approaches of the 1970s.

The Greiner Government in New South Wales in 1989 abandoned payroll tax concessions for country industries on the grounds that they had proven ineffective in attracting new firms to regional areas. The Regional Business Development Scheme

(RBDS), which replaced open-ended tax concessions from 1989, has proven successful in supporting targeted firms relocating or expanding in a regional area.

The Carr Government's Approach in New South Wales

The Carr Government's approach to regional development was outlined in its 1998 Regional Directions Statement, *Rebuilding Country New South Wales*. The Government's approach is one of "strategic and targeted intervention". It has an active regional development policy and has increased markedly State Government funding of regional development. To this extent, the Government's policy seeks to meet the concerns raised by supporters of enterprise zones. As indicated, a number of the Government's programs seek similar outcomes to those sought by supporters of enterprise zones.

However, the RBDS does not assist firms according to whether their proposed location is "disadvantaged" or not, but rather according to whether the firm will contribute to a region's competitive advantage. While tax incentives form part of the RBDS package, these are not open ended, but are restricted in time and linked to performance criteria. The forms of assistance available to firms through the RBDS is also quite varied and flexible to suit the specific needs of the firm and region.

Other Government regional programs are more region-specific, for example the Hunter Advantage Fund (HAF) and the Illawarra Advantage Fund (IAF). In addition, the Government's Regional Economic Transition Scheme (RETS) has a similar approach of targeting growth in regions identified by the Government as suffering from economic shocks, but without the potential risk to investment of labeling the regions concerned as "disadvantaged". There is an irony in the support of some regions for enterprise zones, in view of the concerns regions inevitably have if they are ever described, for example, in regional profiles, as being disadvantaged. This is said to make investors wary of investing in an area that is said to be stagnating or in decline.

Towns and Local Government Areas assisted through RETS include Broken Hill, Goulburn, Gunnedah, Bombala, Balyney, Goulburn, Cootamundra, Lithgow, Kempsey, Nambucca, Cobar, Eden, and regions affected by dairy industry deregulation and abattoir closures. These are the kinds of places that could well qualify for assistance under an EZ or tax concession formula.

While existing schemes do seek to attract new outside investment to the regions concerned, there has been a substantial policy shift among most governments away from recruiting outside firms as a means of increasing regional investment. The emphasis is now much more on growing existing regional businesses. Here, incentives can still play a role.

The NSW Government has many other programs designed to make regional centres more "investment ready", such as the Main Street /Small Towns Program, Townlife Development Program, the Country Centres Growth Strategy, and the Country Lifestyles Program.

It is not simply a matter of letting the communities find their own solutions, but is rather a partnership approach. Nor have the policy changes over the last twenty years occurred in a vacuum. There has been a mixture of pragmatic incrementalism and reasoned reconsideration of past policies in the light of changing circumstances.

Policy has also changed in response to structural changes in the domestic economy, the pressures of globalisation and trends in regional areas, as well as because of new regional policy ideas and new tools, competing government priorities and new ideologies.

The NSW Government Approach – Comparison and Contrast with Enterprise Zones

A number of NSW Government regional initiatives were outlined above. While this paper has generally contrasted EZs and existing government approaches, there are also a number of similarities between the two. It should also be recognised that there is little that is new in regional development program development, and most things have been tried before, or are similar to things that have been tried before.

Similarities between EZs and existing NSW programs include the following:

- There are existing programs that target poorer regions in a manner similar to EZs, although RETS' focus is on regions that have experienced a sudden economic shock, rather than general malaise, and RETS regions are selected by the Government;

- Similarities also exist with the Hunter and Illawarra Advantage Funds, which provide assistance to specific regions experiencing economic hardship. Again, they were chosen by the Government rather than through a independent process;

- The RBDS does provide assistance to firms to relocate or to expand in a regional location, and the assistance can include payroll tax concessions. However, the assistance is selective and targeted, and is not directed to firms in particular regions. The assistance is more of a boost to the company's cash flow rather than an "incentive", though the assistance is (of course) provided with the intention of influencing the firm's location behaviour. And successive governments have claimed credit for helping create or maintain regional jobs through the Scheme;

- EZ tax incentives, like the RBDS, have benchmarks, in that tax rebates would be linked to extra employment generated. In this EZ incentives have more in common with the current approach than with earlier payroll tax concessions schemes;

- Inland regions experiencing slow decline can be assisted through existing "bottom up" community economic development programs. These are certainly an important part of the US EZ scene, and rely on community involvement and the preparation of strategic plans;

- While declining regions are assisted, growing regions are also assisted through the CCGS. Hence a balance is maintained in terms of the kinds of regions targeted.

Hence there are both similarities and differences between current approaches and that proposed by EZ adherents, that allow both the argument that many of the concerns about the regional policy approach are already being met, and there are problems with the EZ approach.

It should be noted that the Commonwealth too has similar programs to these, for example the Regional Assistance Program (RAP), through which funds are provided to regions experiencing economic problems, the Regional Solutions Program and the Recent Sustainable Regions Program.

The Case for Enterprise Zones

The case for EZs proceeds more or less as follows:

- There are widening regional disparities in Australia;
- This is primarily seen in increasing rates of unemployment in many regions;
- This will in the future impact negatively on national economic performance;
- This is likely to lead to "national disintegration";
- Australia's declining regions have been tardy to adopt the "industry-knowledge" model of industry growth;
- Moving people to jobs is not feasible;
- We must move jobs to people;
- This will have a lower cost than policies which continue to make attractive regions more so;
- Programs need to be simple and transparent;
- The United States is really interventionist;
- Among US programs EZs "show promise";
- An important part of EZs is tax incentives;
- The Commonwealth Government matches directly only 2 out of 50 US regional programs;
- The Commonwealth should introduce other US style programs to EZs;
- $2-3 billion in spending on EZs is justified;
- Much of the cost of these programs will be able to be offset against revenues (Manning 2001).

There is no doubt that the argument for EZs has some intuitive appeal. For example, the argument about the industry-knowledge model is an interesting take on how successful regions develop, and has something in common with much of the recent work on industry clusters. The assertion that "getting people off the dole" would, in the long run, save taxpayers' dollars, also has intuitive appeal. It seems that governments don't do enough, and could do more. Tax breaks for new employment seem to be a logical way to encourage investment. And there is little doubt that regional disparities have widened in Australia. It is also natural to look at overseas regional programs for guidance. And the focus on regional unemployment has much in common with mainstream regional policies.

The case for EZs is well-intentioned, and has the interests of regional Australia at heart.

The case for EZs also contains, perhaps rests on, a number of key assumptions and assertions contained in the various documents recently published. These relate both to the diagnosis of the "regional problem" and to the likely effectiveness of the proposed solution.

Briefly they are as follows:

- The market has not delivered regional development – governments should do something;
- Australia has low performing regional economies;
- There is an "... unacceptable divergence in regional unemployment rates" (Manning 2001: 36);
- Governments can control regional outcomes;
- EZs have worked overseas;
- Recent Australian government regional programs are insufficient to solve regional development problems / are ineffective;
- Local community actions are insufficient of themselves to ensure positive regional development outcomes;
- The key problem is private sector risk, and EZs will reduce risk for firms;
- Regional policy should attempt to address disparities in regional performance; and
- Tax incentives are likely to alter business location decisions.

Manning's paper starts with the need for Australia to develop what he terms a "knowledge-industry model" of economic development, which he states has largely been lacking in Australia's declining regions, and which is said to require an interventionist regional policy and, in turn, EZs (Manning 2001).

Apthorpe's argument rests on the assumption that business often needs a special reason to invest in regional areas, and that business profitability is generally lower in regional areas (Apthorpe undated).

Governments might agree that businesses sometimes need special encouragement to locate in regional areas. The NSW Government has a range of programs in place for regional investment that are not available to city firms. The objective of increasing regional investment is one that is shared by the NSW Government and supporters of EZs.

Apthorpe's argument, and proponents of EZs generally, make a connection between their concept and the level of government commitment to regional investment. In other words, a commitment to EZs is said to demonstrate a greater commitment to regional development, and countries which have EZs are said to have a greater commitment to regional development than those which don't. Proponents of EZs generally support both an increase in funding for regional development programs, and a particular mechanism (tax incentives) for providing regional development funding.

Key Elements of the Argument for Enterprise Zones

The section below discusses the argument for EZs in detail. However, it is worth expanding on some of the key points in the argument here.

Regional Disparities are Widening

A key element of the EZ argument is that regional disparities are widening among regions. This is reflected in greater unemployment and widening differences in incomes and wealth. Globalisation is exacerbating the trends. Out-population is occurring from inland regions.

According to Manning:

> The costs of regional divergence in unemployment rates have reached the point where there is a choice between intervention and national disintegration (Manning 2001: 20).

Hence there is a strong element in the argument for EZs that governments need to act urgently to reverse the growing divides.

There have been two recurring themes in regional policy debate in Australia – the battle to reverse the growth in economic dominance of primate cities, and the existence of regional disparities. Manning correctly points out that, until recently, regional disparities have not been great in Australia, and have not driven regional policy. However, there is now considerable discussion of disparities. There was an initial realisation in the 1980s that industry restructuring and recession were having different regional impacts. Far greater discussion has occurred in the 1990s, however, with regional disparities appearing on a much wider front, and more detailed analysis at a much more disagregated level.

Yet a careful reading of the various arguments for EZs reveals an appeal to each of these traditional regional policy drivers. While Manning gives due recognition to regional divergences, others such as Apthorpe tend to appeal more to notions of lack of balance between city and country. It seems clear, for example, that EZs are not meant for the cities, even though this is where they originated in the UK and the USA.

Current Policies are Ineffective and Ad Hoc

According to supporters of EZs, current Governments are simply leaving it to the regions to help themselves. Regional policy is said to be ad hoc and ill considered. Governments are said to have ignored the success of overseas programs. Economic rationalism, neo-liberal policies, and blind faith in the free market are said to drive regional policy.

As Apthorpe has argued that currently government is "... insisting that communities find their own solutions" (Apthorpe undated: 4). Present programs in this area are no more than a sprinkling of short-term competitive grants; they must be replaced by long-term serious commitments.

There can be little doubt that the push for enterprise zones is wrapped up in an argument for a fundamental shift in regional policy. This sometimes takes the form a ten year plan (or longer), a far greater commitment of taxpayer funds, a return to top down policies, and greater cohesion and coordination between the different levels of government.

More Radical Government Intervention is Necessary

According to supporters of EZs, the costs of regional divergence in unemployment rates have reached the point "... divergence of unemployment rates between Australia's regions is now too great to be countered by a policy of moving the people to the jobs. Jobs have to be moved to the people" (Sheppard 2001).

This goes to the heart of the old debate in regional development theory between convergence and divergence. On the neo-classical view, regional welfare converges over time because of the free flow of resources among regions. Labour moves to high wage areas, while capital moves to low wage areas, thereby narrowing the divisions between richer and poorer regions. On this view, presently most clearly in recent times by the then Industry Commission (1993), the proper role of regional policy is to remove impediments to regional adjustment and the free movement of resources. In other words, governments should help people to move out of poorer regions, if anything, rather than moving investment to declining regions.

Evidence of widening regional disparities tend to support a divergence theory of regional economics, and to deny the neo-classical view that regional disparities narrow over time.

Regional Australia's Business Climate is not Conducive to Industry Location

Apthorpe has put the somewhat pessimistic view that regional economies are not sufficiently attractive to industry, and has linked this to the decline of many regional areas. This is a view that is widely shared in regional areas and, to some extent, by a number of observers (see Powell 1997 and Forth in Rogers and Collins 2001).

What are the problems? There is a familiar list which includes out-migration; youth leaving; the loss of skills; out-shopping; the closure of businesses; the regionalisation of services"; the withdrawal of services altogether; and the loss of "social capital".

The ABS sums up the plight of many regional towns thus:

> People living in declining towns risk losing their savings, livelihood and support systems as they confront the break-up of their community, loss of jobs, deteriorating infrastructure and declining property values. In addition, declining towns often lose services through the closure of schools, hospitals, retail establishments and banks. Such closures have a direct impact on the

> health and well being of remaining residents, but they can also have psychological impact, with many seeing the closure of central services as signalling the "death of a town" (ABS 1998: 10).

The *State of the Regions* report published by National Economics in 1998 summed up the parlous state of many communities in rural regions:

> Rural Australia is lagging behind other regions... The population of some inland regions is declining... while others are growing very slowly... The proportion of people living in poverty is increasing. Unemployment and under-employment are high. Real incomes are declining. One of the major challenges for rural Australia is low education attainment... (National Economics 1998: 14).

Regional areas are characterised by supporters of EZs in this light, and the argument is that decline can be reversed by changing the business climate.

Enterprise Zones and More Interventionist Regional Policies are Used by Other Countries Serious about Regional Development

EZs have been used in other countries (USA, United Kingdom) to encourage regional development, often through tax based relocation incentives. They are also used for other policy objectives, such as decreasing long-term unemployment or employment of disadvantaged groups. EZs have been in operation in other countries for many years – they are not a new idea. They are based, to an extent, on the view that regional economic development will occur best if outside firms can be recruited to identified disadvantaged regions. Regions are identified as disadvantaged according to non-politically defined criteria.

The European Union (EU) is also held up by supporters of EZs as an exemplar of regional policy, although the EU does not use EZs. The similarity is its focus on distressed regions. The main difference is that the EU uses massive funds to achieve its objective. The EU, through its Structural Fund, assists lagging regions that tend to be whole countries rather than the neighbourhoods assisted through US EZs.

The supporters of EZs in Australia draw from both the US and the EU approaches.

The Case for Enterprise Zones Considered

There are a number of important problems with the case for EZs. They relate to the diagnosis of the regional problem, and the proposed solution. They involve key assumptions, logic gaps in the argument, confusions, misinterpretations, inappropriate comparisons, and inappropriate conclusions.

Philosophy: Free Markets, Intervention and Regional Development

The initial assumption of proponents of EZs, and indeed of many others who accept the need for greater government intervention in regional development, is that the mere existence of regional disparities is sufficient argument for that intervention. It is sometimes argued that regional disparities are a case of "market failure" (See Western Research Institute 2000: 10).

Yet markets are inherently open processes where resources (capital, labour, human) move around freely. Development is typically "lumpy" and inequalities are accepted as normal.

Local and regional economies have a number of characteristics which help determine growth drivers and also place constraints on growth. These include the following:

- regional economies are open, with growth and decline influenced by a wide range of internal as well as external factors;
- there is a high degree of interdependence between the different local and regional economies;
- local economic outcomes are largely determined by the operation of the market;
- history and geography, including the existing settlement pattern, provide constraints on local and regional economic performance;
- in a market economy, it is inevitable that growth will not be evenly distributed;
- migration of resources between regions is inevitable; and
- some towns are particularly advantaged by location, either through access to markets, raw materials and infrastructure; or through amenity (Source Jensen, Community Economic Analysis modules).

Hence disparities are no so much evidence of market failure as of market success, of the capacity of markets to allow resources to move to their most productive use. Those who support greater intervention in regional development often talk of "market failure". Yet this often reflects a lack of understanding of the relationship between the space economy and the functioning of markets, and of what markets can and should achieve.

According to the Standing Committee on State Development:

> ... it is important that regional interests recognise that government, in addressing market failure, can only play a limited role. Moreover, not all the problems identified by the Committee in regional New South Wales are indications that the market has failed. The market cannot guarantee equality of outcomes across regions. After all, examples of economic difficulty in the regions may be the result of the market having worked, rather than failed (Legislative Council Standing Committee on State Development 1994: 90).

The conclusion that the problems of regions are a result of market failure can lead to the erroneous conclusion that those same regional problems can be solved by substantial intervention.

It is true that most contemporary governments accept the importance of markets in spatial development. For example, the Standing Committee on State Development (a bi-partisan Parliamentary Committee) in the early 1990s stated that:

> … government action in regional development must be market-enhancing, not market distorting. The goal of creating sustainable development requires this (Legislative Council Standing Committee on State Development 1994: 89).

There is a conviction contained in this view, not that markets will necessarily deliver equality, or the kind of growth that will make all regions prosper, but rather that regional prosperity in the long term can <u>only be based</u> on market-driven growth. (Whether EZs are likely to be market distorting is discussed later).

Allowing the smooth functioning of markets is increasingly often reduced to the epithet of "economic rationalism", which is often blamed for the "plight" of regional Australia. It is as if governments, either in concert or sequentially, have set out to denude regional Australia of resources and capacity, while throwing them a few miserable program scraps to convince them that they (governments) are "listening".

In fact, the reality is that governments gave up certain policy objectives and policy instruments, and took up new objectives and instruments, for a variety of reasons. One of them was the perceived "government failure" of earlier interventions. The reasons why governments changed direction partly explained by one of the key regional policy developers of the last twenty years:

> … centralist and interventionist approaches to regional development policy formulation are no longer directly relevant or appropriate in Australia. They are no longer appropriate to shape the process affecting regional economies except as simple compensation. However, as purely compensatory measures they are now unaffordable and in many cases poorly targeted. Most significantly they can inhibit the structural change that is essential for a regional economy and hence the national economy, to remain viable. Interventionist policies have also tended to create a welfare mentality in regional areas with communities both encouraged to expect external, or central government solutions to every local manifestation of structural change, More importantly, interventionist regional policies deny the significance of local capacities to cope with change, to overcome impediments to adjustment that have been allowed to build up locally, to realise local opportunities for economic regeneration and to develop strategies to achieve these ends (Taylor and Garlick in Higgins and Zagorski 1989: 84).

Hence the rejection of either policies that have failed in the past or of policies seen as inappropriate to Australia today is just as important, or more important, in the rejection of interventionism of the kind favoured by EZ supporters as is an unfettered belief that free markets will deliver satisfactory outcomes to all regions.

Support for markets in the regional development context means that there must be a business case for firm location, and this has far reaching consequences for policy development. As Taylor and Garlick suggest, regional development is about more than merely "compensation".

Accepting the key role of the market in regional development, and the belief that, ultimately, only markets can really deliver economically sustainable development, need not entail the conclusion that government actions are never warranted. But is does mean that government intervention should be of a particular kind, should be limited, and should be confined to actions that do not distort markets.

Part of the "government cannot solve all the problems" position is that there are now a number of players in regional development, with different roles and capacities. This is the "partnership" approach favoured by government, and apparently dismissed by EZ supporters as evidence that governments have left it all to the communities themselves.

Yet as Hugonnier points out:

> One important aspect of the new policies is the increase in the number of players and of partnership agreements between them. Regional policy is indeed no longer the sole privilege of central government (Hugonnier 1999: 13).

Devolution has been the way in Europe. Whether there has been sufficient devolution of powers in Australia is another question, with regional bodies often inadequately resourced and lacking real power to make decisions and to implement strategic actions.

A related philosophical question is whether government should have a role in selecting where economic development should occur. It might be argued that EZs select themselves – government doesn't select them. But for EZs to exist, government must have decided that certain types of region should be encouraged to have economic development, at the expense of encouraging others. This, of course, amounts to governments deciding where development is to occur, and flies in the face of allowing markets to determine where development occurs.

Should governments have to make this kind of decision and this kind of distinction? Is there any basis on such a judgement could be made? One argument for helping less well-off regions relates to equity. Is equity a better motivating force for regional development than, say, economic efficiency?

Whether governments should assist growing regions more or declining regions more is discussed below.

Confusion in the Diagnosis of the Problem

There are two assumptions about the regional problem contained in the EZ case – firstly, that regional areas are in decline in comparison to the cities, and that the reason that businesses won't invest in regional areas is that such an investment would be too risky and not profitable.

Is Regional Australia in Decline?

There is a confusion at the heart of the EZs case about whether regional Australia is in decline, which regions are in decline, and which regions should be helped by EZs.

An important part of the case for EZs is that regional areas are in decline while economic growth has been occurring in the cities.

As Apthorpe has stated:

> The 'free market' and economic rationalism have given the regions what they have today – low performing economies (Apthorpe undated: 3).

Is it the case that regional economies are "low performing"? Are they all "low performing"? By what measure?

A number of recent studies have sought to measure the city-country divide. The Productivity Commission reached the following conclusions about regional disadvantage:

- most of remote Australia has some degree of socio-economic disadvantage;
- the majority of rural Australia is close to the national average;
- some NSW coastal regions have a high level of relative disadvantage;
- in relation to income, most country areas are below the national average, while most capital cities are above the national average, and incomes in most regions declined relative to the national average between 1981 and 1996;
- in relation to education, 15% of city people had an undergraduate degree, while the figure was 8% in the country;
- there was more home ownership in rural areas;
- country people had higher mortality rates; and
- in relation to income support, 29% of people were on income support in regional towns, with 21% in the cities (Productivity Commission 1999).

Both politicians and academics have recognised that regional Australia is no longer undifferentiated, if this was ever the case.

Anderson states:

> This search for the perfect policy has been fruitless – and for a very good reason. It is predicated on the belief that regional Australia is homogenous, and regional Australia is anything but homogenous…
>
> Many areas are doing well, others are starting to come good (Anderson 2001: 2,3).

Or as Roy Powell has pointed out:

> Not so many years ago country towns were subject to general trends. They would all do well or all do badly. The picture is now very uneven (Powell in Derriman 1999:1).

Sorensen also draws attention to the fact that many regions are doing well:

> Undoubtedly, many parts of regional Australia are disadvantaged compared with metropolitan areas but the picture conventionally portrayed is flawed. In practice, conditions are spatially diverse. Some remoter areas and those lying off major transport routes lag on many conventional indicators of well-being like income, employment, activity rates and access to services. Yet many areas experience good access to services, strong social institutions that enable communities to manage change effectively, high quality living environments, interesting and well-paid jobs and excellent lifestyles (Sorensen 2000: 3).

A recent survey of unemployment rates across LGAs suggests both that many regions have experienced recent declines in unemployment, and that many non-metropolitan (particularly inland) regions have very low unemployment levels (Department of Employment, Workplace Relations and Small Business 2001).

Undoubtedly both governments and regional Australia "optimists" (any town can make it if only it has passion) both have an interest in dwelling on the success stories – the Coolahs and the Hydens – rather than on the basket cases of regional Australia. But the success stories are there – both individual enterprises and regional communities, and they are not all on the coast, and they are not all in larger regional centres, and they are not all in peri-urban areas. And they are not necessarily the exception that proves the fact of general regional decline. There are even some in the wheat-sheep belt.

Stimson, among others, has questioned the focus of current policy (something that is shared to some extent by proponents of EZs such as Manning's colleagues at National Economics) on the "city-bush" dichotomy, and on "Rural and Regional Australia" (RaRA).

As Stimson argues:

> … our society is dividing on multiple dimensions – including shifts in industry and occupational structure, income distribution, the incidence of poverty. … the differentiations across space in socio-economic phenomena also have complex multiple dimensions, which are explained inadequately by a 'city/bush' dichotomy popularly espoused by politicians and reported in the media (Stimson 2001: 198).

Hugonnier confirms that differentiation and the breakdown of the city-country divide has been an OECD country wide phenomenon:

> OECD's investigations have shown that this division reflects less and less the traditional dichotomy between urban and rural areas. Performances are varying widely in all types of regions. As is the case with urban areas, wide

> differences in income and employment capacity are found between prosperous and lagging rural areas in Member countries.
>
> ... These new patterns of population settlement, relationships between urban and rural areas and rural diversification are leading public authorities to rethink their policies (Hugonnier 1999: 1).

Mark Latham MP among others has questioned the focus on "RaRA". He has pointed out that his own constituents in outer Sydney are among the most disadvantaged in terms of jobs, wealth and access to services. As Latham states:

> A new chant can be heard across Australian politics, a mantra for every MP in front of a microphone. It is called "rural and regional Australia" ... This campaign, however, is based more on perception than reality. The most disadvantaged and powerless Australians do not live in the bush. They live in the outer suburbs of our major cities. Suburban Australia has become the forgotten part of our national debate (Daily Telegraph: 5 March 2001).

There is also the question of whether under-performing regions should expect the same level of services as are available in the city (see Cameron in Grattan 2000).

The case for EZs, to the extent that it rests on the view (as clearly expressed by Apthorpe) that regional economies are not well served by "the market", is diminished by the fact that regional economies are dynamic and many are successful.

Regional conditions not only vary over space, but also over time. Economic shocks and natural disasters can have sudden and immediately felt impacts on regions, just as economic conditions can improve markedly in a short space of time. Witness the recent turn around in commodity prices that have led to buoyant on-farm prospects.

What does all this mean for the argument for EZs? The case for EZs is built largely on recognition of and concern about regional decline. It turns out that many regions are not in decline, and that regional Australia generally is not in decline.

Are Regional Disparities Widening to the Point Where Further Intervention is Required?

There is a premise in the EZs argument that regional divergence generally, and the amount of regional divergence in Australia at the moment, is unacceptable. This premise is assumed rather than argued.

A variation of the argument that regional Australia is in decline, and therefore needing interventionist policies such as EZs, is that regional disparities have widened to the point where serious government action is required. Have regional disparities widened to this extent? There is considerable debate over this question.

There is a considerable literature on widening disparities, and this has become part of the conventional wisdom on regional Australia. I have discussed this question and the literature elsewhere (Collits 2001: 38).

Walmsley and Weinand suggest that:

> There are two main views in the contemporary debate about inequality in Australia. The first argues that it is increasing and is a cause of concern; while the second acknowledges that it is probably increasing, but contends that it is not a cause for concern because the level of inequality is low by international standards and, in any case, might be remedies by high levels of intergenerational mobility. The present study has shown that both views oversimplify reality. Society is not polarising but rather is becoming more differentiated ... In other words, change is multidimensional, not unidimensional. In policy terms, addressing increasing differentiation is more challenging than addressing increasing income inequality. Nevertheless, the way forward is to be found in regional policy that acknowledges diversity by empowering local initiative (Walmsley and Weinand 1997: 87).

Lloyd et al demonstrate substantial differences in income between capital cities and other regions, with these divergences growing (Lloyd et al 2000).

An examination of recent labour force statistics does not give quite the cause for alarm of widening regional disparities that is suggested by those who argue for greater intervention in regional policy. June Quarter 2001 Labour Force data show that Australia had an unemployment rate of 6.8%. Metropolitan Australia was 6.4%, non-metropolitan Australia was 7.5%. Sydney was 5.1%, and the balance of New South Wales 7.0%. This is hardly the stuff of "national disintegration", especially given the massive advantages of agglomeration economies that cities have, particularly a global city such as Sydney in the afterglow (and, admittedly, the slowdown) of the Olympics.

Hence the city-country divide seems not to be a major concern on these unemployment figures. What about cross-regional disparities? The Hunter's unemployment figure was 9.9%, still reflecting the post-BHP decision effects, the Illawarra/ South East was 5.9, well below the national average. This region includes high unemployment areas such as Eurobodalla and the supposedly struggling old economy city of Wollongong. The North/Far West/Central West regions, incorporating the declining wheat-sheep belt regions, has an unemployment rate of 4.7% - lower than Sydney's. The Murray/Murrumbidgee's rate was 5.6%, again better than the national figure. Richmond-Tweed/ Mid North Coast had an unemployment rate of 8.2%. These regions, of course, "suffer" from considerable in-migration, the "sea change" factor (Salt 2001), and considerable "voluntary unemlpyment". Not many would suggest that Byron Bay's unemployment rate of 18% relects massive decline.

Again, does this suggest "national disintegration"?

What about looking at unemployment across local government areas, and the changes over the last 12 months?

As would be expected, there are considerable variations, and some surprises. Bombala's unemployment fell from 9.5% to 5.7%. Boorowa fell from 11.3% to

6.6%. Cessnock grew from 12.2% to 14.2%, a very high figure and cause for policy concern. (Singleton, a mere 30 kilometres away, had an unemployment rate of 3%). Eurobodalla fell from 17.3% to 13.5%. Centres like Grafton and Taree hovered around the 10% mark, with Coffs Harbour at around 12% and Kempsey at around 13% fairly steady.

Many inland places had very low levels of unemployment, suggesting perhaps that unemployment need not be only or the best indicator of decline. For example, Orange had 4.1%, Tumut 5.6%, Murrurundi 4.8%, Moree 6.4% (with a large indigenous population), Tamworth 5.4%, Rylstone 3.9%, Parkes 4.8%, Cowra 4.3%, Armidale 4.6% (down from 6.2% over 12 months). Coastal locations were generally far higher. Inland regions may be exporting their unemployment (DEWRSB 2001).

A number of LGAs improved their unemployment position substantially over a short period, suggesting that changes in regional performance can be volatile, and can be assisted by market or policy induced effects over a short space of time. This also suggests that a policy of signing up distressed regions for tax breaks for fifteen years on the basis of high unemployment figures might be using a sledgehammer to kill a fly.

It may be objected that these figures mask hidden unemployment and under employment on a number of grounds, yet would more complete figures necessarily alter the cross-regional comparisons?

A number of questions are raised by these figures, and these will be considered further later in the paper. It is sufficient to note here that, rather than embedded and worsening disparities, there are many regional areas with low unemployment, and a few with very high unemployment, perhaps caused by very specific factors that require very specific stimuli over a short period of time. Changes can occur quickly in regional conditions, both for better and for worse. Again, this would suggest a strategic rather than a broad brush approach.

Specific Causes of Regional Decline in Australia

An interesting question, in relation to explanations of regional decline, is whether EZs would have helped to stem the drivers of regional decline in Australia over the past twenty years.

The Australian Bankers' Association (ABA) has identified a number of common denominators among towns that have experienced at least 20% population loss since 1976. They included the following:

- based on a depleted local mineral resource;
- based on local manufacturing in which advances in production methods have reduced the scale of the workforce required;
- based on a manufacturing activity that is no longer required in the local region;
- located in the wheat-sheep belt where there are natural economies of scale that have encouraged farm aggregation;

- located within a convenient drive time of a provincial city which offers services, employment and education and training;
- mining operations that have switched to fly-in fly-out operations;
- located within a broader urban area which has experienced ageing of the local community or changing land use; and
- physically isolated from the main highway systems and formerly based on timber milling, small scale farming or with a narrow sphere of economic influence over its immediate region (ABA quoted in Collits 2001: 44-45; ABA 1998: 25-26).

The ABA study identifies a number of the economic drivers of decline among those centres that have fared worst in the last twenty years, highlighting the difficulties that many towns face. Many of these drivers are external to the region concerned and underline the size of the local development challenge.

Would EZs have prevented any or many of these trends from occurring? I cannot see it.

The Inevitability of Decline in Some Regional Areas – Is Economic Rationalism to Blame?

A number of writers have assumed the long term decline of some, perhaps many, regional areas. This is part of the argument by supporters of EZs, yet they have not fully comprehended the causes of decline.

Australia's settlement pattern and geography – the dry climate, poor soils in marginal areas, small population, large land mass, the existence of the Great Dividing Range, and the absence of navigable inland rivers – have shaped the current position of smaller regional communities, and have placed inevitable and major constraints on growth.

According to Don Aitkin, "... to the historian, the geographer, and economist, the fate of country towns was almost pre-ordained" (Aitkin 1972: 11).

Similarly, Gordon Forth Forth has argued that there are many (not all) towns with fewer than 4 000 people which are beyond assistance, and for whom sustainable economic development is not possible (Forth in Rogers and Collins 2001).

And Michael Egan has stated:

> I believe in the merits of great cities. Sydney will always be dominant. Little towns are going to find it increasingly difficult to survive unless they become suburbs of larger centres, but that's history (Egan in McGregor 1999).

On this view, it is not likely that mere government incentives will make a difference to the major economic trends and demographic shifts occurring, for example the long-standing but increasing preference of Australian's to live on the coast; the ongoing farm rationalisation, and the opening of the Australian economy to the forces of globalisation.

A number of points can be made about regional decline and its causes:

- the decline of many towns pre-dated globalisation, and has had little directly to do with the recent growth of cities that has resulted from globalistion;

- the decline of agriculture (in terms of its contribution to the overall economy) has been an important cause of regional town decline – (according to Butler and Mandeville, "Almost without exception, the predominant reason for the existence of the country town in Australia is the servicing of primary industry activity such as agriculture, fishing, forestry or mining in the surrounding area. Such small country towns, dependent as they are on servicing agriculture, are likely to continue to wane as agriculture declines further in importance in the national economy"; Butler and Mandeville 1981: 55);

- the decline of many regional towns also pre-dated recent government policies often described as "neo-liberalism" or the much derided economic rationalism;

- the improvements in transport and desire of people for a greater range of products and services typically available in larger places has meant a decline of smaller towns (see Collits 2001)

- much of the regional out-migration has been of retiring farmers and others moving to the coast, along with a considerable number of city people; and

- many areas of marginal land in inland regions are increasingly subject to decline as a result of severe environmental constraints, as formerly accepted harmful farm practices and ill-conceived water allocation policies are increasingly challenged by more stringent environmental regulation – ironically, it is greater regulation and not deregulation here that is placing limits on economic development – in the name of ecologically sustainable development. This will only cause greater roadblocks to regional development in the future.

These are large forces and long term trends that largely have occurred prior to the recent policy fashions – competition policy is a favourite bete noir – and hence the assumed linkage in the minds of EZs supporters and those who favour greater intervention between regional decline and economic rationalism does not stand up.

These forces underlying regional development in Australia provide powerful constraints on the actions of both governments and communities. They cannot be wished away, and must be factored into any regional policy approach. They also place the recent obsession with economic rationalism – which underlies much of the support for EZs and the demand for interventionist policies – in a more realistic context.

Which Regions Are We Talking About?

Armstrong and Taylor have pointed out the importance of defining regional policy objectives:

> The importance of specifying precise objectives for the selection of policy instruments is obvious: different goals require different types of policies for their achievement. Similarly, it is impossible to estimate how effective regional policies have been, or will be, unless it is clear what they are designed to achieve. Without clarifying the objectives of regional policy, evaluation degenerates into measuring the effects of regional policy rather than measuring the effectiveness – and there is a world of difference between the two (Armstrong and Taylor 1993: 216).

Are the objectives of EZs clearly spelt out? There is a difficulty for the EZs argument to the extent that is never made entirely clear whether EZs are really about helping declining inland regions, or regions with high unemployment, or all non-metropolitan regions generally.

It was noted above that support for EZs has come from a number of better-off regions and LGAs, such as Cowra, Parkes and Armidale. These are not the high areas of unemployment that the Manning paper focuses on. If these kinds of regions need the level of assistance provided by EZs, then how much of regional Australia would not be declared as EZs?

There is also some confusion about whether the concept of EZs is about helping poorer regions, or "regional" (that is, non-metropolitan) Australia generally. Most support for EZs has come from regional areas, and I believe that EZ supporters think that it is non-metropolitan areas to which the bulk of the assistance will be provided.

The view that support for EZs is simply a new version of the old balanced development position is strengthened by recently reported comments by the Mayor of Armidale-Dumaresq:

> Mayor Brian Chetwynd ... reckons dividing Australia up into geographical zones based on economic factors would help replenish regional and rural Australia – so long the poor cousin of the Sydney-Melbourne-Brisbane octopus (Armidale Express 10 August 2001).

Such a perception is also strengthened by a comment by the LGSA:

> Australians living in regional Australia should also have a choice other than to join the headlong rush to the already congested urban areas, with all the accompanying strains on housing and infrastructure resources that entails (LGSA 2001: 11).

Moreover, the support base for EZs is largely located in inland regions. But on the unemployment criterion generally favoured by Manning, it is largely coastal regions that would be declared EZs.

Such a conclusion is not clear from Manning's study, however. National Economics has long railed against the focus of recent regional policy on non-metropolitan areas, correctly pointing out, along with Latham, that areas of Sydney and other cities are facing difficulties too.

Yet the evidence above suggests that regional differentiation is common to both urban and rural areas.

There is clearly a tension within the EZ support movement over whether government assistance should be directed to "regional Australia" or to problem regions. The evidence above suggests that much of regional Australia do not necessarily consist of problem regions. If the case for EZs rests on the claim that regional Australia is in decline, then it cannot be supported due to the substantial evidence that much of regional Australia is far from being in decline. The existence of problem regions within metropolitan areas suggests that EZs should also be applied in the cities where high unemployment levels exist.

Is Regional Investment "Risky" and is this the Regional Problem?

Apthorpe has been reported as stating:

> An enterprise zone aims to change the way we rejuvenate economically distressed regions by focussing on things that make that area attractive for private business.
>
> What we are suggesting is that in the past there has been plenty of strategies (sic) for regional development but no mechanisms to initiate the strategies, attract private enterprise and create jobs (Central West Daily 3 April 2001).

Yet it is not clear what the problem is that is being addressed in the case for EZs. For example, the LGSA in its "Questions and Answers" document seems to be arguing both that the aim of the exercise is to reduce business risk, while at the same time the emphasis is said to be on growing existing businesses. Yet surely for these existing regional businesses, the problem is not the risk inherent in a regional location – they are already there! Any risk would necessarily be linked to other factors in growth.

In any case, two questions arise – do businesses in fact regard regional location as inherently risky? And, are they right to do so?

Risk might be thought of as referring to the risk of relocating to a regional location, or of an existing business expanding in a regional location.

One of the long argued positions of country lobby groups is that business costs are higher in regional locations, and that regional businesses should therefore be compensated for these higher costs in order to encourage more firms to locate in the regions. While this argument is not explicitly stated in the EZ case, it may well be inherent in the risks argument for EZs.

Again, the case for special assistance to compensate for higher costs is shaky. Elsewhere I have concluded that:

> The evidence over many years has been at best mixed ... Often the positives of country location are hard to measure. And there are limits to what relative

> cost studies can show in view of the complexities of business competition in the 1990s (Collits 1995: 19).

Hence, notwithstanding the acknowledged agglomeration economies available to city firms, it may be very difficult ever to prove that regional costs are generally higher than city costs of doing business. Hence to the extent that "risk" means "higher costs" in the case for EZs, the argument collapses.

Perhaps it is the perception of higher risk for regional investors that is the problem, rather than higher real risk. If this is the case, then policies to improve information flows in relation to regional investment opportunities would be more in order than policies designed to reduce risk.

Programs in New South Wales such as the Country Lifestyles Program and Regional Business Investment tours adopt this approach.

If the focus is to be on growing existing regional businesses, a more profitable approach than simply reducing the costs of regional firms (through incentives) might be to investigate the reasons why regional firms don't grow bigger. Is it because it is too costly? Or too risky? It is possible that the "risk" of expanding has nothing to do with location, but with the firm's business and its markets. Perhaps many firms aren't interested in growing bigger.

Firm growth and contraction, of course, is closely related to national economic conditions, the general business climate, the level of interest rates, inflation and the cost of labour. Perhaps a lack of entrepreneurship of many firms in regional areas is the problem. Lack of growth may be influenced by paucity of local services, or business inputs, but this is unlikely. The key to growth may be in increasing exports (basic industries) to increase the amount of money coming into the region. Attacking these problems would require a far more sophisticated approach that simply offering cash incentives to grow.

According to Ali et al, there are a number of characteristics common to growth businesses. These include characteristics of smart business operators – having an entrepreneurial outlook; in search of innovation; attuned to the market; understanding the industry – and characteristics of good business practices – encouraging staff; recognising that planning is important; being involved in a network; knowing the financial picture; and having good relations with customers (Ali et al 2001: 7-8).

These are internal to the firm and are good indicators of those businesses that are likely to grow. Any government program intent on growing businesses needs to comprehend such firm dynamics and recognise that it is these factors that drive business growth, far more so that inducements from government. Identifying growth prospects must be an important component of regional strategies, and to ignore this, as the EZ approach does, is to miss the key drivers of regional growth.

A business survey some years ago established that around 95 per cent of regional firms saw their markets as being local (Wellington Times 1996). Perhaps this is the problem. McKinsey (1994a and b) examined the reasons why regional businesses did not invest more. Constraints on investment were, in descending order:

- lack of sales or demand (71%)
- high on-costs (28%)
- workforce has insufficient skills, flexibility, motivation (22%)
- lack of new products, markets or exports (21%)
- access to finance (18%)
- insufficient profitability (12%)
- lack of confidence (8%)
- high cost of suppliers/overheads (7%)
- red tape (5%)
- high interest rates (5%)
- excessive competition (4%)
- high wages (4%)
- poor infrastructure (3%)
- poor equipment (3%)
- inappropriate management skills/attitudes (2%) (McKinsey 1994: 13a).

Combining the McKinsey survey results with the fact that around 95% of regional firms saw their markets as local makes sobering reading for many regional areas, confirming that a lack of scale is the key problem for most regional economies and that agglomeration economies are enormously difficult to overcome.

The strategies seen by McKinsey as being most appropriate to stimulating the demand necessary to increase regional investment were:

- increasing population;
- increasing international exports;
- increasing import substitution;
- increasing inter-regional trade; and
- increasing business and consumer confidence (McKinsey 1994: 15).

Helping Places Versus Solving Problems

There is a further philosophical difference between current policy approaches and supporters of EZs. The former approach emphasises the need to discover the reasons why some places prosper while others do not, then to direct resources either to ameliorating barriers to growth or to strengthening even further existing success factors. This approach seeks to address the causes of the regional problems that are affecting growth, to the extent possible.

The latter approach is to select certain specific locations based on comparative measures, then to direct growth to these locations. This approach is based on outcomes, that is, on the manifestations of regional problems, though not necessarily on their causes. Hence a problem area simply receives more investment, and this is meant to solve the problem.

An approach that seeks to address regional problem directly – the causes or regional decline rather than the manifestations – might select a number of areas. These tend to be the true "market failures", those areas where it is not profitable for markets to provide solutions, or where there has been an information failure, for example. Such problems include:

- encouragement of regional leadership;
- assistance for regional firms to access finance;
- export assistance for firms;
- assistance in new market expansion;
- helping farmers find more profitable forms of agriculture;
- encouraging youth to remain in, or return to, regional areas;
- lack of regional infrastructure;
- helping improve business planning in firms;
- fostering entrepreneurship.

Existing government programs seek to do a number of these things, more or less well. Such an approach might seek to determine the reasons firms are not expanding in regional areas, assessing the nature of the risks encountered, and so on. Answers to these questions are generally well known, but more information may come to light as a result of the Commonwealth's recent proposal for a Regional Business Development Analysis.

As Hugonnier has pointed out:

> … the need to focus less on individual firms and more on the business environment is fully recognised by policy makers. Indirect aid is an appropriate way to influence local and regional framework for competitiveness (Hugonnier 1999: 13).

Hence while the problems might be faced by firms, it need not follow that the solutions are best provided through assistance to individual firms in the form of incentives.

Government Action Can Deliver Regional Prosperity

Former Secretary to the Commonwealth Treasury John Stone once advised, in relation to a debate over possible government actions on some policy issue: "Don't just do something. Stand there".

Supporters of EZs look to government for solutions to regional problems, even though the claimed focus of their approach is the private sector. It is government that is to be the driver of the incentives that will get the private sector investing. There is a conviction contained in the EZ approach that government can, for example, shape location decisions.

One of the most important, and most contestable, assumptions contained in the EZ argument is that governments have the capacity to alter regional development outcomes in significant ways. Clearly, supporters of EZs think that they would make a big difference – they "offer real hope to regional Australia" (Apthorpe undated: 4).

The EZ rests on the view that governments are currently "lacking leadership" by not following those governments overseas that have spent greater amounts of money on regional development, or have intervened more deeply.

This reflects many of the old balanced development arguments that it is not the tools for regional development that are lacking, but rather the political will of governments.

Yet what governments should do in regional development rests at least partly on what they can do.

There are a large number of constraints upon governments' capacity to shape the space economy. These include the following:

- history and geography;
- the existing settlement pattern;
- the market – the choices of investors as to where they invest, and the choices of businesses and households as to where they locate;
- the actions of other levels of government;
- policy drivers in other areas of government administration;
- fiscal constraints;
- globalisation and industry restructuring; and
- the availability of local resources to drive development at the community level, eg leadership, local financial support for development initiatives, lack of cooperation among key stakeholders.

Sorensen (2000) has argued cogently that of the many regional processes that drive economic performance, governments (at any level) have relatively little power to control, or even in some cases, to influence them.

Sorensen's list of regional development drivers includes the following:

- Biophysical resource endowment;
- Geographical accessibility;
- Human and social capital;
- Demography;
- Changing lifestyle preferences;
- Space transforming technologies;
- New production technologies;
- Expenditure on public infrastructure;
- Business management and development; and
- International events (Sorensen 2000: 19).

Sorensen finds, perhaps unsurprisingly, that governments exert little control, or even influence, over most of these regional drivers.

Peter Ellyard recently said that globalisation had "disempowered" governments (Ellyard 2000: 16). By this he meant that recent trends towards more open market economies, driven by technological as well as policy change and resulting in dramatic industry restructuring, had made it harder for governments to control economic outcomes.

In other words, the drivers of regional development are now increasingly local and global, not State and national.

Sorensen has gone as far as stating that minor shifts in the value of the Australian currency will have more impact on regional Australia than all the government programs of the last decade put together (Sorensen in Sorensen and Epps 1993: 226). This may be overstating things, but he has a point.

The recent *Stronger Regions, Stronger Australia* statement by the Commonwealth reflects this view, regarding the challenges faced by regions as "... largely beyond the control of Australian governments" (Anderson 2001: 1).

The Lack of Effectiveness of Tax Based Incentives in Determining Industry Location

Most enterprise zone proposals generally revolve around the use of tax incentives of various kinds. While EZs could be constructed around other forms of regional assistance than tax concessions to businesses locating in the zone, this does not often occur, and the current proposal certainly has tax breaks as a key element of the assistance on offer.

Do tax incentives actually work in attracting businesses to the are nominated for the incentives?

All the available evidence suggests that government incentives are generally not significant in driving business location decisions.

The Demise of Open Ended Payroll Tax Concessions in Australia

Tax concessions have actually been tried in Australia before at State level. In most States in the 1980s, governments offered complete payroll tax rebates to firms locating in regional areas. What is the evidence for their success?

All State Governments across Australia, however, did away with open-ended tax breaks (payroll tax concessions) for regional areas, largely because they did not work. They were not successful in attracting new firms to regional areas in sufficient numbers to warrant the cost to taxpayers. They were simply rewarding firms already there. Only a handful of firms had actually relocated in the late 1980s, according to analysis by the NSW Treasury and the Department of Business and Consumer Affairs (internal NSW Government analysis).

Previous attempts to influence location and investment decisions through tax concessions, including in New South Wales, have not generally achieved their objectives; other States, as well as New South Wales, moved in the 1980s to dispense with payroll tax concessions. While it has been argued that tax concessions in the

1980s helped retain existing jobs in regional areas, analyses undertaken at the time suggested strongly that the old payroll tax concessions was not a sufficient incentive to create new employment.

This was a case of "government failure" rather than market failure.

The targeted approach has been found to be more effective, though limited tax breaks do have a place within the context of this approach.

Current government thinking correctly stresses the need for a business case to be made out before regional development assistance is forthcoming.

It might be argued that the payroll tax concessions were simply insufficient as incentives for industry relocation to regional areas. However, the concessions on offer were generous, and cost the NSW Government of the day as much as $18 million per year in 1990 dollars (Legislative Council Standing Committee on State Development 1991: 6; the total amount of assistance provided under the Country Industries Payroll Tax Concessions Scheme from 1977 to 1990 was $173.6 million). They were open-ended, and in the case of some large regional firms, amounted to a windfall gain of over $1 million per year.

It might also be argued that EZs would offer better and greater incentives in that they would be better targeted to expanding firms. Yet it is difficult to see how a marginal decrease in a firm's tax burden would offer the kind of incentive that would make a difference to a firm's decision making.

There are many factors involved in business decision-making. While "naturally occurring industries" such as mining and some processing activities, as well as farm enterprises, more or less have to locate where they do, there are many "footloose" industries which can locate where they choose, generally constrained by the desire to minimise their costs and maximise their profits.

Both theory and empirical studies are instructive about business location decisions.

Do EZs Take Adequate Account of Location Theory and Explanations of Regional Growth and Decline?

Butler and Mandeville have argued that:

> Before we can consider ways in which economic activity can be encouraged in depressed regions, we need to understand the main factors that affect the location of business and industry (Butler and Mandeville 1981: 67).

Advocacy of EZs challenges the very basis of much location and regional economic theory.

Regional economic theory attempts to explain differences in regional growth rates, the causes of decline and the nature of the settlement pattern, and therefore sheds some light on the ongoing economic difficulties of small towns. Theories help explain the limitations on growth in regions and the structure of industries in regions.

First, location theory from the times of Von Thunen and Hotelling explains why businesses choose to locate in certain areas. These theories focus on least cost models, market area models and profit maximising models. A wide range of factors determines business location decisions, including access to raw materials, labour, skills, support services and markets. Traditionally, transport costs have been important for some industry sectors. Locations seek to attract businesses for obvious reasons – they create direct jobs, as well as two kinds of indirect jobs ("multipliers"). These are jobs created by the existence of suppliers and service industries, and jobs created by the consumption needs of employees.

According to BIS Shrapnel:

> Investment location decisions are based on considerations such as:
>
> - What is the size of the local market for the end product?
> - Are there other significant markets nearby?
> - What does it cost to produce the end product there?
> - How easy is it to obtain the necessary inputs for production?
> - How easy is it to ship finished product from the location to other nearby markets?
>
> When a full investment feasibility analysis is conducted on a particular investment project, it is often the case that there are only one or two viable locations from which the project is feasible. In this situation, Government incentives will have very little impact on the decision (BIS Shrapnel 1989: Executive Summary).

Second, agglomeration economies drive businesses to locate in proximity to one another, and the benefits of agglomeration economies are generally felt most in cities. Agglomeration economies have helped to explain the growth of larger centres since the time of Alfred Marshall. Businesses receive both internal cost benefits and shared benefits by proximity to other firms, through both 'localisation' and 'urbanisation' economies.

Third, the theory of growth poles holds that economic development is "lumpy", or occurs unevenly across space. There are positive benefits of growth to regions surrounding growth "nodes" (so-called "spread" effects) as well as negative effects (so-called "backwash" effects). It is the latter that characterise the phenomenon now known as "sponge cities", where growth is sucked away from smaller centres by the growth of larger centres (see Collits and Gastin 1997).

Fourth, central place theory holds that the growth of a region or town relates to the demand for goods and services of its hinterland. Growth is therefore a function of size and income levels within the region. Generally the theory sees a hierarchy of "central places", from villages to cities, each providing for different consumer needs. Central place theory is useful in explaining the size and spacing of settlements in a region.

Fifth, different levels of growth can be explained both by "supply side" factors and "demand side" factors. Supply side theories focus on the factor endowments of regions – their competitive advantages – while demand side theories seek an explanation of growth by analysing a region's "economic base" or export base. Basic industries are those which provide income to the region from outside, and hence are key industries for regional growth.

Sixth, some theorists have talked about virtuous cycles of growth (and vicious cycles of decline). This has been termed "cumulative causation", and explains why some locations suffer persistent decline while others continue to grow. Whatever the original drivers of growth in a region, growth will continue to occur in the "centre", often at the expense of the "periphery". This has been the case with many small towns, where out-migration has led to the loss of services and the closure of businesses, which in turn has led to further out-migration and a much more difficult development task for communities.

The above theories help explain how regional growth occurs and why some regions are more successful than others. Agglomeration economies result in lumpy economic growth across the space economy. Growth occurs around nodes. Business is attracted to larger market areas.

There are at least three conclusions that can be drawn from this analysis of location theory and regional growth theory. The first is that, whether we like it or not, the market will continue to be the prime determinant of regional economic outcomes, and of industry location.

As DeMott has pointed out in relation to the likely success of EZs:

> … the basic ingredients must be in place – skilled people, social order, a functioning infrastructure, intelligent government, and markets. That type of support allows the enterprise zone to be a catalyst for getting business going (DeMott 1993: 21).

Putting aside the fact that places with the above factors in place are not likely to <u>need</u> EZ status, the point is that without these essential economic building blocks, no amount of incentives will help correct underlying regional problems. If anything, this is an argument for using policy solving the regional problems, rather than simply to bring firms in the hope that the problems will sort themselves out. And it has to be asked again – are depressed regions the most likely places to have these other factors (referred to by DeMott) going for them?

Second, regional development processes are exceedingly complex, and no simple mechanisms exist for harnessing these processing and delivering equality of regional outcomes.

And third, cities have inherent advantages of scale and a broad economic base that will only grow in the era of globalisation and "world cities". As Hodgkinson et al conclude:

> Globalization is also causing firms to concentrate in the major centres of each region, highlighting the importance of external economies… (Hodgkinson et al 2001: 39).

The Difficulty in Combating Agglomeration Economies and Cumulative Causation

In relation to agglomeration economies, how can tax incentives counteract the real reasons why firms locate where they do? Agglomeration economies are powerful forces long recognised in the literature on regional development.

As Paul Krugman has noted:

> Step back and ask, what is the most striking feature of the geography of economic activity? The short answer is surely concentration (Krugman 1991a: 5).

There is a need for regional developers to understand what drives agglomeration economies and to come to grips with their implications. The combination of agglomeration economies and the advantages that accrue to the places that develop first have been captured in the notion of cumulative causation outlined above have profound implications for regions.

Krugman refers to the "locking in of transitory advantages" (1991a: 10). On Krugman's view, increasing returns affect the location of industries, the existence of cities and the uneven development of whole regions (Krugman 1991a: 10). The interaction of increasing returns, transport costs and demand means that with lower transp[ort costs, firms can serve a national market from one location, thereby gaining increasing returns from economies of scale (Krugman 1991a: 14-15). Or, as Kaldor has put it:

> This [cumulative causation] is nothing else but the existence of increasing returns to scale – in processing activities. These are not just the economies of large-scale production, commonly considered, but the cumulative advantages accruing from the growth of industry itself – the development of skill and know-how; the opportunity of ever-increasing differentiation of processes and of specialisation in human activities (Kaldor 1970:340).

Beeson explores further the critical importance of specialisation in agglomeration economies:

> Adam Smith proposed that productivity will increase with the scale of production because increased scale allows firms and workers to specialize in specific tasks and this specialization and division of labor increases productivity. The ability to exploit these economies of scale, in turn, depends on the size of the market. To the extent that the size of the market depends on population density and it limited by transport costs, the ability to exploit economies of scale depends on city size (Beeson in Mills and McDonald 1992: 24).

Various estimates of gross regional product clearly show Sydney increasing its share of the State's population in recent times (Powell 1999: 2), thus confirming the persistence of the powerful forces of agglomeration described here.

Proposals for EZs fly in the face of economic theory and location theory. They suggest that the reasons why some regions grow while others decline, and why firms locate where they do, can be reversed simply by offering firms inducements to locate in certain regions.

They suggest that the business climate can be, in effect, evened out through government largesse, and the benefits of agglomeration economies nullified. The power of agglomeration economies suggests that the EZ approach is, at the very least, optimistic. Business location is a little more complex that providing government assistance to regions missing out on investment, and the proposal for EZs is naïve to believe otherwise (even if those proposing EZs do not see them necessarily as a panacea).

Glass has suggested that, in order to convince firms to locate in regional areas, they would require "massive" assistance (Glass 1976: 26). The tax incentives proposed under an EZ regime appear to be relatively minor in the context of both the substantial costs of relocation and enormous benefits of agglomeration.

Empirical Studies of Firm Location and Business Costs

The case for EZs flies in the face of a considerable number of recent studies of factors affecting industry location generally, and the role of government incentives in industry location in particular.

This is not to deny that government incentives may influence business location decisions. However, government incentives have been consistently found to be relatively low on the scale of factors affecting business location decisions.

The Chamber of Manufactures study of business location decisions, for example (Chamber of Manufactures 1989) found that government relocation incentives were not an important influence on metropolitan firms (see Table 1).

Table 1 Factors Affecting Location Decisions in New South Wales, 1989 *

Rating of Factors	Very Imp %	Some Imp %	Not at all %	Weight
Availability of labour	71	19	10	68
Availability of cheap Land / rent	60	12	28	55
Distance to market	45	19	36	46
Distance to suppliers	40	20	40	43
Transport facilities	21	38	41	34
Access to raw materials	26	19	55	30
Energy factors	26	17	57	29
Availability of machinery	10	7	83	11
Diversification	5	14	81	10
Other factors **	15	0	95	8
Distance to branch/parent Plant	2	5	93	3

* Source Australian Chamber of Manufactures (NSW Division), *Manufacturing Location Decisions*, A Discussion Paper, May 1989

** Includes family ownership / family owned land, hometown, mere chance and government assistance programs

A further Chamber of Manufactures survey in 1993 found that a mere 12% of metropolitan firms that were considering moving to the country would do so because of government assistance. Of course, this might have reflected a view that government assistance was paltry. However, it is consistent with other business surveys showing the relative unimportance of government incentives in location decisions.

Other studies done in the 1980s confirmed these findings:

- A 1982 survey by the Victorian Chamber of Manufactures showed that 74% of respondents said that the payroll tax rebates available had no effect on decisions to expand production and 81.8% said it had no effect on the decision to relocate; and

- A survey by the then Minister of Business and Consumer Affairs of 17 Sydney-based Chief Executive Officers ranked government incentives ninth in a list of twelve factors affecting decentralisation decisions (Business and Consumer Affairs 1989: 13-14).

A more recent study by Hodgkinson at al (2001) reinforces the relative unimportance of government assistance in location decisions. Respondents to a business survey about factors affecting location and expansion decisions conducted by Hodgkinson et al ranked government assistance at around 5 marks out of 10, ranking it 12th in a list of 28 location factors, or at the bottom of the 4th of 6 clusters of factors (Hodgkinson 2001: 45). The firms surveyed included manufacturing and service industries, large and small firms, Australian and foreign owned firms, city and country firms, and businesses of various ages.

The study shows that while incentives clearly do count for something in location decision making, there are not anywhere near the top of the list. Factors such as the quality of the communications network, access to a developed road network, distance from customers, the image of the location, the cost of land and labour, and transport costs – in other words, traditional location factors (with the exception of communications networks) – are at the "top of mind" for businesses and investors.

Hence empirical studies of firms' location decisions confirm both the importance of a range of location factors in decision making, and the relative lack of importance of government incentives. In other words, EZs based on tax based government incentives to relocate or expand in a designated region may not actually do what they set out to do. Offering incentives – even generous ones – does not guarantee that the businesses will come.

The Propensity of Firms to Say What Governments Want to Hear

It should be noted that not all surveys of businesses suggest that government assistance is unimportant in location decisions. For example, a survey by the NSW Department of State and Regional Development of recipients of assistance under the RBDS found that 89% of firms said their decision on a regional location had been influenced by the assistance given, including 57% upon whom the influence had been "considerable to significant" (NSW Department of State and Regional Development (DSRD) 1996: 2).

How can one account for the difference between this result and the other location studies? There may be some tendency for firms to respond to government surveys in a different way to other surveys. Businesses tend to react positively when asked by a government agency: "Was the help we gave you important?" And many of the firms in such surveys are still in receipt of the assistance at the time of the survey. There was some evidence that NSW manufacturers' attitudes to payroll tax incentives changed considerably when there was a threat to their continuity in the late 1980s and early 1990s.

There is also the point that the RBDS is far more targeted than some other, broader-based incentives schemes. Firms go through a rigorous selection process, and assistance is linked to outcomes and benchmarks (similar in this respect, it must be said, to EZs), hence this may well reduce the likelihood that the relocation or expansion would have occurred anyway (see later discussion of deadweight effects).

There is also some evidence in relation to EZs in the US that rates of influence of assistance are higher than indicated by Australian location studies. According to DeMott:

> Marilyn Rubin ... studied 1 000 companies in New Jersey's enterprise-zone program. She found that 30 percent of the companies, in choosing such a location, "said they wouldn't have expanded or located there without zone benefits; I think that says something". She adds that all the surveyed firms with 100 or more employees said zone benefits were critical in their decision to locate in an enterprise zone or to expand (DeMott 1993: 21).

These are not unimpressive figures, but again may be subject to the "talking up" factor. There is also the small matter of the 70% of firms which seemingly would have located in the EZ anyway, yielding a large deadweight effect and raising questions about just how effective EZs and regional relocation assistance really are.

Are Business Costs Higher in Non-Metropolitan Locations?

Another set of studies has examined relative cost advantages and disadvantages associated with metropolitan and non-metropolitan locations. Incentives appeal to a firm's desire to minimise costs, hence it might be expected that business costs are substantially higher in country locations in order for the case for EZs to make sense. What is the evidence?

The claim that country firms are disadvantaged in relation to their city competitors across a range of business costs is part of the thinking behind EZs. It is contended that these cost disadvantages inhibit regional development, and demand remedial action by government.

Several independent studies and surveys by industry associations have addressed the issue of relative business costs.

The evidence is mixed. For example, surveys of member firms conducted by the Chamber of Manufactures of New South Wales (1991) and the Country Manufacturers Association (1993) found that, on balance, members were disadvantaged by their country location. Attempts were also made to quantify the disadvantage. On the other hand, independent studies have drawn different conclusions, and indicate a more complex situation than that suggested by the industry based studies.

The Chamber of Manufactures in 1991 conducted a survey of its country based members, and found that only 2 firms out of 40 surveyed claimed a cost advantage from their country location, with a further 9 firms stating that advantages and disadvantages cancelled out. The average cost disadvantage claimed was 4.8 per cent of total costs, with some firms claiming as high as 10 per cent (Legislative Council Standing Committee 1991: 35).

The Country Manufacturers Association 1993 survey is more detailed, and reinforces the conclusion that country firms face higher costs. 33 firms were surveyed, and a cost disadvantage of 9.3 per cent of payroll costs or 1.8 per cent of sales was recorded. Cost disadvantages were stated in relation to transport, inventory, communications, recruitment, training, utilities and technical support. There were advantages in relation to lower real estate costs, reduced staff turnover and reduced industrial action, but these were not quantified. The lower real estate costs were also seen by firms as a two-edged sword, in that there are lower capital gains from country properties, and a diminished borrowing capacity (Country Manufacturers Association 1993).

A major recent study of relative business costs was undertaken by the Public Sector Research Centre in 1991. The study covered a range of costs, and attempted to quantify advantages and disadvantages of metropolitan and non-metropolitan locations. It concluded that "... there is in general no locational disadvantage to firms in non-metropolitan areas..." (Public Sector Research Centre 1991: 33). While city based firms were seen as having advantages in more areas than country firms, many of the cost factors were seen as cancelling each other out.

Other recent regional development studies tend to confirm this finding. For example, while not addressing directly the question of business costs, the McKinsey Discussion Paper found that, of 15 investment inhibitors nominated by firms in the regions surveyed (which included some metropolitan areas), such factors as "high cost of supplies/overheads", "excessive competition" and "poor infrastructure" were near the bottom of the list. Lack of demand and high on-costs headed the list (McKinsey 1994a: 13).

The study found that most businesses in regional Australia now have the telecommunications and physical infrastructure to access markets adequately, and that transport costs only represented a small proportion of the total costs of businesses surveyed (McKinsey 1994a: 53).

The Industry Commission, in its inquiry into Impediments to Regional Industry Adjustment, found that despite the additional costs faced by some country firms, "... costs that result merely from large distances should be regarded as a natural consequence of conducting business; no different to the costs that Australian exporting firms face..." (Industry Commission 1993: 198).

According to an in-depth study of 14 country firms by the University of New England's Rural Development Centre, the major costs associated with country location were the availability and cost of acquiring skilled labour, access to formal training, transport and communication, and access to support industry. However, according to the study:

> Where firms were located for economic reasons they experienced little or no relative disadvantage to other industry members. ... In many cases firms were supplying to diverse geographical markets as were their competitors, which reduced the relative disadvantage of their location. Where factors were important firms adopted various measures, some reduced their profit margins, employed their own transport, undertook production activities and training in-house where necessary and sought productivity improvements to compensate for higher costs RDC 1993: 80).

The main conclusions to emerge from these studies are that:

- despite the claims of industry groups, it is not clear from the evidence that the majority of country firms are disadvantaged in the way suggested by supporters of EZs;
- there is a tendency in relation to business costs, as in other aspects of regional policy, to set up a false dichotomy between metropolitan and non-metropolitan regions, and to generalise about the competitive positions of each;
- some of the industries that would benefit, particularly naturally occurring industries, clearly do not incur extra costs, and, indeed, are not faced with city based competition;
- cost advantages and disadvantages vary enormously, by firm, industry and region;
- most firms, particularly those located where they are for economic reasons, are able to be competitive despite problems caused by distance and/or isolation; and
- it is difficult to quantify cost advantages and disadvantages, particularly factors such as having a stable workforce; moreover, there may be a tendency for firms to understate the benefits of country location and to overstate the pitfalls.

The influences of a firm's cost structure are many and complex. For example, they include the firm's location in relation to raw materials, supplies and markets, access to labour, including training, infrastructure costs, the nature of the business, where the firm's competitors are located, whether the firm's location reflects commercial advantage or mere preference, the firm's capacity to pass on higher costs or to offset costs against quality, the capacity to offset higher costs in some areas against lower costs in others, for example through productivity gains, the value of the firm's products in relation to their bulk, and the range of choice among modes of transport and the degree of competitiveness among transport operators. It is therefore clearly very difficult to generalise about cost disadvantages.

Non-cost Firm Location Factors

A number of empirical studies talk about non-cost factors in location. A 1970s study (Glass 1976) suggested that decentralisation programs had failed because they did not

"... take into account the critical influence of "non-cost" factors in determining the location preference of manufacturers" (Glass 1976: 73).

Many firms locate where they do for non-economic reasons. They might include the fact that it is a family business, and that is where the business started, or it may simply be where the chief executive wants to live.

EZs are based on the assumption that firms are governed by cost-minimisation or profit-maximisation strategies when considering location. The fact that many firms locate in places for reasons other than cost or profits should be a concern for proponents of EZs, for this indicates that location is a complex phenomenon often totally unrelated to any incentives that might be available.

Which Firms Are Likely to Relocate as a Result of Enterprise Zones?

Clearly EZs must largely be aimed at footloose firms. These are generally manufacturing or processing operations. Yet as Niles Hansen has argued, quoting a study on firm relocation:

> ... firms rarely move from one region to another; this runs contrary to the prevalent notion that firms move from one area to another to lower costs. Firms themselves stay where they are presently located or else go out of business. It is entrepreneurs who move and start up new firms in more favourable locations, though the latter may also receive new branch plants of large companies (Hansen 1976: 16).

In addition, the Australian economy is increasingly dominated by service industries, and the latter generally follow markets in terms of location.

As the Chamber of Manufactures has pointed out:

> Obviously there is less locational choice in the rural sector and practically none in the mining sector. Services, too, are not particularly free for they tend to have to follow their customers rather than lead them to new locations (NSW Chamber of Manufactures 1989: 5).

The Public Sector Research Centre agrees:

> Some tertiary industries are capable of playing a leading role in regional development (eg tourism) while others ... can be expected to be followers rather than leaders in the process of regional development (Public Sector Research Centre 1991: 13).

But what scope is there for manufacturing based expansion in regional areas? While manufacturing has shed a substantial proportion of its workforce in the last two decades, country manufacturing has remained relatively robust, even in the era of lower tariffs and globalisation. Yet the scope for a "manufacturing regional recovery" is slim, if envisaged on the scale of EZ proponents. There aren't the manufacturing jobs to go around any more.

Many firms, of course, have received assistance in New South Wales through the RBDS. From 1989 to 1995, 276 firms received assistance (Department of State and Regional Development 1996: 5). Since 1995, 665 firms have received assistance. How many more firms are out there?

Success Factors in Local and Regional Economic Development – the Role of Community Action and the Debate Over Endogenous Versus Exogenous Influences on Regional Growth and Decline

Apthorpe states:

> In spite of talented and energetic people, Australia's regions are facing challenges unable to be solved by local action alone (Apthorpe undated: 4).

What about the success stories in regional development? How important are endogenous factors in driving regional economic development? What do these drivers internal to the community say about the relevance of government incentives?

The fundamental conviction of community economic development is that communities can make a difference to local and regional economic outcomes, whether the "cavalry" from Canberra or Macquarie Street arrives or not. As the case for EZs is very much a case of "calling in the cavalry", and it explicitly rejects the notion that communities be told to "find their own solutions", it is therefore relevant to ask whether there is truth in the claim that communities can improve regional development outcomes on their own, and which factors inherent in communities make them successful.

(Whether communities reach these conclusions because they are optimistic about their own capacities to change their growth trajectories, or pessimistic about the likelihood of substantial government intervention, is not clear, but is, in any case, irrelevant to the argument here).

A literature has developed in which a number of regional development experts have addressed the issue of what it takes for regional communities to be successful. There are to important points here. First, while there is no one single recipe for success, there are a number of recurring themes developed in the literature and among development practitioners. Second, while many of these "success lists" do not address the question as to whether the "local" factors that they describe are the only factors affecting growth and decline, their authors clearly believe them to be, collectively, generally responsible for whether locations do well or not. And none of the lists include government incentives as growth drivers.

According to Peter Kenyon, the following are important to building economically successful communities:

- focusing on healthy and sustainable community behaviours;
- investing in local leadership development;

- fostering diverse but inclusive citizen involvement;
- encouraging youth participation; and
- committing.

Strategic planning and the development of a community agenda are critical. Kenyon sees the following elements as central to the strategic planning process:

- shared vision;
- realistic objectives;
- regular achievements;
- short, medium and long term plans;
- a clear marketable identity; and
- an appropriate development organisation / group.

Kenyon's general advice to communities is as follows:

- develop a comprehensive strategic community economic development agenda;
- recognise the importance of local business vitality through actions of appreciation and support;
- become a best practice culture;
- be opportunity obsessive;
- forge partnerships with neighbouring communities for collaboration and peer learning; and
- maintain enthusiasm, passion, hope, involvement, belief and expectation (Kenyon 1998).

According to Philip Burgess, there are seven action strategies for the creation of what he has termed "high performance communities". These are:

- ensure the rapid deployment of modern telecomputing capacity;
- promote entrepreneurship;
- promote job growth from within;
- promote awareness, interest and participation in the global market place;
- focus on industry clusters that combine producers and suppliers and encourage local competition among producers and among suppliers;
- foster interfirm collaboration: and
- cultivate civic institutions and regional collaboration (Burgess 1996).

One of the keys to local success in economic development in the 1990s is to avoid the pitfalls of traditional approaches that are no longer applicable. According to US expert John Sanzone, these include the following:

- not taking enough time to "envision" limits regional opportunities;
- expecting immediate results will produce unrealistic plans that are designed for unrealistic expectations;
- local economic development capacity on the cheap does not work;
- not realistically inventorying your regional assets and liabilities misdirects good intentions;

- targeting jobs and not human resources misses the point;
- following economic development "folklore" will lead to regional disappointment;
- thinking that new jobs will necessarily lead to employment of local people;
- plans that do not have clear, measurable and agreed upon goals usually fail;
- not fully knowing your economic base leads to faulty assumptions and poor planning; and
- overlooking development capacity (Sanzone 1993).

One of Sanzone's 10 pitfalls relates to the differences between local economic development folklore and the realities of the new economy. It also has particular relevance to the discussion about EZs. For example, Sanzone disputes the assumption that local governments can greatly influence private sector location decisions. This is largely not the case. The assumption that tax and financial incentives attract business, is also misplaced. The availability of land, a skilled labour force, infrastructure, quality of life and public services are argued by Sanzone to much more important. Large firms do not create most new employment opportunities. Existing small firms create most new opportunities. Financial assistance is much more important for small firms than for large firms (Sanzone 1993: 9).

Sanzone argues that:

- retaining and cultivating small local businesses are the two keys to economic health;
- outbidding the competition is not an effective economic development strategy;
- investing in the existing workforce is critical;
- quality of life factors are more important than marketing incentives or recruiting; and
- developing the capacity to attract and nurture advanced technology jobs and investments will pay off in the long run (Sanzone 1993: 10).

Finally, according to Sanzone:

> ... the success of a local development strategy will rest on a long-term commitment by a sustained coalition of local public officials, the private sector, and citizen groups (Sanzone 1993: 11).

Sanzone's analysis conforms to the standard current thinking (and the NSW Government's approach) on local economic development, in that partnerships and community involvement are critical to success.

Analyses of DSRD's Main Street/Small Towns Program have also uncovered success factors in local economic development that have relevance for many smaller communities in regional New South Wales. Particular success factors have been found to be:

- community ownership of the planning process;
- commitment to working in partnership with other local organisations;
- commitment to funding the program locally;
- local council support and involvement;

- an active committee with broad representation from local government, business and community groups;
- local leadership;
- broad community support for the local program;
- knowing the local economy;
- focusing on the retention and expansion of existing businesses rather than attempting to attract large employers;
- a realistic strategic plan developed through a public consultation process;
- detailed action plans;
- a human resource commitment to implementing the strategic plan;
- monitoring progress and ongoing evaluation;
- keeping people informed, particularly through positive media coverage;
- acknowledging and celebrating successes (internal DSRD analysis).

Anderson (1997) has also commented on lessons to be learned from the Main Street/Small Towns Program. She concludes:

- community empowerment and ownership are at the heart of these programs;
- committees need to have a high profile in their community;
- there must be strong leadership;
- shared leadership is extremely successful;
- communities need to start to plan, right at the beginning, for long term sustainability of their programs;
- coordinators are there to do the coordinating, not all the doing;
- coordinators are traditionally underpaid for an extremely complex task, they perform better if they are properly remunerated;
- businesses must contribute financially to the program, otherwise they do not value what they get for nothing;
- the best long term sustainable strategy appears to be a local levy;
- the Strategic Plan needs to be working document that is constantly referred to and reviewed;
- participants need to be recognised for their contributions;
- the most successful programs are those that retain a sense of fun (Anderson 1997: 84).

While these success factors directly relate to particular programs, they are clearly relevant for many community economic development efforts across the State.

According to Vicki Dickman, a Queensland rural leader, the following are the key ingredients to success in community economic development:

- a commitment to the future and the dedication to be involved in developing that future;
- the involvement of the community in the generation of the vision and in the development of projects;
- a team of leaders to drive the projects and to act as mentors for less experienced project group members;

- the establishment of a community based group which coordinates project activities and acts as a legal entity for the project groups;
- develop a culture of information sharing and develop the activity of networking as a priority for project groups;
- the establishment of a support structure for project group members to allow them to access training, information and encouragement (Dickman 1997: 4).

The above analysts and practitioners provide a range of perspectives on local economic development that are relevant to small regional communities in New South Wales. In summary, the following elements appear to be critical to the success of local economic development:

- the creation and maintenance of a dynamic business environment that positively welcomes new investment;
- working to the centre's competitive strengths while broadening the economic base;
- developing and supporting local leadership;
- the development of a positive attitude to change;
- a willingness to be creative in securing new investment opportunities;
- the entrepreneurial flair of local businesses;
- the capacity to add value to existing products and services;
- critical mass achieved through networks and cooperation.

It is clear from this analysis that many of these success factors are within the control of the local community, and are reliant on the mobilisation of existing community resources.

US analyst Ron Shaffer's notion of an economically viable community is helpful in clarifying the aspirations of communities. According to Shaffer:

> Viability is the ability to survive and to pursue the face of changing circumstances. Community economic viability is the capacity of local socio-economic systems to generate employment and income to maintain, if not improve, the community's relative economic position. Economically viable communities possess the capacity to perceive changing socio-economic circumstances and to respond appropriately. Community viability has political, social, physical dimensions (Shaffer 1989: 13).

Shaffer has note four characteristics of economically viable communities:

- a slight level of dissatisfaction;
- a positive attitude towards experimentation;
- a high level of intra-community discussion; and
- a history of implementation (1989: 14).

In other words, communities need to be aware of the dimensions of change in the new economy and the need to be pro-active, even in times of relative economic well-being.

Similarly, Phillip Burgess has talked about what he terms "high performance communities". These communities have a number of characteristics. They are, according to Burgess, "fast, flexible, customised, networked and global". As Burgess states:

> ... a high performance community is a place that provides business enterprises that have a future, more per capita wealth for the community, strong and healthy voluntary associations and a user-friendly government that responds and values citizen involvement. It is a community animated by a vision where per capita income increases (increasing wealth); enterprises become more productive (increasing competitiveness); and social, economic and political values are broadly shared (increasing equity) (Burgess 1996: 2).

The Key Role of Local Leadership

One of the success factors constantly referred to in the economic development literature is the role of local and regional leadership.

McKinsey's conviction that local and regional leadership is the key to successful regional development is well-known:

> Given the task of rejuvenating a region and the choice of $50 million, or $2 million and 20 committed local leaders, we would choose the smaller amount of money and the committed local leaders (McKinsey 1994b: 8).

While there is a danger of taking local leadership too seriously as a driver of regional development, there is an equal danger in taking it too lightly. There is little doubt that "can do" local leaders make a significant difference to local economic outcomes.

The NSW Standing Committee on State Development in a 1994 inquiry addressed the question of leadership. The Committee defined regional leadership tasks as including:

- the identification of a region's competitive advantages;
- the creation of an economic vision for the region;
- uniting the various interests in the region in pursuit of the vision;
- the assignment of specific tasks to the key players to ensure that the vision is achieved; and
- the promotion of the region to the outside world (Legislative Council Standing Committee on State Development 1994: 42).

Yet leadership concepts have changed, too, reflecting new opportunities and challenges wrought by the "new economy".

Recent arguments have emphasised the need for a new kind of leadership and a new kind of local economic development in the globalised world. This new catalytic leadership has been termed "civic entrepreneurship". In their book, *Grassroots Leaders for a New Economy*, Henton et al focus on the benefits of collaboration among key regional leaders and stakeholders. Their focus is on a number of regions in the USA which have revitalised their economic fortunes by what the authors regard as a fundamentally new type of leadership.

According to Henton et al, the world has changed and this requires new economic development skills. For example, they see the new economy - which is global, complex and fast-changing - demanding more collective leadership skills than the old individual charismatic leadership model (Henton et al 1997: 34).

Civic entrepreneurs, according to Henton et al, are risk takers who are not afraid of failure, and have vision, courage and energy. Civic entrepreneurs have five common traits:

- they see opportunity in the new economy;
- they possess an entrepreneurial personality;
- they provide collaborative leadership to connect the economy and the community;
- they are motivated by broad, enlightened, long-term interests; and
- they work in teams, playing complementary roles (Henton et al 1997: 34)

Civic entrepreneurs come from many fields, including business, government, education and the community sector. They need not have formal power or authority, and achieve influence through their credibility (Henton et al 1997: 35).

Civic entrepreneurs are essentially community change agents and this requires "multiple talents" (Henton et al 1997: 36). It is leadership for the long haul. "They lead their communities through fundamental change and improvement processes that have no quick fixes" (Henton et al 1997: 52).

The analysis by Henton et al is important because it highlights the ways in which the leadership and economic development task has changed. This has important implications for the nature of the skills development challenge.

Against the recent thinking on how leaders can change communities and improve regional economies, a reliance on EZs would seem to be a pale comparison and verge on defeatism (see also Collits 1999).

While many supporters of EZs may well agree with much of the above analysis of community involvement and leadership, they have argued that this is not enough. There is an assumption inherent in the EZs case that "top down" policies are needed to ensure regional success. While this need not deny the place of "bottom up" strategies, it nevertheless downplays their significance. Is this assumption justified?

It is difficult, and clearly beyond the scope of this paper to measure the relative impacts of exogenous forces and endogenous forces on local economic development (see Collits forthcoming). Does the existence of endogenous success factors totally negate the existence of external influences on regional economic success, including government assistance? Clearly the answer is no. However, the overall reliance of EZ supporters on government directed development and their dismissal of self-help programs and bottom up assistance such as that delivered through programs such as Main Street/Small Towns and Regional Solutions, clearly undervalues the merit of community action, and ignores the clear evidence of endogenous success factors outlined above.

They do not answer the implicit challenge of McKinsey to state how $50 million is better than $2 million and 20 committed leaders.

The challenge for EZ supporters is to show that the central driver of most community economic development strategies, building capacity in regional communities to solve regional problems, is misplaced. There is sufficient in the community economic development literature, particularly evidence in relation to success factors in local economic development, to suggest that they have, to date, not been successful. Creating incentives for business expansion and relocation, without building regional capacity, will not offer sustainable futures for regions. They will not build "high performance communities" of the kind described by Burgess. However, the better developed capacity to drive development at the local level is likely to offer many communities the potential to become the high performance communities that will bring in new firms through their own attractiveness.

There is no Consensus that Enterprise Zones have worked Overseas

One of the central supporting claims for EZs is that they have worked overseas. There has been an assumption, repeated ad infinitum, that EZs work overseas, and that successive Australian governments have been remiss in not trying them here, for this reason.

For example, according to Grennan:

> The LGSA spent more than two years refining the *successful* European and United States concept of enterprise zones... (Grennan 2001; emphasis added).

Again, Independent MP Peter Andren has been reported as saying that "... enterprise zones had worked well in Europe and the United States ..." (Central Western Daily 2001b).

Mike Montgomery agrees:

> Enterprise Zones have been used successfully for over 20 years in the USA and Europe to create jobs and prosperity in depressed regional areas (LGSA 2001c).

This view has also been repeated in the Armidale Express (10 August 2001), hence spreading the perception among regional communities that these programs have "worked" overseas. Yet it is one thing to note that they have been tried, even have persisted, overseas, but it is another thing to claim that they have been successful. Repeating something often enough does not make it so.

How do we know that enterprise zones have worked overseas?

The US Experience

Much of the writing on US enterprise zones must be seen in the context that US enterprise zones have often been applied to poor inner city areas. This possibly has two implications – one, that they should not be applied to Australia, or, that any criticism of their failure to ignite economic development in the US may be misplaced as a criticism of the concept generally.

The WRI study of EZs (2000) relied on a 1993 study commissioned by the United States Department of Agriculture for its favourable account of the success of US schemes:

... enterprise zones appear to have been effective at stimulating rural economic development. The report found that empirical information on actual zone performance is more positive than the theoretical assessments, indicating that zone programs have been associated with increased employment in many distressed areas. Most State and Nationwide assessments have been positive, at least with respect to job creation performance in the zones (WRI 2000: 15).

According to Lambert and Coomes:

> The effectiveness of EZ programs remains an open research question, although the evidence is increasingly negative (Lambert and Coomes 2001: 168).

Again:

> We find that none of the measures employed in our study reveal much in the way of either economic or neighborhood revitalization benefits that can be attributed to the EZ program in Louisville (Lambert and Coomes 2001: 170).

An article by Dowall (1996) examined the effectiveness of California's EZ program using shift-share analysis and a survey of businesses. He too concluded that the EZ programs "have produced very modest economic benefits", and "in and of themselves, zone incentives and resources have apparently done little to boost job creation and business investment" (quoted in Lambert and Coomes 2001: 169).

The literature on EZs has been recently surveyed by Wilder and Rubin (1996). They examined 21 studies variously covering all EZ programs in the United States. They find little evidence of EZ program success, though they do not conclude that the concept is a failure (Wilder and Rubin quoted in Lambert and Coomes 2001: 169).

Again, in relation to the New Jersey program:

> The econometric study of New Jersey's program by Boarnet and Bogart (1996) is important because they have the benefit of a natural experiment. They compare municipal employment growth in 7 cities that were awarded EZ status with 14 cities that applied but did not receive EZ designation and with 28 cities that qualified but did not apply for EZ status (Lambert and Coomes 2001: 169).

The conclusion? They find no evidence of job growth or increased real estate values as a result of the EZ program (Lambert and Coomes 2001: 169)

Lambert and Coomes also conducted an in-depth study of the Louisville Kentucky EZ Program. They make the following observations about the success of this program:

- claims about the success of the Program by the agency responsible were "noisy and biased", with exaggerated claims, jobs counted even when the company later moved out of the Zone, and every job created within the Zone credited to the existence of the Zone;

- checks with companies in the located in the Zone found at least a 20% overstatement of investment outcomes by the agency involved in administering the Zone;

- obvious reasons for some companies to be located within the Zone other than due to the EZ assistance were ignored – only a small proportion of private investment within the Zone was "possibly induced by the EZ incentives";

- neither the precise costs nor benefits of the EZ can be precisely determined;

- the economic benefits have been "modest" while the cost has been "significant" (between $US55 million and $US150 million over the period 1982 to 1996);

- few new employers have appeared in the EZ;

- the truly distressed area of the EZ did not generate new economic activity and continued to decline for the decade of the existence of the EZ. The EZ generally lost jobs to the rest of the county (Lambert and Coomes 2001).

The authors conclude negatively that:

> Given the high program costs, the low economic benefits, the weak link between EZ incentives and and private investments in the zones, it is difficult to document that this program has been effective (Lambert and Coomes 2001: 179).

If this is the kind of evaluation on which claims by agencies for the success of their EZ programs, one must take conclusions that EZs have been "successful" overseas with a proverbial grain of salt. Yet such claims have been made repeatedly by Australian supporters of EZs to buttress their case.

Even Manning in the principal EZ report is far more cautious about the success of overseas EZs than many of the concept's supporters. His own words are instructive, referring to the US EZ programs:

> The programs themselves [EZs] cover a range of business assistance, and it is no simple matter to summarise their effect, which also hinders econometric

> investigation. Given these problems, academic assessment of the programs has necessarily been somewhat tentative (Manning 2001: 44).

And again:

> ... businesses were aware of the enterprise zone incentives, and took them into account in location decisions, though the incentives themselves were of *marginal significance* (Manning 2001: 45; emphasis added).

This, from the author of the EZ report himself, seems hardly to amount to a ringing endorsement of the concept of EZs.

The difficulty of measuring the success or otherwise of EZs and tax based incentives is referred to elsewhere in the paper, but has been noted by US observers of their own EZs. As Luke et al observe:

> The actual effect of these tax incentives is hard to measure. Corporations threaten to leave if tax policies are not changed, and industrial recruiters often argue that several (unnamed) firms have declined to locate in the state because of the lack of incentives. Proving, however, that the tax policy was the major factor or even a major consideration in location decisions is almost impossible because corporate decision making is not open to public scrutiny. Businesses will try to maximise profits by reducing external costs associated with taxation. Whether their inability to get tax policies changed will cause them to locate someplace else is always difficult to assess. This being the case, states with few competitive advantages may change their tax code in an attempt to protect themselves against the possibility that locational decisions will be made on this basis (Luke et al 1988: 101-02).

Hence US EZs can be seen in the context of states' bidding wars (this is what the NFF actually argues in relation to the introduction of EZs in Australia), and this is a source of great contention in the US as in Australia. EZs are like states trying to lure from other states, and are also actually part of the bidding war process, on this view. The other point raised by this analysis, of course, is the question of whether firms really move or expand in response to tax lures. This, again, is highly questionable. And while states in the US persist with tax based strategies, there is no consensus that they have "worked".

The general impression left from a reading of the pro-EZ Australian literature is that the US favours heavy intervention in regional development, and that EZs are at the forefront of US regional development efforts. Such an impression would be quite misleading, and the analysis from which it is drawn misses some of the fundamentally important developments that have occurred in US regional policy thinking over the last 20 years. Supporters of EZs have simply draws the wrong conclusions from the US experience. The following are a summary of some of the important facts about US regional policy:

- the main development in regional development thinking in the US has been the community economic development revolution – it is ironic that the bottom up approach generally derided by EZ supporters was actually not only born in the US and imported to Australia, but is, arguably, the most important development in US thinking about economic development in a quarter of a century;

- the persistence of EZs in the US must be seen in the context of persistent interstate rivalries and bidding wars, in which firms simply pressure governments to match what other states are offering, including incentives;
- while governments still continue to behave in sub-optimal ways, the thinking about regional policy has moved on (see Sanzone and Luke et al, for example);
- industrial recruitment (smokestack chasing) is no longer in vogue;
- the focus is very much on local and regional leadership, collaboration and coalition building;
- mainstream thinking about economic development is not anti-globalisation, but rather accepts willingly that promoting change and profiting from it is a driving force in regional policy – change is good, and provides new opportunities;
- federal government involvement in the US used to be massive and now is miniscule – EZs were introduced by Reagan at a time of massive federal government abandonment of the kind of policies adopted in the European Union (EU) and favoured by Australian EZ proponents:
- EZs are certainly a persistent part of the US scene, but are by no means regarded there as the main regional development game.

Luke et al refer to unwillingness of many US leaders to see that the world has changed and that new tools and approaches are required to achieve regional prosperity.

> … state and local leaders have a characteristic set of attitudes and perceptions about economic reality that inhibit the potential for economic growth and change. These attitudes are variously characterised as "learned helplessness" … and "economic denial, withdrawal and blame" (Luke et al 1988: 22).

Luke concludes correctly that:

> Economic development is more than a series of industrial attraction and business retention activities. It is a process of identifying strategic goals that will stimulate and generate new economic activity. … Traditional policies have created a powerful barrier to local initiative and to community-based economic development strategies (Luke et al 1988: 26).

Hence the optimism of EZs supporters that EZs might co-exist with other local economic development strategies, and indeed require them in order to obtain EZ status, may be misplaced. If Luke et al are correct, "old thinking" and reliance on government support might retard the kind of dynamic thinking required in order to create sustainable solutions to regional decline.

As Luke et al note:

> In the 1970s, encouraged by billions of dollars in federal grants and loans, many state and local governments focused primarily on one approach – industrial attraction. Now, federal dollars for local economic development are shrinking. Yet some states and communities have been slow to react to these changing circumstances. For example, economically distressed single-industry towns may be especially prone to cling to traditional industrial development policies, even though they are more vulnerable to shifting external forces (Luke et al 1988: 26).

Luke et al refer to the clinging to outdated development strategies as reinforcing "habits of the heart" (Luke et al 1988: 28).

Luke et al draw up a list of the "outdated strategies" and the "new strategies". The outdated approach they define as including:

- Industrial attraction and plant relocation;
- Reliance on federal policy guidance and financial assistance;
- Focusing on large manufacturing firms;
- Providing low cost labor;
- Providing low-cost land and tax subsidies;
- Expansion into regional and national markets;
- Increasing jobs and employment opportunities.

The new strategies involve:

- Local "homegrown" business enterprise development;
- Reliance on state and local leadership;
- Focusing on smaller and younger firms;
- Providing skilled and flexible labor;
- Providing accessibility to advanced technology and financial capital;
- Expansion into international global markets
- Wealth creation and increasing the number of employers (Luke et al: 27).

This is the vision of regional economic development in the US of today. And it is quite clear where the promotion of EZs would fit in this schema.

Sanzone similarly draws attention to the "pitfalls" of the traditional ways of approaching economic development, focusing specifically on the limitations of investment attraction strategies (Sanzone 1993: 9).

While Henton et al focus very much on endogenous growth drivers in explaining regional success, and do not even mention EZs and similar top down attempts to revitalise regions, they do have this to say about the role of government:

> Civic entrepreneurs help their communities stop looking for scapegoats or waiting for saviors and take responsibility for their future. They discourage their communities from depending on outsiders to solve their problems. They

> help others understand that neither community problems nor solutions are the responsibility of the federal or state government (Henton et al 1997: 90).

Hence the US scene, and US economic development thinking, are not quite as portrayed by those who have selected one part of the whole and given it undue prominence.

The European Experience

The main focus of the EZs case is the US experience. However, the European Union (EU) approach to regional development is often held up in Australia as an exemplar of "genuine" government commitment to regional development.

EU programs often assist whole countries rather than regions or local government areas, and assistance is in the form of block grants. The focus is assistance for lagging regions through the Structural Fund (Manning 2001: 37).

Many of the proponents of EZs look to the EU for inspiration in relation to regional development. It is the Structural Fund that has given rise to the claim that Australia's equivalent per capita spend on regional development to the EU would be over $2 billion per annum.

While the EU certainly spends a lot on regional initiatives – of course in a vastly different economic development context to regional Australia – there have been different conclusions drawn about the effectiveness of all the effort.

Armstrong has pointed out, for example, that as many as 45% of jobs created with the assistance of the Fund would have occurred without the assistance (Armstrong 2001: 250; see the argument about the deadweight effect below).

Bailey and De Propris have pointed out that the much admired EU Structural Funds have not necessarily had the impact often attributed to them. Their recent paper demonstrates, in relation to whether poorer regions have improved their positions, that:

> a) there has been no change in the composition of the bottom 50 regions; b) among these regions some have even experienced a fall in GDP per capita between 1986 and 1996; and c) the intra-country income gap has actually has actually widened for most of the poor performing regions (Regional Studies Association 2001: 4).

Martin and Tyler suggest that:

> In recent years there has been considerable concern over the poor rate of employment growth in the EU... (Regional Studies Association 2001: 44).

On the reporting of job gains under the Structural Funds, Jack Malan has this to say:

> Estimates contained in Structural Fund evaluation studies are generally based on weak methodological foundations and the results lack credibility (Regional Studies Association 2001: 42).

The Organisation for Economic Cooperation and Development (OECD), in a recent report, certainly questioned the impact of big spending policies, and noted that many member governments had given up on these approaches. The ACCI has referred to the OECD report in the following terms:

> ... international studies ... have concluded that policies based on redistribution mechanisms involving direct assistance have done little to stimulate growth and employment in the regions concerned, and in the process cost governments billions of dollars (ACCI: 2001).

Hence the international evidence is, at best, mixed. And were it to be established that the performance of European or US regions was superior to those in Australia, it might well be asked whether this was because of massive regional subsidies, or in spite of them.

The overseas evidence has not yet convinced me that EZs deliver returns commensurate with the potentially large government outlays often required, or indeed better returns than existing programs in New South Wales and Australia generally.

A Comment on the Transferability of Policy Ideas Across Jurisdictions

There has been some discussion about whether ideas that have "worked" overseas can be replicated in Australia. Whether this can occur in general is less significant than whether it is appropriate to replicate the specific idea under discussion.

In the case of US EZs, the initial and main purpose was to attract investment to specific, poor, inner city areas. Can this idea be transplanted to other types of region, let alone other countries?

It should also be noted that many American EZs have been located in very specific areas in the US – in the neighbourhoods of urban areas with pockets of poverty. Manning acknowledges this (Manning 2001: 39). This may raise questions about the suitability of their transfer to sparsely populated, large tracts of regional Australia. The US EZs seek to bring jobs right to the places where there is most disadvantage. In Australia's relatively large regions, even local government areas, there may be pockets of disadvantage which might still miss out if an EZ were created.

The contrast, too, between US EZs and European Union structural funds could not be greater. Any attempt to lump those two approaches together should be treated with caution. The US EZs focus on specific neighbourhoods, while the EU structural funds target whole countries, for political unity reasons.

The Likely Cost to Taxpayers of Enterprise Zones

Simply spending large amounts of money on regional problems does not guarantee the effectiveness of the programs, particularly if they are poorly targeted.

There has been considerable confusion over the likely cost of EZs to the taxpayer. On the one hand, supporters of EZs are keen to play down their cost, pointing out that they would not "cost" anything at all, since they would only apply to "new" employment, which would generate its own taxation payments, save on social security, and contribute to local economies in other ways (source). In fact, the WRI has argued that "… a successful enterprise zone would … improve the bottom line of the Federal Budget …" (WRI 2000: 8).

According to the Parkes Champion Post:

> Enterprise Zones are a mechanism to move away from assistance by way of government grants into a partnership arrangement between business and government (Parkes Champion Post 19 September 2001).

On this view, EZs do not even qualify as government assistance!

Setting aside the question of whether the new jobs created would necessarily go to people formerly on unemployment benefits, there are problems with this argument, as elsewhere EZs are said to cost substantial amounts. For example, one proposal for 20 "pilot" EZs would cost the Commonwealth Government $100 million per year.

The waters have also been muddied by unfavourable comparisons between what the Australian Government is said to spend on regional development and what is spent by the European Union.

For example, it has been suggested that:

> If in Australia the Commonwealth government spent a similar amount, per capita, on regional development it would find itself spending AUD 2.3b a year (Sheppard 2001).

This figure has been used widely and has come to be regarded, incorrectly, as the likely cost of EZs. The confusion is allowed to continue because supporters of EZs have been imprecise about likely costs. The $2.3 billion figure is held out tantalisingly as a kind of policy benchmark that Australia should aspire to. Yet many of the expenditures contained in these overseas programs have nothing to do with EZs.

The repeated inference that we need to "spend more" suggests that the real agenda is perhaps not EZs but massive intervention. Such an approach has been seriously questioned by, among others, the OECD.

As Hugonnier has pointed out, one of the lessons of what he terms "government failure" experienced across most OECD countries in the last two decades of regional policy has been:

> The uselessness of pouring massive amounts of assistance through bureaucratic channels into lagging regions (Hugonnier 1999: 6).

Hugonnier has also taken aim at growth poles. While these tend not to be the kind of regions focused on by EZ supporters, nevertheless some of the policy instruments chosen are the same:

> Even in the long view, such so-called poles of growth strategies have been relatively unsuccessful. They have often been costly, combining large-scale infrastructure projects, enterprise zones and expensive tax incentives (Hugonnier 1999: 6).

At least in the case of growth poles, it is places with more growth potential that are chosen for targeted assistance.

If it is assumed that EZs will not cost much because the tax rebates offered will only accrue when the added employment occurs, one must question whether the incentives offered will be sufficient to entice new firms or increased employment (see section… above).

As one study in the 1970s noted:

> Relocation costs are high for most firms and especially high for large capital intensive firms with specialised plants. As there are only minor differences in operating costs between the city and the country, and as these are generally unfavourable to a country location, no major capital intensive firm already established in the city would contemplate moving to a regional centres *without the aid of massive subsidies* (Davey-Ashmore et al 1974, quoted in Glass 1976: 26; emphasis added).

If it is correct that "massive" subsidies are required to convince firms to relocate to the country, then relatively small subsidies such as tax rebates for new employees, as proposed by proponents of EZs, or even more generous forms of tax relief, are unlikely to persuade many firms to undertake the substantial risk of relocation. (This, of course, raises questions about all regional development strategies reliant on "hunting" rather than gardening").

If, on the other hand, it is assumed that EZs will cost vast amounts of money, then such problems as the deadweight problem (see below) are likely to occur.

Possible Economic Distortions of Enterprise Zones

Earlier arguments suggested that EZ tax incentives were unlikely to be successful in influencing firm behaviour. What would be the likely economic outcomes, however, if they were successful in encouraging firm relocation to, or expansion in, designated areas?

There are a number of arguments about the possible distorting effects of EZs and incentives generally. These are:

- that firms offered incentives to locate in a region, or to expand their existing employment, may have done this anyway without the subsidy (so-called deadweight effects);
- that EZs may simply move economic activity from one region to another (the zero sum game);
- that firms may locate to EZs for the wrong reasons; and
- that firms may move to the EZ only for the duration of the special assistance, and then move elsewhere.

"Deadweight" Effects of Regional Policies

There have been concerns expressed about many regional policies and investment attraction efforts that the firms targeted "would have come anyway". This has been termed the "deadweight effect" (see Armstrong 2001: 250).

Armstrong has suggested that, for example, the European Union Structural Funds, so beloved of many EZ supporters, have had as much as a 45% deadweight effect.

Armstrong concludes that the so-called deadweight problem can be overcome (only to some extent) by selectivity in regional assistance, or what others have called "strategic intervention" or targeting (see, for example, NSW Government 1998). Armstrong states:

High levels of deadweight are found in all types of regional policy and this remains the most potent of the arguments for selectivity (Armstrong 2001: 250 check).

The deadweight issue has been raised in relation to Australian decentralisation incentives. According to a Rural Development Centre study, describing earlier decentralisation programs:

> Consistent with findings of other studies ...for most firms the decentralisation grants offered under various NSW schemes operating at the time represented a welcome addition to start-up capital rather than featuring as a major determinant in their decision to relocate. *It seems likely that most would have made the move anyway* (RDC 1993: 66; emphasis added).

EZs would seem to be at least partially prone to the deadweight problem to the extent that open-ended tax incentives are used to attract firms to the EZ. In fact, an early study of UK EZs stated as follows:

> … the amount of economic activity attracted to the zones has increased from 295 firms and 2 884 jobs in 1981-82 to 474 firms and 5 035 jobs in 1982-83. Although probably three-quarters of the firms would be operating in the same county and 85 percent in the same region if there were no zones, between 4 and 12 percent of the new firms would not have been started without the zones. Perhaps 10 percent have achieved higher levels than they would have without the zones. The zones create small pockets of advantage in local economies that are much larger (US Department of Housing and Urban Development).

This raises a number of issues. However, it is clear from this study that the number of firms locating in the EZ and of jobs created that would have occurred anyway is very substantial, confirming fears about deadweight effects in EZ policies.

Another factor at work, not unrelated to the deadweight effect, is the impact of national economic conditions on location decisions, and the role of national factors as a modifier of regional outcomes.

As DeMott points out, in relation to US EZs:

> Complicating the assessment is the fact that the impressive gains made in the 1980s by the zones were attributable in great measure to a strong national economy. But businesses in the zones were no more insulated from the recession than those outside.
>
> Hard-hit states like Maine gave up on enterprise zones altogether, even though they received widespread support (DeMott 1993: 21).

Hence the effect of any attempts to concentrate development in specified locations will inevitably be greatly influenced by market conditions.

Enterprise Zones May Simply Move Economic Activity from One Region to Another

An enduring concern about enterprise zones has been the fear that, if successful in attracting new investment to regions, it may be that the investment would simply be drawn from neighbouring (or other) regions.

According to the Department of Business and Regional Development, for example:

> … if an enterprise zone facilitates employment growth and investment, is this likely to be at the expense of other (contiguous) areas, and does this mean an inefficient spatial distribution of economic activity? (Department of Business and Regional Development 1993: 35).

This is the fear of the "zero-sum" outcome.

As the ACCI argues:

> Success in one region at the expense of another because of government policy would not only be bad policy but also politically very unpopular (ACCI 2001).

It is arguable that such political problems were close to the heart of the failure of growth centres, which were similarly spatially selective and could be seen as distorting location decisions.

The ACCI compares the EZ proposal to the bidding wars that occur between States. There has been a long term debate about the merits of the various States and Territories competing with one another to attract investment

Businesses Locating for the Wrong Reasons

It has also been argued (ACCI 2001) that EZs would result in economic distortions. Communities just outside the EZ might be disadvantaged, and businesses might locate just within the EZ for the wrong reasons.

While the stated objective of EZs is to build regional competitive advantage, the mechanism chosen to do so – geographically specified tax breaks may, perversely, have the opposite outcome, by encouraging firms to relocate just to save tax payments. Some firms which formerly received payroll tax rebates have indicated that they only moved in order to comply with a decentralisation ethos, not for economic reasons. Such firms are asking for trouble, by relocating for reasons other than sound economic principles. Firms should be locating for the right reasons.

Will Businesses Simply Move On Once the Enterprise Zone Period is Over?

The US has a strong tradition of bidding wars among States. There is certainly some evidence from the US that businesses attracted to lower cost States move on once the period of incentives runs out. While the costs of relocation are considerable, this concern is not without some justification.

Policy Choices – In What Measure Should Governments Assist Declining and Growing Regions?

Governments face numerous choices as to how they assist regional development, and have a number of policy instruments at their disposal. Some of the decisions to be made about policy options include the following:

- Should policies be "top down" or "bottom up"?
- Should the approach be "scatter gun" or spatially selective;
- What should the levels of assistance be?
- Who should receive the support – businesses, communities, industries or regions?
- Should infrastructure be provided, and how much?
- How long should any assistance be provided for?
- Should the assistance necessarily be financial?

- Should assistance be for regions to grow their existing competitive strength(s), or rather be devoted to broadening the region's economic base?
- Should assistance be mainly for recruiting new, outside firms, or growing existing businesses? and
- What should the balance be between investment attraction and capacity building?

The choices faced by practitioners at the local level are equally daunting, and there are no obvious answers.

Clearly, the answers to these questions relate partly to what the objectives are. There are many policy choices faced by governments at all levels, of which the type of region to be assisted is only one.

The question of whether to support declining regions of growing regions relates to the second of the choices outlined above. Assuming a government chooses to be spatially selective, it needs to determine which kinds of regions to support. How government should make this choice is not obviously apparent, unless the choice is related to objectives.

And if the choice is to support poorer regions for equity regions, why not go all the way and actually punish growing regions? Supporters of EZs, I am sure, would argue that the real objective is to raise the performance of all non-metropolitan regions in relation to Sydney or the other capital cities. Yet helping places in decline may not be the best way of achieving this objective. (This is why it is important to spell out one's policy objectives).

One of the stand-out features of EZs is that they seek to reduce regional disparities through an equity based approach.

In this, they are quite distinct from the concept of growth poles, where governments tried, seemingly not very successfully, to encourage growth in the 1970s. Here the motivation was more economic, though in practice there might be mixed motivations for regional policies.

The retort may be that governments should help both growing and declining regions. Yet this argument ignores the reality that all policy actions have an opportunity cost, and that government resources are finite.

The question therefore arises, where should governments direct taxpayer funds earmarked for regional development?

While equity is certainly a driving motivation in regional development, addressing the problems of poorer regions can only ever be part of a strategy to encourage regional development. It is also important to assist regions with strong growth potential.

This is particularly the case for those who argue for "balanced development" between city and country. This was at the heart of the growth centres debate in the 1960s and 1970s. A scatter gun approach of spreading regional assistance thinly was rejected in favour of getting a better development "hit" by concentrating development around "growth poles". In some ways, the principle of EZs is similar to the growth poles approach, in that there is a geographic concentration of effort. Yet the focus is very different at the same time. In the case of EZs, the effect of the policy, if successful would be to level the playing field among non-metropolitan regions rather than between city and country.

Hence there may well be a paradox at the heart of EZ thinking. If the aim of the exercise is to diminish the apparently growing imbalances between city and country – and this does seem to be a primary motivation of supporters of EZs (see, for example, WRI 2000: 10-12) – a better way of achieving this may be to strengthen those areas most likely to attract new investment, not to focus on those least likely to.

The reasons why governments would want to focus on "winning" regions rather than "losing" regions are clear. They like to see results for spending taxpayer dollars. They also genuinely want to see the benefits of economic growth spread from the city to the regions (NSW Government 1998). Again, people in growing regions are not likely to favour an EZ approach (see Sargeant in Port Macquarie News 2001). Yet there may also be a strong argument for those who wish to see regional Australia doing well to support the same approach.

Hugonnier has also expressed concern that pouring massive amounts of assistance into lagging regions has "... favoured a culture of dependence on assistance and multiplied obstacles to development" (Hugonnier 1999: 6). Looking at the Mezzogiorno region in Italy as an example, Hugonnier noted that, despite much assistance, disparities in the region actually widened over a 15 year period (Hugonnier 1999: 6).

Current State governments have chosen a more balanced approach, providing targeted assistance to both regions facing difficulties (RETS) and to regions with growth potential (CCGS). The Commonwealth, through its recently released Sustainable Regions Program, is currently more focused on regions in decline.

A related question concerning policy choices concerns the fact that the EZs approach, at least insofar as it provides business incentives, focuses very much on <u>the firm</u>, rather than the region's <u>business climate</u> generally. While it is firms that will create new regional jobs, providing the assistance to the firms themselves directly may not be the optimal use of taxpayer funds. Current approaches do provide assistance to firms (the Regional Business Development Scheme in New South Wales), but assistance to regions more generally to encourage a better business climate is arguably more important.

Alternately, assistance might be still directed to the firm, but used to address specific, identified problems experienced by regional enterprises, such as skilled labour shortages, training, infrastructure, management skills, business planning, export development, and general advice and support. These are already currently provided through a number of State schemes.

Other Problems with the Enterprise Zones Argument

There are a number of other criticisms of the EZ proposal that have been raised, or can be raised, including the process by which EZs are identified, the potential impact on locations of labeling them "distressed", the lack of recognition of the impact of current approaches, taking the politics out of regional development, and constitutional issues.

Measures of Regional Well-being

According to Apthorpe:

> If we look at a typical EZ in the USA, it is a designated census district which falls below the national average in employment rates, household income levels, real estate growth, contributions to GDP and accepted poverty levels. If the area scores below these averages, it is designated as an Enterprise Zone for a period of say 15 years (Apthorpe undated: 1).

There are a number of immediate questions arising from this description. For example, does the region concerned have to fail the test only on one count, or on all? Does simply falling below a national average really indicate genuinely distressed status worthy of government assistance? Are the measures adequate and complete? If a region is to receive assistance simply for being below the national average, then a lot of regions will become EZs.

EZs rely for their operation some form of measure of "regional well-being". In fact, the case for EZs rests on an assumption that regional well-being can be known and measured. Is this the case? In fact, measuring regional well-being is quite a problematic exercise.

Can the one measure cover all cases of "depression"?

There is considerable debate about how to measure "regional well-being". Walmsley and Weinand have noted, for example, that "... there is no consensus on what comprises a definitive set of social indicators (Walmsley and Weinand 1997: 74).

This could prove to be a difficulty for EZ planners.

Sorensen has claimed that:

> ... there are serious deficiencies in the variables used to measure regional well-being. Most studies are, in fact, only assessing selected regional conditions and omit many important considerations." (Sorensen 2000: 5).

For example, it may be that hidden income not normally considered as part of measured household income may cause significant variations in notions of distressed regions.

How would the EZ Commission (proposed as the body to determine which regions qualify) weigh a certain amount of unemployment against rural depopulation, for example? Which would signify the greater degree of "distress"?

Reliance on standard indicators may mask real decline. What about a region with extremely low unemployment but which has experienced substantial out-migration? What about a regions with high unemployment but also high population growth? It may make little sense to compare these two kinds of regions. A third case may be a region which is steadily losing young people, but gaining retirees, who might be seen as contributing less to the local economy. Yet the population would show little if any decline.

Measuring income need not be an accurate indicator of wealth, for example. Equally, differences in income between regions may ignore the fact that the cost of living also varies from region to region (for example, Sydney real estate). Also, different people, households and businesses value different indicators differently.

Some economic and social indicators are static, others dynamic (in other words, they measure changes in well-being over time). Do you measure well-being at a given time, or over time? If over time, what is the appropriate time period for measurement? Is two years of population decline sufficient? Or must it be five years? How long must a region have high unemployment to qualify, and how would the EZ Commission justify its choice? How high is high unemployment? Would a shortage of skilled labour in a region – in other words, too many jobs – be regarded as a regional problem deserving EZ status? This very problem has occurred in Griffith in recent years.

Some regional problems might be very short term, and capable of solution quickly. The Newcastle economy has recovered relatively quickly from the closure of BHP's steel operations there, for example, despite cries of doom and gloom at the time the decision was made. EZs offer a long term solution to what may be a short term problem, based on an assessment of well-being taken at a moment in time.

Another question is whether to use indicators that measure access or outcomes, or some mix of both. For example, which indicator of educational attainment of a region would have preference – access to schools or tertiary institutions, or the percentage of people with higher degrees?

And how does one measure intangible positives and negatives about regions? For example, do unskilled jobs count for the same as skilled jobs? What about environmental values, amenity, quality of life?

These issues are not matters of idle speculation. They are real issues that might determine which regions obtain funding and which do not. Hence, simply removing the decisions over who benefits from politicians may not solve the problems seen in traditional politically determined selection of targets for regional assistance.

As Sorensen argues:

> Well-being has inter-acting economic, social, cultural, environmental, medical, attitudinal, and geographical dimensions. The dimensions are internally multi-faceted, complexly interrelated and evolving dynamically. Except for the analysis of poverty, there is little agreement on the weights that one might assign to component variables, simply because lifestyle options and preferences diversify enormously with increasing wealth (Sorensen 2000: 5).

The "science" of determining regional well-being must be based on firm ground; otherwise the edifice of EZs collapses.

What about the well-being of urban regions?

Should the benchmark be the metropolitan region? If so, why? Ross Cameron MP has argued, controversially, that people in regional areas should not necessarily expect the same level of services as people who live in the city (Cameron in Grattan 2000).

The Western Research Institute (WRI) has developed an index of disadvantage for use in determining which regions qualify as EZs. Controversially, the WRI suggests that Sydney would provide "an excellent benchmark" against which to judge potential rural regions for EZ determination (WRI 2000: 32). Why this is so is not made clear. The WRI index includes reference to traditional measures, viz total unemployment, Aboriginal and Torres Strait Islanders unemployment, long term unemployment, youth unemployment, employment growth, poverty, median income, Gross Regional Product per capita, qualifications, and age (WRI 2000: 20). This, of course, takes the debate well and truly beyond simple unemployment.

Manning too has a list of possible measures of distress, including unemployment, poverty rates, household incomes, out-migration, ageing, job loss, housing vacancy rate, property values and Gross Regional Product per capita. Despite these, Manning argues that "unemployment should be the primary identifier" (Manning 2001: 75).

The issue of measuring regional decline or disadvantage may also have an important political implication for EZ supporters. I expect that much of the support for EZs is coming come from inland regions, as these are traditionally seen as places that have most difficulty in attracting new industry, and places that are losing population and services. They are the ones often said to be in "decline". Yet often, these places have low unemployment rates, which is the main measure referred to in the Manning paper. (Current rates of unemployment in the inland regions are generally very low, as noted earlier).

Conversely, regions with growing populations often also have higher rates of unemployment. Hastings Council is a critic of EZs, yet it has an unemployment rate that might attract EZ status.

It is therefore not clear whether support for the concept of EZs can be politically sustainable in the light of possible confusion over where the real targets of decline are, as determined by measures of regional well-being.

Labeling Places as "Depressed" Might Impede Investment Attraction

Would regions actually want to be designated as EZs? Such as designation may have the perverse effect of actually discouraging investment in these regions simply because of the negative connotation of being labelled as a "depressed" region qualifying for special government assistance.

One of the surprising developments in the quest to have EZs placed on the economic development agenda in Australia has been the apparent acceptance of the idea by local governments. This has been evidenced by the LGSA's strong support for the idea since 2000 at two "Whole of State" assemblies.

However, it is less clear whether the support for enterprise zones has been widespread among councils.

What is surprising is that EZs are for losers – for regions that find it difficult to attract investment other than through government largesse.

EZs are focused on what some might term "depressed regions". On the other hand, the NSW government – and probably most councils – would not wish to have their regions labeled in such a negative way. These are regions that are trying to attract new investment. Many regions in the past have reacted angrily at suggestions that their region is in some sense in decline.

Lack of Recognition of the Size or the Impact of Present Approaches – Is the Critique of Current Policies Justified?

While EZs, of themselves, need not be particularly interventionist – they were, after all, invented by Thatcher and Reagan – there is no doubt that their Australian champions see them as a means of moving to a far greater role for government in regional development.

Is such a move warranted? Are present approaches not working at all?

There is a serious lack of recognition of current regional policies in Australia evidenced in the LGSA/ICAA report, and this diminishes the Report's credibility considerably.

Most of the recent arguments for EZs that I have seen do not give due credit to existing government programs. In building the case for EZs, there has been little attempt to come to grips with what governments have actually been doing, and whether their approaches have been effective. This should be the starting point for any analysis of the current regional policy situation.

As a result, there has been no mention in any of the EZ literature of existing programs at State or Commonwealth level, nor any attempt to assess their contribution to regional development.

According to Sheppard:

> While US Government policy is generally regarded as a laissez-faire (sic), there are some 50 US programs relevant to regional business development, and Australia only matches two of those (Sheppard 2001).

This merely demonstrates that Australia has different programs, not that Australian governments have done less, or that their programs have been less effective.

For example, since 1995, the NSW Government has helped to create over 26 500 new regional jobs through \$5.54 billion in investment. This clearly indicates that many of our regions are certainly not doing as badly as is sometimes portrayed. It also suggests that the current approaches are working.

The Commonwealth Government claims to have spent \$28.5 billion on regional Australia since 1996 in over 300 programs (Anderson 2001).

The reality simply does not square with the picture painted by EZ supporters, whatever the imperfections and gaps in current approaches.

Taking the Politics Out of Regional Development

One of the claimed strengths of the idea of EZs is that they, in effect, take the politics out of regional assistance by enshrining enterprise zone "triggers" in legislation, or placing the determination of EZs in the hands of an independent Commission, rather than leaving it to politicians to decide which regions should receive what kind of assistance.

This is said to remove the political bias from decisions over which regions should receive development assistance. Is this really an advantage?

It firstly needs to be noted (as mentioned earlier), that many, if not most, existing Government regional programs rest on entirely objective criteria already. Typically, programs spell out criteria for assistance, and in many cases funding decisions are made by public servants according to how well applications meet the published criteria. The way EZs are to be selected (regions nominate themselves against agreed criteria) is actually not far removed from standard existing practice. So not too much should be made of the argument that EZs will depoliticise regional development.

Second, political reasons are traditional motivators for regional policies. They help explain why regional policy comes into, and goes out of, fashion. They are inevitable in systems where there are geographically based electorates. Often regions coincide with electoral boundaries.

Removing the politics from regional development would remove one of the prime regional policy motivators from government. It should be in the interests of all those who favour government involvement in regional development to give government as <u>many reasons as possible</u> to stay involved in regional development. Politically motivated initiatives may be just as valuable for regional development as the other traditional government drivers – economic, social (equity), and environmental.

Taking the politics out of regional development may simply amount to taking the "strategic" out of "strategic intervention".

Constitutional Issues

A number of observers have raised potential constitutional problems with the EZ proposal. EZ supporters counter that they have received legal advice confirming the constitutionality of EZs.

Section 99 of the Constitution states that:

> The Commonwealth shall not, by any law or regulation of trade, commrece or revenue, give preference to any one State or part thereof, over another State or part thereof.

Supporters of EZs have argued that legal opinions support the capacity of an Australian Government to fund EZs. This paper has provided far more important reasons why governments should be cautious about creating EZs.

Are There Two "Regional Australias" and Two Divergent Views of Regional Australia?

There seem to be two ways of viewing regional Australia, two views of the processes driving regional growth, and two ways of conceiving the proper role of government.

One view sees regional Australia as differentiated and certainly not in universal decline. It sees regional development drivers as complex and subject to an enormous range of forces, many of which determine where industry and businesses locate, and few of which are subject to government fiat. On this view, government intervention should be selective and should seek to "make a difference", while not prejudicing the market. Inherent to this argument, though generally unstated, is the view that not all regions will prosper.

The other view see regional Australia as facing a "crisis", with many parts in terminal decline. This situation is said to be unacceptable, caused by government actions and inaction, and requiring substantial and direct government intervention. Such government intervention is, on this view, capable of turning around the declining fortunes of regions, even if at great cost to the taxpayer, provided the right "incentives" are in place for industry to relocate or expand. Inherent in this argument is the view that all (or at least most) regions should prosper.

Most governments currently subscribe to the former view. Supporters of EZs subscribe to the latter view.

Sorensen's argument emphasises the complexity of regional development processes and links this to a limited role for government. Sorensen refers to:

> … processes of exceptional complexity over which governments exert only partial control or influence… the changes occurring have benefited some individuals and regional communities while causing others to perceive deep-seated economic and social disadvantage. The latter's exasperation at governments' seeming inability to improve their living conditions has fuelled the political revolt sweeping rural and regional Australia (Sorensen forthcoming).

The differential impact of change, with the co-existence of booming regions and declining regions, as well as suggesting certain kinds of policy responses, has given rise to two distinct regional responses and mindsets.

Regional Australia, regional businesses and regional interest groups seem to divide into those who see a positive future for regions, and are active in driving their local economies and are involved in their communities, and those who see decline all around them and generally blame governments for it. The former do not shun government help, nor do they rely on it. They see opportunities in globalisation, and believe that many regional communities can prosper in the future. They understand the complexity of regional development. They are likely to hold non-traditional, community based leadership positions. Their focus is generally not on the relationship between their own community and the remote capital city. They probably do not think much about the role of government in regional development, other than to apply for grants under government programs.

The latter tend to look for top down solutions, see State and/or Commonwealth government inaction (lack of "leadership") as part of the cause of regional problems, and tend to look first to a central government for help rather than to within their own community. Political action is more like to come from this group, as are solutions such as EZs. Their membership, it is safe to say, is more likely to come from traditional community leaders, for example from local government. They think often about the role of government in regional development. There is a strong focus within this group on the relationship between the capital city and the "bush".

This may be seen as an over simplification. There are many regional communities and leaders who are active in local development and positive about their futures, but who would still like to see far more government intervention. However, the bifurcation of views does exist, and sometimes it is difficult to see if members of the two groups are really talking about the same regional Australia.

Clearly, this paper sees supporters of EZs as tending to belong in one group rather than the other, and indeed representing a particular view of the problems confronting regional Australia.

Conclusions

The case for EZs ultimately fails, on a number of grounds, despite the good intentions of those who support them:

- While the philosophical position of those who support EZs may differ from my own, they have not done sufficient to demonstrate that their support for substantial government intervention is warranted;

- The argument for EZs does not get to the heart of the problems confronting regional Australia – the diagnosis of the problem is misconceived;

- It is by no means clear that regional Australia is generally "in decline", or that the "problem regions" identified (those with high unemployment) are threatening "national disintegration";

- The central assumption that greater government actions can and will effect better regional development outcomes than current approaches ignores the complexity of the processes driving regional development;

- The core argument that tax incentives will be effective in driving location decisions – otherwise why bother with EZs? – is shown to be hollow;

- Theories of location decisions and of regional growth and decline are plentiful and go a long way towards explaining these phenomena;

- These theories, for example those relating to agglomeration economies, also suggest how difficult it would be to turn around declining regions;

- Empirical studies confirm the suspicion that government programs do not, by and large drive investment decisions;

- The reasons for regional decline in Australia – in those areas that have declined – is far more complex than simply ascribing it to "economic rationalism";

- There is no way that an objective observer could possibly conclude that EZs have "worked" in the US , or that the EU approach of massive government subsidies has delivered unambiguously positive regional outcomes in proportion to the dollars expended;

- The potential problems of economic distortions are inadequately dealt with, particularly in relation to deadweight effects;

- There is too little focused analysis of current approaches and an ignorance of government programs;

- Measures of regional well-being are fraught with problems, and in any case it is by no means obvious that the regions favoured by EZ supporters as candidates for assistance will be the ones that an analysis of distress will throw up.

- There is general confusion over the objectives of the EZ policy – is it about regional Australia or problem regions?

Supporters of EZs favour looking to government for regional solutions. Their view of regional Australia contrasts with the view that regions should simply get on with the admittedly hard grind of making their local economies work better, working in partnership with governments.

There is a strong suspicion that EZs are the latest in a long line of policy recommendations that have at their core resentment of primate city dominance of the economy and population – Windsor's feedlot analogy – which effectively ignore the reasons why policies have changed since the 1970s, and skirt around the complexities of regional development.

Perhaps the appeal of EZs is that they appear to be "doing something" at a time when regions seem to be in decline and governments are not apparently "doing something".

But is this enough to justify them?

Simple solutions may help solve simple problems. But simple solutions will not generally be so effective if the problems are complex. Regional economy growth is driven by factors such as business costs, the size of the local economy, local industry structure, the competitiveness of local firms, critical mass, the amenity of the region, history, institutional support, infrastructure, the business cycle, national economic conditions, demand for the region's products, external shocks, and industry diversity. Regional development is not simple.

This paper is as much an argument against the glib acceptance by interest groups that EZs will work, and that other policy approaches are either ill-conceived or ineffective, as it is an argument against EZs themselves.

It is ironic that supporters of EZs describe their approach as "new" and deride the "old ways" of regional policy. And yet a colleague has described EZs as a "1960s solution". Much of the thinking behind EZs – top down, massive assistance, recruiting outside firms, focus on declining regions – harks back to an earlier period before governments all around the globe decided that more sophisticated approaches to regional policy were required.

Governments face difficult policy choices and have finite resources. There are serious questions about which regions to support, whether to focus on firms or communities or industries or whole regions, and how much to intervene. Governments have not always got regional policy right. There is always room to do better. There are many real "market failures" in regional areas, many real problems to be solved.

But the analysis contained in the case for EZs is not sufficient to suggest that is approach to regional policy warrants serious consideration by governments in Australia.

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Great Expectations: What Regional Policy Can Realistically Achieve in Australia

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Introduction

There is continuing faith among many observers of regional development, both academics and interest groups, in the capacity of central governments to deliver better outcomes (variously defined) in non-metropolitan Australia. Not unrelated, there is also widespread support for more interventionist policies than exist at the moment. Suggestions range from European Union style big spending approaches, through national frameworks for urban and regional development, to better regional "governance" and proposals for US style enterprise zones.

Possible moves by governments towards significantly greater intervention should be treated with great caution, and, in the end, resisted. In other words, we should adopt what the environmentalists call the "precautionary principle" in relation to regional development policy.

This is not to argue that governments have "got it right" in Australia in relation to all the detail of regional development policy, but rather that the current policy consensus across most jurisdictions, favouring "limited intervention", is wise.

This is because, first, the capacity for governments to intervene effectively to achieve substantially different regional outcomes to those characteristic of the present spatial economy is massively constrained by a whole range of factors.

Second, there is genuine and unresolved debate in Australia over what the core aims of regional policy should be, and what the really important regional development problems are. There are those who seek to equalise economic development outcomes across what are argued to be increasingly differentiated regions. There are others who support a "national" regional policy framework with far greater Commonwealth involvement. (The difficult part here, of course, is determining what objectives should be in the framework and how they would be achieved).

Then there is the old decentralisation objective favoured by country interest groups who simply want to "even things up" between city and country. The most prominent approach previously tried here was the "support the winners" approach of the selective decentralisation schemes of the 1970s, which seems at odds with the "support the losers" approach of those concerned with regional inequality per se. Again, there is a school of thought that sees regional <u>economic</u> development as only one part of a proper sustainable development outcome.

Third, limited intervention is wise because there is often a relatively unsophisticated understanding of the processes ultimately driving regional development, and a lack of agreement about growth drivers even among the "experts". There are, conservatively, at least two dozen plausible, partial explanations of regional growth and decline discernible from the regional science literature and from the accumulated wisdom of practitioners. No one really knows whether, or in what proportion, these various proffered explanations really account for regional development outcomes. How, then, should governments determine how best to "make regional development happen" on a grander scale than their current, very circumscribed, interventions?

This approach may strike those who see neo-liberals under every bed as an inadequate basis for formulating regional policy. Rather, it reflects an assessment of what governments can actually achieve in relation to spatial economic outcomes, a recognition of the significance of the absence of agreed policy objectives, and an understanding of how regional policy has actually developed in Australia over the last three decades.

The paper addresses the issue of the unrealistic expectations placed on regional policy by those who see spatially even development as attainable and desirable. It does not specifically formulate or seek to justify answers to what might be termed the four great questions of regional policy:

- What are we trying to achieve (or how do we measure success)? Or, what is the "regional problem"?
- Who is responsible for regional development?
- What drives regional development?
- What works in terms of programs and strategies?

Its more limited task is to provide a reality check against inflated expectations, though it may, incidentally, inform a resolution of these questions.

Views as to the proper role of government in regional development are conditioned by (at least) three things – by philosophy, by one's take on the nature of the problem (for example, by one's perception of regional conditions), and by one's understanding of the capacity of government to intervene effectively.

While there could be endless and ultimately fruitless debate about the first, and vigorous and inconclusive debate about the second, in relation to the third, I hope to establish that it is an open-and-shut case. In other words, I contend that properly understanding the constraints on regional policy makes anything more than limited intervention in regional development ultimately futile. This means that most governments in Australia have currently got right the level of intervention in regional development.

This argument cannot show that "limited intervention" is the "right" regional development philosophy, merely that it most closely fits regional development realities. Nor do I intend here to discuss in depth the state of regional Australia (see Collits 2002; Collits 2004a forthcoming).

The question is fundamentally about "intervention", which itself is a problematic concept. For example, is the issue simply "more" interventions, or is it about "better" intervention, or more costly interventions, or interventions to achieve bigger objectives? Often, more government spending is assumed to lead to better outcomes, or at least to indicate "seriousness" of policy intent on the part of government. But the picture is far more complex than this (see Bureau of Transport Economics 2003).

These are themes to which the paper will return. There could be profitable debate about what are the best <u>forms</u> of intervention within a framework which argues that the overall <u>level</u> of intervention currently practised by Australian governments is appropriate.

Great Expectations

What is regional policy? Regional policy, for the purposes of this analysis, might be defined as the deliberate attempt by government to influence regional outcomes, either in relation to the economy, the community (however defined) or the environment, or all three, with varying objectives that generally relate to some notion of "regional well being". (Government actions affect regional outcomes in many ways. The concern here is about deliberate regional policy). And in the context of Australian policy, regional has generally meant "non-metropolitan" (Collits 2003a).

Some of the objectives variously sought in regional Australia have been:

- A more populated inland;
- Less regional out-migration;
- Retention of more young people in regions;
- Less dominant capital cities;
- Halting the decline of small towns;
- More States;
- A more favourable regional business climate;
- Regional "well being";
- Lower regional unemployment;
- Greater regional employment growth;
- Greater diversity in the economic base of regions;
- Fewer inter-regional disparities;
- Better regional services;
- The creation of new industries to replace those in decline;
- Reducing the country-city divide;
- Sustainable development;
- Higher regional incomes.

While these objectives have all variously been urged on government with vigour, they might be reduced simply to two overarching goals – decentralisation and reducing inter-regional disparities. The former has dominated regional policy debates in Australia (Collits 2002a). It is only in the last twenty years that the more familiar overseas policy concern of reducing (even recognising) disparities has come to dominate discussions, even though the decentralisation urge remains strong in many inland regions. The recent persistent campaign for enterprise zones is but one example of the growing insistence that governments address spatial inequalities through greater intervention (Collits 2001).

Regional Australia is sometimes seen as being in inevitable and widespread decline. It has been described as a "land of discontent" (McManus and Pritchard 2000; see also Gray and Lawrence 2001). Seemingly, many in regional Australia resent the fact that governments are not doing more to address their perceived needs. An examination of the demands on government listed above shows that they are, indeed, great expectations. The analysis below, however, will demonstrate that the expectations are too great.

Governments, on the other hand, have been more comfortable pursuing what might be termed "bite sized" regional policy objectives. Perhaps recognising their limitations as agents for regional development nirvana, they have tended to eschew the big canvas outcomes in favour of more prosaic, but achievable, policy objectives, for example helping to create or retain regional jobs; assisting businesses to start up, grow or relocate in regional locations; or working in partnership with communities to develop strategic plans for economic development. Without saying as much, governments have attempted to downsize expectations to match what they believe they can deliver.

There are three identifiable sources of great expectations in the Australian regional policy debates. The first belongs to regional interest groups and their consultant offshoots, reflecting a combination of self-interest and frustration at poor regional performance. The second belongs to academics and others who hanker after a Whitlam-style commitment to righting society's ills, specifically here spatial ills, and tend to blame "economic rationalism" for governments' retreat from the big picture. The third belongs to populist country politicians that criticise economic rationalism and promise their constituents a stronger defence of their "way of life". The key argument of the three groups is that the perceived poor condition of areas of regional Australia, even most or all of regional Australia, is the result of <u>policy</u> failure.

The following analysis seeks to test whether the many demands on government for greater intervention to achieve better regional outcomes are based on a sound analysis of what governments can do effectively to intervene in regional development.

The Key Constraints on Regional Policy

Tony Sorensen wrote in 1993 that:

> These macro-events are not just some minor and shadowy influence on place prosperity. They are a dominant influence, if not *the* dominant influence. It is probably safe to say that a five cent decline in the value of the Australian dollar against its US counterpart … will help the economy of rural Australia more than all the formal State decentralisation programs of the last ten years put together (Sorensen in Sorensen and Epps 1993: 226).

He described this state of affairs as "the tyranny of the macro". Elsewhere, Sorensen has argued that the increasing complexity of regional processes has profound implications for attempts to shape regional outcomes through policy interventions (Sorensen 2000; see also Hill 2002b). I have argued previously that what governments should do in regional development is constrained – heavily – by what they can do (Collits 2002a, 2002c).

The ultimate purpose of this paper is to explore the tyranny of the macro in some detail and to examine its full significance for regional policy, in particular for arguments that the state should do more to resolve regional disparities.

Governments Generally Can Only Influence Outcomes Indirectly

The reality of regional policy is that, on most occasions, governments are dependent on other players to deliver the outcomes that they and their stakeholders want. Regional development practice is driven by firms, investors and households that make location decisions based on a whole range of factors; by local government, which can be a force for good or ill in relation to creating a positive business climate; by the increasing number of local economic development practitioners who themselves try to facilitate development; by community groups and business organisations; and by regional development corporations and similar bodies.

Generally governments fund the projects of these other players, or fund firms, and the results of the intervention are in their hands. Alternately, governments fund infrastructure or attempt to influence the business climate in various ways, for example by lowering taxes. Governments also increasingly attempt to "skill up" communities in economic development practice, through funding and technical support. Again, there is no guarantee that their interventions will have the desired outcome. Any relationship of cause and effect is indirect.

The word most often used (perhaps) in recent times to describe what governments try to do in regional development is "facilitate". Another is "partnership". This applies to assistance that is given to firms, to communities, to industries and to regions, and recognises the severe limits on government influence on regional outcomes.

One example of the is the experience of payroll tax concessions in New South Wales in the 1980s (Collits 2001). Despite the expenditure of nearly $200 million over twelve years, relatively few company relocations occurred as a result of the assistance. The reason for the intervention – decentralisation of manufacturing firms away from Sydney – was left unfulfilled.

Open-ended assistance is particularly prone to what economists refer to as the "deadweight effect" (Collits 2001). This will be described in more detail below. Wasted resources through programs and policies that do not achieve their intended outcome simply remind us that governments cannot themselves make regional development happen directly, and this is a severe constraint on regional policy.

Other Things Have a Far Greater Impact

The contribution of government intervention to regional development sites alongside far greater economic, social, cultural and demographic forces. There is a huge impact on regional outcomes of other, non-regional policies and from processes that governments cannot control, especially in the age of rapid globalisation (Ellyard 2000; Sorensen 2000). This is what Sorensen was largely referring to in his notion of the tyranny of the macro. Ten years of regional policy impacts might be overshadowed by a single currency devaluation.

Yet it is not just the forces of international commerce that constrain or encourage regional growth. The operation of domestic markets, the level of national economic growth, the decline and appearance of new industries, the existing settlement pattern, history and geography, demographic movements, and, increasingly, social and cultural change, all determine the capacity of regions to grow.

Regional conditions vary over space and time. In an area where interventions may not yield results for many years, the impact of local conditions in the intervening period may alter the trajectory of growth in all sorts of ways that make it impossible to untangle the impacts of both government interventions and other drivers of growth.

Regional realities largely determine to what extent governments can intervene effectively. The realities include the following:

- Places with scale, a diverse economic base and global connectedness, seemingly, will do best;
- Most people in Australia prefer to live near the coast;
- Regional economies are open and interdependent with other regions – migration of resources between regions is the norm;
- Non-metropolitan regional economies lack scale and diversity;
- Both local and outside influences constrain and allow regional economic development;
- Globalisation favours big cities and regions;
- Most young people and skilled people prefer places with excitement, higher wages and thick labour markets;
- Old industries die and new industries are created, not always in the same places.

Big picture drivers of spatial change matter. What is happening in the world cannot but affect regional development and the capacity of governments effectively to intervene. Change has inevitable, complex, unpredictable and diverse spatial consequences. While the changes are largely the result of the actions of individuals, households and firms, communities often simply have to accept that significant contributors to their fate will come from outside.

Economic, demographic, social and cultural changes of massive proportions are occurring and regions are caught up in the cataclysm. Authors such as Joel Kotkin and Richard Florida have written persuasively about the new spatial dynamic that flows from these changes (Kotkin 2001; Florida 2002). These include, but are not confined to the following:

- Outsourcing – firms are increasingly downsizing and leaving to others things that were once regarded as their own core business;
- Business and personal services are driving the new economy;
- The new economy has brought a new style of working and new labour relations, typified by the casual dress codes of the dot-com era;
- Business is done in the coffee shop as well as the office;
- The world is more global and local, and less national;
- Careers are increasingly horizontal, and skills necessarily portable, with greater job mobility and movement between sectors;
- Instant response communications have revolutionised the workplace, ushering in the time driven economy. This has increased the pace or work, and reduced

traditional barriers between office and home – work is more exciting, if never ending, for members of the creative class;
- People are living longer and the baby boomers are approaching retirement;
- Many people are wealthier now, even though they work harder – rising affluence is shaping lifestyle choices and, in some cases, location decisions;
- Two income families are the norm;
- People are increasingly mobile, both within Australia and from overseas;
- Multiculturalism is a fact of life for most Australians, and this is changing attitudes, aspirations and spatial dynamics;
- There are now more, not fewer, reason for young people to seek out the three E's – excitement, education and employment;
- Social change has driven a faster rate of household formation, creating new dynamics in cities;
- Amenity matters;
- The workforce has been feminised;
- Environmentalism is accepted by an increasing percentage of the population;
- The cost of transport and communications is forever declining;
- There is increasing tolerance of alternate lifestyles and cultures;
- The middle classes have dramatically increased their wealth, especially in metropolitan locations, often on the back of real estate investments, freeing up people to relocate, retire early, and/or move to part-time work;
- People increasingly value education – there is an emerging cult of lifelong learning;
- People expect more now from the places they inhabit;
- The internet has changed everything.

The implications of all this for the space economy, and for the ways in which government intervention works, are mind boggling, and would require a book-length analysis. However, one can say that business has changed, individuals have changed their career paths, social relationships have changed, and these all have their own spatial consequences. And under the new regime, it is widely accepted that knowledge workers that are the standard bearers of the new economy.

The trends affecting regions are economic, social and, importantly, cultural. The spatial pattern of economic activity is increasingly shaped by economic, social and cultural drivers that are interlinked.

The big change has been the fallout from increased national and global competition. Outsourcing and downsizing means increased uncertainty about jobs and careers, less commitment between firms and individuals, and consequently greater career shifting. Individuals wanting to play it safe are more likely to locate in thick labour markets with multiple job opportunities.

Social change is critical and under-noticed in relation to regional survival. Some critical changes that have occurred include the increased value placed by society on education. One of the great changes in Australia in the last twenty years has been the growth in importance of education. The increased importance of education is reinforced by the growing realisation by people that they will change jobs, even careers, several times in their lives. Such a realisation leads to lifelong learning and the need have ready access to educational facilities.

All of these changes seem to favour places with scale and with global connectivity. Working together, they threaten the viability of small, insular, mono-cultural, static, unattractive, unchanging communities. Migration has increased, transforming countries like Australia's into multicultural societies. Places like Sydney are genuinely global in this sense.

Counter-urbanisation has occurred on a grand scale, with sea changing and down shifting and lone eagles and now investors going bush. The winners have largely been places close to the cities, places on the coast, and larger inland centres.

Government policy can influence some of these trends, but in indeterminate ways, and largely not through regional policies. Equally, regional policies cannot help but be dwarfed by the big picture changes that are occurring at an increasing rate and uprooting traditional spatial dynamics.

Other Policy Areas Are More Important to Government and Have Their Own, Non-regional Objectives

Regional policy is notorious for its waxing and waning as a core policy interest of governments, as non-spatial factors drive the issues generally regarded by voters as most important. Often, governments have seemed little interested in regional outcomes, although arguably this has changed over the course of the 1990s. For example, in the 1980s, regional policy at Commonwealth level took a back seat, first to industry policy and macro-economic reform, then to micro-economic reform. The mid 1990s saw a similar retreat for regional policy, this time (in part) at the hands of competition policy.

Often, regional development is accorded junior status within government administration, susceptible to machinery of government restructures, and is not accorded the coordination powers that many would argue are essential to achieving a greater policy impact.

And the fact is that the other, more prominent areas of policy have positive and negative, and often unexpected, impacts on regional well-being that far outweigh regional policy's impact. The areas in which government policy affects regional economic development include the following:

- Monetary policy set by the Reserve Bank;
- Taxing and spending policies;
- Changing levels of industry protection;
- The location of government functions and employees;
- The spatial distribution of capital works spending and infrastructure;
- National Competition Policy;
- The delivery of services;
- Higher education funding;

- The privatisation or corporatisation of government owned utilities.

Governments have recently sought better to inform themselves about the regional impacts of their decisions, through devices such as regional impact statements on Cabinet submissions. This is a recognition, both that regional impacts are politically sensitive, and that government decisions have spatial consequences that often far outweigh what can be achieved through designated regional policy.

What this means is that regional policy's reach is circumscribed by the realities of government. This has sobering implications for the great expectations of the regional policy true believers.

We Don't Know What Ultimately Drives Regional Development

Perhaps most importantly, there are conflicting theories and a lack of consensus over the drivers of regional success. If governments and regions do not know exactly which drivers of regional growth are the most important, which levers are they to pull, and with what intensity?

Traditional theories from the regional science literature help explain how regional growth occurs and why some regions are more successful than others (Collits 2002a; SGS Economics and Planning 2002). Industrial location theory, for example, helps explain why firms locate in particular regions. Central place theory accounts for settlement patterns and hierarchies. Supply and demand side theories such as export base theory suggest reasons for regional growth and decline. Growth poles theory, and its more recent descendant, clusters theory, suggest that agglomeration economies result in lumpy economic growth across the space economy. Growth occurs around nodes. Business is attracted to larger market areas. Core and periphery and cumulative causation models underline the ways in which regional growth and decline can be reinforcing.

Traditional thinking emphasised the least cost approach to business location, and regional growth. In the 1980s and 1990s, thinking about what drives regional growth has taken a number of new and interesting directions. There has also been a renewed recognition of traditional growth drivers. Recent thinking, however, has challenged traditional approaches on a number of fronts, for example through new growth theories that elevate knowledge to a prominent position in explaining regional development, through the "new regionalism" with its emphasis on tacit knowledge and networks, through social capital theory or through human capital theories like those of Florida (Florida 2002; Collits 2003a; SGS Economics and Planning 2002).

Many of these theories provide powerful explanations for regional growth, and they ring true of regional circumstances in New South Wales. For example, Sydney's dominance reflects both cumulative causation and core-periphery explanations of concentration. Growth poles explain the fact that generally it is larger regional towns which are achieving higher growth. Florida's thesis about creative capital fits global Sydney like a glove. Putnam's social capital theory explains how some regional communities have built a positive future without massive growth, by focusing on community pride. Clusters theory is followed in a number of regional development strategies.

However, there is no single, unifying theory that explains regional development (Collits 2002a). Nor do practitioners answer, once and for all, why some regions prosper while others decline, despite their many well-informed ideas about what works "on the ground" – for example, business friendliness, leadership and collaboration.

This all makes life extraordinarily difficult for governments, for communities, for economic development professionals and for those interested in evaluation.

What drives regional development, then? Is it the natural advantages of a region? Is it biophysical resources? Is it location? Is it proximity to a large market? Is it critical mass? In other words, is the size of the local economy important? Is it the presence of industries that are growing nationally? Is it economic diversity? Is it local leadership? Is it a welcoming business climate? Is it human capital, either in Putnam's version (social capital) or Florida's (creative capital)? Is it the passion of the community and its active involvement in local economic development? Is it being entrepreneurial? Is it collaboration among the key stakeholders? Is it having a positive attitude to change? Is it global connectedness? Is it having a local economic development agency? Is it having amenity and a high quality of life that appeals to "sea changers"? Is it being cosmopolitan? Is it a welcoming "people climate"? Is it infrastructure, such as the proximity to an international airport? Is it clusters of industries? Is it the existence of tacit knowledge shared among networks of connected firms and other regional players? Is it government assistance?

The anti-climactic, dissatisfying but profoundly important answer is that we don't really know. Theory doesn't tell us. Practice doesn't tell us either. And the evaluation of policy impacts has been an imperfect tool for a number of reasons as well.

It is tempting, and probably wise, to conclude that all of these elements are important to a region's success. I could show you a case study of every factor listed above at work in a given community. They are, at best, partial explanations.

The question then becomes, in what measure do they explain regional success? How do we know that a community's success was the result of three parts collaborative leadership and one part creative capital? Or the reverse.

Answering the "why" question is very important. It tells governments and communities what works, information which is critical in building strategy and devising regional program content. If we knew that leadership was very important, we would, surely, develop more leadership programs. If we knew that clusters were important, we would expend resources building clusters. And so on. Answering the "why" question is especially important since resources are limited, both in communities and in government. It also helps to determine where resources should be directed – to the enterprise, to the community, to the industry, or to the region.

There is No Consensus Over Objectives

The great expectations outlined above demonstrate the breadth and depth of regional policy demands. What is also significant is the fact that there is no broad consensus about which objectives should be pursued, in what measure or in what order. While those who demand greater attention is given to redressing regional inequalities are now in the ascendancy, there is a strong, residual decentralisation lobby who demand an end to the city-country divide. Of course, these two objectives need not be mutually exclusive, but they do, in practice, take government interventions in different directions.

Defining regional well being is at the core of setting regional policy objectives. Yet defining and indeed measuring regional well-being is not a straightforward matter (Collits 2001). Most regional interests would sign up for an agenda which included making regional communities more resilient, increased regional income(s), provided more jobs, increased populations, sustainability, and so on.

But which regions should be favoured? Those with the highest unemployment, or those with the best growth prospects, or inland regions which are losing population, or those whose residents have the lowest comparative incomes? Which industries should be favoured, and who should decide this? At what point should economic imperatives give way to environmental objectives? Should smaller towns be particularly targeted? Should governments concentrate finite resources on those businesses, communities and regions that are likely to provide the biggest taxpayer dividend, or on the worst off? Should assistance be denied to urban regions? Should the aim of policy to provide more jobs (any jobs), or better jobs?

When it is time to get one’s hands dirty, and to move beyond easily agreed motherhood commitments to “increasing sustainability” or “creating opportunity” or “reducing social exclusion”, or “increasing regional competitive advantage”, the questions start piling up, and they get trickier.

There are often multiple and ill-defined regional policy objectives, despite Armstrong and Taylor’s injunction to be clear about objectives (Armstrong and Taylor 1993). Governments, of course, have an interest in remaining vague about objectives, lest they fail to meet them and be held accountable, or at least to confine their focus to setting achievable objectives. And achieving a range of objectives simultaneously is nigh on impossible, in view of the complexity of the processes driving regional development.

The absence of agreed policy objectives and the political realities of government often mean that there is a reversion to solving visible problems. In this way governments can assign themselves a realistic role in addressing regional problems and more satisfactorily measure outcomes. Visible problems tend not to conform, however, to the great expectations of regional policy adherents, whose demands typically outweigh the capacity of governments to deliver. The absence of a consensus over objectives, either between governments and their regional policy critics and the interest groups that agitate for greater things, or among the regional interest groups themselves, and between different (often warring) regional communities, is a major constraint on achieving big canvas regional development.

Governments Need to Know if Their Policies Have Worked: The Challenges of Evaluation and Accountability

Then there is the problem of evaluation (Hill 2002a; Hill 2002b). It is difficult to know what works and to measure the impact of what governments do in regional development. Yet there are increasing pressures within government to be accountable for regional development assistance, to avoid charges that regional assistance is provided solely on political grounds.

How can we determine effectively whether a similar outcome might not have occurred anyway, in the absence of government intervention? This is the problem of the "counterfactual", of measuring what we do against an imagined scenario in which the policy intervention did not occur (Hill 2002a). Evaluation has not generally been a priority in Australian regional policy for a number of methodological and political reasons.

Effective evaluation is difficult; hence there is a tendency to evaluate the easier areas (individual programs) rather than the more difficult areas (overall policy impact on a region). Equally, there is a tendency to measure outputs rather then impacts. Several key problems emerge:

- As argued above, governments know that regional policy only indirectly affects outcomes;
- Often governments have many programs, both spatial and a-spatial, affecting a particular region. Disentangling the different effects of different programs is very difficult;
- We know that regional programs may take a long time to work. When is it all right to begin evaluating?
- Agencies have an interest in having their programs succeed and be seen to be successful;
- The tyranny of the macro is a particular issue for regional policy evaluation.

There are two central policy difficulties that proper evaluation should try to overcome – measuring displacement and measuring the deadweight effect of policies. The displacement effect refers to whether regional programs, to the extent that they create new economic development, simply do so at the expense of non-assisted regions or firms. The deadweight effect refers to those cases where the outcome could have been achieved without the intervention (Hill 2002a; Collits 2001).

Governments need to know that their policies are effective, and policy objectives are modified or amended through the experience of discovering what works. Policy should be evidence-based in the ideal world. In general, "great expectations" of the kind demanded in Australia will largely be beyond meaningful evaluation, and those limited forms of intervention more capable of evaluation rightly preferred by government.

Of course, not all regional policy interventions are susceptible of full evaluation – attempting to increase social capital in regional communities would be one example of this – and difficulties of evaluation are not sufficient reasons to abandon these programs. However, taxpayers and voters, particularly in regions that are doing well and generally do not need or receive regional assistance, will want to know that their contributions are making a difference. They will want clarity of objectives and measurable policies. The political reality is that governments, increasingly, will want to be able to show that their policies have worked, and hence they will be biased towards limited interventions (such as selective, targeted assistance with performance tests) that lend themselves to measurable outcomes.

Hence both the increasing imperatives for evaluation and the nature of the evaluation process itself bode ill for less well defined objectives and grander visions than those that governments currently pursue.

Ongoing Disputes over the Meaning of "Regional"

There is a lack of agreement over what "regional" means. As noted earlier, for most governments (with notable exceptions), regional in Australia has meant non-metropolitan. "Regionalism", the focus on sub-national geographic spaces, has not been well developed in Australia (Collits 2003a). Recently, though, regional governance and a focus on the "meso-level" of spatial policy, has become more prominent.

There are those who argue that regional policy should be applied to urban areas and cities as well as to the traditional Australian focus of policy – non-metropolitan areas (Gleeson 2001). Such a call, coming as it does while regional interest groups continue to urge governments to even up the country-city divide, suggests another area of fundamental dispute among regional policy adherents. To supporters of a greater cities focus, the insistence on regional policy's current preoccupation with non-metropolitan areas reinforces the politicisation of regional policy – that country interests carry more weight. To non-metropolitan groups, providing (more) policy assistance to cities for development would be absurd. This is one area where the city-country divide remains firmly in place.

At another level, disputes over the meaning of regional cause further problems for regional policy. This relates to the appropriate level of assistance. It is by no means clear whether, and in what proportion, help should be provided to enterprises, communities, or regions. At present, assistance is given at all these levels. But there is no consensus about this. The new regionalism (Collits 2003a) asserts that the "region", bigger than local government but smaller than States, is the appropriate level of responsibility. But this has by no means been clearly established.

Political Realities and the "Tyranny of the Announcable"

As noted, there is a waxing and waning of government interest in regional development. While in New South Wales, governments have generally continued the programs of their predecessors, at Commonwealth level in Australia interest has been far more sporadic. Yet even at State level, there have been times where regional policy has been of minor significance to government.

Politics necessarily intrudes upon, even drives regional policy. While this might seem like stating the bleeding obvious, it has important ramifications for regional policy. This is because the pursuit of “announcables” shapes policy priorities and actions, and helps to determine what regional policy objectives are pursued. For example, the attraction of governments to highly visible problems, and problems that are capable of (measurable) solution, has already been commented on.

Political realities in Australia include the following:

- Federalism is recognised by all as a constraint on policy development;
- Blame shifting occurs at will;
- The key objective for regional policy now is “change management”;
- Regional policy is largely about solving visible problems;
- New policy emerges through a process of “pragmatic incrementalism” (Collits 2002a);
- Governments are naturally extremely averse to picking regional winners, and have been since the days of the failed growth centres era. This is something that is not seemingly comprehended by some regional interest groups;
- Governments have a preference for “covering all bases” in relation to regional policy – that is, they do not see their role as only helping declining regions. This is very important in understanding regional policy dynamics;
- Regional development is not always a priority of governments – this is a critical constraint on policy, far greater than ideology, for example;
- As noted above, regional policy can take a long time to work, and as Sir Humphrey once said, government is about surviving till Friday afternoon.

Taken together, these characteristics of the regional policy process militate against addressing the great expectations of interest groups and others. Great expectations are processed through a political system that does not want to set itself up for failure, is naturally cautious and focused on management of expectations. Governments are both not well placed to set out to meet the great expectations of regional policy champions, and also not inclined to do so. The nature of the policy process is therefore an inhibitor of big canvas regional development.

Difficult Strategic Choices and Finite Resources

Related to the questions about what drives regional development are debates over the policy instruments to use to achieve regional policy objectives. The matter of “what works” is one of the fundamental questions of regional policy, and an issue of ongoing speculation among interest groups and regional policy observers. Again, witness the recent “enterprise zones wars”. Governments do not want to fund poor regional strategies nor do they want to use ineffective policy instruments to achieve their objectives.

There are multiple choices for policy makers over both strategy and which policy instruments to use. In relation to strategy, governments have, to a large extent, devolved responsibility to local and regional bodies. Central governments are loathe to be prescriptive about what regions should pursue, and as a matter of course fund all manner of regional strategic choices. There are, nonetheless, difficult questions of strategy without obvious answers. For example, should governments fund projects that seek increase economic diversity in regions over projects that seek to deepen existing competitive strengths? Strategic choices need not be mutually contradictory, but they can be.

Even if agreement were reached about strategic ends, which tools are best to use in their achievement? Grants or loans? Assistance to the enterprise? For what purposes? For how long should incentives be provided? Should governments subsidise capital or labour? How much resource should be directed at the community level?

As noted above, there are many levels at which policy can apply. Outcomes can be sought at the level of the individual enterprise, for example, or at the community level, or at the regional level so beloved of the new regionalism theorists, or at the industry level. In most Australian jurisdictions, programs cover all of these levels of intervention in what amounts to a "cover all bases" approach.

Summary and Conclusions

The above analysis provides a starting point for describing and understanding the very real constraints on governments keen to help regions prosper.

Despite the obstacles to regional policy, governments persist in attempting to achieve better regional outcomes. Regional policy is not going to go away soon, despite its challenges. At the same time, it is not likely that interest groups and advocates of greater intervention will abandon their lobbying for greater efforts on the part of governments. Much has been demanded of regional policy, and poorly performing regions are often explained as the outcome of policy failure rather than naturally occurring economic and spatial processes.

What does recognising the constraints on policy mean for policy objectives? Should governments simply try to achieve big objectives imperfectly, or modify their objectives? And in what ways should they modify their objectives?

The fundamental argument of this paper is that any attempt to change the landscape of regional Australia, however defined and however well intentioned, cannot avoid but begin by confronting the fundamental constraints on policy outlined above. And having confronted the constraints, those arguing for greater intervention need to demonstrate how the constraints can be overcome by governments.

Incantations to create national strategies, which often do not actually fill in the content of the national strategy but rather simply assert its desirability, are particularly in need of this basic reality check. Similarly placed are those who see as achievable the greater settlement of inland Australia or the elimination of regional disparities.

What, then, are realistic regional policy objectives for Australia? What kinds of interventions might fit with this view of the limitations on policy effectiveness and the proper role of regional policy? There are no easy answers to the four great questions of regional development outlined at the outset.

The foregoing analysis suggests that governments adopt, in the fashion of environmentalism, the "precautionary principle of regional policy". That is, policy objectives should be fashioned prudently and in accordance with political, economic and regional realities. There should be a preference for what is doable. Interventions should be limited in a number of ways, but especially in relation to the framing of realistic objectives. Objectives should be stated and clear, and their pursuit justifiable and measurable.

The following principles are suggested, which might guide further policy development:

- Equalising regional outcomes is not realistic or even necessarily desirable as a policy objective;
- Central governments are not well placed to determine regional objectives;
- Central governments are not actually the best vehicles for achieving regional development outcomes;
- Regional development should largely be carried out by communities and regions;
- Regions should be self-identifying for purposes of assistance;
- Regions should determine their objectives;
- Central governments should devolve "power" as well as "responsibility" to regional bodies and communities;
- Governments can provide resources and technical support in assisting communities and regions to pursue their own objectives;
- Governments can increase resources for regional development, and indeed take regional development more seriously, without necessarily becoming more interventionist in terms of their desired outcomes.

Sadly, much regional policy debate has become mired in a fruitless pursuit of unrealistic objectives without an adequate understanding of either regional processes or the nature and limits of government. Nevertheless, one expects well intentioned regional interest groups to pursue largesse wherever and whenever they see opportunity, and governments to seek to avoid confrontation with them. There is, therefore, an obligation on regional policy observers with close knowledge of spatial processes and the workings of government to provide some insights into the limitations on government intervention.

The harsh realities are as follows:

- There is a lack of agreement as to ultimate policy objectives;
- Many of the things that drive regional development are beyond regional and government control or influence;
- Regional decline, like regional growth, is inevitable – some places will not prosper;

- We do not know exactly, or perhaps even approximately, what ultimately drives regional development;
- We dispute the meaning of the term "regional";
- It is not obvious what the geographic scale of interventions should be;
- Deciding who is ultimately responsible for regional development often degenerates into name calling and blame shifting;
- Political realities continue to constrain policy development.

Is regional policy any different from other areas of policy dogged by complexity and lack of agreement over ends, yet subject to government intervention? One area of considerable difference, which has implications for policy, is that many other areas of policy impact on regional development outcomes. There is another important constraint, which may be shared with other areas of policy but which is, nonetheless, a sharp constraint on the kinds of policy that can be pursued. This is that regional policy can only influence outcomes indirectly. Its success, as pointed out by Hill (2002a and Hill 2002b), depends on other actors behaving in certain ways.

What we know, and what we know we don't know, are important beacons for the direction of regional policy. And this should not be forgotten. At the end of the day, the limits of regional policy are real and significant.

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Successful Cities and Regions: The Search for the Regional Development Holy Grail

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Introduction

Regional policy generates four perennial "first order" questions. First, what counts as regional "success" (or what are we trying to achieve)? Second, who is ultimately responsible for driving regional development? Third, what makes some regions successful and others not? Fourth, what works in terms of policy instruments and strategies? Fifth, on what basis should governments intervene? And, finally, how much intervention is appropriate?

The persistent search for answers to the third of these questions by declining or stagnant regions and their representatives is understandable. Equally, governments are keen to identify the drivers of regional success in order to shape their policies and funding, and in particular to identify those areas where they can influence outcomes.

There is no shortage of possible explanations of regional success, both endogenous and exogenous, in the economic development literature, and practitioners and program managers have their own lists of success factors as well. Candidates traditionally have included access to natural resources, markets and agglomeration economies, and least cost location factors. More contemporary theories of regional competitive advantage have embraced notions of leadership, industry clusters, social capital, the lifestyle attractiveness of the region and a positive business climate as the likely drivers of success.

What is the evidence for favouring one explanation of regional success or failure over others? How robust are the explanations? On what basis can one distinguish among the various theories and explanations? Is the direction of cause and effect always clear? What weightings can be assigned to individual success factors in a region? What can regions and communities actually learn from successes in other areas? What is the role of policy evaluation? How universal are the explanations? What if every case is different? In other words, perhaps we can we learn <u>nothing</u> from regional successes. Do we really know what causes some regions to do well and others to decline? Should we give up trying to find out?

The paper tries to make sense of these complex questions and to underline the fact that they <u>are</u> complex questions. It seeks to identify the success factors in regional development, and attempts a typology and ordering of explanations of regional success. On the basis of the analysis, the paper suggests caution on the part of governments in their policy interventions. Exploring regional success factors has the potential to sharpen the minds of policy makers and regional development agencies in their quest to encourage regional growth, and provide insights into the adequacy of current attempts to evaluate policy and program outcomes.

There are a number of intersecting literatures that consider the question of regional growth, across several disciplines. These include regional economics, industry location and geography, as well as the regional development practitioner literature. They also include a range of analytical tools and methods, from economic modelling to less formal methodologies and the learnings of practitioners.

Of course, the regional development literature forms only part of a larger quest in economics and political science to uncover the secrets of growth and decline, for example at the national level. Works by Mancur Olson come to mind in this area.

What Drives Regional Success? The Evidence

Much of the discussion about regional development understandably concerns the reasons why some regions grow while others decline, or, at best, grow slowly. If regions and governments knew what drove success, they would do things that would encourage the success factors, and would avoid doing things that would inhibit success factors – other things being equal. There are at least three sources of wisdom about the drivers of regional success – traditional theories of regional development; recent additions to the literature; and the regional practitioners and others writing about their experiences in local economic development.

Traditional Theories of Regional Development

There is a rich literature relating to theories of the "where" of regional development. Regional economic theory attempts to explain differences in regional growth rates, the causes of decline and the nature of the settlement pattern, and therefore sheds some light on the ongoing economic difficulties of small towns. Theories help explain the limitations on growth in regions and the structure of industries in regions.

Location theory explains why businesses choose to locate in certain areas. These theories focus on least cost models, market area models and profit maximising models. A wide range of factors determines business location decisions, including access to raw materials, labour, skills, support services and markets. Traditionally, transport costs have been important for some industry sectors. Locations seek to attract businesses for obvious reasons – they create direct jobs, as well as two kinds of indirect jobs ("multipliers"). These are jobs created by the existence of suppliers and service industries, and jobs created by the consumption needs of employees.

Agglomeration economies drive businesses to locate in proximity to one another, and the benefits of agglomeration economies are generally felt most in larger cities. Agglomeration economies help explain the growth of larger centres. Businesses receive both internal cost benefits and shared benefits by proximity to other firms.

The theory of growth poles holds that economic development is "lumpy", or occurs unevenly across space. There are positive benefits of growth to regions surrounding growth "nodes" (so-called "spread" effects) as well as negative effects (so-called "backwash" effects). It is the latter that characterise the phenomenon now known as "sponge cities", where growth is sucked away from smaller centres by the growth of larger centres.

Central place theory holds that the growth of a region or town relates to the demand for goods and services of its hinterland. Growth is therefore a function of size and income levels within the region. Generally the theory sees a hierarchy of "central places", from villages to cities, each providing for different consumer needs. Central place theory is useful in explaining the size and spacing of settlements in a region.

Different levels of growth can be explained both by "supply side" factors and "demand side" factors. Supply side theories focus on the factor endowments of regions – their competitive advantages – while demand side theories seek an explanation of growth by analysing a region's "economic base" or export base. Basic industries are those which provide income to the region from outside, and hence are key industries for regional growth.

Some theorists have talked about virtuous cycles of growth (and vicious cycles of decline). This has been termed "cumulative causation", and explains why some locations suffer persistent decline while others continue to grow. Whatever the original drivers of growth in a region, growth will continue to occur in the "centre", often at the expense of the "periphery". This has been the case with many small towns, where out-migration has led to the loss of services and the closure of businesses, which in turn has led to further out-migration and a much more difficult development task for communities.

One of the contemporary theories that seeks to explain the ongoing difficulties of smaller towns has been referred to above by Powell as the new economic geography. This theory links the centralising effects of traditional agglomeration economies with the cost of transport in an explanation of the apparently increasing concentration of economic activity into larger cities.

The above theories help explain how regional growth occurs and why some regions are more successful than others. Agglomeration economies result in lumpy economic growth across the space economy. Growth occurs around nodes. Business is attracted to larger market areas.

However, there is no single, unifying theory that explains regional development. This makes it extraordinarily difficult for governments, for communities, for economic development professionals and for those interested in evaluation.

Recent Theoretical Contributions

In the 1980s and 1990s, thinking about what drives regional growth has taken a number of new and interesting directions. There has also been a renewed recognition of traditional growth drivers.

A number of more recent theories of regional growth have added considerably to the earlier work. New growth theories, including those of Paul Romer, suggest that growth is driven by knowledge. The "new regionalism' of Cook, Morgan, Scott and Storper and others builds on the knowledge theory. These (mainly European) writers argue that regional growth is driven by dense networks of informal or "tacit" knowledge. Scott and Storper also focus on the emergence of "global city regions" as growth drivers.

Coming from another angle, a number of writers, drawing on Robert Putnam (2001) have advanced the notion that social capital helps drive regional development. The places that do best will be those that have social cohesion. Many government programs, of course, set out to build community capacity, and in the process end up effecting the building of social capital.

Michael Porter, Michael Enright and a clutch of other writers, building on 1950s growth pole concepts, have fashioned an ostensibly new theory of clusters. Here the argument is that regional growth is built on the co-location of competitive and collaborative firms in high growth industry sectors.

Doug Henton has identified collaborative leadership as the key to regional success. In an appealing yet very simple explanation of regional development, Henton et al argue that the places doing best in the United States are those where the stakeholders work together.

Annalee Saxenian contributed a substantial empirical study in her much quoted book, *Regional Advantage*, in which she examined the growth drivers in two major US regions famous for their regional success, and how one of the regions (Route 128) lost out to another (Silicon Valley; Saxenian 1996).

More recently still, a number of writers, most prominently Richard Florida, suggest that economic development success is a function of human capital, specifically "creative capital". Florida argues that economic development success is a function of the coincidence of what he terms the "three Ts" of development – technology, talent and tolerance. He suggests that regions should develop a good "people climate" rather than just a good business climate in order to attract the creative people that are increasingly powering the new economy (Florida 2002).

Many of these theories provide powerful explanations for regional growth, and they ring true of regional circumstances in New South Wales. For example, Sydney's dominance reflects both cumulative causation and core-periphery explanations of concentration. Growth poles explain the fact that generally it is larger regional towns which are achieving higher growth. Florida's thesis about creative capital fits global Sydney like a glove. Putnam's social capital theory explains how some regional communities have built a positive future without massive growth, by focusing on community pride (Putnam 2000). Clusters theory is followed in a number of regional development strategies.

The Changing Landscape: Recent Big Picture Trends Affecting Regional Growth

Much of the capacity of regions to control their economic fortunes rests on drivers beyond their immediate control. The "regional realities" must be factored into the equation of regional growth early in any discussion. The recent contributions to the theoretical literature, whatever deference they pay to traditional theories, reflect a changing economic landscape, and possibly a "new economy" which has changed fundamentally the way regional economies work.

The new big picture realities include the following:

- The spatial pattern of economic activity is increasingly shaped by economic, social and cultural drivers that are interlinked
- Post-industrial society and the knowledge economy
- The economic world is global and local, not national
- The cult of lifelong learning
- The internet has changed everything
- The buzz of the city – "hub culture"; the importance of face to face transactions (F2F)
- Globalisation means new economic advantages for cities and city regions
- Globalisation = multiculturalism
- The baby boomers approach retirement
- Two income families and consumer power
- New location drivers in the knowledge economy
- The rise and location of skilled workers
- Outsourcing and the creation of new service industries
- Lifestyle choices reinforced by rising affluence
- Feminisation of the workforce
- Environmentalism and the carrying capacity debate affects rural areas in particular
- Career shifting and career uncertainty
- Declining cost of transport and communications
- Portable professions
- People have been retiring or semi-retiring early, though this is changing
- People are living longer and more healthily
- Instantaneous communications - time driven economy
- Business in the coffee shop
- Marrying less and later (the Bridget Jones economy)
- Outsourcing / downsizing by companies
- Increased tolerance of alternative lifestyles
- People today expect more from the places they live
- What are the spatial implications?

The breadth of the above list indicates how complex regional growth driver analysis has become and how far we have moved from traditional least cost theories of industrial location. These “remote causes” of regional growth and decline influence outcomes at many levels, and cover economic, social, environmental, cultural and institutional trends. They play out differently in urban and rural locations, in cities and towns of different sizes. But they all, in some ways, affect the location of households, businesses and investment.

Recent Australian Studies of Drivers of Regional Growth and Decline

While systematic studies have been rare, a number of Australian analysts have attempted to unpack the notion of regional growth drivers, and in some cases to attempt typologies. Sorensen (2000) has undertaken analysis of regional growth drivers, and has come up with the following typology:

- Biophysical resource endowment;
- Geographical accessibility;
- Human and social capital;
- Demography;
- Changing lifestyle preferences;
- Space transforming technologies;
- New production technologies;
- Expenditure on public infrastructure;
- Business management and development; and
- International events (Sorensen 2000: 19).

While Sorensen’s list was compiled largely to make the point that governments control few of the drivers and influence them only marginally, the list also serves to note the breadth of influences on growth and decline and on their increasing complexity.

In another study, Cocklin and Dibden (2005) have recently undertaken a slightly different kind of analysis of the sustainability of rural communities in terms of whether they had access to stocks of various forms of “capital” that were either declining or growing (Cocklin and Dibden 2005: 4). The types of capital considered were natural capital, human capital, social capital, institutional capital and produced capital (Cocklin and Dibden 2005: 4-6).

A number of studies have focused more specifically on impediments rather than success factors, typically relating to business investment decisions. For example, McKinsey (1994) examined the reasons why regional businesses did not invest more. Constraints on investment were, in descending order:

- lack of sales or demand (71%)
- high on-costs (28%)
- workforce has insufficient skills, flexibility, motivation (22%)
- lack of new products, markets or exports (21%)

- access to finance (18%)
- insufficient profitability (12%)
- lack of confidence (8%)
- high cost of suppliers/overheads (7%)
- red tape (5%)
- high interest rates (5%)
- excessive competition (4%)
- high wages (4%)
- poor infrastructure (3%)
- poor equipment (3%)
- inappropriate management skills/attitudes (2%) (McKinsey 1994: 13a).

The Australian Bankers' Association (ABA) undertook an interesting exercise in the late 1990s, attempting to identify a number of common denominators among towns that have experienced at least 20% population loss since 1976. They included the following:

- based on a depleted local mineral resource;
- based on local manufacturing in which advances in production methods have reduced the scale of the workforce required;
- based on a manufacturing activity that is no longer required in the local region;
- located in the wheat-sheep belt where there are natural economies of scale that have encouraged farm aggregation;
- located within a convenient drive time of a provincial city which offers services, employment and education and training;
- mining operations that have switched to fly-in fly-out operations;
- located within a broader urban area which has experienced ageing of the local community or changing land use; and
- physically isolated from the main highway systems and formerly based on timber milling, small scale farming or with a narrow sphere of economic influence over its immediate region (ABA quoted in Collits 2001: 44-45; ABA 1998: 25-26).

The ABA study identifies a number of the economic drivers of decline among those centres that have fared worst in the last twenty years, highlighting the difficulties that many towns face. Many of these drivers are external to the region concerned and underline the size of the local development challenge.

Recent Government Reports in Australia

In the early 1990s, the then Commonwealth Government undertook a number of studies of regional development. Of these, only one dealt systemically with drivers of regional growth (BIE 1994). The report, undertaken by the Bureau of Industry Economics, provided a detailed analysis of the then known key theories of regional growth, without coming to definitive conclusions.

More recently, the Commonwealth established the Regional Business Development Analysis (RBDA) as part of its *Stronger Regions, A Stronger Australia* package in August 2001. The purpose of the RBDA was to have an independent panel investigate impediments to regional business development in regional Australia and present options to the Commonwealth.

The Panel chaired by businessman John Keniry received 197 submissions and visited 50 regional centres. The Panel's terms of reference required any recommendations to be revenue neutral. The Panel's findings were in 4 areas – investment attraction and access to finance; dealing with government; attracting skilled people to regions; and infrastructure.

Noteworthy recommendations include:

- The establishment of a Taskforce to investigate single regional structures for planning and to deliver services;
- The leveraging of Commonwealth funding to achieve a consolidation of existing regional bodies;
- The encouragement of regional benchmarking;
- The establishment of an advisory group (to the Council of Australian Governments) to prioritise national regional infrastructure needs;
- The development of a regional infrastructure bond market;
- The creation of a small business financing program, including a revolving loan fund in certain regions and a pilot business angels investment program;
- Investigation of incentives for individuals over and above the First Home Owners Scheme;
- Linking the various regional leadership programs, including young people.

Like practitioner based lists of success factors in regional growth (see below), the above recommendations for action each rest on empirically derived assumptions about the drivers of regional growth and decline. They neatly make the basic point of this paper – that discovering the drivers of growth is important for policy reasons.

The Commonwealth Government also recently released a review of the effectiveness of government interventions in regional development, in the Bureau of Transport and Regional Economics (BTRE) Working Paper 55, *Government Interventions in Support of Regional Development: Learning from Experience.*

The report points out some of the realities of regional policy, its limitations and the inherent difficulties in determining definitive drivers of regional growth and evaluating the impacts of policy. It examines policy approaches in overseas countries and theories of regional development. Its findings in relation to overseas practice are broadly consistent with the findings of other recent reports.

The report also traces the evolution of interventions in Australia up to the recent focus on region-specific approaches, sustainable development and endogenous or "bottom up" growth strategies. The main role of government should be to provide infrastructure and sound economic “fundamentals” and removing institutional impediments (better regional governance). Business is rightly recognised as the key driver of regional growth, though the importance of “social capital” is also emphasised, consistent with much of the emerging literature on regional development. A long term commitment to building competitive advantage is emphasised.

The report contains much that supports current approaches in Australia. The report also suggests possible areas of increased program emphasis, for example networks and industry clusters, and increased attention to knowledge as a driver of economic development.

Most recently, and more relevantly for the drivers literature, the Bureau of Transport and Regional Economics has commenced an analysis of spatial patterns of development in Australia.

Recent Overseas Studies of Growth Drivers

A number of international studies have sought to identify regional growth drivers in order to inform policy. This is part of the move to “evidence based policy”, drawing on theories and empirical work to build a firmer foundation for government interventions. The OECD in particular has been diligent in bringing together work on governance and entrepreneurship. The North American literature has a particular focus on the conditions under which incentives can work in favour of regions, and on rural community survival and decline. The international literature is broad, and the following summary merely draws attention to some prominent recent examples.

The Welsh Development Agency

The Welsh Development Agency (WDA) recently published a report, *Competing With the World*, which studied some of world’s most successful regions in order to see what was behind their success (WDA 2002).

The findings are instructive. The regions that have done best had a series of “fundamentals”. They had a strategic or central location. They had well-developed transport and telecommunications infrastructure. They had innovative businesses. They had an entrepreneurial culture. They had a small number of “driver” industry clusters. They had a polycentric urban structure. They had long-established industries. Businesses in the region recognised the need for productivity and competitive advantage. They had strong Small and Medium Enterprise support systems. They had a highly skilled workforce and world class educational institutions. They had a high quality of life. They had a strong self-image and local pride. Networking within the region was highly developed. They had international networks. They had high quality analysis of their situation. And they locally appropriate levels of autonomy and leadership.

These are the attributes to which Australian regions must aspire, with the strategic support of government. Lessons include the following:

- The overriding objective should be to create regional competitive advantage;
- The role of connections between business and higher education in regeneration is critical;
- Entrepreneurship must be supported;
- Cluster development is important;
- Rigorous analysis must precede strategy development;
- The SME sector is the main source of economic vigour (WDA 2002).

The findings of the WDA report are consistent with recent thinking in regional development about the knowledge driven, networked economy and the importance of creative capital, an idea recently popularised by the American researcher Richard Florida. As indicated above, Florida has argued persuasively that regions should have a good "people climate" as well as a favourable business climate, that they should try to attract and nurture creative talent as well as high technology sectors and that they should develop a tolerant attitude to diversity in the community.

Work by the Organisation for Economic Cooperation and Development (OECD)

The OECD published a paper in 1999 that coincided with the Regional Australia Summit in Canberra. The paper reported that in recent years most OECD member countries had abandoned earlier, big-spending approaches designed to boost the economic fortunes of lagging regions, in favour of more bottom up approaches (Hugonnier 1999).

Hugonnier has pointed out:

> … the need to focus less on individual firms and more on the business environment is fully recognised by policy makers. Indirect aid is an appropriate way to influence local and regional framework for competitiveness (Hugonnier 1999: 13).

The move away from simply assisting businesses in regional policy highlights a recognition both of increased complexity of regional growth drivers and of the lessening of business location decisions as the key driver of growth, a point also made more recently by Florida.

Aldrich and Kusmin

A review by North American researchers Aldrich and Kusmin examined 35 studies and uncovered 24 factors that may affect rural economic growth (Kusmin 1994). This number roughly coincided with my own analysis, though there are a number of differences.

According to Aldrich and Kusmin, commenting on the findings of an overview of empirical studies of regional growth drivers:

> In fact, the difficulty of assigning a single interpretation to the effects of any particular variable makes interpretation of the literature difficult. Further, the studies reviewed in the literature differed in their units of analysis – using States, counties or other substate areas to examine growth and business location. Different subsets of variables were used in each study. Finally, the studies varied considerably in the methods they used. The literature review concluded that results varied too much across studies to allow broad conclusions about the effects on rural economic growth of factors drawn from the literature (Aldrich and Kusmin 1997: 2).

They note, for example, that some factors are unique to a particular time or place (Aldrich and Kusmin 1997). Such a conclusion provides a cautionary tale for analysts of regional development, and in particular to those in government and regional communities keen to establish causation and build policy or strategy on their conclusions.

What Firms Tell Us: Empirical Studies of Firm Location, Business Costs and the Impact of Government Incentives

There has been a substantial body of evidence relating to the decision drivers of businesses in Australia. Often the evidence relates to footloose manufacturing firms. According to BIS Shrapnel:

Investment location decisions are based on considerations such as:

- What is the size of the local market for the end product?
- Are there other significant markets nearby?
- What does it cost to produce the end product there?
- How easy is it to obtain the necessary inputs for production?
- How easy is it to ship finished product from the location to other nearby markets? (BIS Shrapnel 1989, unpublished)

A significant finding of the various studies has been that government incentives are relatively low on the list of location decision drivers.

The Chamber of Manufactures study of business location decisions, for example found that government relocation incentives were not an important influence on metropolitan firms, being only one of a number of “other factors” regarded as very important by a mere 5% of firms surveyed (Chamber of Manufactures quoted in Collits 1995; see Table 1).

Table 1 Factors Affecting Location Decisions in New South Wales, 1989 *

Rating of Factors	Very Imp %	Some Imp %	Not at all %	Weight
Availability of labour	71	19	10	68
Availability of cheap Land / rent	60	12	28	55
Distance to market	45	19	36	46
Distance to suppliers	40	20	40	43
Transport facilities	21	38	41	34
Access to raw materials	26	19	55	30
Energy factors	26	17	57	29
Availability of machinery	10	7	83	11
Diversification	5	14	81	10
Other factors **	15	0	85	8
Distance to branch/parent Plant	2	5	93	3

* Source Australian Chamber of Manufactures (NSW Division), *Manufacturing Location Decisions*, A Discussion Paper, May 1989, quoted in Collits 1995

** Includes family ownership / family owned land, hometown, mere chance and government assistance programs

A further Chamber of Manufactures survey in 1993 found that a mere 12% of metropolitan firms that were considering moving to the country would do so because of government assistance (Collits 1995). Of course, this might have reflected a view that government assistance was paltry. However, it is consistent with other business surveys showing the relative unimportance of government incentives in location decisions.

Other studies done in the 1980s confirmed these findings:

- A 1982 survey by the Victorian Chamber of Manufactures showed that 74% of respondents said that the payroll tax rebates available had no effect on decisions to expand production and 81.8% said it had no effect on the decision to relocate; and

- A survey by the then Minister of Business and Consumer Affairs of 17 Sydney-based Chief Executive Officers ranked government incentives ninth in a list of twelve factors affecting decentralisation decisions (Business and Consumer Affairs 1989: 13-14).

A more recent study by Hodgkinson at al (2001) reinforces the relative unimportance of government assistance in location decisions. Respondents to a business survey about factors affecting location and expansion decisions conducted by Hodgkinson et al ranked government assistance at around 5 marks out of 10, ranking it 12th in a list of 28 location factors, or at the bottom of the 4th of 6 clusters of factors (Hodgkinson 2001: 45). The firms surveyed included manufacturing and service industries, large and small firms, Australian and foreign owned firms, city and country firms, and businesses of various ages.

The study shows that while incentives clearly do count for something in location decision making, there are not anywhere near the top of the list. Factors such as the quality of the communications network, access to a developed road network, distance from customers, the image of the location, the cost of land and labour, and transport costs – in other words, traditional location factors (with the exception of communications networks) – are at the "top of mind" for businesses and investors.

A Country City Divide?

While the benefits of agglomeration to firms, and the role of critical mass in driving regional growth, are undeniable, many claims have been made about the relative advantages to city firms over country firms in relation to business costs. Again, the costs of doing business are seen as an important explanation of the propensity to locate in particular places.

Several independent studies and surveys by industry associations have addressed the issue of relative business costs.

The evidence is mixed. For example, surveys of member firms conducted by the Chamber of Manufactures of New South Wales (1991) and the Country Manufacturers Association (1993) found that, on balance, members were disadvantaged by their country location. Attempts were also made to quantify the disadvantage. On the other hand, independent studies have drawn different conclusions, and indicate a more complex situation than that suggested by the industry based studies.

The Chamber of Manufactures in 1991 conducted a survey of its country based members, and found that only 2 firms out of 40 surveyed claimed a cost advantage from their country location, with a further 9 firms stating that advantages and disadvantages cancelled out. The average cost disadvantage claimed was 4.8 per cent of total costs, with some firms claiming as high as 10 per cent (Legislative Council Standing Committee 1991: 35).

The Country Manufacturers Association 1993 survey is more detailed, and reinforces the conclusion that country firms face higher costs. 33 firms were surveyed, and a cost disadvantage of 9.3 per cent of payroll costs or 1.8 per cent of sales was recorded. Cost disadvantages were stated in relation to transport, inventory, communications, recruitment, training, utilities and technical support. There were advantages in relation to lower real estate costs, reduced staff turnover and reduced industrial action, but these were not quantified. The lower real estate costs were also seen by firms as a two-edged sword, in that there are lower capital gains from country properties, and a diminished borrowing capacity (Country Manufacturers Association 1993).

A major study of relative business costs was undertaken by the Public Sector Research Centre in 1991. The study covered a range of costs, and attempted to quantify advantages and disadvantages of metropolitan and non-metropolitan locations. It concluded that "... there is in general no locational disadvantage to firms in non-metropolitan areas..." (Public Sector Research Centre 1991: 33). While city based firms were seen as having advantages in more areas than country firms, many of the cost factors were seen as cancelling each other out.

Other recent regional development studies tend to confirm this finding. For example, while not addressing directly the question of business costs, the McKinsey Discussion Paper found that, of 15 investment inhibitors nominated by firms in the regions surveyed (which included some metropolitan areas), such factors as "high cost of supplies/overheads", "excessive competition" and "poor infrastructure" were near the bottom of the list. Lack of demand and high on-costs headed the list (McKinsey 1994: 13).

The study found that most businesses in regional Australia now have the telecommunications and physical infrastructure to access markets adequately, and that transport costs only represented a small proportion of the total costs of businesses surveyed (McKinsey 1994: 53).

The Industry Commission, in its inquiry into Impediments to Regional Industry Adjustment, found that despite the additional costs faced by some country firms, "... costs that result merely from large distances should be regarded as a natural consequence of conducting business; no different to the costs that Australian exporting firms face..." (Industry Commission 1993: 198).

According to an in-depth study of 14 country firms by the University of New England's Rural Development Centre, the major costs associated with country location were the availability and cost of acquiring skilled labour, access to formal training, transport and communication, and access to support industry. However, according to the study:

> Where firms were located for economic reasons they experienced little or no relative disadvantage to other industry members. ... In many cases firms were supplying to diverse geographical markets as were their competitors, which reduced the relative disadvantage of their location. Where factors were important firms adopted various measures, some reduced their profit margins, employed their own transport, undertook production activities and training in-house where necessary and sought productivity improvements to compensate for higher costs RDC 1993: 80).

The main conclusions to emerge from these studies are that:

- despite the claims of industry groups, it is not clear from the evidence that the majority of country firms are disadvantaged in the way often suggested;
- there is a tendency in relation to business costs, as in other aspects of regional policy, to set up a false dichotomy between metropolitan and non-metropolitan regions, and to generalise about the competitive positions of each;
- some of the industries that would benefit, particularly naturally occurring industries, clearly do not incur extra costs, and, indeed, are not faced with city based competition;
- cost advantages and disadvantages vary enormously, by firm, industry and region;
- most firms, particularly those located where they are for economic reasons, are able to be competitive despite problems caused by distance and/or isolation; and
- it is difficult to quantify cost advantages and disadvantages, particularly factors such as having a stable workforce; moreover, there may be a tendency for firms to understate the benefits of country location and to overstate the pitfalls.

The influences of a firm's cost structure are many and complex. For example, they include the firm's location in relation to raw materials, supplies and markets, access to labour, including training, infrastructure costs, the nature of the business, where the firm's competitors are located, whether the firm's location reflects commercial advantage or mere preference, the firm's capacity to pass on higher costs or to offset costs against quality, the capacity to offset higher costs in some areas against lower costs in others, for example through productivity gains, the value of the firm's products in relation to their bulk, and the range of choice among modes of transport and the degree of competitiveness among transport operators. It is therefore clearly very difficult to generalise about cost disadvantages.

Non-cost Firm Location Factors

A number of empirical studies talk about non-cost factors in location. A 1970s study (Glass 1976) suggested that decentralisation programs had failed because they did not "… take into account the critical influence of "non-cost" factors in determining the location preference of manufacturers" (Glass 1976: 73).

Many firms locate where they do for non-economic reasons. They might include the fact that it is a family business, and that is where the business started, or it may simply be where the chief executive wants to live. Again, this is the amenity factor emerging as an important part of the "people climate".

Around three quarters of firms surveyed in the Chamber of Manufactures 1989 study said that their location related to economic factors. This leaves a substantial minority of firms that are not located for economic reasons, which raises interesting policy dilemmas. For example, nearly a third of non-metropolitan firms nominated family ownership/ home town as the only determinant of their current location (Chamber of Manufactures 1989).

What Practitioners Tell Us About Success Factors: Leadership and Lists

Practitioners in regional development have added considerably to our knowledge of the drivers of regional economic development. Typically, practitioners eschew theoretical explanations of what drives regional success, or perhaps are not familiar with them. In any case, they prefer to deal with "what works" and the "practitioner conversation" consists of shared experiences and learning from one another's good practice.

Practitioners often do not have the resources to undertake rigorous evaluations, to determine deadweight or displacement effects, to measure the largely non-quantifiable social capital benefits of local economic development or to determine what overall impact their activities have had on the places they serve. Nor do practitioners typically address the theoretical implications of their work. Evaluation often means providing case studies of "happy endings", of interventions that can be shown to have contributed to positive outcomes for communities.

Hence we do not generally have a clear idea of the relative impacts on economic outcomes of their own cumulative efforts as opposed to exogenous influences on their regions. Nevertheless, the practitioner literature is of relevance to the discussion to the extent that it provides anecdotal evidence of regional development drivers.

The fundamental conviction of community economic development is that communities can make a difference to local and regional economic outcomes, whether the "cavalry" from Canberra or Macquarie Street (the location of the New South Wales Parliament) arrives or not. As the case for more regional policy intervention is very much a case of "calling in the cavalry", and it explicitly rejects the notion that communities be told to "find their own solutions", it is therefore relevant to ask whether there is truth in the claim that communities can improve regional development outcomes on their own, and which factors inherent in communities make them successful.

A literature has developed in which a number of regional development experts have addressed the issue of what it takes for regional communities to be successful. There are two important points here. First, while there is no one single recipe for success, there are a number of recurring themes developed in the literature and among development practitioners. Second, while many of these “success lists” do not address the question as to whether the “local” factors that they describe are the only factors affecting growth and decline, their authors clearly believe them to be, collectively, generally responsible for whether locations do well or not.

As well, a number of commentators have noted the changing nature of the local economic development challenge over the last decade or more, and the imperatives of the “new economy”. These changes have important implications for local leaders, economic developers and for smaller communities. One American commentator, John Sanzone, has contrasted the requirements of old-style local economic development with the new economy and spoke of the pitfalls of economic development (see below).

Characteristics of Successful Towns versus Growth Drivers

Sometimes drivers or success factors are listed as “characteristics” of successful towns. Yet drivers may not always be the same as “characteristics” of successful communities, and the two are sometimes confused and the distinction is not always clear. Success may be defined as “sustainability” or as “viability”, for example. Many of the lists of success factors formulated (see below) straddle the gap between successful communities and underlying drivers. It is the latter that have most to contribute to theory building in regional development.

The recent study of innovative Queensland rural towns (Plowman et al 2003) talks about innovation and explores the characteristics of innovative communities. But this discovery may not necessarily tell us why some communities are innovative and some are not, but simply end up describe what it means to be innovative. Again the issue is circularity.

What are the economic development objectives of small regional communities? Typically, communities wish to sustain their populations, to prevent out-migration, particularly of their youth, to develop a diverse economy that will insure the community against decline, to have the capacity to provide decent jobs for those who wish to stay in the community, and to maintain an adequate level of services and quality of life for residents. Government shares these community aspirations.

Different terms have been used to describe the aspirations of small communities to survive and prosper in the face of both internally and externally generated pressures. Typically communities aspire to “sustainable” development, or growth that is built on solid foundations (businesses, industries) and that will last into the future.

The Australian Housing and Urban Research Institute (AHURI) study talked about “communities of opportunity” and “communities of vulnerability”, depending on a community's position in relation to a number of structural and socio-economic measures. A community of opportunity has the following characteristics:

- above average employment growth;
- decreasing unemployment;
- above average growth in high income households;
- a high percentage of people in growth occupations;
- a high percentage in growth industries;
- a high percentage of high income households;
- skills commensurate with the industry and occupational structure;
- low unemployment and a high participation rate;
- a low level of disadvantaged families;
- positive population change; and
- low incidence of public housing (Baum et al 1999).

The AHURI list of characteristics is a good summary of the kinds of characteristics to which small communities aspire.

US analyst Ron Shaffer's notion of an economically viable community is helpful in clarifying the aspirations of communities. According to Shaffer:

> Viability is the ability to survive and to pursue the face of changing circumstances. Community economic viability is the capacity of local socio-economic systems to generate employment and income to maintain, if not improve, the community's relative economic position. Economically viable communities possess the capacity to perceive changing socio-economic circumstances and to respond appropriately. Community viability has political, social, physical dimensions (Shaffer 1989).

Shaffer has note four characteristics of economically viable communities:

- a slight level of dissatisfaction;
- a positive attitude towards experimentation;
- a high level of intra-community discussion;
- a history of implementation (Shaffer 1989).

In other words, communities need to be aware of the dimensions of change in the new economy and the need to be pro-active, even in times of relative economic well-being.

Similarly, Phillip Burgess has talked about what he terms "high performance communities". These communities have a number of characteristics. They are, according to Burgess, "fast, flexible, customised, networked and global". As Burgess states:

> … a high performance community is a place that provides business enterprises that have a future, more per capita wealth for the community, strong and healthy

> voluntary associations and a user-friendly government that responds and values citizen involvement. It is a community animated by a vision where per capita income increases (increasing wealth); enterprises become more productive (increasing competitiveness); and social, economic and political values are broadly shared (increasing equity) (Burgess 1996).

Practitioner Lists

A number of regional development experts have addressed the issue of what it takes for regional communities to be successful. While there is no one single recipe for success, there are a number of recurring themes developed in the literature and among development practitioners.

According to Peter Kenyon, who has worked with many communities in Australia and elsewhere, the following are important to building economically successful communities:

- focusing on healthy and sustainable community behaviours;
- investing in local leadership development;
- fostering diverse but inclusive citizen involvement;
- encouraging youth participation; and
- committing.

Strategic planning and the development of a community agenda are critical. Kenyon sees the following elements as central to the strategic planning process:

- shared vision;
- realistic objectives;
- regular achievements;
- short, medium and long term plans;
- a clear marketable identity; and
- an appropriate development organisation / group.

Kenyon's general advice to communities is as follows:

- develop a comprehensive strategic community economic development agenda;
- recognise the importance of local business vitality through actions of appreciation and support;
- become a best practice culture;
- be opportunity obsessive;
- forge partnerships with neighbouring communities for collaboration and peer learning; and
- maintain enthusiasm, passion, hope, involvement, belief and expectation.

Kenyon has come up with 10 behaviours that he sees as essential for regional community success. These “habits of highly successful communities”, with apologies to Covey, are really a set of assumptions – based on empirical observation – of what drives regional success. They are, in fact, theories (even partly formed) of regional growth and decline. Here is Kenyon’s list:

- understands, accepts and embraces change;
- focuses on the sustainable triple bottom line – economic vitality, environmental integrity and community well being;
- encourages broad-bsed participation, social connectedness, inclusiveness and diversity of thinking;
- acts in an opportunity-obsessive manner, seeking diversification and multiple options;
- knows and builds upon the community’s assets, skills, capacities, skills, competitive advantages and points of difference;
- stresses local investment and local ownership;
- continually renews and builds a diversified leadership base;
- commits to long term and continuous community dialogue, planning, action and evaluation;
- values collaboration, networking and clustering;
- champions passionate and entrepreneurial attitudes and behaviours (Kenyon 2001).

Americans Luther and Wall double Kenyon’s list to “20 clues to rural community survival”:

- evidence of community pride
- emphasis on quality in business and community life
- willingness to invest in the future
- participatory approach to decision making
- cooperative community spirit
- realistic appraisal of future opportunities
- awareness of competitive positioning
- knowledge of the physical environment
- active economic development program
- deliberate transition to power of a younger generation of leaders
- acceptance of women in leadership roles
- strong belief in and support for education
- problem solving approach to providing health care
- strong multi-generational family orientation
- strong presence of traditional institutions that are integral to community life
- sound and well maintained infrastructure
- careful use of fiscal resources
- sophisticated use of information resources
- willingness to seek help from outside
- conviction that, in the long run, you have to do it yourself (Luther and Wall 1987)

According to Philip Burgess, there are seven action strategies for the creation of what he has termed "high performance communities". These are:

- ensure the rapid deployment of modern telecomputing capacity;
- promote entrepreneurship;
- promote job growth from within;
- promote awareness, interest and participation in the global market place;
- focus on industry clusters that combine producers and suppliers and encourage local competition among producers and among suppliers;
- foster interfirm collaboration: and
- cultivate civic institutions and regional collaboration (Burgess 1996).

One of the keys to local success in economic development in the 1990s is to avoid the pitfalls of traditional approaches that are no longer applicable. According to US expert John Sanzone, these include the following:

- not taking enough time to "envision" limits regional opportunities;
- expecting immediate results will produce unrealistic plans that are designed for unrealistic expectations;
- local economic development capacity on the cheap does not work;
- not realistically inventorying your regional assets and liabilities misdirects good intentions;
- targeting jobs and not human resources misses the point;
- following economic development "folklore" will lead to regional disappointment;
- thinking that new jobs will necessarily lead to employment of local people;
- plans that do not have clear, measurable and agreed upon goals usually fail;
- not fully knowing your economic base leads to faulty assumptions and poor planning;
- overlooking development capacity.

One of Sanzone's 10 pitfalls relates to the differences between local economic development folklore and the realities of the new economy. For example, Sanzone disputes the assumption that local governments can greatly influence private sector local decisions. This is largely not the case. The assumption that tax and financial incentives attract business, is also misplaced. The availability of land, a skilled labour force, infrastructure, quality of life and public services are argued by Sanzone to much more important. Large firms do not create most new employment opportunities. Existing small firms create most new opportunities. Financial assistance is much more important for small firms than for large firms.

Sanzone argues that:

- retaining and cultivating small local businesses are the two keys to economic health;
- outbidding the competition is not an effective economic development strategy;
- investing in the existing workforce is critical;
- quality of life factors are more important than marketing incentives or recruiting; and

- developing the capacity to attract and nurture advanced technology jobs and investments will pay off in the long run.

Finally, according to Sanzone:

> … the success of a local development strategy will rest on a long-term commitment by a sustained coalition of local public officials, the private sector, and citizen groups.

Sanzone's analysis conforms to the standard current thinking (and the NSW Government's approach) on local economic development, in that partnerships and community involvement are critical to success.

Analyses of DSRD's Main Street/Small Towns Program have also uncovered success factors in local economic development that have relevance for many smaller communities in regional New South Wales. Particular success factors have been found to be:

- community ownership of the planning process;
- commitment to working in partnership with other local organisations;
- commitment to funding the program locally;
- local council support and involvement;
- an active committee with broad representation from local government, business and community groups;
- local leadership;
- broad community support for the local program;
- knowing the local economy;
- focusing on the retention and expansion of existing businesses rather than attempting to attract large employers;
- a realistic strategic plan developed through a public consultation process;
- detailed action plans;
- a human resource commitment to implementing the strategic plan;
- monitoring progress and ongoing evaluation;
- keeping people informed, particularly through positive media coverage;
- acknowledging and celebrating successes.

Anderson (1997) has also commented on lessons to be learned from the Main Street/Small Towns Program. She concludes:

- community empowerment and ownership are at the heart of these programs;
- committees need to have a high profile in their community;
- there must be strong leadership;
- shared leadership is extremely successful;
- communities need to start to plan, right at the beginning, for long term sustainability of their programs;
- coordinators are there to do the coordinating, not all the doing;

- coordinators are traditionally underpaid for an extremely complex task, they perform better if they are properly remunerated;
- businesses must contribute financially to the program, otherwise they do not value what they get for nothing;
- the best long term sustainable strategy appears to be a local levy;
- the Strategic Plan needs to be working document that is constantly referred to and reviewed;
- participants need to be recognised for their contributions;
- the most successful programs are those that retain a sense of fun.

While these success factors directly relate to particular programs, they are clealy relevant for many community economic development efforts across the State.

According to Vicki Dickman, a Queensland rural leader, the following are the key ingredients to success in community economic development:

- a commitment to the future and the dedication to be involved in developing that future;
- the involvement of the community in the generation of the vision and in the development of projects;
- a team of leaders to drive the projects and to act as mentors for less experienced project group members;
- the establishment of a community based group which coordinates project activities and acts as a legal entity for the project groups;
- develop a culture of information sharing and develop the activity of networking as a priority for project groups;
- the establishment of a support structure for project group members to allow them to access training, information and encouragement (Dickman 1997).

The above analysts and practitioners provide a range of perspectives on local economic development that are relevant to small regional communities in New South Wales. In summary, the following elements appear to be critical to the success of local economic development:

- the creation and maintenance of a dynamic business environment that positively welcomes new investment;
- working to the centre's competitive strengths while broadening the economic base;
- developing and supporting local leadership;
- the development of a positive attitude to change;
- a willingness to be creative in securing new investment opportunities;
- the entrepreneurial flair of local businesses;
- the capacity to add value to existing products and services;
- critical mass achieved through networks and cooperation.

Finally, Plowman et al (2003) have delivered an interesting study of innovation in Queensland rural communities. Plowman et al have their own list, following their investigation of leadership characteristics which involved a detailed survey of community representatives. Their list included the following characteristics, with due recognition of Florida's theories:

- adequacy of products and services available to residents;
- administrative and managerial capacity to run the town;
- experts available to provide services;
- up-to-date professionals who constantly upgrade skills;
- decentralised decision making;
- freshness of management and leadership;
- have a healthy exchange of ideas internally;
- have a younger population;
- have a higher level of education;
- frequency of overseas travel of residents;
- high proportion of residents who have lived elsewhere;
- residents who have lived in bigger towns;
- higher proportion of the creative class;
- higher proportion of owner-occupier accommodation and fewer renters (Plowman et al 2003).

In general, Plowman et al's list is highly suggestive, and resonates with some of the emerging thinking in relation to human capital theory put forward by Glaeser, Florida and others.

Summary

Many of these success factors are assumed by the practitioner literature and the theory of community economic development to be within the control of the local community, and are reliant on the mobilisation of existing community resources. This assumption itself raises interesting theoretical issues about the nature of regional growth and decline, and, in particular, how important local factors are in relation to exogenous growth drivers, and, indeed, how the two can be compared.

The Leadership Literature

One of the ongoing themes of the practitioner literature is the issue of leadership as a driver of regional success. Many seem in agreement about leadership, yet there are different views about what it is, who should do it and how it influences regional success. As well, it has been argued that the nature of the local leadership task itself has changed.

Luke et al have talked about "catalytic leadership" as the key to successful economic development, and the need for new skills to meet the very different requirements of the new economic development game. Strategic thinking is at the core of the economic development task in the new economy. Luke et al focus on human skills, conceptual skills and technical skills, and argue that:

> The experience and working knowledge of the seasoned economic development manager are increasingly ineffective and, in many ways, even detrimental when applied to the new interconnected economic context.
>
> ... Managing economic development strategically in an interconnected web of community stakeholders, business managers, non profit agencies, government departments, and multinational corporations requires catalytic leadership skills.
>
> ... The relevant skills are primarily interpersonal and cognitive and secondarily technical in nature (Luke et al 1988).

Human skills include collaborating, negotiating and networking. Conceptual skills are primarily about strategic thinking, and technical skills involve understanding available financing tools for development. Strategic thinking in the economic development context is about understanding "... the broad relationships between the historically separate and distinct policy areas of transportation, commerce, land use planning, and post-secondary education". Strategic thinking embraces policy linkages, information needs, considering all stakeholders, developing a mix of strategies, and preparing for unintended consequences.

Further consideration has been given to the new catalytic leadership in the concept of "civic entrepreneurship". In their book, *Grassroots Leaders for a New Economy,* Henton et al focus on the benefits of collaboration among key regional leaders and stakeholders (Henton et al 1998). Their focus is on a number of regions in the USA which have revitalised their economic fortunes by what the authors regard as a fundamentally new type of leadership.

According to Henton et al, the world has changed and this requires new economic development skills. For example, they see the new economy - which is global, complex and fast-changing - demanding more collective leadership skills than the old individual charismatic leadership model.

Civic entrepreneurs, according to Henton et al, are risk takers who are not afraid of failure, and have vision, courage and energy. Civic entrepreneurs have five common traits:

- they see opportunity in the new economy;
- they possess an entrepreneurial personality;
- they provide collaborative leadership to connect the economy and the community;
- they are motivated by broad, enlightened, long-term interests; and

- they work in teams, playing complementary roles (Henton et al 1998).

Civic entrepreneurs come from many fields, including business, government, education and the community sector. They need not have formal power or authority, and achieve influence through their credibility. Civic entrepreneurs are essentially community change agents and this requires “multiple talents”. It is leadership for the long haul. “They lead their communities through fundamental change and improvement processes that have no quick fixes”. The analysis by Henton et al is important because it highlights the ways in which the leadership and economic development task has changed.

There is legitimate debate - perhaps at the heart of local and regional economic development efforts - about how much difference local leadership and practitioner effort can actually make to the development success of a region in view of the very large global challenges which shape regional development outcomes. Beer has dealt with this issue of whether practitioners make a difference (Beer et al 1996).

Summary of Success Factors

What drives regional development, then? The range of explanations is enormous.

Is it the natural advantages of a region? Is it biophysical resources? Is it location? Is it proximity to a large market? Is it critical mass? In other words, is the size of the local economy important? Is it the presence of industries that are growing nationally? Is it economic diversity? Is it local leadership? Is it a welcoming business climate? Is it human capital, either in Putnam’s version (social capital) or Florida’s (creative capital)? Is it the passion of the community and its active involvement in local economic development? Is it being entrepreneurial? Is it collaboration among the key stakeholders? Is it having a positive attitude to change? Is it global connectedness? Is it having a local economic development agency? Is it having amenity and a high quality of life that appeals to “sea changers”? Is it being cosmopolitan? Is it a welcoming “people climate”? Is it infrastructure, such as the proximity to an international airport? Is it clusters of industries? Is it the existence of tacit knowledge shared among networks of connected firms and other regional players? Is it government assistance? Is it the demand for a region’s goods and services? Is it the local business culture?

The anti-climactic, dissatisfying but profoundly important answer is that we don’t really know. Theory doesn’t tell us. Practice doesn’t tell us either. And the evaluation of policy impacts has been an imperfect tool for a number of reasons as well.

It is tempting, and probably wise, to conclude that all of these elements are important to a region’s success. I could show you a case study of every factor listed above at work in a given community. They are, at best, partial explanations.

The question then becomes, in what measure do they explain regional success? How do we know that a community's success was the result of three parts collaborative leadership and one part creative capital? Or the reverse.

Making Sense of Explanations of Regional Success

Why the Question is Important

Answering the "why" question is very important. It tells governments and communities what works, information which is critical in building strategy and devising regional program content. If we knew that leadership was very important, we would, surely, develop more leadership programs. If we knew that clusters were important, we would expend resources building clusters. And so on. Answering the "why" question is especially important since resources are limited, both in communities and in government. It also helps to determine where resources should be directed – to the enterprise, to the community, to the industry, or to the region.

In summary, the following points can be made:

- Competitive advantage can be created
- The actors involved want to make a difference
- Resources are finite, ie poor analysis matters
- The capacity to intervene is limited
- A bulwark against action driven by the lowest common denominator

It is an emerging truism that globalisation has increased the importance of the local and the regional, and increased the stakes for communities in discovering and obtaining competitive advantage.

It is equally accepted by most observers, and certainly by those who argue in favour of "bottom up" approaches, that regional communities can in fact influence their economic destinies. The community economic development movement, so prominent in Australia and the United States, rests on the view that community action can make a difference. This presupposes that endogenous growth drivers are sufficiently important, when weighed against exogenous factors, so as to encourage policy and local action and, in effect, make them hostage to a theory of regional growth. If one took the view that global forces were far more important than local ones, much of the support for local economic development would be rendered futile.

It is also patently clear that resources, whether those of governments or of communities, are finite. This means that choices have to be made in relation to strategy, and that there is an opportunity cost in most strategic choices.

Why the Question is Difficult

Determining the ultimate drivers of regional growth is a difficult task. We don't necessarily agree on what success is, for example. Some define success as population growth, particularly in inland regions for whom lost population often means losing government and other services. On the other hand, coastal regions don't necessarily want or need population growth. Employment growth might be agreed to be universally a good thing for a region – but what sort of jobs? Low paying or part time jobs might be good for young people but not for others. The unemployment rate might be an indicator. Or family income, or regional product or per capita regional income.

There are many measure of success, and they are not all economic indicators. The quality of governance, the degree of community involvement in decision making, the degree of community ownership of local strategies, the quality of life, the extent of social capital, and so on, are all indicators of success. There is a whole literature around composite indicators of regional well being. This is a contested field.

If determining success is difficult, then determining will what drives success will be just as difficult and will depend partly on how one defines it.

Regional Drivers and Policy Choices

There is also the controversial question of justifying certain policies or indeed levels of government intervention, that is directly informed by findings about drivers of success. Determining that x is the key cause of regional growth can become an argument for programs that may encourage x. For example, if Richard Florida is correct, investment in creative capital and creating a good "people climate" is far better than tax breaks for companies and company based relocation incentives generally. Of course, the traditional approach to industry attraction strategies is based on the assumption that it is costs that drive business location, an assumption that has been seriously and rightly questioned of late.

For example, Butler and Mandeville have argued that:

> Before we can consider ways in which economic activity can be encouraged in depressed regions, we need to understand the main factors that affect the location of business and industry (Butler and Mandeville 1981: 67).

Critical policy choices include whether to support businesses directly or to attempt to shape the environment in which businesses operate, for example through the provision of infrastructure.

In view of these realities, it is not surprising that the quest for definitive answers to the questions of regional growth persist.

Strategic Choices and Theories of Growth

Governments, local leaders and development practitioners face a number of important choices in formulating development strategies, particularly in smaller communities. Communities have finite resources at their disposal for economic development projects and some difficult choices.

One of the important choices is whether to pursue outside investment and business relocations (“hunting”) or indigenous investment and new local start-ups (“gardening”). The McKinsey report (1994) stated that up to 70% of new regional investment comes from existing local enterprises. While many economic development agencies recognise this, most still pursue outside industries in order to create new investment.

A second key issue is whether to diversify the local economy or to build on existing competitive strengths. The former approach seeks to protect the community by broadening its economic base, thereby insulating the economy from external shocks. The latter strategy focuses on expanding indigenous enterprises, plugging gaps in “value chains” in the economy, adding value to existing production processes, and creating clusters within the locality’s already strongly performed industries. While both approaches have obvious merits, they can only be pursued simultaneously to a limited degree due to a lack of resources.

Some Key Questions

The foregoing analysis throws up a number of analytical conundrums.

- Does success change from place to place?
- Are there rural communities drivers of economic success and city drivers of economic success? Would a successful strategy for local economic development in Newtown work in Collarenabri?
- Does success change over time? (Quigley (1998) has argued that theories of regional growth have been framed at particular stages of development).
- Is success divisible?
- Is it possible to measure success? Must it be intuitive?
- Causation and correlation
- Does it matter that we vary our definitions of “success”?
- Is it true that drivers are now more “global and local” than “State and national”?
- Has the nature of explaining regional success changed fundamentally in the new economy?
- Can the debate be resolved (or even informed) by empirical analysis, and, if so, by what level and kind of empirical analysis? For example, Saxenian (1996) has examined success factors in regional development (regional advantage) by contrasting the fortunes of two initially successful North American IT regions.

Typologies

There are a number of ways in which regional success factors and theories can be grouped in order to clarify their significance for regional growth.

- Factors communities can control versus factors communities cannot control
- Endogenous versus exogenous
- Government led factors versus others
- Factors that governments can influence versus those they cannot control
- Economic drivers versus non-economic drivers
- Immediate versus long term factors
- Supply versus demand side factors
- Factors that influence household location versus factors that influence firm location
- Factors affecting industry/business performance versus factors affecting aggregate regional/community performance (successful businesses versus successful places)

Might not particular combinations of factors act in concert to drive growth? If so, which ones? And how can these combinations be discerned? Having favorable circumstances does not necessarily ensure strong economic growth. Each factor reflects a partial story only.

Conclusions

While ever regional success is important to communities and their leaders, and to central governments, the search will continue for clues as to how governments should intervene and which strategies communities should pursue to achieve this success. And intervention that is based on more than political whim or the gut instinct of local community representatives participating in a “brainstorming” session on community futures.

A number of conclusions emerge from the above examination of the challenge of identifying regional growth drivers:

- Wisdom about regional growth drivers comes from many sources, for example from the burgeoning “success” literature, from public choice theory about why nations raise and decline, from surveys of firms, from studies of community economic development, and from more traditional theory building in the disciplines of geography, planning and economics;
- There is a gap between theory and practice;
- There can be no one single theory explaining all regional growth and decline;
- Regional competitive advantage can be created, maintained, increased and destroyed by local action;

- Big explanations, like that of Florida, are exciting but ultimately raise as many questions as they answer;
- Explaining regional growth is getting harder over time, due to growing complexity at many levels of society and the economy;
- We should never give up trying for evidence based policy reliant on serious evaluation and analysis;
- Practitioners have a lot to tell us;
- An examination of the success literature provides an excellent backdrop for analysing particular theories of growth, such as Florida's;
- The success literature helps reinforce the powerful restrictive role of economic realities, eg how agglomeration economies work to restrict options for business locations;
- The lack of agreement over the ultimate causes of growth is a significant policy retardant, and lends itself to a cautionary approach to intervention;
- Case studies have their limitations; and
- There is much more work to be done.

Where does this leave us? Is the search for the ultimate drivers of regional success a fruitless search for the "regional development holy grail"?

While studies of regional growth drivers may not tell us everything, neither do they tell us nothing. Each of the above sources of information helps build a picture of what works in regional strategy and why.

Yet even if we knew definitively which drivers caused the highest growth, other difficulties would remain for policy makers. For instance, which places to help grow? For how long to provide assistance? Which definitions of "success" to adopt? How much to intervene?

There would seem to be two possible research approaches to the question of investigating growth drivers. One is further empirical work, along the lines of Saxenian or Plowman et al. This would involve examining a number of communities, some that are doing well and others that are not, in order to identify the differences that might explain different outcomes. This is standard research operating procedure. The findings would be limited in many ways by the immediate context of the study, whether of small towns in inland regions or of globally connected economic powerhouses of the new economy.

Another possible approach would be to attempt a big canvas review of the whole landscape, for example by examining whether local action can make a difference to regional outcomes, or subjecting the practitioners' lists to more rigorous theoretical scrutiny. Such an exercise would go a long way towards bridging the considerable divide between regional theory, policy and practice. It would also contribute to a greater understanding of the extent to which the huge amount of government faith placed in local economic development over the past ten years or so is remotely justified.

This raises the whole gamut of evaluation challenges noted by Hill (2002), among others. But it may be worth the effort, in view of the range and significance of the unanswered questions.

J M Keynes once said:

> There is nothing a politician likes so little as to be well informed; it makes decision making so complex and difficult (quoted in Davies et al 1999: 3).

One can only hope that such political reality does not stop regional scientists from asking important questions about strategy and causation.

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Country Towns in a Big Australia: the Decentralisation Debate Revisited

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Introduction

At the time the abstract for this paper was written, the topic of a "big Australia" had specific currency.

As they say, a week is a long time in politics – let alone three months. Recent political events seem to have placed a "big Australia" on the backburner. However, while ever there are skills shortages and skills needs in Australia, there will always be a discussion about how "big" Australia should be, and what place the overseas migration program has in this discussion. Moreover, most people will recognise that Australia's population will continue to grow steadily, however the specific, short term debates resolve themselves.

As well, the outcome of the recent election has served to re-ignite discussions over the whole question of regional development, with particular attention on regional education, health and broadband technologies as drivers of regional growth.

The Commonwealth Treasury's recently released 2010 Intergenerational Report, in particular, its projection of a population of around 35 million by 2050, has ignited the debate over Australia's future population (Australian Government 2010). Further developments have included the appointment of Australia's first Minister with direct responsibility for population policy, the release of an Issues Paper by the National Farmers' Federation, and calls by a number of politicians, academics and commentators for a cap on immigration levels.

In this context, and at a time of increasing concerns over infrastructure, water availability, environmental carrying capacity, sustainability and the costs of urban congestion in the major cities, questions of future metropolitan planning, and, more broadly, whether and how much cities can accommodate future population growth, have turned into a full scale debate over the future "look" of Australia. One rural journalist has referred to Australia's current demographic situation, with its coast-focused settlement pattern as a "crisis" (Knight 2010).

This all begs a number of questions – where will the people live in a big, or at least a bigger, Australia? And, more specifically, will our largest cities be able to cope with the added population? Finally, should we reconsider and attempt to alter the preference of Australians for living in the capital cities?

Professor Bob Gregory has suggested the return to thinking about decentralisation. The Victorian Rural and Regional Parliamentary Committee, in its recent (2009) report on Regional Centres of the Future, argued for a ramping up of government support for regional cities to accommodate future population growth. Former NSW Treasury Secretary Percy Allan wants the NSW capital moved to Newcastle as a spur to regional population growth. The National Farmers' Federation (NFF) advocates taxation reform and greater incentives as solutions to the problem of metropolitan primacy. Others have argued for regional government as a means of decentralisation.

The "problem" is largely that to grow economically Australia needs more people and more skills, that overseas migration largely drives Australia's population growth, and that migrants generally like to live in the cities where cultural ties, migrant services and job opportunities are greatest. The cities are also the places our increasingly higher education obsessed young people generally move to from rural towns.

Of course, this turns out to be a re-run of a very old debate in Australia. In particular, in the 1960s and 1970s, many people (and governments) were concerned with these matters, and mostly for the same reasons. The decentralisation issue largely disappeared from the late 1970s, for a number of reasons. It is a classic "wicked problem" that policy seems unable to resolve. Since that time, economic and cultural trends have only exacerbated the primacy of the capital cities.

The paper examines afresh the arguments over metropolitan primacy and decentralisation in the context of the current debate over a "big Australia", and, in particular, analyses potential new policy solutions and the impacts that these might have on country towns, especially those beyond the sea and tree change belts near to the capital cities.

It is argued that governments are generally very poorly placed to effect large scale changes in the location of our population, and should instead focus on real strategies for empowering regions to drive their own economic futures. Such an approach would encourage devolution and more regional development and would benefit all country towns, not just spillover cities located within a couple of hours of the State capitals.

Arguments about a "Big Australia"

There seem to be three strands of thinking among those (apparently) many people for whom 35 million people by 2050 is a scary prospect.

The first recognises that most of the extra people will be overseas migrants, and there is a fear that we will ultimately lose something of our national identity if and when most of the population are no longer born here.

The second focuses on matters of urban congestion and the lack of infrastructure capacity in what many regard as already overcrowded cities.

The third reflects an environmentally conscious view, driven partly by perceptions of dangerous, man made climate change, that a hotter, drier environment simply won't be able to cope with that many people, and that we are simply running out of water. Perhaps some hold to all three of these positions.

Against these views are the arguments of those who think the infrastructure will be fine and that we simply need many more people to provide the skills and economic grunt that we will require as we approach that other big problem waiting down the track - the ageing population.

The "Problem" of Capital City Size and Growth and Metropolitan Primacy

How big is the "problem" of Australia's population concentration in its capital cities? This is sometimes known as "metropolitan primacy", the degree to which the most populous cities in a jurisdiction out-rank the next biggest cities (Collits 2002).

Australia is not only highly urbanised. It lacks middle sized cities (250 000 to 500 000) in large numbers, and any middle sized cities (apart from Canberra) away from the coast. In view of the size of the capital cities, this means that Australia's settlement pattern is dominated by a few large cities. Or, as the NFF notes, Australia has the most highly concentrated population of all OECD countries (NFF 2010).

The increasing dominance of the State capitals, particularly Sydney and Melbourne, is shown by the following:

- In the 1870s, Sydney accounted for 27% of the population of NSW. In 2008-09, the figure was 63%;
- In the 1900s, Melbourne accounted for 40% of the population of Victoria. In 2008-09 the figure was over 73% (ABS 3222.0; Collits 2002; McNeill 2010);

The following statistics reflect the current extent of metropolitan primacy:

- At 30 June 2009, more than 14.0 million people, close to two-thirds of Australia's population, resided in a capital city Statistical Division (SD). The combined population of capital city SDs increased by 310,200 in the 12 months to June 2009;
- In 2008-09, Melbourne recorded the largest growth of all capital city SDs, increasing by 93,500 people, followed by Sydney (85,400), Perth (52,200) and Brisbane (52,100). The population growth in Melbourne SD equated to an average increase of almost 1,800 people per week, while the population of Sydney SD increased by over 1,600 people per week. This means that Melbourne adds the equivalent of my home town of Hamilton every five weeks or so;
- Population growth in Australia's capital city SDs occurred at a rate of 2.3% in 2008-09, faster than that in the remainder of Australia (1.9%). Greater Hobart had the lowest growth rate at 1.2%;
- The growth rates experienced in all capital city SDs for 2008-09 were higher than their average annual growth rates over the five years to June 2009 (Australian Bureau of Statistics 3218.0).

Hence metropolitan primacy has strengthened over time historically, and is increasing now. ABS projections show that the capital cities' dominance will only increase into the future. ABS projections in 2008 show (under its middle scenario) a reduction in the percentage of people living outside the capital cities from 36.4% in 2006 to 32.9% in 2056 (ABS 3222.0; see also McNeill 2010).

Hence, the growth of our capital cities, and their domination of their States' populations, are unlikely to diminish any time soon, no matter how well the non-metropolitan regions might be doing in terms of economic activity and population retention/growth.

Many people, of course, see such capital city growth as problematic. Metropolitan planners configure ways to cope with such growth through various strategies, regional and rural people would generally love some of the new city residents to settle in their regions (especially those away from the coast), and governments want to be seen as delivering on their regional development commitments that encourage settlement and economic activity beyond the major cities.

Recent Suggestions for Encouraging a More Dispersed Population

The recent debate has focused on whether the overall size of the projected bigger population is a good or a bad thing, and on the rate of growth envisaged. The debate also begs the question – where will all the extra people actually live, particularly in the light of the manifest problems of congestion in our largest cities?

Some recent suggestions in answer to this question, by Professor Bob Gregory and former NSW Treasury Secretary Percy Allan among others, promote decentralisation as a potential solution to the growing urban congestion problem.

Allan has suggested decentralisation of decision making – either through regional government or moving the NSW State capital to Newcastle, though many west of the Divide might question whether moving administration or more people from the "S" in NSW to the "N" would really count as decentralisation. Gregory has suggested more broadly based decentralisation of people and industry.

Allan, who regards Australia's spatial development as "myopic", states the position as follows:

> Australia's population will continue to gravitate to a few state capitals as long as we have only a few states. That's because both public and corporate administrations in Australia are largely run out of state capitals. By breaking up our mainland states into say 15 to 25 smaller regional

> governments we stand a better chance of fostering socially and economically attractive medium sized cities as exist in most other developed countries (Allan in Seaton 2010: 39).

Allan's solutions have been noted by Michael Stutchbury to resonate with the US experience of having its State capitals distant from those States' major population centres, exemplified by California (whose capital is Sacramento) and New York (whose capital is Albany). As Stutchbury states:

> After the 1906 earthquake, California shifted its state capital from San Francisco to Sacramento. After embracing decentralisation, California now has 59 cities with populations of more than 100,000. With one-fifth of California's population but less of its aridity, NSW would have 12 cities over 100,000 people if it had the same degree of decentralisation. Instead it has only three: Sydney, Newcastle and Wollongong Stutchbury (Stutchbury 2010).

Allan argues that:

> NSW should stop being run like a penal colony that is micro-managed through heavy-handed commands and controls from Governor Macquarie Tower (Allan in Seaton 2010: 68).

The NFF has also weighed into the big Australia/decentralisation debate with the idea of using the tax system more vigorously to encourage people to live outside the cities. The NFF argues that the problem is essentially one of cost differentials between city and country and the unequal access to services (amounting to a "bias against country living"); accords government policy a share of the blame; and sees a solution in altered tax arrangements. The NFF notes, for example, the impact of the non taxation of capital gains on the family home as an incentive to city living and a disincentive to living outside the capitals, which afford people the greatest opportunity to maximise wealth creation through investment in property (NFF 2010: 2-3). The NFF sees government attempts to resolve this issue as "piecemeal" and advocates both a resolution of the perceived inequities AND a greater investment in development beyond the capitals. In particular, it advocates a national infrastructure strategy and the use of tax zones as well as actions to reduce inequities, investment in regional centres and the encouragement of people to move to regional areas (NFF 2010: 4-5).

Many of these suggestions are not new, and there have been others, such as radical suggestions for new states to more modest proposals for administrative decentralisation and industry incentives to relocate, for example through enterprise zones (Collits 2001). Some of the suggestions (or variations of them) have been tried to a greater or lesser extent by different governments over the years (see below), and have either been abandoned or scaled back having failed to yield the desired outcome.

The efficacy of recently suggested decentralisation strategies needs to be examined both in the light of previous attempts at decentralisation and the processes that drive capital city dominance in Australia. If it can be shown that governments have already reasonably tried to effect a more dispersed population, and have failed, and that the drivers of city growth are simply beyond the capacity of governments to control or influence, then arguments for decentralisation will be seen to be without foundation, and regional policy re-configured accordingly.

Previous Government Efforts at Decentralisation

The argument over decentralisation taps into a very old vein of thinking in Australia.

Concern by governments over metropolitan primacy – the concentration of population in a few capital cities – is not new. Coates et al have pointed out that:

> Centralisation of population and economic activity into but a few places is not a new phenomenon and it has worried governments for at least 400 years; Queen Elizabeth I of England took positive, largely unsuccessful steps to curb the growth of London (Coates et al 1977: 239).

Governments have traditionally been sensitive to the urge for national development and dispersed development. Governments have, from time to time, implemented policies in order to address the problem of metropolitan primacy or to favour non-metropolitan areas generally (Harrison in Forward 1974: 149). As Robert Carter has stated:

> Australian public policy has a long history of rural orientation. Quite correctly, the rural areas were seen as the backbone of the nation and the source of its wealth and growth… (Carter 1978: 80).

Woolmington et al referred in 1971 to the "frustrated frontierism" of rural dwellers, and to their "lust for development" (Woolmington et al 1971: 4-5), and governments have sought to respond to this.

The States have traditionally had responsibility for economic development within their borders. Commonwealth action in regional development has been constrained by the Constitution (see also Lloyd and Troy 1981: 1; Legislative Council 1993: 73; Carter 1978: 80; Scott 1978: 41; Searle 1981: 30). Despite the obstacles to Commonwealth action that, on a literal reading of the Constitution, would leave it relatively impotent in relation to regional development, it has been able to pursue policies aimed at developing regional Australia.

According to J M Powell:

> Decentralisation was a most Australian "issue" which no political party could afford to ignore (Powell 1988: 967).

N T Drane agreed, claiming that:

> The subject of "Decentralisation" is something of a hardy perennial in the Australian political garden (Drane 1966: 66).

Yet decentralisation – for generations of observers and interest groups the perceived solution – was an area of policy that, in the event, many governments prior to the 1960s only spoke about or implemented sporadically, with few pursuing it systematically or vigorously (Hurley 1989).

Hence despite many decades of discussion about the need for decentralisation within government, good intentions, and some attempts to address the issue, many observers have seriously questioned both the genuineness of the commitment of governments to decentralisation and the achievements of the various efforts. Increasing metropolitan primacy is testimony either to their lack of genuineness or to their ineffectiveness, or both. For example, in terms of commitment, Max Neutze was able to say, famously, in 1965 that:

> Decentralisation of population has been the policy of most political parties since World War II. It has, so to speak, been everyone's policy but no one's programme (Neutze 1965: v).

The effectiveness of decentralisation efforts of governments prior to the 1960s has also been questioned. This discussion crystallised in the late 1960s debate over selective decentralisation (see below). This lack of success was well summarised in the *Sydney Region Outline Plan* (SROP):

> The concept of decentralisation has long been built into thought on State development, but the nature and level of action hitherto has clearly not made a very significant difference to the strong drift of population to the Sydney Region (State Planning Authority (SPA) 1968: 19).

J M Powell has also questioned the achievements of State government efforts to engender more balanced development, noting that most government actions aimed at decentralisation have spread resources too thinly to be effective (J M Powell 1988; see also Committee of Commonwealth/State Officials 1972).

Hurley was able to conclude that decentralisation was "an event that did not happen" (Hurley 1989). He has described in detail government actions and rhetoric to promote it in New South Wales and Victoria from the 1880s to the 1980s. While Hurley concludes that attempts at decentralisation have generally come to nought, there is no doubt that the perceived need for it has, over a long period, occupied the minds of decision-makers at State and national levels of government. For Hurley, the regional problem of imbalance was such that "… only a radical, sustained intervention by governments…" could break it (Hurley 1989: 362). And his conclusion was that governments had fallen far short of such a commitment:

> There was no fit between this puny intervention and the enormous inertia in the deposits of population where they were (Hurley 1989: 363).

Prior to the 1960s, governments have used a number of mechanisms to achieve a more even spread of population and economic activity (see Hurley 1989). Some of these initiatives have not necessarily set out to achieve more "balanced" development, but might be seen as having had this outcome. These initiatives included the establishment of the Grants Commission, nation building infrastructure projects, closer settlement schemes, initiatives of the Department of Post-war Reconstruction, and the development of Canberra as a decentralised capital city (Collits 2002). Other policies designed to encourage decentralisation have included, over time, the creation of regional institutions like development boards, taxation breaks for rural industries, and the decentralisation of government departments.

More recently, plans have been floated for fast trains that would create new economic opportunities in rural regions, as well as the idea of locating Sydney's second airport outside the metropolitan region. The argument for regional States generally lies dormant beneath the surface of day-to-day political debates, but is always there ready to be dusted off at times like these.

Hence for over one hundred years, governments in Australia paid lip service to the desires of many in rural areas for a more concerted policy effort at encouraging people out of the capital cities. More serious policy attention was given over to this issue briefly in the 1960s and 1970s, when State governments in Victoria and NSW joined the Whitlam Government in thinking big and creating programs designed to achieve what many people at the time termed "balanced development". The most noteworthy initiative was the creation of growth centres such as Albury-Wodonga and Bathurst-Orange.

To this day, debate has continued as to whether these decentralisation efforts failed, or were never properly tried.

Some of the arguments for decentralisation aired in earlier periods bear uncanny resemblance to some of the issues raised today about a big Australia. Typically, they related to inadequate infrastructure in the cities, and to the overall economic efficiency of having a few large cities and not much population outside these.

Why Population is Concentrated in Large Cities in Australia

Despite the things tried and the things dreamed, the cities continue to grow inexorably. There are three main contemporary drivers of capital city growth and domination, and these build on longstanding economic, historical and geographic processes embedded in Australia's development.

First, our population growth is driven by overseas migration and most migrants, for a range of fairly obvious reasons, prefer living in our major cities. It is in the cities that migrants' families and ethnic communities are largely already established, and where the best job opportunities and migrant services are located.

Second, our highly aspirational young people also generally prefer the cities. They increasingly seek "portfolio lives" which include easily accessible jobs, the capacity to change jobs without too much trouble, career shifts, opportunities for travel and multiple partners (Collits 2007). Cities provide both thick labour markets and thick mating markets, as several analysts have observed (eg Florida 2002).

This is not to mention the emerging obsession young people have with higher education, encouraged by parents, governments, schools and universities. In particular, government policy since the 1980s has driven greater engagement in all levels of education, dramatically increasing secondary school completion rates and increasing access to higher education, with even higher targets now envisaged following the recent Bradley review (Bradley 2009). While both secondary completion and higher education take up rates remain lower in non-metropolitan regions, and those in rural communities strongly support greater equality of access to education for their young people, it is also the case that the geographic concentration of universities in the major cities, when combined with the inexorable expansion of higher education, in effect acts as a giant vacuum cleaner that sucks many of the best and brightest young people from non-metropolitan regions to the cities, where most of them will inevitably remain.

Third, globalisation – the recent opening up of Australia's borders to much greater movements of goods and services, investment, capital and people through better and cheaper transport and communications and the lowering of trade and other barriers by governments – has, perhaps perversely, only strengthened the growth of cities by assigning them the new role of global network hubs. While some argue that globalisation makes economic development more geographically even and dispersed across the globe, others, persuasively, argue that globalisation in fact makes the world "spiky" (Friedman 2005, Florida 2005).

Of course, there has been some sea change and tree change out-migration from the cities, and some overseas migrants are encouraged to seek a new life in the bush. But these are small numbers, and such out-migration tends to be confined to high amenity locations close to the cities. As well, it has been argued persuasively in some quarters that Australia really has a very sensible settlement pattern, in view of our climate, the scarcity of water in many areas, the export focus of our main rural industries, and the sheer efficiency of mining and agriculture. On this view, we just don't really need big cities in the regions.

Consider the following views on economic and demographic concentration:

> Step back and ask, what is the most striking feature of the geography of economic activity? The short answer is surely concentration (Krugman 1991: 5).
>
> Sydney will always be dominant. Little towns are going to find it increasingly difficult to survive unless they become suburbs of larger centres, but that's history (Egan in McGregor 1999).
>
> … decentralisation may not be a realistic objective in today's economic world. As long as any society places an overriding premium on economic productivity, efficiency, and growth, the economic forces promoting centralization are likely to remain dominant and perhaps uncontrollable by government action (Londsdale 1972: 328).

These views seem to be in tune with the worldwide movement of people to cities. In 2007, for the first time in history, more people lived in cities than in rural locations. A recent study by Doug Saunders (Saunders 2010) charts the trends in thirty city regions across the world and notes the positive impact of rural-to-urban migration on people's wealth and lifestyles, despite the difficulties they may encounter during their journeys.

Both history and geography have played a critical role in shaping Australia's settlement pattern, and a convincing explanation of capital city dominance would weaken considerably the claims of decentralisation supporters that there is something wrong with the unevenness of development, that requires fixing.

Many writers have sought and provided explanations for capital city dominance. There are two views of the Australian settlement pattern, and these lie at the heart of the debate over decentralisation. On the first view, there are good reasons for the way Australia's settlement pattern has evolved. In this connection, Lepani et al have stated that "… the past is a fundamental constraint on the future" (Lepani et al 1995: 34). The role of history is critical, as is geography, and cannot be easily undone.

There are a number of cogent explanations of the dominance of Australia's capital cities:

- The harsh inland climate and soils that have rendered much of the agricultural production reliant on irrigation or confined to areas of moderate rainfall;
- The lack of navigable inland rivers;
- The large distances involved;
- The nature of Australia's imperial relationship with Britain as a convict colony and decisions to space the convict settlements wide apart;
- The occurrence of settlement at a time when urbanisation was occurring elsewhere in the world, at the height of the industrial revolution;
- The settlement of capital cities before the rest of the States;
- The development of a transport system focused on exports and centred on the capitals;
- The development of the colony as an exporter of agricultural produce, underlying the importance of trade and ports;
- The nature of the farm economy which encouraged large-scale commercial production and hence a sparse settlement pattern;
- The role of the cities in the early 1900s as centres of manufacturing;
- The ongoing preference of migrants for living in capital cities, particularly those arriving as part of the migrant boom after World War II;
- The impacts of globalisation, which have delivered new economic advantages to cities, despite the technological revolution that has been said to "flatten" economic development";
- Cultural changes and the increased expectations of young people about career, higher education and life choices; and
- The small size of Australia's overall population.

(Sources: Glynn 1970; Burnley in Goldstein and Sly 1975; Burnley 1980; Neutze 1981; Neutze 1985; Holmes in Jeans 1977; Friedman 2005, Florida 2005).

According to Tony Sorensen:

> In general terms, Australia's market driven settlement system is well attuned to the nation's geography … there is, for good reason, no large city in the interior … It therefore seems eminently logical to have several large metropolises that are capable both of providing high order services and dealing with the rest of the world as equals, and to surround them with a range of small regional service centres and their tributaries. It is patently absurd to look to settlement systems in the quite different geographical environments of Europe and North America and claim that Australia is in some way deficient (Sorensen in Sorensen and Epps 1993: 238).

A J Rose has described metropolitan primacy as the "natural state" in Australia (Rose 1966). Rose has also claimed that:

> The present capital city concentrations of economic activity in Australia are the perfectly logical outcome of an economic system seeking to minimise production and distribution costs (Rose 1967: 114).

Similarly, A J Robin has argued that concentration is a logical response to problems of long distance and few people (quoted by Holmes in Jeans 1977: 414). There has been little reason for a highly populated inland, as noted by Don Aitkin:

> To the historian, geographer, and economist the fate of the country towns was almost pre-ordained. The Australian inland was naturally best suited for large-scale farming and grazing, forms of rural occupation which required land and capital and relatively little labour… Unless

> inland towns were to become major industrial centres, and given their disadvantages of distance from raw materials, lack of skilled labour and lack of a big domestic market there was no reason why that should have happened, their optimum size was likely to be quite small, and their growth tied to that of their rural hinterlands (Aitkin 1972: 11-12).

Or as Chris Cunningham has noted:

> From the time that it outgrew its convict origins, Australian society has been primarily focussed on towns and trade… We are maritime, we are commercial, we are urban, or at least suburban. Settlement of the coastline, and establishment of trading entrepots, has always been more significant in forming the character of the nation, and the pattern of population distribution, than settlement of the inland (Cunningham 1996: 150).

In the twentieth century, the rural-urban drift has been compounded by advances in transport technology, an increased awareness of the benefits of economies of scale and the drift of farmers off the land (Woolmington in Sinden 1972: 190).

Decentralisation requires redirecting growth away from capital cities. Yet there is a strong argument advanced by many urban and regional economists that large cities generate not only benefits for firms but also national economic benefits, that might be diminished were governments to attempt to control their growth. According to Friedmann:

> National economic development is, to a large extent, identical with the development of core regions (Friedmann 1966: 67).

Friedmann explores the question of whether, and how, governments and nations can reap the benefits of the dynamism of disequilibrium without incurring the dis-benefits of too much imbalance between regions, or between core and periphery (Friedmann 1966: 50-59; Hirschman 1958). The extent to which more balanced development would compromise national or State economic growth, for example by curbing the economic functions of the primate city, is a major policy concern.

Stilwell (1992, 1993) and others have spoken of the key role of cities in capital accumulation. Hoover has described cities as "… entrepots for interregional transfer…" where "vitalising inputs" from the outside world are absorbed (Hoover 1975: 238; see also H W Richardson 1973: 41). In other words, cities have "spread" as well as "backwash" effects on their hinterlands (see Myrdal 1957: 27-33).

Richardson has referred to the economy-wide benefits of agglomeration in cities:

> One of the most important of the agglomeration economies created in the largest cities benefits not the citizens but the economy as a whole. This refers to the systemic functions of large cities, and more particularly to their rate of innovation (interpreted widely) and its subsequent diffusion to smaller cities and to other parts of the economy (Richardson 1973: 40-41; see also Porter 1990; Bureau of Industry Economics 1994: 59).

Despite what Richardson has termed the "big bad city myth" (H W Richardson 1976: 307), a number of writers have extolled the economic virtues of cities, none better known than Jane Jacobs:

> … nations are strictly the economic creatures of their cities, becoming wealthy as their cities become more productive and numerous, subsiding into poverty as cities lose economic vitality (Jacobs 1985; see also Jacobs 1969; Stilwell 1992: 28).

This recognition of the role of cities as centres of innovation diffusion highlights another weakness at the heart of the decentralisation argument – it is simplistic in its portrayal of capital cities as taking resources away from the country. It focuses too much on the so-called "backwash" effects.

Cities drive economic development in a number of ways. They are central to processes of structural change. They are centres of high-value added manufacturing and services. They contain key infrastructure such as research and education, and provide higher order marketing functions and global "command and control" functions (Watson and Murphy 1993: 105; Lepani et al 1995). They provide international accessibility and information flows. They provide innovation through concentration (Pred 1966), and are highly adaptable to change. They are critical in new firm formation. For example, the spillover benefits of economic activity are felt in non-metropolitan areas through diverse impacts including increased domestic and international tourism to regional areas, contracts won by regional firms on major metropolitan infrastructure projects, and the cities' role as a market for regional products and services.

The economic role of cities is related to the fact that productivity increases with city size, through specialisation and the capacity to capture economies of scale. As Beeson has noted:

> There is considerable evidence that productivity levels increase with city size.
>
> … Adam Smith proposed that productivity will increase with the scale of production because increased scale allows firms and workers to specialize in specific tasks and this specialization and division of labor increases productivity. The ability to exploit these economies of scale, in turn, depends on the size of the market. To the extent that the size of the market depends on population density and is limited by transport costs, the ability to exploit economies of scale depends on city size (Beeson in Mills and McDonald 1992: 21, 24).

Vipond has also noted that the concentration of economic activity in large centres minimises the disruption of structural change and maximises its benefits (Vipond in Economic Planning Advisory Council 1990: 31).

Governments have clearly recognised the key role played by cities in the economy, and that cities act as engines of national economic growth. This is perhaps demonstrated most clearly in the increasing focus of governments on attracting mobile investment capital to the major cities (see Searle in Australian Broadcasting Corporation 2000: 14).

Hence, in relation to decentralisation, it is possible that governments have simply recognised the potential dis-benefits of discouraging city growth. This may be one of the most powerful reasons why governments have refused to embrace wholeheartedly the strategy of decentralisation (even when they were pursuing it). Governments may simply be willing to continue to accept all the negative externalities and costs associated with city growth because they know how important cities are to the States' and national economies.

On this view, it is unlikely that government action, certainly at State level, could have made much difference to the settlement pattern.

The second view of capital city dominance – one, interestingly propounded over many years by the now quite famous Member for New England – is that governments have largely created Sydney's dominance. Mr Windsor is wont to refer to the "policy" of herding people into "feedlots". Proponents of this view emphasise the role of city elites in creating and maintaining city commercial hegemony, the early centralisation of government administration, the importance of government investment in the early development of Sydney, and the relative weakness of local government in Australia. Percy Allan's idea (not new, of course) of relocating State capitals reflects this thinking.

Glynn has emphasised the role of government in creating Sydney's dominance (Glynn 1970; see also Burnley 1980: 44). He has focused, in the colonial period, on the degree of government investment in the city, particularly in infrastructure and railway lines which emanated from Sydney and which were used to facilitate the export of agricultural produce. For Glynn:

> Australian political and administrative activity was highly centralised in each colony and undoubtedly this played an important part in metropolitanisation. In Australian circumstances the political and administrative functions of cities appear to have been an important causal factor in the growth of material or economic functions (Glynn 1970: 47).

Elsewhere, Glynn has referred to the tendency towards "metropolitan aggrandisement", largely as a result of government actions (Glynn 1970: 10). Burnley agrees, noting:

> Even government employment in the colonial era was a contributor to Sydney's and Melbourne's growth, for it was concentrated in the capitals and was swelling rapidly in fields such as education and lands administration (Burnley in Goldstein and Sly 1975: 96).

On the second view of Sydney's growth, the source of Sydney's dominance was government policy. As Bolton has written:

> … each of the colonial governments preferred to centralize transport and trade on the state capital, for what at the time seemed good and sufficient economies of scale. This meant that from an early period life in the bush was strongly challenged by the competing attractions of life in a thriving metropolis (Bolton in Van Dugteren 1978: 6).

In the twentieth century, undoubtedly the encouragement of mass immigration by successive Commonwealth governments and the protection through tariffs of Australia's largely urban based manufacturing sector has also helped sustain the cities (Forster 1995). The role of overseas migration has been critical in increasing and maintaining capital city primacy, particularly since World War Two. As Neutze has noted, there were 620 000 migrants to Sydney in the critical 1947-71 growth period in which Sydney dramatically increased its dominance of the State's population (Neutze 1981: 54; see also Murphy 1993). It has been the clear and continuing preference of migrants to settle in the eastern capitals, particularly Sydney and Melbourne.

Despite cogent arguments on either side of the debate, there is a general consensus that there were, and are, good reasons for capital city size and their domination of the States' economies. And, while city growth has been assisted at times by government encouragement, there is little to suggest that the main reason for that growth has been government, or conversely that all it would take to reverse the metropolitan primacy would be greater government involvement.

If the inevitability of Australia's settlement pattern is accepted, this has clear implications for the decentralisation position:

> … the process of urban centralisation would appear as an inevitable consequence of the accelerating pace of science/technology, and all attempts at urban decentralisation as Canute like vanities, aimed at reversing such an inevitable process (Woolmington et al 1971: 2; see also Woolmington in Linge and Rimmer 1971: 281).

Historical forces have made metropolitan primacy more or less a given. As a result, the goal of substantial decentralisation is almost impossible to attain. There is a powerful argument that "… appropriate urban policy measures should take heed of natural population trends" (Braby in McMaster and Webb 1976: 210).

This kind of thinking, by and large, has been accepted by recent governments of all persuasions and at both State and Commonwealth levels, that have rejected decentralisation.

In summary, the following can be concluded about why most people prefer to live in large cities in Australia:

- Cities provide the greatest opportunities for individuals and firms to create wealth and satisfy their needs;
- Cities, in effect, reduce risk – you can change jobs, even careers, without moving house, and you can move house without changing jobs;

- Contemporary cultural trends, recent social changes and a greater focus on self-actualisation favour places which offer the greatest amount of choice;
- The big three drivers of city growth – overseas migration, globalisation and culture, particularly youth culture – all reinforce the historical, geographic and economic reasons why Australian cities have dominated the landscape; and
- Policy, including (perhaps especially) non-regional policies, often favour cities over time without government realising it and without much likelihood of change, in areas such as taxation and the cult of higher education.

The question therefore needs to be posed and addressed, in the context of current debates over population distribution and the future of regional Australia – what can policy achieve to address these not inconsiderable barriers to greater development of non-metropolitan regions?

Regional Policy Shifts and the Decline of Decentralisation Policy since the 1970s

There is a wistfulness about, and longing for, the days of decentralisation policy among many people in regional Australia. It is now many years since governments in Australia have actively pursued decentralisation as a policy objective. Governments have moved away from the decentralisation objective from the late 1970s onwards. There is a complex story about why they have done this (Collits 2002).

It is not just about "economic rationalism" or "metrocentrism", tempting though these explanations might seem. The reasons why governments abandoned decentralisation objectives include serious difficulties with the idea of decentralisation itself; the emergence of new regional problems as a result of changing regional conditions that overshadowed the old problem of metropolitan primacy; the advent of new thinking about regional development and its drivers, and new regional policy ideas more relevant to the emerging problems; the ineffectiveness of interest groups supporting decentralisation; the changing ideologies within government and changing policy priorities of governments that were in conflict with balanced development; and institutions and processes within government that were unsympathetic to decentralisation.

The critiques and critics of decentralisation have been plentiful, and, more importantly, have been influential in shaping the way governments and agencies have responded to the various attempts by balanced development supporters to influence policy.

While new regional policy ideas have become part of government thinking, this has only occurred because new approaches were needed to meet fundamentally changed regional circumstances. Other regional problems, often more pressing than metropolitan primacy, emerged as a result of recessions and restructuring, causing governments to shorten their regional policy time horizons and to focus on specific (and often visible) regional problems. Decentralisation, a far more esoteric "wicked" problem without immediately apparent winners and losers, has taken a back seat.

Another aspect of the decline of decentralisation related to the way the idea of decentralisation has been promoted by its various champions. A feature of the 1960s period was the apparent effectiveness with which supporters of decentralisation, both within and outside government, pushed their agenda. However, since the end of the 1970s, support for decentralisation has largely been confined to those outside government. Yet the efforts of the main supporters have not been either sufficiently strategically focused or resourced over time to have an impact on already sceptical governments.

Whether the new political circumstances in Canberra lead to a major shift in policy approaches as a result of the new found, though possibly brief, influence of the country Independents who undoubted favour a far greater commitment to regional development, remains to be seen. To date, concessions gained from the Government seem to be more a shift in the geographical distribution of "goodies" than a fundamental realignment of thinking about the distribution of Australia's population.

Of course, as well, there has been a fundamental change in the way governments have approached economic policy since the 1970s, clearly influenced (at times) by a deteriorating macro-economic environment and by globalisation, that is, by external forces, but also driven by the advent of a now fashionable smaller government /low taxes agenda (notwithstanding the expansive policies of the Rudd Government).

Governments have lost faith generally in centralist solutions and have moved across a broad policy front to allow more market influence on economic outcomes. To some extent, decentralisation has become caught up in this broader movement away from government-driven approaches.

Also, other policy priorities have moved up the agenda of most governments, in Sydney, Melbourne and Canberra, and this has generally (though not always) caused regional policy and decentralisation to occupy a lesser policy status and a lower priority. At the national level, there has been, in turn, a greater focus on macro-economic management, industry policy and micro-economic reform. At State level, all jurisdictions have become caught up in competition for mobile investment. Capturing jobs for the jurisdiction as a whole, rather than particular areas, has become a priority. This has meant less emphasis on non-metropolitan regions. Hence, broad government policy priorities have “crowded out” decentralisation from increasingly busy agendas.

Against this, it might be argued that the current Victorian Government is an exception to the general policy trends. Certainly the Victorian Government in office since 1999 has been far more engaged with regional policy – and recently, in region scale planning – than its predecessor or, indeed, the governments of other States, and has certainly included in its overall policy approach strenuous attempts to encourage people to leave Melbourne for regional areas (Victorian Government 2010). Yet despite this, the Government’s overall approach is to achieve better regional development outcomes (through a very broad range of programs) rather than to use serious decentralisation policy levers to shift the balance of population between metropolitan and non-metropolitan Victoria. Despite better growth rates over the last decade, Melbourne continues to dominate the State’s population and this is only projected to widen in future years.

In sum, governments generally have given up on the decentralisation project because they simply haven't been able to figure out how to do it. It is seen as a classic "wicked problem". Just about everything that has been thought of has already been tried in some shape or form, to little real effect.

The Critical Decentralisation Debate – Selective Versus Non-Selective Decentralisation

On of the great debates of the decentralisation period related to whether policy support for decentralisation objectives should be “selective” or “non-selective”. In other words, would government get the biggest “bang for the buck” in terms of relieving growth pressures on cities by selecting and funding a few growth centres or by providing generalised forms of assistance, incentives, programs and so on across non-metropolitan regions generally.

This, of course, is one of the great, ongoing debates in regional policy – what sorts of places should governments intervene to support? Other questions relate to how, and how much governments should intervene to make a difference to regional outcomes. Should governments support places that are already growing strongly, or places that are experiencing either short term of ongoing decline, for example should government support declining small towns when nearby, larger regional centres might be growing strongly. Of course, small town decline might well be linked to the growth of so-called “sponge cities” (Collits and Gastin 1997).

In some senses, these philosophical and prudential policy questions have never been resolved, particularly in view of the “cover all bases” approach that most governments now adopt in relation to regional development. However, at the time (in the 1970s), governments chose largely to support selective decentralisation, believing that encouraging specified growth nodes would deliver the greatest dividends.

The debate took place at a number of levels – within government, in the media, among regional interest groups, and among academic observers. Neutze has summed up the simple appeal of the selective approach:

> If assistance was given everywhere there was little prospect of making a significant impact on the population of any country town. Therefore it makes more sense to concentrate efforts in those few towns which have the best growth prospects (Neutze in McMaster and Webb 1976: 448).

This thinking was, in effect, the origin of the growth centre concept that would come to dominate the decentralisation agenda in the 1970s.

The way this debate was resolved reflects the differing policy objectives then and now, and helps explain how regional policy has evolved over time to reflect general notions of giving non-metropolitan regions a fair go in terms of funding – in other words, providing the services that underpin lifestyles and well being in non-metropolitan regions – rather than overtly seeking to divert future population growth through more targeted, growth centre type policies.

Ongoing Issues and Wicked Problems

In a sense, the metropolitan primacy "problem" has not gone away. Recent ABS demographic data and population projections (referred to above) show clear patterns of increasing metropolitan dominance, particularly in Sydney and Melbourne. This has occurred for all the economic, historical and geographic reasons described earlier in the paper. It begs the question – what exactly could governments do, were they so minded, to encourage greater decentralisation?

The very capacity of governments to control or influence regional processes and hence outcomes is severely constrained, as follows:

- Governments generally only influence outcomes indirectly;
- Other things have a far greater impact, including non-regional policies;
- The drivers of regional growth and decline are complex;
- There is no consensus over policy objectives;
- The policy instruments used to date haven't stopped inexorable city growth;
- Governments don't know whether their policies have "worked";
- Political realities and the "tyranny of the announcable";
- Difficult strategic choices and finite resources (See Collits 2006, Sorensen 2000).

This has been referred to by one author as "the tyranny of the macro" (Sorensen in Sorensen and Epps 1993).

This makes regional policy generally highly problematic, and in particular makes significant decentralisation a difficult goal to attain. Notwithstanding the views of those who see centralisation as an outcome of metro-centrism in policy, there are too many drivers of city growth and the distribution of population that are beyond the effective control of governments.

What about the recent political developments in Canberra, with the election outcome delivering a minority government that is only in power because of the support of Independent members with a pro-regional Australia platform and the capacity to extract changes in the machinery of government and policy stances that promote their agenda?

A heightened political focus on regional development in Canberra is itself not new, with previous peaks of interest occurring in the 1970s (Whitlam), the early 1990s (Keating) and the late 1990s (Howard and

Nationals leader John Anderson). The 1990s recession and its regional dimensions led to the development of new regional development programs and regional development institutions (the Area Consultative Committees and Regional Development Organisations). The rise of One Nation coincided with the coming into the National leadership of John Anderson and concerns about the "gutting" of services in regional areas and led to the convening of a Regional Australia Summit, a flurry of regional development activity and a suite of new programs.

Arguably, though, the emergence of the Independents in 2010 will lead to a far greater focus on regional development and regional policy than in the past, even during the heightened periods of interest here noted. This is provided the Government implements the reforms and delivers on the level of spending demanded in the Independents' agreement.

However, three cautionary points need to be made. First, the agenda laid out by the Independents is more about "fairness" in government spending and on access to services than on any explicit and (to date) coherent decentralisation strategy. Second, the golden period may well be brief and the reforms and higher spending non-permanent. Regional policy goes out of fashion just as easily as it comes into fashion, and no one is predicting that the current close state of the major parties is set in concrete. Moreover, there is likely to be a backlash against "RARAism", a term coined during the Anderson period to refer to favouring rural and regional Australia with special programs. Third, and most important, even heightened political interest and a fresh round of spending in no way diminishes the task facing governments wishing to counter the large regional, national and global forces that ultimately shape regional development.

All this amounts to a wicked problem whose solution is highly constrained by economic forces, cultural trends, history and geography and the exigencies of politics. Is there, therefore, no prospect of arresting the continued rapid growth of the capital cities and their dominance of the settlement pattern and economy?

A Proposal for More Effective Regionalism

Allan and others are correct in their view that the strength of central governments and their refusal to devolve power to lower levels of government inhibit development away from the capital cities.

While there is little prospect of reforming the federation in the radical ways proposed by Allan to achieve greater decentralisation through regional governments, there may nevertheless be opportunities to encourage greater regional development, and even decentralisation, through a hybrid model involving the devolution of regional development policy making to regions.

The European notion of "subsidiarity" offers potential for shifting the balance of power in favour of regions, and this is likely encourage decentralisation. The idea of devolving real power from central governments to regions has not been tried in Australia. This need not mean creating regional governments - a pipedream – or moving capital cities to the bush, or decentralising government departments, or giving local governments greater authority, but rather empowering the various regional bodies that exist (like the recently created Regional Development Australia (RDA) Committees), by giving them far greater autonomy and more financial clout, to make decisions and apply resources that would increase the competitive advantages of Australia's regions, and build critical mass and stronger, more dynamic regional cities that would have more appeal to migrants and to the young.

This would be real regionalism as opposed to the top-down arrangements that currently operate.

Certainly, the absence of regional government has been a constraint on decentralisation. In its place, we have had poorly funded, highly constrained regional development bodies lacking strategic focus, and beholden to central governments at both State and Commonwealth levels whose own interest in regional development waxes and wanes. These lack both legitimacy and the capacity to drive development. They are empowered by government to create strategies for their regions but not given the means of implementing them. They are often constrained by complex reporting requirements. They are unelected and have no real mandate from their communities and regions. Often their regional boundaries are arbitrary and have little alignment with communities of interest and economic linkages. They discourage key regional leaders from involvement because they have no real power to create, fund and implement regional strategies. They do not require formal agreements among key stakeholders. One of their key stakeholders, local government, is effectively hamstrung in relation to being able to contribute effectively to regional development, because it lacks real taxing powers.

Over time, there has been an increase in the concentration of power at the centre in Australian government. Hence while governments have recently devolved the responsibility for developing local and regional strategies, they have not given regions the power and resources effectively to make a difference in their regions by implementing the strategies they develop.

The proposed model would involve the following:

- Increasing substantially the funding provided to regional bodies;
- Depoliticising funding by creating an independent statutory Rural Development Commission (RDC) to allocate funding and evaluate the performance of regional bodies;
- Creating three year funding cycles;
- Devolving responsibility for determining how funds are spent to regional institutions to enable them to make their own decisions about regional spending priorities AND to implement strategies;
- Allowing regions to self nominate and determine their own boundaries;
- Ensuring accountability by insisting that that there is a memorandum of understanding agreed by stakeholders in each region in order to receive funding;
- Further ensuring accountability by having the RDC to evaluate outcomes and make recommendations on future funding.

Likely outcomes from the implementing the proposed model could include the following:

- Regional bodies would more strategic in their focus;
- Key regional leaders would be more likely to join in;
- The stench emanating from the politicised funding of preferred locations (electorates) would be minimised; and
- Government would allow each region to pursue its own objectives in regional development.

While the Rudd Government’s recent changes to regional governance arrangements – in particular, the creation of the RDA Committees and the elimination of overlap between State and Commonwealth bodies – are, in some ways, welcome, the changes still leave unanswered many questions about their likely effectiveness and whether than amount to an advance on previous arrangements.

In summary, the shift in policy approach from top down to bottom up since the late 1980s still has a long way to go, while ever central governments continue to control decisions over regional development spending.

Summary and Conclusions

Where does all this leave the debate over where people will live in a “big Australia”? A number of conclusions can be drawn from this analysis.

First, metropolitan primacy is the norm in Australia – this will continue since the drivers of city growth are so powerful and the forces of history, geography and economics so embedded in the settlement pattern.

Second, there WILL be a big Australia, or at least a bigger Australia than at present. Whatever the constraints placed on growth by the environment and the congestion problems of cities, the trends towards a relatively low birth rate, the desire of most people for further economic growth and the existence of skills shortages in cities and regions all suggest the need for a strong immigration policy

Third, regional growth processes are complex and largely not controlled by government. This means that regional policy is limited in its capacity to effect major shifts in the pattern of development, and is likely to remain focused on the achievable over the long term, whatever the upswings in government interest that may periodically occur as a result of peculiar political circumstances.

Fourth, the various recent suggestions about how decentralisation might be achieved either reflect old ideas not pursued or initiatives tried then abandoned, and hence offer little potential for achieving substantial shifts in the population balance.

Finally, governments can help regional development most through greater devolution and giving regions real power to determine their own futures. This could partially be achieved through increasing the funding of regional development organisations, as is currently proposed in Canberra, but is more likely to bear fruit if regional bodies are given greater power to determine their own course.

The continuing and understandable desires for stronger regional development policies among many people living in non-metropolitan Australia reflect their essential “countrymindedness”, an ongoing sense both of loss (lost people, lost services) and a belief that there is often of a lack of fairness in the distribution of electoral favours from State and Commonwealth governments. Hence when debates about future population growth and the capacity of our cities to cope achieve prominence (as at present), there is an overwhelming temptation to revert to positions long held about the apparent irrationality of our settlement pattern and the incredible domination of our economy and our lives by a few large cities.

Yet, as this paper has sought to demonstrate, it is not so straightforward. The capital cities are dominant for very good reasons, and not just because government policies force people to live in feedlots. There are certainly incentives for people to live in the cities, and some of these could be addressed by changing government policies. But many of the drivers of household and firm location decisions are complex, powerful and largely beyond the control of government. Indeed, they are so powerful that people living in the cities continue to put up with third world standard transport systems, congestion and often poor services. Cities also provide great opportunities for people, and drive innovation and economic development.

While governments have certainly not pursued decentralisation policies as they might have, there are good reasons for this too. Governments generally have recognised their own policy limitations in the realm of regional development, and have instead preferred to support local and regional efforts through a range of targeted (and admittedly modest) assistance measures. This is a sensible and realistic approach. On the other hand, the strong centralisation of government in Australia and the lack of real power given to regions dramatically inhibit regional growth, and need to be addressed through a process of devolution. Such a process has the potential to break the cycle of short-termism, blame shifting and politicised regional development funding that have dogged the system for decades.

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Regional Policy in Australia Since World War Two

Introduction

The area of regional development policy is problematic at many levels, in Australia as elsewhere.

There is no universally accepted definition and measure of “success”; there is no universally accepted explanatory theory of what drives regional growth and decline; drivers of regional “success” are known to vary and to be (largely) beyond the capacity of governments to control; interventions occur over many time scales and their influence, in any case, is routinely questioned and remains largely unknown; regional policy is overtly politicised and this is likely to continue; and, finally, there are few opportunities for interaction and mutual influence between theory, policy and practice.

This makes for a policy minefield.

Yet Australian governments have attempted at times bold interventions and have, at most times, attempted to be seen to be addressing the concerns of “regions”.

Regional policy also operates in the territory of “wicked problems” which defy easy answers due to their complexity, and disagreements over even the definition of what is “regional” and the core purposes of regional interventions. Policy objectives are often unclear and multiple, and processes driving regional outcomes are complex and ever changing in their impacts. It is not easy to untangle the impacts on regions of the many processes at work, and therefore, unsurprisingly, evaluations of regional policies in Australia have been done irregularly and poorly.

Defining Regional Policies

The central problems that regional policy tries to address are geographical disparities and uneven development.

It is not always easy to differentiate “regional policies” from “policies that affect regions” in the Australian context. Arguably, all or many government policies affect regions differently, and some have very negative consequences for particular places. Indeed, in some cases (such as tariff reductions), governments have implemented policies to counter the negative impact on regions of their other policies. Most government policies are “aspatial” yet right across the range of government activity they affect regional development in many and often unforeseen and negative ways.

That said, regional development might be defined as:

> The deliberate attempt by government (at any level) and/or regional actors to influence regional outcomes, either in relation to the economy, the community or the environment, or all three, with varying objectives that generally relate to some notion of “regional well being”.

Regional policies in turn might be divided into those that are "region specific" (or bespoke), that is, designed to address the problems of one region, and those more generally aimed at addressing the problems of a set of regions, say "rural Australia" or the north of the UK. As well, and following on from the definition above, regional policies are often conflated with regional economic development policies, that is, policies designed to influence the location of economic activity, though these policies might often also be aimed at growing the population in a region or set of regions. On the other hand, policies for regions are often aimed at increasing or maintaining a certain level of services, yet this might also have beneficial consequences for economic development.

Increasingly, government have sought to bundle all the various policies they have for addressing regional issues as a way of showing their "commitment" to the regions concerned, for example through regional budget statements and during election campaigns. Often regional policy has become a political contest to see who has the biggest (dollar) commitment to "regional" Australia, or to address concerns among regions that "they are missing out", for example in relation to infrastructure or services.

This tendency creates confusion and means that discussions about regional policy are often not actually about regional policy but about something else. There is a large grey area somewhere between what are obvious regional policies on the one hand and simply policies that affect regions on the other. A good example is the location of government offices or of university campuses. Locating services near customers is not really "regional policy", though it might be motivated by the desire to improve regional conditions.

There is one final point on the nature of regional policy highly relevant to Australian debates (for example the ongoing debates over the economic, cultural and political dominance of the cities). It is that policies can either encourage people to move to where the jobs are, or to encourage the movement of jobs to where people are. Most regional economic policies try to move jobs to people, that is, they are place based. Regional policies try to help "regions", not necessarily "people". This raises many difficulties, not only due to the complexity of regional development processes, but because many factors affecting regional development are mobile and the intensity of these mobile factors changes constantly over time. Influencing the direction and location of these mobile factors, whether capital or labour, remains at the heart of regional policy.

Patterns of Regional Policy Interventions in Australia and Core Themes

The history of regional policy since the War is not just the sum of all the various policy interventions and programs. There have been problems that have come and gone, shifts in ideology, swings in political and policy fashion, and some policy learning has occurred along the way, driven both by the world of ideas as well as by changing circumstances.

Regional development policy has a long history in Australia, accompanied by the perception of many observers that it has not really "worked" and that its promise has not been fulfilled.

Following an early focus on decentralisation, more recently regional policy has shifted toward the support of regional competitive advantage and community driven development strategies. There is a shared commitment by governments to assisting (mainly) rural places to diversify their economies. In the last decade, there has also been a shift away from productivity focused policies towards "sustainability" and "liveability". Policies are now more region-specific and regional strategies are generally developed locally or regionally rather than by central governments.

It is important to note that regional development interventions in Australia have been the province of all three levels of government, and the subject of ongoing political dispute and debate. For example, local government has long had an interest in economic development and industry attraction, now formalised in most councils through the employment of economic development officials. At State level, since World War Two all governments have pursued investment attraction strategies, in an increasingly competitive way, as well as attempting through various means to steer as much development as is economically and politically possible and feasible towards non-metropolitan regions. For example, during the Whitlam Government's highly focused efforts at regional policy, the NSW and Victorian Governments were active partners in the decentralisation efforts of the day. And, at various times, the States have been in conflict with Canberra over the arrangements related to regional bodies.

Interventions have been uneven in intensity and varying in purpose, with wild swings between periods of heightened policy interest and periods of negligible interest in matters regional. Despite the peaks and troughs of policy interest, the policy reversals that have accompanied changes of government and the coming and going of policy fashions, it is possible to detect patterns of regional policy intervention in Australia and to make sense of these.

First, there has been a broad focus on non-metropolitan regions in policy interventions, reflecting a long standing historical emphasis on the country-city divide and a sense that in Australia, the "regional problem" is the over concentration of population and economic activity in the capital cities. This is a little like the long running regional problem in the United Kingdom of the so-called "north-south divide". While Australia has escaped some of the more extreme disparities of other countries, there has been persistent and growing urbanisation as well as a much discussed cultural unease among many inhabitants outside the cities that "there is something wrong" with the "unbalanced" distribution of people, economic activity and political power between city and country.

This has been described colourfully by the rural Independent member of parliament Tony Windsor as the "feedlot" approach to the economy and settlement pattern. In other words, there is something wrong and artificial about crowding our people into a few very large cities. This is, for Windsor and for many other (mainly) rural Australians both inefficient and inequitable.

The focus on non-metropolitan Australia as the place to concentrate regional policy efforts reached its high point(s) in the various attempts at "decentralisation". Before World War Two, these included soldier settlement schemes, the creation of Canberra as the capital city, the establishment of the Commonwealth Grants Commission, various large infrastructure projects, irrigation schemes in the dry interior. Despite these efforts, one academic observer in the 1960s, the economist Max Neutze, famously described decentralisation in Australia as "everyone's policy but no none's program". Another described the efforts at decentralisation as "puny".

Second, while many policies and programs have, from time to time, sought to stimulate economic activity and population decentralisation, there has also been an ongoing policy theme of providing adequate services in non-metropolitan regions, to support a reasonable lifestyle for those living away from the cities and access to services taken for granted in the cities.

Third, each of the main political parties has sought to take ownership of concern for non-metropolitan Australia. This often has meant that regional policy debates and political practice often descend into arguments over the size of one's commitment rather than the quality or impacts of the policies under discussion. This is typically reflected in the perception among many people outside the capitals of an inequality of resources. It also has led, over the last decade or so, to the annual budgetary practice of governments releasing information on budget night on regional (non metropolitan) government spending across the whole range of portfolios.

Fourth, in contrast to other countries, in particular the European Union, the overall preference of Australian governments has been for relatively limited interventions. This has partly reflected the relative absence of serious disparities and an unwillingness to embrace the level of intervention routinely accepted by the Europeans (often described as neo-liberalism).

Fifth, there has been a notable evolution in policy approaches over time that has resulted in a broad consensus among the major political parties now about the possibilities of regional policy and its core concerns. This has consisted in two broad policy developments – the abandonment (since the late 1970s) of any serious attempts to decentralise population and economic activity away from the cities; and, not unrelated, a move away from top down approaches and towards "bottom up", region-specific (bespoke) approaches.

Sixth, regional policy in Australia has suffered (like many other areas of policy) from constitutional uncertainty over ultimate responsibilities, and therefore debates over policy have often deteriorated into arguments between Canberra and the States, generally where one side of politics is in power in Canberra and the other side in the State(s) or territories. Often, the arguments concern the establishment and operations of regional bodies set up by one level of government or the other.

Finally, regional policy has often focused on regional governance arrangements. In the absence of regional government, and in view of the general unwillingness of central governments (either state or commonwealth) to devolve real responsibility for regional development to regions themselves (or to local government), regional governance has remained informal and its impacts on regions uncertain. Different roles have been assigned to the various bodies created over time, including the development of projects, strategic planning and the provision of advice to Canberra, without the Commonwealth ever providing the resources for these bodies to effect major change, or indeed ever settling the argument as to what their primary role should be.

Key Policy Developments and Pivotal Points

What, then, have been the highlights of Australia regional development policy since World War Two?

As suggested, political attention to regions in Canberra has been uneven over time. It is generally been accepted that it has been Labor governments that have intervened more, and more ambitiously, in regional development. This has not always been the case, however, and the strong tilt of regional policy towards a generically defined “rural and regional Australia” has largely been the result of persistent lobbying by rurally based non Labor parties, whether the Country Party (now Nationals), One Nation in the 1990s and, more recently, the rural independents who made regional development the price to be paid for minority government since 2010.

Post-War Reconstruction

The focus on nation building and decentralisation during the 1940s reflected grand issues thrown up be the war experience and heightened national planning.

In the immediate post war period, the Chifley Labor Government undertook various policy actions through the Department of Post-War Reconstruction, including the first division of Australian States into regions and the establishment of regional committees. These committees were the first of many experiments in regional governance overseen by State and Commonwealth governments attempting to deal with the relative weakness and parochialism of local councils and the absence of genuinely regional government.

Decentralisation or “dispersed development” had been placed firmly on the political agenda during the Premier’s Conference of 1944 and was championed after the War by Ministers and by the prominent bureaucrat HC Coombs.

The Industrial Development Division of the Department created the first of many government efforts to implement a national policy of decentralisation of secondary industry, a pursuit that has lasted at all levels of government even into the era of a largely post-manufacturing economy.

The Department’s Regional Planning Division also introduced for the first time the notion to Australian debates of “selective decentralisation” or the concentration of dispersed population into a small number of regional centres. This was to become the pivotal argument of the 1960s, and an issue that has dogged government interventions ever since.

The coming of the Menzies Government meant that regional policy largely reverted to the States, despite Menzies’ own key role in driving perhaps the largest and most successful initiative in decentralisation in Australia’s history – the development of a decentralised national capital. Canberra’s creation was later to be described by a senior bureaucrat as an “exemplar” for regional development. Menzies very wisely noted in 1959 that decentralisation was “extraordinarily difficult to implement”.

The Whitlam Government

In the 1970s, the Whitlam Government led a substantial effort (sometimes in collaboration with the States) to decentralise population and economic activity away from the capitals, especially Sydney and Melbourne.

The most radical move was the creation of the legendary Department of Urban and Regional Development (DURD) and the Cities Commission. These bodies, especially DURD, were to set the scene for a dramatic shake up of bureaucratic politics in Canberra, greatly resisted by Treasury, that would introduce a focus on spatial issues at the heart of government. Treasury was particularly alarmed at the prospect of regional budgets.

Whitlam's Minister, Tom Uren, and the academic Patrick Troy, came together to at once address the problems associated with urban growth and congestion and of chronic under-development away from the capitals. There is no doubt that the Government's major concern was with the cities. Their efforts culminated in the development of a national settlement strategy, the general absence of which has been long lamented by many (especially) on the left. DURD also introduced the notion of coordination across departments of policies with regional consequences.

The Whitlam Government also formed (short-lived) alliances with conservative State Premiers to progress their agendas.

The main program vehicle (but by no means the only one) was the Growth Centres Program, which implemented a strategy known at the time as "selective decentralisation", an attempt to concentrate decentralisation efforts in medium sized cities rather than to disperse regional assistance across many projects and towns. The principal centres chosen (and remembered) were Albury-Wodonga and Bathurst-Orange, though there were others including Holsworthy near Sydney and Monarto in South Australia. The interventions were substantial by today's standards, with the Government spending $550m (in year 2000 dollars) on the growth centres.

Other initiatives included the creation of regional organisations of councils (ROCs), the Australian Assistance Plan and the Area Improvement Program.

After the fall of the Whitlam Government in 1975, the pattern of 1949 was somewhat repeated, with the incoming Fraser Coalition Government largely rolling back the DURD empire and turning its back on big ticket decentralisation policies. The roll back, however, was not as rapid or as all embracing as is often thought, and a number of the Whitlam initiatives survived in various forms for several years. A change in government in 1976 in New South Wales (ironically to Labor) also helped to signal the end of the growth centres initiatives, and decentralisation (selective or otherwise) largely, if gradually, vanished from Australian politics as a serious regional policy objective.

There is little doubt that the Whitlam Government provided the only serious attempt by an Australian government to address what has been consistently perceived as Australia's "regional problem".

The Keating Government

In the 1990s, the Keating Government more than made up for the absence of regional policy under Labor in the 1980s, establishing a number of inquiries (McKinsey and Company, the Kelty Report and the Industry Commission) and then introducing a new Regional Development program which, while modest as an intervention, ushered in a new emphasis on regional competitive advantage driven by local leadership, embodied in the creation and resourcing of around 50 Regional Development Organisations (RDOs).

Part of the Government's motivation was to address the regional consequences of another severe recession, which, for the first time, saw highly regionalised unemployment patterns both in the cities and in non-metropolitan regions. The emphasis on labour markets in the Government's regional development thinking was reflected in its Working Nation initiative of 1994.

The upswing in interest in regions coincided with important analytical work being undertaken in government on regions, the most substantial to that time outside the Whitlam period in office, and with the publication of the highly influential work by Michael Porter, *The Competitive Advantage of Nations*.

The emerging regional realities coincided with new ideas in regional policy and a heightened focus on competitiveness, and a number of the elements of modern Australian regional policy took clearer shape at this time:

- The aim is not to redistribute economic activity but to lift productivity in all regions to achieve better national productivity;
- The emphasis is on bottom up rather than top down approaches with "empowerment" the new buzz phrase (or what one observer has called "DIY regional development");
- The theme is local solutions to local problems, or a more bespoke approach to problem solving;
- The model is regional competitive advantage and the favoured driver is regional leadership.

Again, the relatively modest nature of the 1990s interventions and the focus on specific regional concerns rather than on grand schemes provided a contrast with the 1970s and signalled a seeming permanent shift in the style of regional policies pursued in Australia.

The Rudd and Gillard Governments

In the 2000s, the Rudd and Gillard governments established Regional Development Australia Committees (RDAs) through formal agreements with the States and Territories, and more significantly following the 2010 election, established an agreement with the independent members of parliament to significantly ramp up the focus within government on regional Australia and to increase infrastructure spending on regional Australia.

The RDA Committees have replaced the former ACCs, which in turn had superseded the RDOs. There are now also additional machinery of government measures to embed regional development as a permanent focus of Canberra policy making.

The significance of these developments is uncertain. On many occasions in the past, governments have elevated regional development to a higher level of consciousness without actually improving the quality of the interventions.

The Hawke Government and Regional Policy

There have been two notable exceptions to the general pattern of greater interventions by Labor governments.

The first was the relative absence of policy interest in regional development by the Hawke Government in the 1980s. This government had a far greater focus on recovery from the severe recession of the early 1980s (though this indeed had severe regional consequences), on industry policy and on macro and micro-economic reform. Some regional policies were enacted to counter the negative regional impacts of macro policies, but the earlier, highly charged focus of the Whitlam Government on the causes and consequences of urbanisation and the urban rural divide was totally gone (despite the presence in the Government of the former Whitlam Government DURD architect Tom Uren). Observers of the scene in the 1980s found in general virtually no interest in Canberra in regional development or urban affairs.

Regional development was largely dormant in Canberra during this period, except for the important (though apparently minor) development of local employment initiatives and of the Country Centres Strategy in the late 1980s. This was one of the earliest attempts by an Australian government to focus on bottom up, community centred self help regional policy, which was followed in due course by most State governments and which has remained the usual vehicle for regional policy interventions to this day, currently embodied in the "localism" approach.

The Howard Government and Regional Policy

The second exception was the substantial interventionism of the Howard conservative Coalition government in the period after 1998, driven by the Nationals under John Anderson.

Anderson convened in 1999 a Regional Australia Summit and then introduced a number of new programs including the highly controversial Regional Partnerships Program. John Anderson spoke with great passion about "two Australias" and the need to restore services outside the cities, and this drove much of the focus within the Government. Anderson's approach resuscitated old themes but with a new concentration on the delivery of services rather than the old style decentralisation approach.

The interventionism of the later Howard Government contrasts sharply with its initial reaction against regional policy upon coming to office in 1996, and reflected (to many observers) a response to a rise in rural disaffection seen in the emergence of country independents and the One Nation Party.

The Howard Government, despite its early termination of funding for RDOs, did continue to support regional organisations, in the form of Area Consultative Committees (ACCs). These bodies, while provided with little core funding and little independence, were important regional actors in their role of identifying and supporting regional spending programs such as the highly controversial Regional Partnerships program. This was the subject of a number of inquiries which found that some of the Program's initiatives were either politically motivated or ineffective. (Neither of these conclusions should be a surprise to students of regional policy).

One of the Howard Government's main policy interventions was the Sustainable Regions program, aimed at assisting what in the UK might have been known as "depressed" regions. Twelve regions were identified and supported through a range of initiatives. The significance of this program was that it underscored the shift away from earlier decentralisation objectives to a much greater focus on specific "regions in difficulty", and an emphasis on tailoring approaches to the needs of regions, with considerable local input into strategic directions.

Summary and Conclusions

Overall, Australian governments have intervened in regional development in many ways since World War Two, with a range of often unstated and complex objectives and using a range of policy instruments. These interventions have been generally poorly evaluated and heavily influenced by the electoral cycle and political considerations.

This has meant that, on many occasions, policies commenced are discontinued before they have had time to work, there has been duplication across jurisdictions, and there has been a general disconnect between theory, policy and practice that continues to this day.

Regional policy continues to be shaped by political realities which include the following:

- Federalism is recognised by all as a constraint on policy development;
- Blame shifting occurs at will;
- The key objective for regional policy now is "change management";
- Regional policy is largely about solving visible problems;
- New policy emerges through a process of "pragmatic incrementalism";
- Governments are naturally extremely averse to picking regional winners, and have been since the days of the failed growth centres era. This is something that is not seemingly comprehended by some regional interest groups;
- Governments have a preference for "covering all bases" in relation to regional policy – that is, they do not see their role as only helping declining regions;
- Regional development is not always a priority of governments – this is a critical constraint on policy, far greater than ideology, for example;
- Regional policy can take a long time to work, and as Sir Humphrey once said, government is about surviving till Friday afternoon.

The following might be regarded as the core questions of regional development, prior questions that need to be asked ahead of policy interventions:

- What is the definition of success? (or, what is the "regional problem"?)
- Who is responsible for regional development?
- What drives regional growth and decline? and
- What works in practice?

Other important questions are as follows:

- What are the triggers for intervention?
- How much intervention is required? and
- Which regions should governments help (most)?

The answers to these questions are complex and contested by scholars, policy makers and practitioners alike.

More importantly, there is little evidence that Australian governments, when framing regional policies, have attempted to consider, let alone resolve, them. Of course, there are many reasons why these core questions are ignored, or not even asked. One might have something to do with the words of J M Keynes:

> There is nothing a politician likes so little as to be well informed; it makes decision making so complex and difficult.

Another relates to the notions of wicked problems and complexity referred to earlier, and which seem to have particular resonance for regional policy formulation and implementation.

Answering these questions has very practical, and not merely academic, consequences, for resources are finite, there are opportunity costs in pursuing some interventions while ignoring others, and people's expectations are high. For example, knowing something about what drives regional growth and decline has explicit consequences for strategy and policy – interventions invariably seek to find what drives growth and to push it harder or further. And clarifying objectives is at the core of all good policy, despite the notorious tendency in regional policy (which the most cursory reading of regional policy statements and strategies attests) to blur or generalise objectives and to reduce the conversation to clichés and motherhood statements. And while selecting which regions to support is largely a political question rather than one in which an evidence base can help, decisions in this area nevertheless deserve some kind of consideration of guiding principles.

Otherwise regional policy will inevitably be diminished and be destined to be seen as always and everywhere merely "political", something long concluded by its chief critics.

The absence of an ongoing dialogue among those interested in good regional policy outcomes is disappointing for many with an interest in the area. There is a sense, which continues despite the coming of the so-called "new paradigm" of Australian politics in 2010, that regional policy is not done very well in Australia.

The Australian way of doing regional policy also contrasts dramatically with the position in Europe where, whatever one might think of the effectiveness of the massive regional policy interventions there, there is an informed and ongoing three way dialogue between governments and their advisers, academics working in the field, and practitioners. This has led to what might be regarded as an "evaluation culture" in regional policy, where a real policy community exists and there opportunities for policy innovation. This probably stems from a shared agreement on the importance and purposes of regional policy, something that has been conspicuously lacking in Australia since World War Two.

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