



The Page Research  
Centre Limited

## Regional Development: Future Policy Options

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## Glossary of Terms

ACC	Area Consultative Committee
BTRE	Bureau of Transport and Regional Economics
COAG	Council of Australian Governments
RBDA	Regional Business Development Analysis
RDC	Regional Development Council
RDO	Regional Development Organisation
RPP	Regional Partnerships Program
SCORD	Standing Committee on Regional Development

## Executive Summary

Assessments of the Howard Government's efforts at regional policy will, necessarily, be dominated by the alleged abuses of the Regional Partnerships Program (RPP). This is unfortunate for two reasons. First, there was more to the Howard Government's regional policies than the RPP. And second, the important and interesting questions about the RPP relate, not to its alleged abuses, but rather to whether this model of regional policy best serves the interests of regional Australia.

The discussion below will hopefully serve to throw light on these more important policy questions and move the debate away from the success or not of specific programs.

Regional policy is notoriously open to multiple and confused objectives and to claimed ownership by many and varied players who include Ministers, mayors, practitioners and "communities". Regional policy by its very nature lends itself to politically selective largesse. Moreover, any form of regional policy intervention will necessarily be controversial, since:

- There is disagreement over what ultimately drives regional performance, hence there will also be disagreement about the efficacy of any intervention;
- There is disagreement about which regions/projects should be assisted by government;
- It is difficult to know whether (and to what extent) any intervention has "worked";
- As governments know, and most have admitted, there is no "silver bullet" solution to regional growth and decline;
- It will always be hard to separate "regional policy" from "policies that benefit regions";
- There is disagreement over regional policy objectives.

Yet governments persist in trying to help regions to improve themselves economically. They want to be seen to be responding to problems that often manifest spatially. They want to make a difference. They recognise that space and place matter, and that much of economic policy proceeds as if there were no spatial dimension.

For the best part of twenty years (from the time of the Hawke Government's Country Centres project, to be precise), central governments in Australia have decided that they should "act locally" in terms of regional policy. There has been a consensus among all recent Australian governments that strategies to support regional development should be locally owned and developed, with government to provide overall national or state goals and funding support. This is the so-called "partnership" approach, and it aims to ensure "sustainability" of outcomes.

Deleted: sustainability

One writer has termed this approach “do it yourself regional development” (Sorensen). It has been criticised as being a cop-out and an extension of neo-liberalism. It lends itself to the kind of scattergun approaches to regional development – a small dollop of money for just about every community – that were repudiated half a century ago as being ineffective in achieving changed outcomes.

On the other hand, governments are correct in believing that local action can make a difference to regional outcomes and that central governments should not be interfering with local strategies.

Is there a new form of regionalism needed? The suggestions made in this paper need to be discussed by regional policy thinkers within the Coalition partners, in an open way and with an eye to better regional governance structures in the future. The principles guiding this consideration must include subsidiarity, a European nostrum that should in any case be close to the hearts of the Coalition, willingness to support regions with real funding support, a continuation of the Coalition’s appropriate scepticism about large national schemes, commitment to far better policy evaluation mechanisms in the future, and a firm desire to fix the conundrum over which level of government is ultimately responsible for regional development. Ultimately, a future Coalition Government must be willing to let go of some of the levers in order to achieve better regional outcomes. Doing this will still leave open to any government ways they can claim the credit for regional gains.

## Introduction

The Government's regional policy may best be remembered for its highly controversial, though vigorously defended, RPP, or for its 1999 Regional Australia Summit, which raised so many expectations. However, the Howard Government's major contribution to regional policy over eleven years was to further embed localism as the ruling regional development philosophy.

The Howard Government shared this philosophy with its contemporary State and Territory Governments. The Howard Government's adherence to this approach has pushed other, perhaps more ambitious and interventionist, philosophies to one side. Whether the faith shown in localism as a guiding principle of regional policy is justified is an important question that might well be investigated by the Labor Commonwealth Government.

This paper outlines the Howard Government's record, analyses the key developments in policies and programs against the background of shifting regional problems, unpacks the Government's core approach, and suggests areas of potential further policy development.

## What Does "Regional" Mean?

Generally, "regional" in the Australian context means non-metropolitan, though the real meaning of regional relates to some particular area on the map, whether located in a city or not. In this sense, regional generally means an area larger than a local government area but smaller than a State. Typically, the Coalition likes to think of regional as a non-metropolitan notion. This is clearly one outcome of the Nationals' long term influence on policy within the Coalition. Labor typically sees regions as being both rural and metropolitan and all areas in between. Labor has, for example, in the past introduced programs such as the Better Cities Program in the 1990s with a focus on urban infrastructure improvement, and is likely to go down this path again.

Hence one area of immediate policy concern for the Coalition in developing policy is to determine what it means by "regional". Is it to be the traditional Coalition approach of favouring rural regions because of their particular challenges, or should it commit more to "regionalism", ie a focus on a specific spatial scale.

The Nationals are understandably concerned about non-metropolitan regions and their thinking about regional development is couched in these terms. Should regional development organisations and initiatives be only in non-metropolitan areas or cover the cities as well? It is entirely reasonable to continue to have special regional assistance for only non-metropolitan areas. All State Governments currently do this, although they also make provision for assisting economic development for the cities and, of course, favour the cities in their infrastructure spending.

Moreover, organisations like Area Consultative Committees (ACCs) in the cities suffer from a lack of clear regional boundary definition. How does one differentiate across the suburbs? And what of the issue of people living in one suburb and working in another? Regions in cities are highly problematic concepts and are bound to be artificial constructs without clear meaning or relevance for most residents. Cities like London have regional development agencies for the whole city (the result of the Blair Government's regionalisation initiatives), but this is also problematic. A city of London's complexity and its sheer economic power begs the question as to what a relatively poorly funded agency can actually achieve in an economy the size of a global city.

Hence, if "regional" should mean non-metropolitan, what then should be the delineation of boundaries for "regions"? How big should regions be? There is increasing recognition in the United States of the benefits of "regionalism", that is, of small areas combining to work with other areas in larger regions to achieve better development outcomes. Local councils working together in regional organisations of councils have long recognised these benefits, and some (like the Western Sydney Regional Organisation of Councils in Sydney) have been effective in securing benefits from a more regional approach. Regions might best determine their boundaries themselves, and this approach is developed further in the funding model outlined below.

## What is Regional Policy?

Any government will implement policies and programs that will have profound regional consequences. The infrastructure that governments build (or don't build), the way governments spend money, the location of government offices, the impact of interest rates, the privatisation of government bodies, levels of industry assistance, and so on, can all have the effect of benefiting or harming different regions. But they are not "regional policies".

Regional policies are those government actions specifically designed to help a particular place or places in some way. Regional policy, or spatial policy as it is sometimes called, 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".

A key issue here is the extent to which regional policies should become national spatial "blueprints". Many critics of the Howard Government's approach suggested that it had no regional policy, in the sense of a national spatial "plan". Clearly one can have regional policies without committing to a national "plan". There is a continuum of regional policy interventions, with national spatial plans being at one end. It is absurd to suggest the Howard Government had no regional policy. On the other hand, a regional policy is more than a set of regional programs, indeed, a set of programs that have a positive impact on regions.

## The Great Questions of Regional Development

The starting point for any policy review or policy development should be to adumbrate the core policy questions and to take a position in relation to these.

It is surprising (or perhaps not) how little this is actually done in government. The Howard Government had very few regional policy objectives when it came to power. If anything, it eschewed regional policy, at least the version of it developed by the Keating Government. The Howard Government developed policy in government, in response to circumstances as they developed. There was little thinking done about the big questions, perhaps with the exception of the 1999 Regional Australia Summit. And there is a question as to whether the big set piece event featuring the "best and brightest" was the best way to reflect on the big questions.

All the questions of regional policy can essentially be reduced to a small number of core questions. These are as follows:

### What are we trying to achieve?

Regional development objectives have economic, social, environmental, institutional and cultural dimensions. Of course, we don't agree on what "success" looks like and there are many measures of success. The need for governments to set specific objectives is critical. Does regional success mean population growth? Higher employment growth? A lower unemployment rate? Higher family incomes? An improving level of regional income or output? What about composite indicators of well being, such as regional quality of life?

"Success" changes both over time AND across space. Success in one dimension may co-exist with, even cause failure in another dimension. We often define success in terms of growth – this is at best a partial account of well being. Success may mean managing change, positioning for opportunities.

Success is sometimes defined in terms of sustainability, or viability, or resilience, or "high performance communities" or "communities of opportunity". Standard indicators include communities with stable or

growing populations; decreasing unemployment; jobs growth; rising incomes. There are also non-economic indicators such as regional “well-being”; yet it is difficult to be precise about measuring such things as “social capital”.

Regions have many demands of government in relation to regional policy:

- A more highly populated inland
- Less regional out-migration
- Retention of more young people in regions
- A less dominant capital city
- Reducing the country-city divide
- Halting the decline of small towns
- More States
- Sustainable development
- The creation of new industries
- A more favourable regional business climate
- Regional “wellbeing”
- Lower regional unemployment
- Greater regional employment growth
- Greater diversity in the economic base of regions
- Fewer regional disparities
- Better regional services
- Higher regional incomes

There is an enormous breadth and depth of policy demands and no consensus about which should be pursued, how much and in what order. There is a marked lack of agreement among interest groups, Eg which regions to favour? Not all objectives are mutually reinforcing and simultaneously achievable. It is easy to agree on motherhood commitments, yet defining regional well being is problematic. In practice, objectives are multiple, short and long term, political and non-political, and often unstated.

### **Who is responsible for regional development?**

The right sort of governance for regional development is crucial to the success of regional policy. Yet it is not at all clear who exactly is responsible for delivering regional development. Is it government? (which level?) The community? The market (firms, industries, investors)? Economic development professionals? Regional bodies (the meso level)? Or, is it a combination of these? What is the right scale? Hence there are problems of both capacity and legitimacy in regional governance. Government influence is only indirect, eg infrastructure provision may lead to good regional outcomes but this is not guaranteed. There are many actors in regional development, and it is a shared enterprise. Hence the rise of the partnership approach in recent years. There has been a recognition that no one single entity can bring home the bacon but everyone wants a stake in the outcomes

### **What drives regional success?**

This is the one million dollar question for regional policy. It is important to know what drives regional success, for a number of very good reasons. First, competitive advantage can be created. Second, the actors involved want to make a difference. Third, resources are finite, hence poor analysis matters. The capacity to intervene is limited. Finally, understanding the drivers of success is a bulwark against government action driven by the lowest common denominator.

Traditional location theories – cost minimisation, profit maximisation; central place theory; agglomeration; cumulative causation; supply and demand side theories – provide well tested explanations of regional growth and decline. Recent thinking challenges old theories. Localism as a recent philosophy has provided a challenge to path dependency. Porter’s theory of clusters driving regional development was fashionable in the 1990s. New growth theories, the new economic geography, the “new regionalism, the

global cities literature and the human/creative capital theory pushed by Richard Florida call old theories into question and shed new light on regional success factors. What practitioners tell us – about the importance of the business climate, collaboration, leadership, a triggering crisis, local action – is also helpful.

There is a vast array of candidates among theories of regional development– many ring true. Yet theory and practice do not give us ultimate answers. Unfortunately for governments and regional bodies, there is no single, overarching explanation of regional growth. However, we do know that the complexity of processes driving regions is increasing. This is significant for policy.

All kinds of theses have been posited as explanations for regional success:

- Favourable location, biophysical resources
- Access to good infrastructure (transport, communication), labour, skills, markets
- Size/critical mass
- Global connectedness
- Having industries that are growing nationally
- Clusters of industries
- Economic diversity / specialisation
- Institutions, governance, leadership
- Business climate
- Entrepreneurial culture, innovative firms
- Technology take-up
- Collaborative culture, networks, tacit knowledge
- Community activism, passion
- A local development agency/strategy
- Amenity, “people climate”, vibrancy, cultural diversity
- Government assistance

One cannot say that one or other of the above persuasively explains regional growth in all circumstances. Where does this leave governments? Theories do not tell us everything, or nothing.

## What works in terms of strategy/programs?

There is unresolved debate over which policy instruments/strategies work best, a debate that is perhaps more the concern of regional bodies than central governments. Yet governments will want to be supporting winning strategies.

There are myriad tools, particularly assistance given directly to firms versus other interventions. There are multiple choices on the ground. Strategic choices are important because resources are finite. Moreover, choices can be mutually exclusive, eg broadening versus deepening the economic base and hunting (chasing outside firms) versus gardening (growing existing local enterprises). There are no easy answers.

Evaluation of actions is critical and governments aren't very good at it typically. It is hard to know what works, but we need to. The accountability imperative is important and evidence based policy is preferable to guesswork. Evaluation is really policy learning and should form a basic part of the regional policy cycle. Yet too often governments settle for second best – for simply accepting the accolades of being seen to care about regions, without coming back later to see if the intervention helped or not.

## What is the basis for intervening in regions?

In other words, what triggers intervention, and what kind of problem should trigger intervention? Related questions relate to what sort of places governments should assist, and what the appropriate scale for intervention should be (local, regional, the firm?). Often interventions are triggered by a crisis (the visible problem), such as BHP's closure of the Newcastle steel works in the late 1990s which triggered large funding commitments from both State and Commonwealth governments.

There is sometimes a desire for spatial equality – helping the worst off regions. In some cases, governments wish to help regions that are growing too quickly, as in the case of the Howard Government's promised Growing Regions Program of 2007, never implemented. Intervention that can make a difference is appealing to government, yet often it is the case that interventions rewards the most active communities (rewarding grant chasing). Typically, government must be seen to be doing something, and this may give rise to a lowest common denominator approach of "shoot anything that flies, claim anything that falls".

## How much intervention is needed?

This, of course, is a matter of philosophy and of one's views about the efficacy of government interventions. It is also a question of pragmatic politics. Of course, what government should do is shaped by what government can do (ie the likely effectiveness of the intervention). Equally, what regions should do is equally shaped by what they can do. The size of the intervention also reflects the seriousness of the problem.

Summing up, it is important that policy makers understand what they are up against, and understand the big picture. Regional development is both art and science. Local action can make a difference, but will not guarantee success. Regional development actions must be grounded in reality. Regional development is a shared enterprise, with responsibility shared among a wide range of players. Understanding the big questions helps government to clarify its thinking and place some context around how it deals with what are often pressing political issues.

## The Challenges of Regional Policy

These great questions of regional development subsume all others, and should form the basis of any serious "helicopter view" thinking about regional policy development. It is above all important to be clear about objectives. Why? Because resources are finite, the areas where government intervention can

make a difference are circumscribed, clarifying objectives makes evaluation of policy easier and because there is a tendency for governments to blur objectives in order to minimise political risk. Good politics do not necessarily mean good policy. Consideration of the great questions clarifies thinking and sets out how governments should conceptualise the tasks of regional development policy.

The starting point for regional policy development is due recognition of its possibilities and its limitations. And its limitations are severe, to say the least, for a number of reasons:

First, governments only have indirect influence on the many drivers of regional development. It is businesses that employ people, relocate to regional areas, invest in new product development, search out new markets, and so on. It is leaders, not government programs, that drive regional development. It is local community drive and determination that make things happen in small towns. The most that governments can do is provide support and funding for businesses and communities to drive development.

Second, other government policies and factors beyond the control of governments have a greater influence on regional outcomes. One observer (Tony Sorensen) famously noted that a five per cent change in the value of the Australian dollar was likely to have more impact on the fortunes of regional Australia than all the government programs of the previous decade. The he aptly termed “the tyranny of the macro”.

Third, other areas of policy are more important to government than regional development. This generally means that regional development is combined with other portfolios and departments or allocated to a junior minister, or both. Regional policy is often an afterthought. It is the first policy area to go when a bigger crisis strike a government. Political interest in it is notoriously fickle, and it comes into and out of fashion. Regional policy is typically regarded by Treasuries as being merely “political” ephemera.

Fourth, we don't know what ultimately drives regional development. There are many theories about why some regions grow while others decline, and while there is a measure of agreement about what ingredients make successful places, there is no agreement as to their relative weightings. Classical location theory explains why firms locate in certain places and why cities grow, yet these themselves have internal points of disagreement and, in any case, have been challenged by more recent explanations of regional growth. Many of the theories are mutually contradictory, and this has practical consequences for communities developing strategies to grow their regions. Practitioners also have their own ideas about what works in regional development, and some of these ideas challenge the theories as well. There are at least two dozen theories about what drives regional growth. If anything, regional processes are becoming more complex over time, and the capacity of governments to control outcomes directly is, arguably, waning considerably with the march of globalisation.

Fifth, many players are involved in regional development – governments at all levels, regional development bodies, the private sector, community groups, and professional economic development practitioners – and it is not clear who ultimately is responsible. Obviously, there are policy partnerships, but these reflect shifting alliances and differing understandings of who really is in charge.

Sixth, there is no consensus over objectives. Regional stakeholders have long lists of desired outcomes, including economic, social and environmental objectives and increasingly notions of sustainability are at the centre of regional development goal setting. Yet there is little agreement over what this means, let alone how it might best be achieved. Typically, governments are not clear about objectives – they look to much like setting oneself up for failure.

Seventh, we cannot be sure whether policy has been successful or not, in view of the myriad drivers of development. This is the challenge of evaluation. Evaluation is critical, yet notoriously difficult, in regional policy.

Eighth, governments and regional leaders face difficult strategic choices. Policy options are considerable yet the theories upon which practical actions depend are not conclusive, resources are finite and the expectations of voters are high.

Finally, there are disputes over the very meaning of “regional”. For some, regional means rural, or more loosely non-metropolitan. For others, a region is simply an area on the map and regions include the suburbs of our capital cities, which should be the subject of specific spatial policies just like rural communities.

Political realities mean that the “tyranny of the announcable” is a factor in regional policy setting. In other words, governments are important stakeholders themselves who have interests in being seen to be solving regional problems, and policy often gives way to the stage management of events and announcements. All governments play this game, and it affects policy formulation and outcomes. All governments want to be seen to be addressing the concerns of regions. This is because their own policies have differential (sometimes harmful) effects on regions.

Despite the difficulties, regional policy is necessary, both politically and economically, and is justifiable despite the valid criticisms that it is an imperfect policy science. Place matters to people, the economy ignores space, regional problems (especially in rural areas) can be severe due to lack of scale and the impact of sudden national international shocks and government policies.

The challenge is to recognise the limitations of regional policy but to embrace its possibilities and always to base policy development on grounded thinking, a proper understanding of theory, clear objectives, a practical sense of what works, solid evidence and research.

## **Regional Policy in Australia**

Regional policy in Australia has evolved in a number of ways since the 1960s, and for a number of reasons. Several elements of former policies have been discarded, and other elements have been taken on board as new and more complex regional problems emerged and new ways of dealing with old problems have been discovered. There is something of a consensus in regional policy across the major political parties and across the States. Most jurisdictions now accept a number of key principles – the “bottom up” approach; self-help for regions and communities; a partnership approach; facilitation rather than central direction; a focus on delivering services and managing change; a region-specific approach (local solutions to local problems); a focus on regional leadership; and strategies based on regional competitive advantage.

Decentralisation, a focus on big city primacy and on “balanced development” has gone out of fashion and has been quietly dumped, even though “regional” mostly still means non-metropolitan for policy-makers.

Despite broadly shared views across governments, no such consensus exists among the broader regional policy community (which includes both critical academics and country interest groups). There are many critics of government policy, mostly believing that governments don’t do enough; that governments have been overtaken by “economic rationalism”; that this both has helped cause (or exacerbate) regional problems and will not fix them; that more public funding would improve regional outcomes; that more “national” regional policy coordination is required.

## **Evolving Problems Facing Regional Australia**

The Howard Government addressed an evolving range of problems confronting regional areas in addition to the structural regional issues of a narrow economic base and lack of scale. Generally speaking, government policy is constrained by certain realities facing regional Australia. These include the following:

- Places with scale, a diverse economic base and global connectedness will do best;
- Most people prefer to live on the coast in Australia;
- The natural environment can be a huge constraint;
- Globalisation favours big cities and city regions;

- Young people move out and move on;
- Not every region is a winner from restructuring – national gains generate regional losers; and
- Some of the things that drive regional success are beyond the capacity of regions and governments to influence.

On top of these longstanding disadvantages faced by non-metropolitan regions, in the mid 1990s Australia was emerging from a serious recession which had highly uneven spatial impacts, with areas of persistent high unemployment and sluggish economic growth, while other regions had recovered. It was this uneven pattern of regional opportunity that had driven the Keating Government's flurry of investigations and new programs in 1994.

Increasingly, academic observers saw a pattern of increasing regional inequality, the classic pre-condition for regional policy interventions, while regional interest groups demanded a greater political focus on the losers and a turnaround in the policies of economic rationalism that, they argued, had caused most of the regional problems.

While many of these reactions amounted to no more than (perhaps understandable) nostalgic protectionism, and many of the problems such as small town decline were long term realities which had little to do with neo-liberal policies (such as competition policy, a favourite rural bete noir) only introduced a few years earlier, the suffering in the bush that resulted from poor services was real and played a part in fomenting the rural disquiet and anger that helped forge new regional political forces such as the country independents and, of course, One Nation.

Following the Coalition's coming to power, new issues emerged that pressed the Government into further regional policy actions. The two principal problems were the rapid decline in services for rural communities, whose full implications became clear in the period 1996-1999, and, in the new century, a prolonged period of drought that affected many rural regions and forced long-term changes to Australian agriculture. The problem of declining services caused the Deputy Prime Minister to famously assert in 1999 that the nation was in danger of becoming "two Australias". Minister Anderson, in the later part of his tenure which ended in 2005, was increasingly focused on addressing chronic water shortage problems and related environmental concerns.

More recently, the earlier problem of apparently widening regional disparities gave way to an entirely new and different problem in regions experiencing quite low levels of unemployment and sustained economic growth – skills shortages. These were national problems made worse in regions because of a declining interest in agricultural careers, the higher rate of ageing of the rural population, the increasing trend of young people to leave rural areas to access higher education and the generally narrow base of regional economies.

### **Brief History of Regional Development under the Howard Government**

The Howard Government's efforts at regional policy can be divided into three distinct periods.

The first, from 1996 to 1998, consisted of the Government's attempts to distance itself from the Keating Government's regional interventionism and its desire to curtail government spending, including in areas like regional development, which it then saw as largely the responsibility of the States and Territories. The focal point of the initial period was the statement by then Minister John Sharpe that regional development was not the responsibility of the Commonwealth, a statement that was repeated many times and critiqued, often unfairly, by the ALP Opposition and other opponents of the Howard Government. (Sharpe stated that there was "no clear rationale or constitutional basis for Commonwealth involvement").

The second period, from 1998 to around 2001, saw a marked reversal of the hands off approach of the earlier period and a clear re-engagement with regional policy, driven by John Anderson's accession to the leadership of the National Party, his reaction to the dramatic loss of services in many parts of rural Australia (particularly in small towns), and the rise of Pauline Hanson and One Nation. (The latter has been perceived, perhaps inaccurately, as a movement rooted in rural Australia). The focal point of this

period was the 1999 Regional Australia Summit, an ambitious event convened by the Government and held in Canberra, which featured many of the nation's leading policy professionals, thinkers and practitioners.

The third period, from 2001 until 2007, consisted of the implementation of Anderson's policy vision, through a raft of programs and through an attempt at closer cooperation with the States and Territories via the Regional Development Council (RDC). During this period (2003), the Government also commissioned a major review of regional issues through the Regional Business Development Analysis (RBDA).

## **Key Howard Government Policy and Program Initiatives**

### **Statements**

The Government introduced annual budget statements on regional Australia. These outlined broad funding allocations from all areas of government, not just regional policy, so were difficult to analyse from a regional policy perspective. Nor did they approach the radical Whitlam Government initiative of regional budgets, so feared by the Treasury.

The Government's principal statement on regional development was its *Stronger Regions, A Stronger Australia* statement in 2001. This gathered together all the principal initiatives of the Government to date, along with a long dossier of nearly \$30 billion in government expenditures that had been either targeted at regional areas or clearly beneficial to them.

### **Events**

The Regional Australia Summit in October 1999 was the principal set piece event. It was organised by Minister Anderson following his earlier stated fears about the future of regional Australia. While the Government had "recovered" from its early abandonment of regional policy, its suite of programs was still relatively small, and it was alarmed (at least the Nationals were) by the drift of services and people from rural areas. The Summit was attended by over 200 participants, many of whom were experts in fields such as the environment, natural resource management, social capital and regional economics, was a circuit breaker and an opportunity for "inclusive policy making", as one observer noted. It also raised expectations and these were managed through a communiqué which, by and large, did not challenge broad government policy settings.

The second set piece event related to regional development specifically was the Growing Regions Conference in 2006. The conference had a cast of international speakers, with no definitive policy outcomes. It did, however, underline the fact that regional Australia is not in terminal decline, that many economic opportunities exist, that the local approach is best, that regional Australia's problems are not unique to Australia, and that (as ever) small communities are struggling the hardest.

### **Programs**

Howard Government programs in regional development developed over time in response to both emerging regional needs, political pressures such as One Nation and internal government policy development and review. The number of programs slowly built up from around 1998, and programs were consolidated in 2003. There were also a number of (fairly critical) reviews of government programs, by the Senate Committee on Public Administration and by the Audit Office.

The Regional Solutions Program and the Regional Assistance Program were the forerunners of the RPP. They provided mechanisms for local communities and economic development bodies to finance local projects to strengthen economies and communities. These programs were the core elements of the Government's "partnership approach", with local leaders and stakeholders coming up with ideas for funding support from the Commonwealth.

The Sustainable Regions Program was introduced in 2001 to support regions undergoing significant economic and social change to develop local solutions. A number of further programs assisted regions and industries (like dairying) facing structural adjustment pressures. The Rural Transactions Centres were introduced to provide services to smaller and more remote places that had lost services such as banking and postal services in the 1990s. Of course, it needs to be reiterated that a whole array of other programs, some industry related and others related to telecommunications, exports, innovation, natural resource management and the environment, and families and communities, were strongly regional in flavour.

The RPP (July 2003) consolidated a number of earlier programs into one single source for supporting local development projects nominated by regions through the Area Consultative Committees (ACCs; see below).

The RPP was easily the most controversial of the Government's programs, and as noted elsewhere, subject to strenuous and at times politically motivated review. The core issues were the role of Ministers and Parliamentary Secretaries in selecting projects to be funded and the political status of the regions chosen to be funded. The Program has been vigorously defended by the Nationals, and indeed the NSW Opposition proposed a similar program to the voters of NSW in 2007. Whatever the political wisdom of this replication, future consideration of similar programs by the Nationals needs to take place in a broader context of assessing the whole range of regional policy interventions, and this matter is discussed at length below.

Prior to the 2007 election, the Government announced a Growing Regions Program, along the lines of the Sustainable Regions and in response to the fears in (mainly) coastal communities over growth pressures and infrastructure blockages. The ALP Government is not proceeding with this program.

### **Regional Governance Arrangements**

The Howard Government faced two sets of regional institutions when it came to office, ACCs which the previous government had introduced with a labour market focus, and Regional Development Organisations (RDOs), which were more concerned with regional economic development. It chose to stop further funding of the RDOs, which were, in many ways, the showpiece organisations of the Keating Government. The ACCs therefore over time assumed the former tasks of RDOs, and eventually became sources for funding applications under the RPP. Their chairs were selected by the Government and they then chose other ACC representatives.

They were generally funded with fairly low budgets, and had similar tasks to the regional development bodies in some States, eg developing economic strategies and grant seeking. The Western Australian Regional Development Commissions differed in that they are responsible as well for delivering government programs in areas such as business assistance.

### **Research, Ideas and Policy Development**

The previous Government had commissioned a vast amount of research on regional development through high profile inquiries by the Industry (now Productivity) Commission, McKinsey and Company and the Kelty Taskforce. In normal government fashion, the findings of these inquiries (which contained very different approaches and solutions) were distilled into a few core new funding programs and structures.

Research on regional development also flourished under the Howard Government. Through the work of the Bureau of Transport and Regional Economics (now Bureau of Infrastructure, Transport and Regional Economics), substantial research was undertaken into a range of issues, such as social capital, regional industry structure, taxable income in regions and government interventions. The BTRE's Working Paper No 55, *Government Interventions in Pursuit of Regional Development*, broadly found sympathy for the Government's relatively non-interventionist regional policy approach.

The RBDA process also involved research commissioned by the Department, and many of the ACCs also commissioned their own research. Evidence of publicly accessible program evaluations was limited, however.

### **Commonwealth State Relations**

In regional policy as in so many other areas of policy, the Howard Government was disadvantaged by the blame shifting that accompanied co-existence with hostile State ALP Governments, each with its own set of well established regional development programs and their own strong desires not to be cramped by Canberra.

As indicated above, following the 2001 election, the Government established the RDC, a formal body established under the Council of Australian Governments (COAG) umbrella. The RDC grew out of an earlier "Framework for Cooperation" that had been signed following the Regional Australia Summit. This brought together Ministers for Regional Development in the States and Territories, as well as the Australian Local Government Association. Ministers (including Nationals Ministers) had varying degrees of enthusiasm for, and commitment to, the RDC.

Most observers would conclude that the RDC achieved little by way of major new initiatives or reformed governance, and it seriously dropped the ball in relation to a response to the RBDA. (The then Minister generously offered the RDC the opportunity to formulate a joint response but the States and Territories probably saw it as Canberra's responsibility to make a response as it had commissioned the work). On the other hand, the meetings of Ministers and bureaucrats (through the Standing Committee on Regional Development or SCORD) yielded good working relations and some valuable joint work on issues such as skills shortages. The States' interests also differed as a result of their varying economic bases, stages of development and regional problems. This diminished opportunities for meaningful cooperation. NSW in particular was generally negative about the RDC and both ministerial and bureaucratic levels.

A number of potential real reforms in regional governance are suggested below. These were never touched by the RDC partners or by SCORD, despite the RBDA's insistence that complex regional governance was a hindrance to better business and investment outcomes in the regions. State government policies relating to regional development differed little in tone or content from that of the Commonwealth, but remarkably little of an substance or lasting significance was achieved through cooperation.

Commonwealth State relations suffered for two main reasons. First, both the States (and Territories) and the Commonwealth "do" regional development, and the Constitution (were governments minded to heed it) is fairly unclear in relation to who should have ultimate responsibility for this area of policy. Second, regional development as policy is inherently open to good news story ownership by politicians, hence there is little desire among governments to hand over any of the responsibilities to another tier of government. This leaves a fairly small area to argue over/discuss/cooperate on, so the blame game of criticising other governments for not doing enough tends to fill the vacant space. And because, at one level, all the States do similar things in regional development, while in other ways their interests differ dramatically, there is little potential for the States to engage with one another in ways other than low level information sharing.

### **Analysis of the Howard Government's Approach to Regional Development**

There are a number of defining characteristics of the Howard Government's approach to regional policy.

Generally speaking, the Government continued the Coalition tradition of making rural places the focus of its regional policies. This is unsurprising, as it has been well-established Coalition practice when in government.

The second characteristic of the Government's approach was its political pragmatism, in particular its willingness to not only revive regional policy after having initially discarded it, but to make it core business. No doubt this was in large measure due to the rise of One Nation and the latter's perceived connect with rural Australia. The seriousness of the Government's commitment is underlined by the considerable fanfare given to the 1999 Summit and to the astonishing number of interventions in regional Australia, outlined in the *Stronger Regions* documents of 2001.

The third characteristic of the Coalition's approach was its emphasis on services in regional Australia. This was largely a response to the perceived crisis in rural areas that emerged in the late 1990s as a result of the "gutting" of services in both the private and public sectors, for example in areas such as banking. The Government's response centred on the creation of rural transaction centres, and the approach sought to plug service delivery gaps. This effort was replicated at State level in many states. It reflected both the Government's emphasis on dealing with the regional consequences of national and global processes rather than seeking to reverse them – its conviction that "managing change" was the key rural development issue – and its belief that rural places needed good services to be competitive in the new economy.

The fourth characteristic of the Government was the absence of a top-down "national blueprint" approach, and a commitment to limited intervention in regional development. The charge of neo-liberalism (see below) is highly exaggerated despite Government decisions to support free trade and reduced industry protection. In fact, many of the decisions in relation to trade and protection were made by the previous Government, and the Howard Government made many substantial interventions. However, it did favour limited intervention in regional policy and saw the objective of policy as supporting the capacity of regions to adjust to structural economic change rather than to lay out a preferred future for regional Australia.

The fifth characteristic was the Government's adoption of the bottom up approach ("localism"), described by John Anderson when he was Minister as a "quiet revolution" in regional development thinking. In many respects the Government, echoing the approach adopted by all States and Territories, outsourced regional policy to local communities, while nevertheless retaining control over spending on projects. One observer has termed this approach "do it yourself" regional development.

There were a number of paradoxes in the Coalition's approach to regional policy. First, the Nationals drove multiple interventions to support regional Australia, while supporting a regional policy that eschewed large-scale intervention. Hence the approach was simultaneously interventionist and non-interventionist.

Second, the Government supported the localist approach to regional development, while retaining tight control over the operations of its appointed regional bodies, the ACCs.

Third, while largely favouring rural regions, the Government did establish some Sustainable Regions programs in or near metropolitan regions.

Fourth, the Government generously supported research in the area of regional development (through the admirable Bureau of Transport and Regional Economics) yet had no discernible mechanism for considering and acting on the findings of the research. It similarly failed to respond properly to the findings of the RBDA's recommendations, a major disappointment.

Fifth, the Government set up elaborate intergovernmental arrangements to drive policy development, but failed to drive this process in a way that delivered more than very modest outcomes, for example in relation to more rational regional governance structures.

Sixth, the Regional Australia Summit predictably raised expectations enormously, without ever attempting seriously to meet them.

Seventh, there was very little policy development or published evaluations of policy after around 2003. It was as though the RPP was thought to be the be-all and end-all of policy.

Eighth, there was the ultimate paradox of the Government's initial denial of the role of regional policy at Commonwealth level which was later followed by multiple and substantial regional policy and program initiatives. At the same time, over the life of the Government there was no real resolution of the conundrum of which levels of government are ultimately responsible for which regional policies and programs. This is an ongoing major design fault in the Australian federal structure.

Overall, the Government's greatest weakness, perhaps to some a strength, was that it had no real idea of regional policy when it came into government, other than to get rid of (or limit) the Keating Government's programs. Hence its thinking about the great questions of regional development, outlined above, was non-existent. Of course, this is no different from most other governments, and, it should be noted, the last government to think seriously about regional development prior to coming to power was the Whitlam Government, whose interventions in regional development (as in so many other areas) turned out to be highly problematic.

The Government had the usual range of critics, who adopted predictable positions. Generally, critics of regional policy fall into two camps – those who argue that governments are doing too much to help regions, and those who argue they are doing too little. Mostly, the latter create more noise and are more numerous.

Early on, criticism focused on the Government's decisions to cut the previous Government's regional development programs and on Minister John Sharp's (correct) statement that regional development was largely a responsibility of the States. The Government's decision not to continue funding of RDOs was actually no different to the previous Government's declared intention of funding RDOs for one term and for them to be self-funding in the future.

The critics included lobby groups, country independents and some academics who generally favoured a much more comprehensive, European style regional policy, and characterised the Government's approach as neo-liberal or economically rationalist. At the end of its tenure and looking back on its overall record, arguing that the Howard Government was economically rationalist is bordering on the quaint.

Admittedly, the Government's initial instincts were to wipe regional development, and many of its later interventions might be put down as merely political responses to the perceived Hanson threat.

Moreover, like most other contemporary governments, the Howard Government favoured private sector and locally driven regional development over government-imposed solutions, and rejected the big spending European-style blueprints often promoted by the Government's critics. Yet these critics were blind to the sheer extent of the Nationals' influence in garnering funding for regional Australian projects, and exaggerated the impact of the Government's early spending decisions and public sector cuts. They also ignore the fact (noted above) that many of the "economically rationalist" decisions were taken by the Hawke and Keating Governments, though with Coalition support. Real neo-liberals like Professor John Freebairn would regard the suggestion that the Howard Government was neo-liberal (including its regional policy) as laughable.

The critics also failed to note that, over the life of the Howard Government and no doubt partly because of its successful economic policies, the disparities between regions, seen by these critics as driving the very need for regional policies, were abating sharply. This was contrary to their expectations that so-called economically rationalist policies would actually cause regional disparities to widen.

On the specific question of the RPP, there is no doubt that the program was open to the charge that there was too much Ministerial involvement in funding decisions, though this changed over the life of the program in response to criticisms by the Senate and the Audit Office. As I will explain later, however, this misses the more important weaknesses in the Program. The Coalition in opposition must be prepared to examine the RPP critically, and not simply react reflexively to ALP critics in a defensive way. The ALP will keep going on about the RPP, and this may cause the Coalition to keep on defending it. This is not the best way to review policy and develop policy.

Some of the RPP projects were obviously duds (as is the case with any regional development program which entails discretionary funding), and others provided substantial benefits to the communities who received the grants. However, it is notoriously poor evaluation practice simply to rely on asking recipients how they feel about assistance programs in assessing the overall merits and regional impacts of these programs. All governments unfortunately do this, and it short changes regional policy.

## **The ALP and Regional Development**

The ALP had very little to show for its years in opposition, if the evidence of its 2007 election policy commitments is anything to go on. The ALP's 2007 election policy document, *Regional Development for a Sustainable Future*, combined the localism rhetoric of the 1990s ("local solutions to local problems", etc, which could have been lifted from any regional policy document over the last fifteen years) with nostalgic references to earlier ALP regional development policies when in government, with a nod to sustainability (without defining it). The document also included a grab bag of initiatives that are not really regional policies but policies that broadly benefit regions, for example in health, aged care, education, infrastructure and natural resource management.

Its statements were long on rhetoric and short on real policy intent, with sprinklings of nostalgia for the earlier achievements of the Whitlam, Hawke and Keating Governments, ritual denunciations of the Howard Government, including a predictable denunciation of the RPP, some undertakings to keep successful programs, and references to new initiatives such as the Better Regions Program (no doubt a non-metropolitan version of the earlier Better Cities Program) and a commitment to establish something called "Regional Development Australia", which was not spelled out.

There was no attempt to define the proper role of regional policy, or even to define regional policy. There was little reference to the Howard years beyond reflexive criticism of the RPP and of the oft-quoted statement by John Sharp in 1996 about the limited constitutional role of the Commonwealth in regional development, a statement which proved extremely short-lived in view of the Government's later much greater involvement in regional development. There was no detail about the specific regional policy commitments made that suggests the policy was thought out seriously.

The Labor Government has kept on for the time being many of the previous Government's programs. It has also retained (broadly) the former department of Transport and Regional Services (DOTARS), now called the Department of Infrastructure, Transport, Regional Development and Local Government.

In March 2008 the Rudd Government made its first positive announcement relating to regional policy – it had already announced its scrapping of the Coalition's promised Growing Regions Program – in establishing arrangements for the creation of Regional Development Australia (RDA). This turned out to be largely a revamp of the Howard Government's ACCs, and it is at this point very short on detail. It is not clear exactly how RDA Committees will differ in practice from ACCs. Hence this paper is not in a position to critique properly the ALP's position in government.

## **Possible Areas for Policy Development and Some Specific Proposals for Reform**

Of course, policy development in Opposition will necessarily reflect what the Government does in relation to regional development, and this is far from clear at this point. Nevertheless, there are some obvious areas that merit investigation and there is little evidence to date that the Rudd Government has considered them. Some of the following ideas are radical, yet the mish-mash of State and Commonwealth regional programs currently delivers only complexity and second best solutions.

The very first thing to be done by any government, then, is to sort out what areas of regional policy belong to which level(s) of government. The second is to determine, and be clear about, what initiatives undertaken by government are properly termed "regional policy". The Howard Government in 2001 published a long dossier of its initiatives for regional Australia. While this list was impressive in its length and dimensions (and, as argued above, should have put to rest claims that the Government was economically rationalist and had denuded regional Australia of its services), it begged the question as to

which of these initiatives were specifically designed to help regions as opposed to policies that may have had a beneficial impact on regions. All governments do this, especially in their budget documents. This is simply a marketing tool and obscures what is regional policy and what is not.

Starting with a clean page in policy development may not be politically realistic, but it does encourage clarity of thought. What follows combines some analysis of the great questions of regional policy outlined above, in order to clarify policy thinking, with some bold suggestions for policy change that merit further investigation by both the Rudd Government and the Opposition. There is an assumption here that the new Government is not likely to be active in advancing a rural, regional development agenda. There is an opportunity for the 2020 Summit's rural group to advance some of these agendas, but it remains to be seen how regional development policy will be fitted into this approach, and how any policy recommendations will be actioned. The experience of the 1999 Regional Australia Summit was that the many policy recommendations were reduced to a bare few and the remainder (rightly or wrongly) quietly shelved. Time will tell on this front.

## **Better Regional Governance**

Should governments fund the operations of regional bodies? Which ones? Should they "own" these bodies? One area of concern revealed in the 2003 RBDA related to regional governance. Clearly, businesses are put off by the large number of organisations doing regional development, often with cross cutting areas of responsibility let answering to different levels of government. Perhaps the previous Government simply found the idea of working cooperatively with the States and Territories on this issue too difficult.

Each level of government having its own regional development bodies is ridiculous. One solution might be for regions to self-select in terms of boundaries and approach all levels of government for a composite funding package which the new body would then be responsible for administering. It would be up to the new body, say called a Regional Development Commission, with statutory powers and real authority, to make all spending decisions about projects, and up to the Commission to develop a regional strategy.

This would keep central governments at arms length, while signing MoUs with all levels of government would give the Commission legitimacy in the eyes of its region. Ministers should not be getting caught up in funding miniscule projects and being accused, rightly or wrongly, of favouring particular regions (electorates). This is not the proper role of government and only wastes valuable time in Canberra and encourages pork barrelling or worse. If this means that Ministers don't get the credit for local improvements, so be it.

Powering up regional bodies, giving them resources and decision making grunt, will also achieve more genuine subsidiarity (decision making at the lowest, best level). This is one area of regional policy practice where the European Union excels. Regional commissions with real power would attract the best local leaders who would see they were not simply siphons for politicking central governments.

Regional commissions operating at arms length from government would also give businesses and investors greater choice about where they located, with greater mechanisms for competition among regions. Local governments within the region might even consider vesting taxing (rating) powers in the regional body to achieve this end.

The three levels of government could select one representative each for the new body, and these could select a chairman, and the three selected representatives could then jointly choose the rest of the commission's board. Substantial funding would need to be made available to all regions, based on an agreed negotiated formula. These regional bodies could be made responsible for all assistance to businesses, thus making each region responsible for its own regional development outcomes, ending once and for all the myriad regional programs indulged in by State and Commonwealth Governments which so often are simply vessels for making the government look good. Central governments then could be responsible, say through the Commonwealth Audit Office, for evaluating each regional commission's performance on a three yearly basis, prior to new funding agreements being negotiated.

Thoroughgoing reform of funding regional bodies would be a serious start in more properly delineating government responsibilities and in providing regions with real power. Regional bodies (like the Regional Boards in NSW) that are beholden to the Minister for their appointment and to a Department for funding will not feel empowered to act boldly and independently. In fact, they are prohibited from doing this. While the ACC Chairs could select their own members, they were still creatures of Canberra through their funding arrangements, in particular through Ministerial or Departmental selection of which projects to fund. Again, regional policy should not be mainly about making central governments look good.

A new funding system might lead to things like local MPs lobbying the Regional Commission for a particular project, rather than the reverse. Powerful regional bodies would also have a greater chance of securing private sector investment in the region.

Handing decisions about what kinds of projects to assist (community halls versus more economically linked infrastructure, for example) to regional bodies will save central governments from worrying about the relative merits of different proposals. A case can certainly be made for funding non-economic projects, in order to improve community social capital, for example, since people might be attracted to a region for its community events rather than simply for its economy. It will be up to the regional body to make the case at the end of its funding cycle as to the economic and community impacts of its funding regime.

The fear of a fourth tier of government developing has always been close to conservative hearts in Australia. The Howard Government had a substantial shift in power to the central government as one of its less endearing legacies. Yet under this Howard federalism model, taking powers away from States did not necessarily benefit regions. Moreover, such conservative luminaries as Geoffrey Blainey have argued eloquently for regional States. What is being proposed here will not lead to regional government, however, but simply to better regional development outcomes with clearer lines of financial accountability for regional programs and without the need for the kind of regional assemblies introduced with very mixed results by the Blair Government in Britain.

In any case, reforming regional governance bears further investigation by the Coalition in Opposition and consideration by the Government and the RDC. The move to a new funding regime like that suggested here could be oversighted by the RDC or by an independent statutory body with State, Territory, local government and Commonwealth representation.

### **Which Regions Should Governments Assist?**

This is a vexed question, indeed one of the threshold questions of regional development noted above. Should assistance go to all regions equally, or to growing regions, or to declining regions, or to regions that suffer sudden economic shocks? The answer depends on one's philosophy and what the objective of policy is. Too much regional policy is based on an understandable but ultimately unrealistic desire to make all regions equal. A related question, of course, is whether assistance should be given to firms or to regional bodies, or to projects (such as infrastructure) which indirectly benefit regional economies by encouraging further investment. This is discussed separately below.

There is no easy answer. Hence why not give equal assistance to all, allowing the regions most attractive to households and industries to prosper? Anything akin to the spatial welfare advocated some years ago by those pushing enterprise zones tends only further to encourage a mendicant mentality in regions, while not necessarily solving the region's problems. Selecting "problem" regions to assist, like all governments do, raises all kinds of conceptual difficulties that may give substance to the charges of those who claim regional programs are merely slush funds. One way to put these criticisms finally to rest is to make funding arms length, as advocated above through the creation of independent commissions that make funding decisions in the regions. Another is to make the same amount of funding available to each region. This will not mean equality of spatial outcomes, but neither does the current unwieldy mix of programs. Regional development is simply far too complex ever to achieve spatial equality, and would require massive government largesse to declining regions in order to maintain their competitiveness.

There are always boundary issues with discretionary spending programs, a little like the exceptional circumstances debates in relation to drought assistance. Someone will always miss out. What is a declining region? Which measures are used? In the 1990s at the height of the Keating recession, assistance preference was given to places with high unemployment levels. Yet many rural regions struggling to survive have low unemployment rates. How decline is measured is important, yet controversial. Simply selecting places to assist that have highly visible problems is the last refuge of the politician who wants to be seen to be doing something, but is often a poor basis for regional policy.

The combined effect of these two reforms would be to diminish the role of central governments in regional development. This may frighten governments and their bureaucrats, and this is precisely why they have not let go of their powers over regional funding before now. Yet the current bewildering mix of funding streams and programs has not been to the ultimate benefit of regions. In any event, diminishing the powers of central governments should be close to the hearts of the Liberal and National Parties.

### **A National Spatial Plan?**

As indicated above, one of the great criticisms of the Howard Government in the area of regional development was its lack of support for a national plan. The lack of a national plan was actually one of the great merits of the previous Government's approach. While many people have advocated national plans, few have specified what the content of such plans would be. This is because it is impossible to agree on what would be in the plan.

Soviet style centralist planning approaches have no place in making regions more competitive and are typically only a salve to the egos of the experts advocating them. Generally, those advocating national plans favour far greater levels of intervention in economic affairs. The proper reach of regional policy is a key issue, and the sheer complexity of the drivers of regional development suggests that governments should be cautious in intervening.

Future Coalition Governments should resist the temptation to attempt to define what national settlement and investment patterns should look like through national spatial plans.

What of the Nationals' traditional championing of large scale decentralisation projects? Governments have walked away from decentralisation policies since the failed attempts in this area by the Whitlam Government. Arguably, the form of decentralisation in regional governance advocated above might turn out to be a real driver of economic and demographic decentralisation. On the other hand, the reasons why we have large capital cities and a huge concentration of population in them are largely beyond the capacity of governments to remedy easily, and attempts by Governments (the Victorian Government's) and Oppositions (the NSW Coalition's) to spell out decentralisation targets are noble but asking for trouble. There are simply too many factors beyond the effective control, or even influence, of governments in relation to decentralisation to make population targets feasible. They tend to be rhetorical devices in any case, or simply designed to demonstrate sympathy with regional constituencies, and should be avoided.

What about national infrastructure planning? The Rudd Government has elevated infrastructure planning in the national consciousness, and this has merit. Many business organisations agree that this has been a neglected area, and the case can be made that if the previous government had spent more on regional infrastructure and less on consultancies, advertising and middle class welfare churn, the nation would be better off today. In any event, the decline in infrastructure spending over several decades, whose fruits include regional projects foregone (a dual carriage highway over or through the Blue Mountains) and crumbling transport infrastructure in the cities (Sydney), is largely the result of increased government spending on welfare. This is a topic for another place. While acknowledging the pathetic recent attempts at infrastructure planning by some of the States (mainly NSW), there is merit in national infrastructure prioritising and in using COAG structures better to eliminate costly blame shifting. This agenda could be combined with the proposal above for regional commissions with carriage of local regional development spending. Commissions could be given a place at the national infrastructure planning table to help advance regional infrastructure agendas.

## The Best Form of Regional Assistance

The funding model above outlining a new approach to regional governance would take many decisions about regional programs away from central governments, for regions themselves would be deciding what sort of assistance to provide, and to whom.

Putting the new regional governance model to one side, central governments face ongoing choices about the reach and forms of regional assistance. For example, should assistance be provided to firms or should broader assistance (eg regional leadership programs) be made available? What about providing assistance to existing firms in preference to attracting outside firms to a region? What sort of help should be provided to industry clusters? Should infant industries be nurtured in special ways? Should the focus be on attracting firms to regions, or people?

There are a plethora of regional programs at State and Commonwealth level. State Governments have literally dozens of regional programs, and some of these are replicated in Canberra. Indeed, a virtue is made of local and regional bodies putting in place cocktail funding arrangements of considerable complexity. It needs to be emphasised that there must be a major rethink on Commonwealth-State differentiation of regional program funding. There is no justification for the replication of programs that exists.

One of the goals of regional policy should be to clarify objectives and to measure success. This is the virtuous circle of "evidence based policy". Having a great mix of different funding mechanisms makes evaluation of specific programs (an already problematic process) next to impossible. Typically, regional programs are evaluated in limited and limiting ways, focusing on process and outputs rather than on the program's impact on regional development outcomes. The fact that evaluation is difficult should spur governments to doing it better rather than on doing it on the cheap.

Hence programs should always be simplified and reduced in number. The previous Government did this in 2003. The danger is that fewer programs may mean that just about anything is included. While applicant regions might like things this way, it doesn't necessarily make for good policy. Good policy is that which can be readily evaluated. Evaluation is needed because the processes driving regional development are complex and resources are finite.

Assistance to firms has been favoured by State Governments, with programs like the Regional Business Development Scheme in NSW proving popular since the 1980s. These programs on the whole are evaluated poorly, whatever the rigour attached to the way assistance is disbursed. The targeting of firms for assistance has both merits and disadvantages in relation to older style blanket assistance measures such as tax breaks for all firms setting up in a region, irrespective of the firm's contribution to the regional economy. The advantage of being selective is that assistance can be linked to the Government's and the region's goals. The disadvantage is that it leaves the decision maker (whether a bureaucrat or a Minister) with the problem of picking winners. General assistance through tax breaks or regulatory relief takes the onus away from the Government and leaves development to the market.

Either way, there are the twin problems of the deadweight effect and the displacement effect that plague so many regional assistance programs. These problems are notorious in the big spending regimes of European Union regional policy, for example. The deadweight effect refers to the lost public funding to firms given assistance who would have moved to the new region (or expanded their production) without the assistance. The displacement effect refers to the fact that firms moving from one region to another may bring benefits to the new region while at the same time causing a loss to the region they have left.

The Commonwealth has sensibly left it up to individual regions (ACCs) to formulate their own regional strategies. This should continue. Central governments have no business setting out what regions should be doing in this area. However, providing grants to firms over and above the projects that flow from regionally determined strategies merely complicates regional development policy, and is at worst counter-productive. A study done some years ago of NSW assistance programs found very little relationship between the kind of firms assisted by the State Government and the strategies of Regional Development Boards. This would be the norm in regional development. It is not helped at all by the

general tendency (again, typically at State level) to simply keep adding on new regional programs rather than phasing out old programs when new ones are introduced.

Reviewing assistance programs is a matter for governments rather than oppositions. However, taking a helicopter view of the plethora of programs is the prerogative of oppositions and essential to good policy development. Again, this question is linked to the need to determine precisely the objectives of policy before implementing specific programs. Typically governments get this precisely the wrong way around, introducing new programs to meet some (possibly passing) regional need without having first set out what the Government is trying to achieve overall. It also needs to be linked to questions of what kinds of regions should be helped.

In terms of forms of assistance, good policy generally should bias governments towards eliminating duplication (across and within levels of government), simplifying programs, giving programs a use-by date, rendering them easily open to evaluation, linking them to regionally devised strategies, open to all firms rather than relying on bureaucratic decision making, and reducing where possible the problems of deadweight and displacement effects.

Again, all these problems would be solved for central governments by handing over responsibility for program implementation to properly audited regional bodies which are already driving the economic development strategies for their regions.

## **Key Recommendations**

### **Recommendation 1**

The RDC should clarify what areas of regional policy belong to which level(s) of government. Governments need to determine, and be clear about, which initiatives undertaken by government are properly termed "regional policy".

### **Recommendation 2**

The Commonwealth and the States should consider rationalising regional governance arrangements and giving real responsibility for regional development to regions, with appropriate funding. Regions should self-select in terms of boundaries and approach all levels of government for a composite funding package which the newly formed bodies would then be responsible for administering. It would be up to the new body, possibly called a Regional Development Commission, and ideally having statutory powers, to make all spending decisions about projects, and up to the Commission to develop a regional strategy. The RDC should create a national statutory body to review all regional spending and programs and make recommendations to the RDC, on three year spending cycles.

### **Recommendation 3**

Equal assistance should be given to each region as a matter of principle, allowing the regions most attractive to households, businesses and industries to prosper.

### **Recommendation 4**

Governments should continue to resist the temptation to attempt to define what national settlement and investment patterns should look like through national spatial plans.

### **Recommendation 5**

COAG structures and regional commissions should be used for national infrastructure prioritising to eliminate costly blame shifting.

### **Recommendation 6**

Regional development programs should be simplified and reduced in number, at whatever level they are developed or administered. Good policy generally should bias governments towards eliminating duplication (across and within levels of government), giving programs a use-by date, tying them to specified objectives, rendering them easily open to evaluation, linking them to regionally devised strategies, open to all firms rather than relying on bureaucratic decision making, and reducing where possible the problems of deadweight and displacement effects.