IS THERE A CASE FOR REGIONAL POLICY IN AUSTRALIA?[1]

John Tomaney
Centre for Urban and Regional Development Studies, Newcastle University, Newcastle upon Tyne United Kingdom, NE1 7RU. Email: john.tomaney@newcastle.ac.uk

ABSTRACT: This note draws on some European literature to address whether there is a case for regional policy in Australia. It concludes that a place-based approach does not provide all the answers to addressing problems associated with spatially uneven development (such as overheated housing markets, congestion of roads and public transport, and structural adjustment in carbon intensive industries), but it does provide a new way of tailoring responses to them as they impact upon people and businesses differently across regional cities, rural regions, and the outer suburbs of the capital cites.

Keywords: Regional economic development; regional policy, Australia.

Do regional inequalities matter and, if so, what should policymakers do about them? The future of regional policy is being debated across the globe in the context of the economic crisis and the relative resilience of the emerging economies (Tomaney *et al.*, 2010). Almost all countries are experiencing growth in regional disparities, although the extent and forms these take can differ significantly. Generally, large cities have been growing at the expense of smaller cities and rural areas. In Australia this phenomenon is often expressed as the emergence of a "two-speed" or "patchwork" economy, in this case linked to uneven geography of the resources boom and its policy implications (Australia Parliament House of Representatives, 2010;

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Stevens, 2010). For some analysts this is an inevitable and welcome development, because the concentration of economic activity in cities reflects the extent to which firms derive the benefits of agglomeration economies, which are the main source of productivity gains. In this perspective regional policies are inefficient, wasteful and counter-productive, serving only as a drag on the growth of the whole economy. The task of policy in this view is to invest in people not places, equipping them with means to be mobile across space and rationally to respond to market signals.

An influential version of this view was set out in the World Bank's *World Development Report* in 2009 and it is generally given a good hearing in national Treasuries (World Bank, 2010). In the United Kingdom, a report by the Policy Exchange in 2008, a think-tank linked to the Conservative Party, set out the case for reducing support for declining cities and regions (Policy Exchange, 2008). The United Kingdom has entrenched and wide regional disparities (a fast growing south and slower growing north) and a long history of policies to address these. But in recent decades inequalities have widened and the Policy Exchange concludes that "regeneration policy" has failed. The task of policy, in its view, should be to accelerate further the growth of the south through investments in infrastructure and a more lax planning regime. In fact these ideas, while gaining in prominence, are not new. Previously secret Cabinet papers from 1981, made public in 2011, showed that senior members of the then Thatcher government argued that northern cities should be subject to "managed decline" rather than economic regeneration (*Financial Times*, 30.12.11). In a similar vein, in Australia, the Grattan Institute has suggested that "agglomeration economics" explains the concentration of economic activity in the capital cities and, more generally the pattern of regional growth in Australia (Grattan Institute, 2011). It suggests that local job attraction schemes, regional universities, improved local roads and major infrastructure do not contribute to regional development and public policy "cannot make economic water flow uphill". Consequently, in the World Bank's terminology, development policy should be "spatially neutral".

There is no doubting the power of agglomeration and there is a strong theoretical basis for its effects in the "new economic geography", pioneered by Paul Krugman and others (Krugman, 1991; Venables, 2006). Moreover, it is hard to disagree with the argument that some past forms of regional policy have proved ineffective. However, while this new orthodoxy has proved influential it is by no means clear that it captures the complexity of regional growth processes and the potential role of public policy (Henderson, 2010). In the first place, many large cities around the world are now confronting diseconomies of agglomeration reflected in steeply rising costs of land, labour and housing and associated congestion and social stress. While some of these problems can be resolved by new and more efficient urban infrastructure and spatial planning, it is doubtful whether all can. And this new orthodoxy overlooks the possibility that unused economic, social and environmental potential may exist outside the metro regions and that market signals in this respect are not working adequately (Braca, 2009; Barca *et al.*, 2011). In addition, as we move away from thinking about development purely in terms of increasing GDP, we need to think more broadly about how and where we create the conditions for human wellbeing (Perrons, 2011; Pike *et al*., 2006, 2007; Turok, 2011). This may mean planning for more diverse forms of economic development rather than adopting a one-size-fits-all approach based on promoting megacities. Finally, in democratic societies it is difficult to write off the prospects of entire communities, especially when different policy settings may give them a chance for a development.

Perhaps more tellingly there is strong evidence that cities and regions outside the metropolitan cores are capable of relatively high rates of growth. Recent research by the OECD shows that, in the period 1995-2005, “lagging” regions made a greater contribution to overall growth than “core” regions in majority of developed countries (OECD, 2009; 2011). This research shows that relatively strong growth can occur in unlikely places. What such places appear to have in common is strong performance in relation human capital and innovation. Physical infrastructure plays a less important role than commonly thought in regional growth: infrastructure alone has no impact on growth unless regions are endowed with adequate human capital and innovative capacity. Effective public policy and adept local and regional institutions focused on functional economic areas, rather than administrative boundaries also play a part. Long-term integrated regional policies which identify key local assets such as high growth firms or emerging clusters, innovative activities or skills appear to matter to long-run growth. This “place-based approach” to regional development points to the need for a comprehensive framework that brings together land-use, economic development, skills and innovation investments, involving all tiers of government and business, as well as non-governmental organisations, which have knowledge and capacity to contribute policy development. The OECD calls this a "new paradigm" of local and regional development (see Figure 1).

	Old paradigm	New paradigm
Problem recognition	Regional disparities in income, infrastructure stock, and employment	Lack of regional competitiveness, underused regional potential
Objectives	Equity through balanced regional development	Competitiveness and equity
General policy framework	Compensating temporally for location disadvantages of lagging regions, responding to shocks (*e.g.* industrial decline) (*Reactive to problems*)	Tapping underutilised regional potential through regional programming (*Proactive for potential*)
– theme coverage	Sectoral approach with a limited set of sectors	Integrated and comprehensive development projects with wider policy area coverage
– spatial orientation	Targeted at lagging regions	All-region focus
– unit for policy intervention	Administrative areas	Functional areas
– time dimension	Short term	Long term
– approach	One-size-fits-all approach	Context-specific approach (place-based approach)
– focus	Exogenous investments and transfers	Endogenous local assets and knowledge
Instruments	Subsidies and state aid (often to individual firms)	Mixed investment for soft and hard capital (business environment, labour market, infrastructure)
Actors	Central government	Different levels of government, various stakeholders (public, private, NGOs)

Figure 1. Regional Policy Paradigms.
Source: OECD.

Despite the current crisis facing its economy, Europe provides a number of examples of regions which have successfully developed policies along the lines of the "new paradigm", albeit today they face problems of crisis, austerity and intensifying global competition. For instance, Oulu in remote Northern Finland pursued a long-term strategy to develop the location as a hub of high technology, high growth industries succeeding in global markets. Firms, including Nokia, and local authorities expanded their technological competence in different fields and built their business know-how by forging close and effective working relationships between universities, key companies and government-backed technology search and research centres. Navarra in Spain, centred on Pamplona, promoted entrepreneurship in emerging fields of economic activity like renewable energy and selectively targeted sources of foreign direct investment accordingly. Like Oulu, the region developed a long-term strategy that depended on the successful negotiation of a coalition of political interests in support of this integrated regional strategy and its implementation.

Similar approaches can be identified in Australia. The G21 Geelong Regional Alliance in Victoria exhibits some of the characteristics of the new paradigm as it has sought to manage the transition from an economy based on primary and heavy manufacturing industries. The G21 Alliance brings together economic and social actors from across the region to develop priorities for investment and action. One of these is BioGeelong (see www.biogeelong.com.au/), which identified local strengths in biotechnology and possible market opportunities arising from nearby Melbourne's concentration of activity in this field.

Governments around the world, to a great or lesser degree, are moving in the direction of place-based approaches, including in Australia. "The Commitment to Regional Australia", which was agreed between the ALP and the independent members of the House of Representatives following the Federal election in 2010, called for "place-based thinking" in relation to public policy. This way of thinking about policy does not guarantee that all regions will prosper, but it does suggest that there may be more growth potential outside the metro regions than current orthodoxy suggests. For instance, it potentially provides a framework for thinking about the long-term development of mining regions and regional cities. Moreover, a place-based approach is not just applicable in regional Australia. It may aid thinking about Western Sydney or South East Melbourne as places with distinctive local assets requiring tailored institutions and public policies.

Governments across Australia are all dealing with problems associated with spatially uneven development such as overheated housing markets, congestion of roads and public transport, and structural adjustment in carbon intensive industries. A place-based approach does not provide all the answers to addressing these problems, but it does provide a new way of tailoring responses to them as they impact upon people and businesses differently across regional cities, rural regions, and the outer suburbs of the capital cites. It goes with the grain of evolving policy settings at Federal and State level in Australia and may provide a new framework for better managing the nation's "patchwork economy".

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