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REGIONAL DEVELOPMENT IN AUSTRALIA: 
RETHINKING THE BASIS FOR REGIONAL POLICY

By 

MARK JAMES CLONEY

A thesis submitted in partial fulfilment of the requirements for the degree of

PhD POLITICAL ECONOMY

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Abstract

REGIONAL DEVELOPMENT IN AUSTRALIA: RETHINKING THE BASIS FOR REGIONAL POLICY

by MARK JAMES CLONEY

The aim of this thesis is to explore whether and how the governmental arrangements of Australian competitive Federalism intersect with the new priorities, policies and institutional arrangements of post-Fordist regional development. It argues that contemporary structures do not adequately address Australia's regional problems and are ill suited to post-Fordist priorities, providing institutional barriers for effective pursuit of regional development. Consequently, the thesis proposes the development of new regional structures and priorities, coordinated by the Commonwealth, that have similarities to models developed by the United Kingdom, United States and Canadian governments. The ideas underpinning this approach to regional development derive from the major theoretical subsets of recent post-Fordist debates, namely: neo-Schumpeterian, neo-Smithian, and neo-Marxist (and economic geography) theories (Amin 1994). These ideas incorporate key concepts and development tools such as industry clusters, institutional thickness, institutional networks, capacity building and regional innovation systems (RIS). Global changes and structural adjustment continue to create significant pressures on the design and direction of regional/industry policy and program delivery and this has a special significance for small peripheral economies like Australia. Can Australia learn from and adapt to this international experience where regions are becoming the main foci for economic development? What is the conceptual basis of these 'spatial' and/or regional policies? Can these types of spatial policy approaches be re-created or transferred from one region (nation) to another? Are there peculiarities to Australia's model of competitive Federalism that inhibit the adoption of more spatially oriented collaborative industry/regional policies? What adaptations may be required? It is through the exploration of these types of issues and lessons from the international experience that the Australian government can draw the basis to rethink its approach to regional development.
ACKNOWLEDGMENTS

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The author dedicates this thesis to his wife Jacinta and mother, Agnes Cloney. Without their selfless encouragement, strength, sacrifice, love and support over many years this body of work would simply never have been written.
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GLOSSARY

ACC   Area Consultative Committees
ACM   Australian Chamber of Manufacturing
ACOA  Atlantic Canada Opportunities Agency
ADA   Anti-Dumping Authority
ADM   Area Development Management
AEEDC American Economic Development Council
AEDO  Accredited Economic Development Organisation
AN    Australian National
BBC   Building Better Cities
BBCII  Building Better Cities II
BCI   Better Cities Program
BDDBC Business Development Bank of Canada
BERL  Business and Economic Research Ltd.
CALP  Catchment and Land Protection Board
CBDC  Community Business Development Corporation
CCP   Country Centre's Project
CDO   Commonwealth Development Offices
CED   Certificate Economic Developers
CEDS  Comprehensive Economic Development Strategy
CISA  Centre for Innovation and Structural Change
COAG  Council of Australian Governments
CSBFA Canada Small Business Financing Act
CUUED Council for Urban Economic Development
DAFFA Department of Agriculture, Fisheries, Forestry Australia
DEWRSB Department of Employment, Workplace Relations and Small Business
DFC   Development Finance Corporation
DHRD  Department of Housing and Regional Development
DISR  Department of Industry, Science and Resources
DoFA  Department of Finance and Administration
DoTaRS Department of Transport and Regional Services
DTI   Department of Trade and Industry
DTRD  Department of Transport and Regional Development
DTRS  Department of Transport and Regional Services
DURD  Department of Urban and Regional Development
EAGGF European Agricultural Guidance Fund
EC    Empowerment Community Zone
EDA   Economic Development Administration
EDDS  Economic Development Districts
EIA   Environment Impact Assessment
EIB   European Investment Bank
ERDF  European Regional Development Fund
ESF   European Social Fund
ETM   Elaborately Transformed Manufacturers
EZ    Enterprise Zone
FAG   Financial Assistance Grants
FDS   Flexible Development State
Fed-Nor Federal Economic Development Initiative in Northern Ontario
FIFG  Financial Instrument for Fisheries Guidance
FORD-Q Federal Office of Regional Development – Quebec
FTE   Full-time Equivalent Employment
GORs  Government Offices of the Regions
GVW   Goulburn Valley Water
GWS   Greater Western Sydney
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<tr>
<td>HFE</td>
<td>Horizontal Fiscal Equalisation</td>
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<tr>
<td>HNCMT</td>
<td>Hawkesbury-Nepean Catchment Management Trust</td>
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<td>IDA</td>
<td>Industrial Development Agency</td>
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<td>IEDC</td>
<td>Internal Economic Development Council</td>
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<td>ILAP</td>
<td>Integrated Local Area Planning</td>
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<td>ISIB</td>
<td>Innovation Summit Implementation Group</td>
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<td>JAGs</td>
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<td>MACROC</td>
<td>Macarthur Regional Organisation of Councils</td>
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<td>MDBC</td>
<td>Murray Darling Basin Commission</td>
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<td>MEP</td>
<td>Manufacturing Extension Partnerships</td>
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<td>MWGRA</td>
<td>Ministerial Working Group on Regional Affairs</td>
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<td>NADO</td>
<td>National Association of Development Organisations</td>
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<td>NCC</td>
<td>National Competition Council</td>
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<td>NCP</td>
<td>National Competition Policy</td>
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<td>NDP</td>
<td>National Development Plan</td>
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<td>NHT</td>
<td>National Heritage Trust</td>
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<td>NIST</td>
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<td>NLP</td>
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<td>NURDA</td>
<td>National Urban and Regional Development Authority</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OLMA</td>
<td>Office of Labour Market Adjustment</td>
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<td>PC</td>
<td>Productivity Commission</td>
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<td>R&amp;D</td>
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<td>River Crossing Group</td>
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<td>Rural Development Organisations</td>
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<td>SME</td>
<td>Small- and Medium-sized Enterprises</td>
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<td>Single Programming Documents</td>
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<td>Commonwealth Specific Purpose Payments</td>
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<td>Single Regeneration Budget</td>
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<td>SRD</td>
<td>Sustainable Regional Development</td>
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<td>SRDC</td>
<td>State Rural Development Council</td>
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<td>SSRDB</td>
<td>Shepparton Sustainable Regional Development Board</td>
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<td>TECs</td>
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<td>URD</td>
<td>Urban Development Corporations</td>
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<tr>
<td>VROC</td>
<td>Victorian Regional Organisation Councils</td>
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<td>WD</td>
<td>Western Economic Diversification (Canada)</td>
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<td>WSRRC</td>
<td>Western Sydney Regional Organisation of Councils</td>
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<td>World War Two</td>
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INTRODUCTION

The aim of this thesis is to explore whether and how the governmental arrangements of Australian competitive Federalism intersect with the new priorities, policies and institutional arrangements of post-Fordist regional development. It argues that contemporary structures do not adequately address Australia’s regional problems and are ill suited to post-Fordist priorities, providing institutional barriers for effective pursuit of regional development policy. Post-Fordist ideas incorporate key concepts and development tools such as industry clusters, institutional thickness, institutional networks, capacity building and regional innovation systems (RIS). The thesis explores the nature of Australia’s contemporary regional problems and critically evaluates the potential and barriers to the adoption of post-Fordist spatial regional/industry policy.

Global changes continue to create significant pressures on the design and direction of regional/industry policy and program delivery and this has a special significance for small peripheral economies like Australia. Internationally, regional/industry development policy that focuses more explicitly on the ‘institutional’ and ‘spatial’ dimensions of enterprise and socio-economic development has emerged as a major policy tool for nations seeking to address economic development and the forces of structural change (Giordano, 2001:25-30). In particular there has been an increased focus upon the importance of ‘institutional thickness’ in enhancing regional development (Macleod 1999:1). In essence, this institutional/spatial approach is concerned with enhancing social capital utilising ‘self-organising processes’ and ‘planning strategies’ that encourage greater regional-level governance of the local production system toward progress over time.

The ideas underpinning this approach to policy derive from the major theoretical subsets of recent post-Fordist debates, namely: neo-Schumpeterian, neo-Smithian, and neo-Marxist (and economic geography) theories (Amin 1994). Modern applications of post-Fordist literature also attempt to understand the implications of the removal of the post-war institutional structures and gives consideration to what new socio-political arrangements might emerge. The implication for global, national and regional (local) economic development of these new arrangements, particularly in a period of increased globalisation, is a specific focus.
Since the 1980s, there has been resurgence in the view among theorists and national policymakers alike that the development of 'regions' (sub-national economic units) necessitates policy consideration and analysis in its own right (Esser and Hirsch 1989; Sabel 1989; Amin 1994; Scott, 1998; Maskell and Malmberg 1999; Tomaney & Ward 2001; Giordano, 2001). Establishing institutional structures and linkages that support local priorities, learning, innovation and development aspirations of communities (regions) have emerged as a key aspect of a national economic development strategy. The focus here is on how national government develops spatial policies and institutionalises support for greater local capacity and institution building. Internationally this has occurred through decentralisation and/or devolution, utilising partnerships, joint ventures, and business and institutional networks. These changes in program delivery and design are aimed at engaging local 'stakeholders' (i.e. government, business and community) in a two way process of regional economic planning and development. This is particularly important where social, environmental, and economic concerns and problems involve not only different tiers of government and community interests but also business (see Jessop 1994).

O'Riain (1999:1), based on observations of the recent success of the Irish economy, coined the phrase the 'Flexible Development State' (FDS) to describe this new form of devolved governance arrangements. FDS is where state-led activity aims to nurture collaborative networks of production and innovation as a means to facilitate broader national/local development objectives. Importantly, from a public-policy perspective, this literature treats regional and industry development issues as one and the same.

The institutional dimensions refer to the 'socio-political system of production' within a given state within which firms and communities operate. The socio-political system includes: the industrial relations system; the system of education and training of workers and managers; the internal structure of corporate firms; the structured relationships among firms and their relationships with suppliers, customers and competitors; the financial system; the structure of the state and its policies; and the customs and traditions as well as norms, rules, and laws (formal and informal) that guide human behaviour (Hollingsworth and Boyer 1997:2). The spatial dimension refers to a shift in focus by policy-makers away from supporting individual firms to policies that support the geographical location (the local production system) within which firms operate. Institutional thickness refers to the mix of local social, cultural and institutional factors, such as non-market forms of interaction, including trust and untraded interdependencies, which promote innovation and impact upon regional development trajectories (EC, 2002:19). Capacity building focuses on the policies and process used to
enhance the accumulation of human skills (expertise, knowledge, education and training), physical and financial capital systems, services (public and private) and social capital within a region (Maskell and Malmberg 1999). The belief here is that by strengthening local ‘capacity’ you increase opportunities for greater social and economic participation and therefore long-term economic development (discussed in chapter 4). A regional innovation system approach is understood as a collaborative process to generate diffuse and exploit knowledge within a given space (national/local) with the object of fostering wider regional development and greater tertiary/private sector collaboration (Landabaso et al 1999). In this context innovation applies to communities, or social capital, as well as all aspect of firm activity embracing R&D, technology, training, marketing, design and quality, finance, logistic and business management etc.

In short, international trends indicate that regional/industry policies that incorporate ‘partnerships’ between communities, the private sector and government, and that are more sensitive to the importance of the characteristics of ‘location’ are proving vital in securing national socio-economic wellbeing. The objective of these policies is to better coordinate collaboration structures in regions to support the supply side inputs that drive regional development and innovation. This includes inputs such as world-class infrastructure, Information Technology (IT), efficient transport systems, education and training and Research and Development (R&D) etc. Most importantly, these policies offer an alternative way to approach regional development to the reliance on direct subsidies to firms. Can Australia learn from and adapt to this international experience? To do so would require an understanding by government of varying community structures, goals, capabilities, and capacities (i.e. industry structures, physical and human capital). It also requires an understanding of the effects corporate governance of key firms have on shaping economic interdependencies and innovative potential of regions and of different communities capacity to respond to these changes.

This implies a need for national governments to restructure or create institutional arrangements that build trust and better collaboration and planning among local stakeholders within regions. The main purpose is to encourage strategies (collaborative processes) that stimulate regions (and their firms) along a continuous path of ‘innovation’ and ‘learning’ (i.e. fostering local education, skill development and technology and information diffusion). As the world moves from the industrial to an information age the emerging ‘knowledge-based economy’ implies that internationally competitive firms are increasingly reliant on the learning capabilities of their people and, by implication, their region (see Maskell and Malmberg 1999). This is particularly
important for poor performing regions as they cope with restructuring because they are often dependent on single declining industries. The suggested approach here is to give assistance that deepens and develops local knowledge and resources such technology and human capital and physical infrastructure in an attempt to build the capacity of regions to respond to change (and diversify their economic base).

Despite living in an era of rapid change, the purpose of these new forms of governance is to empower communities to work toward long-term common goals (social, environmental and economic) within a more certain collaborative and supportive planning framework. These new forms of governance challenge the notion that industry competitiveness and innovation are the sole products of market forces. Indeed, despite popular commentary to the contrary, international trends indicate that the state remains intimately involved in shaping the policy choices and institutional environment in which economic and social change occurs. The state in this context comprises government, its individual members, its statutory bodies and public corporations, its international linkages, and its relationships with business and society more generally.

The intention is to contrast these international policy development trends with the Australian government’s approaches to regional problems between 1983 and 2001. The central questions here are: What is the current extent of Australia’s regional problems? What are the key governmental arrangements that characterise Australia’s model of competitive Federalism? What policy approach has the Howard government embraced to address regional problems? What is the conceptual basis of the post-Fordist informed approaches to regional development? What are the common organising strategies that run through these approaches? Are there peculiarities and tensions in Australia’s governance arrangements that inhibit the adoption of collaborative industry/regional policies? What new regional structures may be required? And, what would be the policy implications for Australian policy-makers? It is through the exploration of these types of issues that lessons from the international experience can be considered as a basis to rethink regional policy in Australia.

Although not a central theme of this thesis, Australia’s pursuit of rapid economic growth since European settlement has come at significant cost to its natural environment (Goss et. al 1995; Commonwealth of Australia 1996; MDRC 1997 & 1999; LWRMDC 1998a & 1998b; Price 1999; Williams 1999; Yencken & Wilkinson 2000; Environment Australia 2001). The continued degradation of Australia’s environment has the real potential to undermine its long-term productivity and economic competitiveness (as discussed in the case study in chapter seven).
Interestingly, the international resurgence in regional policy has been paralleled by a growing sense of regional consciousness, heightened by the politicisation and concern for environmental issues and the objective to achieve Sustainable Regional Development (SRD). When used in this thesis the term SRD refers to the general principle of improving social wellbeing and economic opportunity while caring for the environment.

The notion of SRD has been popularised by the environmental slogan ‘think global, act local’ (Tomaney & Ward 2001:6). SRD remains a contentious term subject to ongoing debate. Just what should be preserved and what should be altered in the name of ‘sustainable development’ and ‘progress’ remains problematic and, ultimately, subject to competing business, community and political interests. Moreover, the ultimate test for successful environmental policy, particularly in relation to regional development policy, is whether policy actually alters the decision-making processes (local/national/international) that have created past problems (Aplin 2000).

Given Australia’s current range of environmental problems (as highlighted in the case study in chapter seven), there remains an urgent need to reconcile economic development priorities with the goal of SRD. The problem remains that in Australia areas of public policy that effect industry, regional development and environmental issues continue to be treated separately at the national level.

Understanding Australia’s regions

When reference is made to Australia’s regions or regional development in this thesis it will imply metropolitan and non-metropolitan regions alike unless otherwise stated. In other words the whole nation is comprised of regions. In this regard, this thesis does not share the Howard government’s position that regional development policy applies only to Australia’s non-capital city regions. Nor does it share the popular use of the term ‘regional Australia’ to mean non-metropolitan Australia. The exclusion of urban/metropolitan areas from regional analysis is inappropriate particularly when advanced business services have emerged as such a dominant force in the global economy (Spiller 2002).

Urban/metropolitan areas dominate much of Australia’s economic activity and contain about 65 per cent of its population (FACS 2001:ix). Moreover, there are now more Australians living in coastal regions than in what is currently popularly described as ‘regional Australia’ (Salt...
Australia's capital city regions are also crucial to the export competitiveness of firms in metropolitan and non-metropolitan alike, i.e. through their provision of ports, transport, and financial and other services. Moreover, as will be discussed in chapter two, the growth in unemployment and income inequality across Australia's regions over the past five years is far more complex and diverse than that captured by the simple notions of a city/bush divide (Lloyd, R et al, 2002). This is because Australia's new growth industries, such as information technology, tourism and services, have different locational requirements to the older industry structures and this affects patterns of economic activity, employment and income across Australia's regions (see Tonts 2000:54; O'Connor, et al, 2001; National Economics 2002).

This is not to deny important differences between metropolitan, urban fringe, rural and remote regions, particularly, in the Australian context. Some of these spatial differences include difficulties that emerge as a result of isolation and distance, environmental degradation, diseconomies of scale, single industry dependence, high and persistent unemployment levels, lower levels of household disposable income, decline in the quality and provision of infrastructure and services, for example. There is a good case for public policy being targeted according to these spatial differences.

Yet, as we attempt to identify the problem facing Australia's regions we are often faced with conflicting evidence, with some regions better able to absorb the forces of structural change, for example. The economic performance of Australia's regions remains diverse and full of contrasts with many examples of non-metropolitan, metropolitan and intra-metropolitan regions, and particular industries, which continue to attract economic growth. Large parts of Western Australia including the city of Perth, the southwest regions of Great Southern, Peel in the South West, and the northwest regions of the Pilbara and Kimberley continue to perform well in terms of low unemployment and growing investment. The Goulburn Valley and Sunraysia regions in Victoria, the Riverina in New South Wales and other wine, dairy food processing regions in these states and South Australia are further cases in point. Other examples include the city of Brisbane and coastal regions of Far North Queensland, and the Gold and Sunshine Coasts. Lifestyle choice, retirement and tourism, and the services these activities bring are key drivers for development of Australia's coastal regions (Salt 2002; Murphy 2002). Many of Australia’s capital cities and their inner suburbs are also benefiting from a surge in inner city living driven by the preferences of ‘generation Xers’ for life in the city over the suburbs (Salt 2002; National Economics, 2002).
However, even in these better performing regions significant ongoing issues have the potential to undermine their long-term social, environmental and economic wellbeing. These include issues such as environmental degradation, poor infrastructure, lack of skilled workforce, shortages of affordable public and/or private housing and health facilities, urban sprawl, high levels welfare dependency, congestion and growing income inequality, for example.

In re-considering its explicit spatial policies the Commonwealth also needs to be sensitive to the fact that there are many regionally-based organisations actively engaged in seeking to promote regional development. Moreover, Australia’s State and local governments have policies and programs to assist regions and industry development. However, the amount State and Territory governments spend on direct subsidies to industry (estimated at $AUD6 billion in 1996) makes their financial commitment to explicit regional development programmes pale into insignificance (Baragwanath and Howe 2000). Moreover, without pre-empting the findings of this research, much of this activity occurs in isolation and reflects an historical lack of collaboration between Australia’s tiers of government, business and community in jointly addressing regional problems (all characteristics of Australia’s model of competitive Federalism).

**Regional policy 1901 - 2001**

In the Australian context, for the most part, regional and industry development has been left to State and local governments. Federal governments have tried at different times various sorts of policies that have had an implicit or explicit regional development dimension. However, there has not been a consistent or sustained explicit approach by the Commonwealth to regional development policy. Moreover, with its centralised administration and decision-making governance structures, development in Australia has favoured the more heavily populated urban/metropolitan regions (Australian Senate 1999: chapter 6:5).

More explicit regional programmes were introduced in 1994 with the Hawke/Keating Labor government’s regional and urban development programmes – but were short lived. These programs were the Commonwealth’s first attempt at spatial policy in over 20 years. The Regional Development Programme (RDP), in particular, had begun to create the institutional framework for developing collaborative strategies to better deal with regional problems. Through a process of community consultation some 40 Regional Development Organisations
(RDOs) established across Australia were exploring the impacts of globalisation and change on their regions.

However, these urban and regional programs were introduced against a background of market-led policies aimed at internationalising the national economy, which fostered a period of sustained and rapid domestic structural change (PC, 1998). Labor government policy between 1983-96, which reflected this broader neo-liberal agenda included the deregulation of the Australian financial system, privatisation of former public-owned entities, tariff reduction, the introduction of national competition policy (NCP) and an emphasis on multilateral trade negotiations (Ravenhill 1997; Argy 1998).

With the election of the Howard-led Coalition government in 1996, with some notable exceptions, the liberal economic reform agenda has been accelerated and a commitment to urban and regional development abandoned. The Howard government increased emphasis on national competition policy, labour market deregulation, agriculture deregulation, public sector reforms (downsizing and outsourcing) and tighter fiscal management. Some $AUD9.4 billion was slashed from federal expenditure in the Coalition’s first Budget which included the axing of former Labor government’s $AUD150 million RDP.

Yet, the problem remains that the last seventeen years of market-led restructuring of the Australian economy has at best produced mixed results; and the debate over the efficacy and spatial impacts of globalisation and neo-liberalism has become increasingly polarised. The fact is that many of Australia’s regions remain characterised by narrow economic bases, shallow and fragile social support systems, and lack the administrative and political strength which lesson their ability to cope with the pace of structural change (Walsh, 1999:204; PC, 1998).

**Australia’s spatial divide**

For some (Larcombe 1997; Wiseman 1998; ACIRRT 1999; Contractor 1999; Stilwell 2000; NIEIR 1998, 1999; National Economics, 2002; Vison 1999; O’Connor, et al, 2001; Borland, et al, 2001; DIIR 2002) the reform agenda combined with the effects of globalisation has had an unanticipated spatial dimension. Traditional areas of labour intensive employment, such as rural industries, large-scale manufacturing and the public sector, have declined while service sector industries, such as tourism, information technology, finance and banking, health and education, have expanded and tended to centralise into metropolitan and larger provincial
centres. These trends produce greater uncertainty, greater regional disparities in income and investment, and structural underemployment for many Australians (Borland, et al, 2001). These ‘spatial inequalities’ stem from the dramatic structural change and from changed distribution effects associated with the hard edge policies of neo-liberal reforms (Argy 1998; Walsh, 1999; O’Connor, et al, 2001).

More generally, there appears to be a growing perception that, despite continued economic growth, many Australians are less well off than they were a decade ago and have less control over their lives. This is particularly so in terms of income and social equity, working conditions, access to services, employment, education and quality of family and community life (Bryan and Rafferty 1999 chapter 4; Eckersley 1999; Society of St Vincent de Paul 1998 & 1999; ACOS 2000; Borland, et al, 2001; NEEF, 2002; The Canberra Times 9 September 1999, p.8).

On the other hand supporters of the reform agenda point to the increases in the level of Australia’s exports of elaborately transformed manufactures (ETMs) or its average annual growth rate of 3.2 per cent for the past nine years as underlining the success of these reforms. They suggest the growth in Gross National Product (GDP) of $AUD180 billion over the same period is indicative of the benefits of globalisation to all Australians (St Vincent de Paul 2001:2). They add that Australia’s low inflation and interest rates, and the decision to deregulate Australia’s financial system, have combined to insulate the Australian economy from the worst effects of the Asian financial crisis and economic decline (Eslake 1999; Henderson 1999). In short, they use macroeconomic (aggregate) indices to imply Australians are better off.

However, the actual spatial detail, the fracturing of the Australian labour market and the regional benefit and costs of ongoing structural change continue to haunt Australia’s regions. The liberalisation of the Australian economy is being achieved at the cost of a widening gap between the ‘haves’ and ‘have-nots’, leading to greater spatial inequalities - a point acknowledged by the Australian Prime Minister, the Hon John Howard (Howard 1999). Similarly, globalisation - the rapid integration of global production, trading and financial systems - has centralised high skilled functions, i.e. R&D, product design, marketing and corporate functions, in economic nodes while low skilled activities are transferred to low wage workers (and regions). Regions in advanced developed economies, like Australia, that have low skills and rely on labour intensive low value-added industries are the losers in this process of global capital restructuring, while ‘global cities’ such as Sydney and Melbourne and their outer metropolitan regions have benefited most (O’Connor, et al. 2001; National Economics, 2002).
The Howard government’s decisions in its first five years in office to selectively support some industries, workers and communities negatively impacted by change, and not others, exposes the absence of a national approach to regional and urban policy that would more equitably address Australia’s rising spatial inequalities and the ongoing impacts of structural change.

**Major themes**

Five themes are developed to set out what, among the various issues discussed, are the focal points of this research. The central theme is concerned with growing spatial disparities and inequality (employment and income) associated with structural economic change in Australia since 1996. Regional problems continue to haunt Australia despite national growth being above the OECD average for much of the last five years. To understand Australia’s contemporary regional problems one needs to explore the historical context for their emergence. This includes a discussion on Commonwealth implicit and explicit ‘regional’ policies and how they affect spatial patterns of development.

A second theme considers the linkages between industry, regional and macroeconomic policies which have been traditionally ignored in the Australian context.

A third theme explores the tension and contradictions between more recent developments in international spatial industry/regional (post-Fordist) ideas and praxis and neo-liberal inspired policies. The former emphasises the importance of non-market relationships as a determinant of economic success, i.e. institutional thickness and frameworks, collaborative networks and trust, and local planning processes; while the latter promotes individualism, stable macroeconomic management and price-led economic change. Perhaps not so surprisingly, in many ways these contemporary contradictions share common ground with the historical theoretical debates that came to distinguish classical and neo-classical economists (Hunt, 1979, chapters 3, 4 and 5).

The fourth theme looks more closely at the relationship between spatial concepts of business networks, institutional networks, and industry clusters, which are sometimes treated as the same thing in spatial literature. The argument here is that the distinction is to be found in their different ‘objectives’. Business network strategies are based on enhancing individual business relationships and linkages, while institutional networks and industry clusters focus on collaborative stakeholder driven mechanisms to enhance the flow of economic benefits and
performance of the local production system. Having resolved this tension the question is whether the business networks are a necessary, but not sufficient, precondition in developing the institutional networks and industry clusters.

A final theme (discussed below) looks at the general resurgence in regionalism, regional analysis, and devolution, that has pre-occupied policy-makers in most developed nations particularly since the 1980s. It would appear that governments of various political persuasions have found explicit spatial policies (and regionalism) consistent with national economic management in a period of increased globalisation. Remembering that regionalism itself remains a contentious term in the sense of just whose interests get prioritised in any regional planning process, i.e. capital, labour, environmentalists, government and/or the community's (Lovering, J. 1999).

The resurgence of ‘regions’ and regional analysis: forces that have heightened the importance of explicit spatial policies

The interest in the study of regions (the sub-economy) as an integral part of state policy and economic development is well documented in economic history. As Esser and Hirsch (1989:78), have observed, the various developments and historical phases of capitalism have also been associated with specific structuring (or re-structuring) of geographic ‘space’. Until at least the mid-nineteenth century ‘the region’ was a natural unit of economic activity and analysis, i.e. Lyons produced silk, Sheffield and Solingen cutlery, Birmingham and St Etienne guns and hardware, etc (Sabel 1989). Central political authorities then only marginally controlled national economic development. Even until the 1920s, the neoclassical economist Marshall studied the regional characteristics of Sheffield and South – East Lancashire to make the point ‘that the matrix of economic activity there was an area, not a firm’ (Sabel 1989:102).

It was during the post-war years, when Fordist production was at its peak, that the concept of the region became somewhat of a ‘derivative category of analysis’ (Sabel 1989:102). That is, local and regional governments became increasingly subordinate to national administrations (Sabel 1989:102). While regional and industry policies remained, policy-makers placed less emphasis on understanding the inputs to the ‘space’ firms occupied and more on national barriers (tariffs) and subsidies to industry. The regional structure of cities was driven by the dominance of Fordist industrial locations, e.g. steel industry, car industry, chemical industry, electrical equipment industry Esser and Hirsch (1989). In most western economies post-war
industrialisation was matched by a dramatic drop in the population of agricultural based regions due largely to advances in technology and farm aggregation. While some more innovative and better politically connected regions attracted branch plants and/or developed manufacturing industries (some public, some private) to stem the population drifts to the larger regional centres and major cities.

Eisenschitz and Gough (1993) suggest the heightened interest by communities in local economic planning (regionalism) emerged in response to these general trends and the recessions that plagued most western economies beginning in 1974-1976.

The 1970s: 'regionalism' as a response to economic instability

Harvey (1989), describes a transition in spatial governance since the late 1970s from Keynesian inspired managerialist, or 'top down', to entrepreneurial, or 'bottom up', models of local economic development (Amin and Malmberg 1992:242). The managerialist model refers to a form of centralised intervention relying on the modernisation of infrastructure and industrial relocation in poorer performing regions as part of a national overarching Keynesian macroeconomic policy framework. Entrepreneurialism refers to a greater reliance on private-sector-led efforts to develop local entrepreneurship as the driver of urban and regional development rather than the redistribution policies of central government (Amin and Malmberg 1992:242).

Since that time, according to Harvey (1989), governments have developed a range of policy choices depending on their particular geographical and political context. The New Right, market-led, version was prominent in Britain under the Thatcher and Major governments, whereas more orthodox forms of regional support from central government continued to be important in Italy, France and Germany, for example (Amin and Malmberg 1992:243; Eisenschitz and Gough 1993). In essence these policies attempt to draw upon locally based efforts to improve the competitive potential of the weaker performing regions and cities. Policies and strategies included the creation of 'technopoles' and 'science parks' and other forms of support to improve local technological capability and innovation potential. The funding of public and private sector 'partnerships' to regenerate urban areas through flagship property redevelopment projects and high-visibility initiatives such as theme parks, leisure centres, and popular cultural events are also evident (Amin and Malmberg 1992:242).
The 1980s: ‘regionalism as a response to the impacts of change

Over the past 15 years several factors have heightened the importance of explicit regional policies in achieving national economic development objectives. Larcombe (1997) summarises these developments as follows. Firstly trade liberalisation and financial deregulation have caused both a rapid expansion of world trade and a relocation (re-distribution) of resources and economic activity within national boundaries. In a similar way the process of globalisation is causing a concentration of value-added activities such as R&D and design, and high skilled jobs to locate in some ‘advanced’ regions eg, silicon chips technology in Silicon Valley, USA.

Secondly, technological advances in information and communications, transport and global distribution systems eg, just-in-time delivery logistics, are expanding location options for larger firms by reducing transaction costs. Thirdly, shorter production cycles, the high cost of maintaining specialist facilities in-house, intense technology and price competition, have seen some firms gain a competitive advantage by forming closer collaborative business networks with complementary firms, research institutions and customers. These new cooperative networks, or strategic alliances, often have a base in regions where proximity to other firms, suppliers and a skilled labour pool play a critical role (Rosenfeld 2001; Porter 1998).

So while many recent global developments since the 1980s in, for example, information technology (Internet and e and b-commerce), appear to undermine the importance of location there is also a contrasting global tendency towards increased regionalism. Many national policymakers have turned to policies of devolution and/or decentralisation and the use of semi-autonomous development agencies to enhance local economic development.

Change in forms of governance: the trend toward greater devolution and/or decentralisation

According to Jessop (1994), this shift toward regionalism is linked to a broader strategy of reorganising, national, state and local relations (or governance) to guide and promote the development of local resources. Jessop (1994:272) describes this change as ‘a shift from local government to local governance’. Thus local unions, local chambers of commerce, local venture capital, local education bodies, local research centres and local states may enter into arrangements to regenerate the local economy. This trend is also reinforced by the central state’s inability to pursue sufficiently differentiated and sensitive programmes to tackle the specific problems of particular localities. It therefore devolves such responsibility to the local states and provides the latter with general support and resources (Jessop 1994:272). Part of the rationale here is for national governments to promote the internationalisation of regions by
transferring powers to regional authorities and encouraging partnerships between various interests (eg. the private sector, chambers of commerce and government agencies).

More recently the Organisation for Economic Co-operation and Development (OECD) (1997; 2000 & 2001), in its comparative overview of regional development trends in member countries, argues that most governments have now come to two conclusions. Firstly, that significant spatial disparities exist within countries and economic globalisation could well exacerbate them. Secondly, a region’s comparative advantage and its capacity for job creation are dependent on the competitiveness of its firms (OECD 1997:7). It follows that the competitive capacity of firms is greatly strengthened if they can find the services, subcontractor networks, and skills they need locally, and if it has access to good infrastructure with fast links to markets (OECD 1997:7). The common objective of regional policies is to stimulate regional development by influencing the factors upon which development depends. A region specific collaborative learning network between government, competitors, managers and workers, and research institutions tends to be a key characteristic of growth industries and their regions (Porter 1990).

The increased attention being accorded to developing regional potential led governments to develop strategies which concentrate on fixed and intangible infrastructure, the development of small and medium-sized enterprises (SMEs), industry cluster networks and attracting direct investment (OECD 1997:5). Increasingly, the development capacity of regional economies and their competitiveness is now being related to the existence of networks and nodes of activity whose dynamism is based on the minimisation of transaction costs and “untraded interdependencies” (OECD 1997:15-16). In many regions a shared order is established, based on the observance of certain rules, on commercial relations based on trust, on forms of cooperation, a corporate and risk culture and on special relations with private and public institutions. Government intervention is required to underpin this order, when it is deficient (OECD 1997:15-16). This can be done through the provision of new infrastructure, local and regional agencies and through initiatives to strengthen institutional networks and industry clusters.

To a large extent, the level and types of intervention adopted depend on how policy-makers understand the structural impact of the globalisation process on their industries and regions. It can be understood as a process that offers almost limitless competitive opportunities and the goal of policy is then to improve ‘competitiveness’ and push for growth. Or, in contrast, it can be seen as a process of destructive competition widening the spatial gap between highly skilled
and less skilled workers, technology, education and information, rich and poor communities (see Enright 2000:308; Hood & Young 2000:11; Amin & Thrift 1994).

Some states have had the goal of balanced regional development (spatial equity) laid down in the constitution (and/or national legislation) for many years. This includes the US, Spain, Germany and France (OECD 1997). In some Nordic countries, the equalisation of living standards remains a stated objective of the government of the day (Hugonnier 1999). In Japan, for example, the decentralisation laws of 1995 and the Fifth Regional Development Plan signalled the national government’s intention to underpin local partnerships, facilitate greater regional autonomy and balanced economic development (OECD 1997:10). In the US a national spatial framework for assisting distressed regions, as well as many other regional development programs, has existed since 1965 (EDA 1999).

It is interesting to note that Australia too has a Constitutional mechanism to address equity issues between the states in terms of access to, and the standard of, services. These equity concerns remain the basis for the financial arrangements between the Commonwealth, state and local governments (captured in the guiding principles of horizontal fiscal equalisation – HFE – discussed in detail in the next chapter). However, the bulk of the funds associated with HFE are directed through state structures and remain untied in the sense that the Commonwealth does not require state governments to demonstrate or report on how the funds have been spent. In other words, there are no specific regional development objectives or outcomes tied to the granting of HFE grants. Moreover, given the discussion that follows in the next chapter on Australia’s rising spatial inequalities, there is a real question on whether the objective of providing equity in services between the states and territories through this mechanism is being met.

The more recent resurgence in ‘regionalism’ is paralleled by a growing involvement of mainstream business economists like Harvard’s Professor Michael Porter who have advocated its importance to achieving international competitiveness. Theorists in the neo-Smithian and neo-Schumpeterian schools to be discussed in chapter four have also sought to capture much of the new mainstream approach to regionalism.

This approach appeals to policy-makers because the objective is not to govern directly the internal operations or decision-making of firms, but to provide the institutional, educational and technological inputs critical for their development. Through new collaborative arrangements, governments look to enhance economic growth through a better engagement
and understanding of the economic and social factors and synergies that operate in a given location. In other words they are broadening their microeconomic reform agenda to tailor policies that stimulate favourable, region specific outcomes in education, infrastructure, technology, human and financial capital systems (OECD 2001). The rationale here is that agglomeration economies help to reduce transaction costs, increase positive externalities such as knowledge spillovers, increase innovation, and entrepreneurship. In many instances they are correcting specific market failures, for example, poor information flows and barriers to capital formation (OECD 2001).

Because of the contribution of Porter and others the region as a unit of economic activity and analysis has again gained centre stage among international theorists and policy-makers alike.

Methodology and structure

A concern of the study is to explore whether the institutional and industry structures that support successful spatial approaches to industry/regional development internationally can be transferred to other locations. This is considered by undertaking a critical evaluation of post-Fordist (economic geography) literature and its theoretical framework. The emphasis here is on understanding the various perspectives (and policy prescription) within the literature to tease out which elements are more suitable to the Australian case (Porter’s industry cluster model is particularly relevant here). The New Zealand case study in Chapter 5, in particular, demonstrates the challenges policy-makers face when national institutional arrangements run contrary to the supply side interventions needed to facilitate a post-Fordist economic development framework.

Secondly, the study investigates the forces that have, and are shaping Australia’s spatial patterns of development, industry structure, its place in the global economy, and the nature of its regional problems. Two contrasting regional case studies (metro and non-metropolitan regions) are undertaken to provide the empirical investigation in understanding the tensions, structural barriers and potential of new spatial policy approaches and the implications and adaptations required for their implementation. The differentiation of regional types is used to provide two different geographical and social contexts within which to explore the potential of new spatial policy.
The regional case studies involved semi-structured interviews that explored the presence and condition of structural and institutional factors that are characteristic of higher performing regions often cited in spatial development literature (discussed in chapters four and five). Some of these characteristics include:

- highly ‘innovative’ firms (endogenous and/or foreign) with strong connection and commitment to the local economy;
- economies of scale and access to markets (domestic/international);
- high level of community skills, education and training;
- availability of venture capital (for R&D and to encourage start-ups and spin-off firms etc);
- well developed formal and informal institutional arrangements (and interaction between industry and higher learning institutions);
- strong (high profile) community and business leaders (entrepreneurs and/or champions);
- public/private support of networking, innovation and collaboration; and
- specialised world-class infrastructure (soft and hard).

The primary method for collecting information/data in the case studies was from semi-structured interviews (55 in total) conducted in each jurisdiction over a five to eight-day period. A list of those interviewed is at Appendix 1 (this is a list of the primary contacts; on most occasions two or more people were present at the interviews). An introductory letter outlining the objective of the project and its background was sent in advance of interviews (example at Appendix 2). On occasions ethical consideration was given to interviewees who requested not to be identified as part of the field interviews (particularly in Chapter 3 where 5 public servants currently working for the Commonwealth government asked for anonymity).

During each field trip separate interviews (consisting of one to six people) were conducted with representatives of industry (small and large), higher education, government, regional development bodies, catchment authorities, large utilities, community and social welfare groups. A deliberate effort was made to get a geographical spread of interviews making sure the views of those outside the largest centres (cities and/or local government areas) were captured. The discussions focused on regional problems, approaches to regional development, barriers to business and employment growth, local collaborative structures (business to business, between community, government and business), the level of engagement with local, state and federal governments and social concerns. The intention of the regional case studies was to explore absence, presence or barriers to those characteristics associated with post-
Fordist development approaches. It was not an attempt to measure or quantify the scale or extent of post-Fordist activities, such as industry clusters or RIS, so no formal surveys or questionnaires were conducted.

The researcher also drew on material presented by individuals interviewed, several previous regional studies, and some other contacts made during the course of the research. Several follow-up telephone interviews were conducted to confirm the information gathered. The semi-structured interviews with current serving Commonwealth officers (mentioned above) were conducted either over the telephone or in person. These interviews (undertaken between 2000 and 2002) focused almost exclusively on matters pertaining to the content of chapter three. Interviewees were asked their recollection of events and/or to consider the information presented. These officers were directly involved in the day-to-day management of many of the programmes and had responsibility to respond to many of the issues discussed. They were Branch and Section heads that had to draft letters (Ministerial responses), take notes at meetings or offer policy advice and as such have an intimate understanding of events.

The above approach relies mostly on qualitative research (on the subjective views of the interviewees), which has its pros and cons. While every attempt has been made to validate claims some of the comments remain intuitive and anecdotal rather than empirically based. On the other hand, what are presented are the views of people in authority who have the responsibility to manage change and, as such, they offer some insights into the day-to-day understanding and experience of issues being explored.

The chapters of the thesis unfold as follows:

Chapter two develops the first theme by exploring Australia's current regional problems. It presents social and economic data that highlights the diversity and varying state of economic, social and environmental conditions across Australia's regions. In many instances domestic policies have combined with the impacts of globalisation (including technological change) to accentuate the downward multiplier effects of the loss of key industries, leading to declining real incomes, loss of services, growing unemployment and population drift. Many regions have dilapidated and inefficient infrastructure that require a large public funding component to attract investment. Victoria's La Trobe Valley region, South Australia's Spencer Gulf, Queensland's Wide Bay-Burnet and many outback Aboriginal communities are typical of these regions. This chapter also briefly explores Australia's environmental problems and highlights their potential in undermining its longer-term development (social and economic).
Chapter three presents an historical review of Australia's place in the world economy and the domestic policies (implicit and explicit) that influenced spatial patterns of development between 1901 and 2001. This chapter explores the evolution of Australia's particular model of competitive Federalism and regional structures in three parts. Firstly, it presents a brief historical overview of the period 1901 to 1983 with particular emphasis on the post-war period. Secondly, it looks at the period 1983 to 1996 under the Hawke/Keating Labor governments when regional development policy re-emerged in the Australian context. Thirdly, and this is the major emphasis of the chapter, it explores in some detail the period from 1996 to 2001 under the Howard Liberal-National Coalition.

We discover, for example, that since 1944 regional development policy at the national level of government in Australia has been divided along party political lines: Labor governments have established regional approaches to national development and Liberal government's have typically abolished them. Nonetheless, there has been continuity in the sense that regional development policies have not been well integrated with industry policies and national macro-economic planning in general (the second theme identified earlier in this chapter).

It is not until late 2001 that the Howard government began to re dedicate itself to regional problems in, potentially at least, a more active way. At the time of writing, the Howard government's programs for regional development remain restricted to some small non-metropolitan communities and select regions struggling to deal with structural change and a loss of services. Moreover, the important links between industry, urban and regional development policy had not been made.

The next three chapters begin to explore and critically review alternative approaches to regional policy through a series of international examples and incorporate the third and fourth themes detailed above.

Chapter four presents a critical review of contemporary post-Fordist and economic geography literature and ideas which are informing a resurgence in spatial approaches to regional and industry policy in most OECD economies in the 1990s (for example see Saxenian 1994; Maskell et al. 1998; Rosenfeld 1997; Malmberg et al. 1997). Many of the ideas contained in the post-Fordist and economic geography literature have links to earlier economic writings that examined the spatial aspects and spill-over effects of industry co-location (for summaries of these earlier works see Harrison 1992; Murphy et al. 1997; Marceau et al. 1997; Rosenfeld 2001 a & b). The more contemporary works pay attention to business structures, collaboration, and
the conditions surrounding innovation, learning and entrepreneurship in attempts to explain the determinants of long-term economic growth, both at national and regional levels. Most importantly, post-Fordist insights offer an alternative to neo-liberal economic policies for economic management and reform.

Chapter five looks in more detail at Porter's contribution to recent spatial public policy and regional development practice and the inherent tensions and contradictions in his work. Michael Porter's seminal book *The Competitive Advantage of Nations* (1990) renewed mainstream interest in regional and industry development with his observations about the importance of industry clusters in gaining a competitive advantage. According to Porter, competitive advantage is created and sustained through a highly localised process, where national economic structures, values, cultures and histories contribute to competitiveness (Porter 1990:19). He makes the observation that it is regions and their firms that compete in the global economy, not nations, thus elevating the importance of regions and the need for regional analysis. This chapter includes a critique and discussion on the broader theoretical foundations of Porter's work and examines the place of cluster theory in terms of the contrast between neo-liberal and more spatial industry/regional debates. Tensions and contradictions in Porter's analysis are highlighted by a brief case study on his contribution to industry/regional development in New Zealand during the 1990s.

Chapter six presents a brief international overview of how other national governments (and the European Union) are re-structuring domestic institutional arrangements to foster local economic development. In particular, examples from the UK, Ireland, Canada and the US are reviewed to explore the mechanism and policies enacted to facilitate the trend toward economic devolution. There is no evaluation of the efficacy of individual programmes attempted.

Chapters seven and eight present case studies of Australian regions in an effort to examine the potential of more spatial industry/regional approaches in the Australian context. The two case studies were chosen because they represent both metropolitan and non-metropolitan Australian regions. The principal questions being explored in each case study centre on understanding the barriers to better regional collaboration and regional economic development planning. These case studies will contribute to the policy implications offered in the conclusion in chapter nine. This chapter draws the themes of the thesis together to explore the implications for post-Fordist regional policies in Australia given its current spatial problems and its particular model of competitive Federalism.
The next chapter begins to explore Australia’s contemporary spatial development problems and its widening regional disparities in more detail (it also incorporates some brief observations on Australia’s current environmental challenges at the end of the chapter).
Chapter 2

REGIONAL PROBLEMS: THE EQUITY DIMENSIONS

Introduction

This chapter presents spatial analysis of the differentials in the current economic and social conditions affecting Australia’s regions. Despite Australia’s sustained economic growth over the 1990s the Australian economy is characterised by a widening gap between the ‘haves’ and ‘have-nots’ and the well performing and poor performing regions. Neo-liberal inspired structural change of the Australian economy and its governance arrangements combined with the ongoing forces of globalisation continue to effect different workers and regions in different ways. In particular, these factors combine to influence the distribution of employment, health services, infrastructure, the affordability of housing, education and income opportunities across Australia’s regions.

The following examines the unevenness of income and employment growth by exploring Australia’s regional diversity and spatial inequality. This includes a discussion on the general income and employment trends in Australia and exploring their spatial dimensions. This is followed by an examination of the causal factors associated with structural change in Australia since the 1980s. Some of the data to be presented remains contestable in terms of its ability to accurately measure the absolute changes in community wellbeing. This simply acknowledges the fact that there is no consensus among researchers as to the best measure of poverty or inequality. However, even those that challenge particular data sets acknowledge that regional inequality and diversity are widening in Australia (Sorensen 2000). This is followed by some brief comments on Australia’s current environmental problems and the challenge of integrating environmental concerns into a broader national industry/ regional development policy debate.

Spatial inequality and poverty in Australia

Before this discussion begins, however, we need to consider what spatial inequality and poverty in the Australian context imply (Gregory and Hunter and 1995; Walmsley and Weinand, 1997; Stilwell, 2000; O’Connor et al, 2001). Inequality emerges from a complex interaction of structural and spatial factors (to be discussed). For example, new growth industries have a different spatial requirement to older industry; jobs in the globalising economy often don’t
emerge in the same location where other jobs are lost. Growth jobs in, for example, services and IT, may require different technologies, skills and occupations, which favour certain economic nodes, i.e. Silicon Valley in the US and Australia's global city of Sydney. Some Australian regions are better able to absorb and adapt to these spatial and structural pressures while, for others, inequality widens as critical mass, opportunity and access declines.

When we talk of poverty in Australia, the concept is not directly comparable, in most instances, to the absolute poverty experienced in many Third World countries. As the Australian Society of St Vincent de Paul (1999:2) explains:

> While poverty, in the sense of the chronic deprivation of the basic necessities of life, is rare, there are forms of poverty experienced in Australia that are no less debilitating and destructive as absolute poverty. People experience poverty when they lack the resources to have a standard of living in keeping with general community standards and expectations. Most importantly, through their poverty they are unable to participate in activities widely accepted and encouraged in the community.

Some Australians are also disadvantaged from opportunities because of the debilitating effects of mental illness or physical disabilities. Other causes of disadvantage include low income, structural unemployment (industry restructuring), alcohol and drug abuse, lack of education and training, and/or a lack of access to affordable housing, services and transport. The problem the following highlights is that, without changes in national policy direction, an increasing number of Australians are being disadvantaged because of where they live.

Australia's rising spatial inequality is not restricted to Australia's non-metropolitan regions. For example, in the small area of North Mt Druitt, in Western Sydney, the Society for St Vincent de Paul assists 5,500 struggling families and individuals a year. This is four times the amount the Society assists within other western and south-western areas of Sydney (Society of St Vincent de Paul 1999:5). In Sydney alone there are 97,000 people on public housing waiting lists, which contrasts with 65,000 for the whole of the State of Victoria. According to the popular press, the number of homeless people in Sydney has risen from an estimated 20,000 in 1996 to 70,000 in 2000 (The Sydney Morning Herald, Good Weekend Magazine, 9 September, p. 22; The Smith Family 2001).

As we attempt to identify the problems facing Australia's regions it is important also to note that we are often faced with a diverse range of experiences. The reasons for this growth are varied and complex, however, it appears that some regions have, to varying degrees, lessened their reliance on low skilled, traditional manufacturing industries and/or low value added
primary commodities for their income. Typically primary producers in some regions have made advances in on-farm production systems as well as first-stage processing, marketing services, information and transport systems (Pritchard and McManus 2000:Chapters 1, 6). Other lifestyle coastal regions have experienced growth from the expanding retirement, tourism and leisure sectors. While, Australia's global cities of Sydney and Melbourne (and their outer metropolitan regions) benefit from their links to growth in knowledge intensive industries and services. However, even in these growth regions there remain common problems associated with increasing income inequality, affordability of housing, workers insecurity, pollution and/or urban sprawl and congestion, environmental degradation, declining services and dilapidated or insufficient infrastructure (NATSEM 2000; NIEIR 2000; St Vincent de Paul 2001; The Smith Family 2001; O'Connor, et al, 2001; AHNRC 2001; Borland, et al, 2001).

For these reasons it makes sense to talk of Australia as a set of regional economies rather than as a single national entity when analysing the equity and distribution impacts of structural change (Long 1999:11). The following presents a more complex understanding of growing income and employment inequality in Australia than is portrayed by the notion of a city/bush divide as stated by government and the popular press (Stimson 2001; Sorensen 2000:5; The Sydney Morning Herald 29 May 2000, p. 3).

Australia's rising spatial inequality in income and employment


Moreover, inequality in Australia manifests itself in rising levels of poverty both across and within regions as more and more Australians become dependent on government payments for their income. For example, according to the ABS index of Socio-economic Disadvantage,
while smaller towns and rural areas account for approximately 26 per cent of the Australian population they also account for 39 per cent of its most disadvantaged citizens (ABS 2000b). The Howard government’s Intergenerational Report 2002-03 indicates that between 1981 and 2001 the number of Australians on disability support, parenting payments and unemployment allowance has effectively doubled and was continuing to rise (DoFA 2002:8). A report by The Smith Family (2001) found that in 1990 48 per cent of families dependent on government cash benefits lived in poverty; by 2002 this had risen to 58 per cent. Similarly, research by Borland, et al., (2001:2) demonstrates that in 1970 only 3 per cent of Australia’s income units were dependent on social security as their primary source of income and that by 1997-98 this had risen to 20 per cent.

**General income trends**

Australia’s rising income inequality has provoked lively public debate over the last five years and has been well documented in the popular press and by researchers alike. For example, in a series of articles in Australia’s only national newspaper, The Australian, highlighted the rising disparity between average and high-income earners (see also ACIRRT, 1999, chapter 4). While Australia’s four biggest banks paid their chief executives multi-million dollar packages, and senior management income rose by 5.1 per cent in 1998-99, average weekly earnings rose just 2.5 per cent that same year (The Weekend Australian 20-21 November 1999, p 1.). In 1998-99, for example, ANZ bank’s chief executive John McFarlane was paid $AUD2.8 million (including a $AUD1.3 million bonus), Westpac’s David Fite, $AUD2.7 million, National Australia Bank’s former head received $AUD2.7 million, including an extra $AUD9.25 million when he left the bank in 1999. At the same time the federal minimum wage in Australia was $AUD385.40 a week. The minimum award wage for a shop assistant was $AUD443.80 a week, $AUD477.20 for a tradesperson and $AUD414.70 for a child care worker - or between of $AUD21 – $AUD25, 000 per annum (The Weekend Australian 20-21 November 1999, p. 33).

Much of the popular commentary is supported by more empirical research and analysis (Borland, et al., 2001; O’Connor, et al., 2001; Harding, 2002). For example, between 1985 and 1999, according to the ABS (2000), the top 1 per cent of income earners in Australia enjoyed a 30 per cent increase in their real income while the bottom 10 per cent’s real income declined by 2 per cent (i.e. 98 per cent of their 1985 income). The ABS Household Expenditure Survey shows that between 1993/4 and 1998/9 2.2 million Australians in the lowest quintile of household income received an average weekly increase of $AUD9 (a 5 per cent increase). This compares to the top quintile of household incomes that received $343 or 23.4 per cent increase.
(St Vincent de Paul 2001:2). Most salient is that accompanying changes to income distribution meant that by 1997 only 37 per cent of Australian workers were clustered between 75 and 125 per cent of national middle earnings, which was down nearly 10 per cent from a decade earlier as discussed in chapter one (NATSEM 2000).

This is systematic of the fact that it has been the less skilled lower to middle income earners that have been asked to cut wages and be more flexible in their employment conditions as part of the last two decades' economic reforms (ACIRRT 1999; Bell et al 2000; NATSEM 2000; Borland, et al, 2001).

**Spatial implications to income trends**

Research undertaken by the Society of St Vincent de Paul (1998 & 1999) and the Jesuit Social Services (1999) confirms that since the Henderson Poverty Report of the 1970s there has been a long-term increase in Australia's rate of poverty as well as spatial income inequality. Between 1990 and 2000 the percentage of Australians living in poverty rose from 11.3 per cent to 14.3 per cent (The Smith Family 2001). Most alarmingly, the growth in the gap between rich and poor narrowed (and slightly dipped) between 1994-5 and 1995-6, under the Keating Labor government, but expanded again from 1996 under the Howard Liberal government (Harding & Greenwell, 2002).

While Australia's rate of poverty continues to rise, spatial income inequality continues to widen. This is evidenced by the fact that the income gap between Australia’s poor and rich suburbs continues to grow. Lloyd et al (2002:27) notes that between 1986 and 1996 the average household incomes for the top 5 per cent of most affluent local government areas rose 7.9 per cent while for the bottom 5 per cent income declined by -5 per cent. Research by Harding (2002:9), looking at the five years to 1999, demonstrates that while the average taxable income in the 10 per cent of taxpayers living in the most affluent postcodes rose by 25 per cent the rise for the lowest 10 per cent was only 16 per cent. There also remains a large, growing gap between the incomes of those Australians living in capital cities and the rest of Australia. The incomes of metropolitan residents increased at a rate double that of those living in major urban centres and rural towns in the five years to 1996 (Lloyd, 2002:30).
Table 2.1  Change in average income for taxpayers ranked by taxable income of their postcodes, 1994-95 to 1998-99.

<table>
<thead>
<tr>
<th>Year</th>
<th>Bottom 10%</th>
<th>Top 10 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>$23,339</td>
<td>$41,652</td>
</tr>
<tr>
<td>1998-99</td>
<td>$27,183</td>
<td>$52,017</td>
</tr>
<tr>
<td>$ Change</td>
<td>$3,786</td>
<td>$10,365</td>
</tr>
<tr>
<td>% Change</td>
<td>16%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: adapted from Harding (2002:9)

The spatial dimension to Australia's rising income inequality remains complex across, and between, regions and states. The following Table (Table 2.2) indicates that there is a large gap between incomes in the capital and the rest of Australia with the big losers being residents of small rural towns. Yet this is not a uniform trend. NSW has the biggest gap between city and non-city regions (followed by Melbourne), while in Western Australia and South Australia the gap actually narrowed.
Table 2.2: Estimated average household income by State and region, 1996.

<table>
<thead>
<tr>
<th>State/Territory</th>
<th>Capital cities</th>
<th>Major urban areas</th>
<th>Regional towns</th>
<th>Rural towns</th>
<th>Rural areas</th>
<th>All areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>49,000</td>
<td>38,044</td>
<td>33,309</td>
<td>30,060</td>
<td>35,232</td>
<td>43,528</td>
</tr>
<tr>
<td>VIC</td>
<td>44,466</td>
<td>35,015</td>
<td>32,186</td>
<td>28,587</td>
<td>36,725</td>
<td>41,363</td>
</tr>
<tr>
<td>QLD</td>
<td>41,898</td>
<td>37,708</td>
<td>36,926</td>
<td>31,646</td>
<td>35,948</td>
<td>38,959</td>
</tr>
<tr>
<td>SA</td>
<td>37,047</td>
<td>31,333</td>
<td>28,720</td>
<td>35,942</td>
<td>35,868</td>
<td></td>
</tr>
<tr>
<td>WA</td>
<td>42,162</td>
<td>42,048</td>
<td>34,286</td>
<td>39,090</td>
<td>41,787</td>
<td></td>
</tr>
<tr>
<td>TAS</td>
<td>36,408</td>
<td>32,064</td>
<td>30,752</td>
<td>33,586</td>
<td>34,037</td>
<td></td>
</tr>
<tr>
<td>NT*</td>
<td>52,856</td>
<td>52,252</td>
<td>39,155</td>
<td>38,863</td>
<td>50,227</td>
<td></td>
</tr>
<tr>
<td>ACT**</td>
<td>54,726</td>
<td></td>
<td>37,469</td>
<td></td>
<td>54,707</td>
<td></td>
</tr>
</tbody>
</table>

Source: Lloyd, et al, 2002:19 (* ** NT and ACT have smaller populations with higher concentration of specialist high income earners which distorts their figures).

The clear trend is that it has been Australia's non-metropolitan regions that have been most affected by changes in income distribution in the 1990s (FACS 2000:xi). For example, in terms of per capita income, 31 of the poorest 37 federal electorates in Australia are in non-metropolitan Australia (quoted from Stilwell 2000). The Australian Bureau of Statistics figures show that in terms of lowest medium income, 97 of the bottom 100 people in New South Wales, and in Victoria, 93 out of the bottom 100, were in non-metropolitan regions (Society of St Vincent de Paul 1999:5). This is also supported by recent Department of Social Security (DSS) data that applied a spatial analysis to the distribution of transfer payments as a portion of total income. For the nation as a whole DSS transfer payments represented 15.8 per cent of net personal income (after income tax) and on average 14 per cent in metropolitan areas. While for non-metropolitan Australia the average figure was 20 per cent (FACS 2000:xxi). The variance from these averages remains quite alarming with some regions, metro and non-metro,
recording between 40 per cent in Elizabeth, north of Adelaide, Brewarrina, NSW and nearly 60 per cent in Mount Morgan, Queensland (Stilwell 2000).

Similarly, the Rural Atlas produced by Bureau of Rural Science (BRS 1999) indicates that there is a concentration of below-average incomes in Australia’s wheat and sheep belt, and that a third of people outside capital cities rely on some form of pension or government benefit. More alarmingly, the report notes that 23 per cent of non-metropolitan children were living in low-income families, compared with less than 17 per cent in the cities (BRS 1999:62).

Employment trends

Despite more recent drops in Australia’s unemployment rate, the rate of job growth between 1990 and 2000 did not keep pace with increases in the supply of labour. Moreover, the growth in part-time (casual) work outstripped full-time employment growth (ACIRRT, 1999; Borland, et al., 2001; O’Connor, et al 2001:46-49). Table 2.3 (below) indicates of the 828,000 jobs created between 1996 and 2001 some 55 per cent (452,600) were part-time (casual) positions, which was some 10 per cent higher than the growth rate of full-time employment over the same period (45 per cent). Nearly 190,000 (ABS 2003:160) of Australia’s current unemployed have been unemployed for 12 months or more (long-term unemployed) and this represents nearly a trebling of the long-term unemployment rate since the 1970s (Chapman & Kapuscinski 2000).

Table 2.3: Australia’s employment/unemployment between 1996-97 and 2001-02.

<table>
<thead>
<tr>
<th></th>
<th>1996-7</th>
<th>2001-02</th>
<th>CHANGE +/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment</td>
<td>8,404,000</td>
<td>9,232,000</td>
<td>+828,000</td>
</tr>
<tr>
<td>Full-time employment</td>
<td>6,276,000</td>
<td>6,651,000</td>
<td>+375,000</td>
</tr>
<tr>
<td>Part-time employment</td>
<td>2,127,900</td>
<td>2,580,500</td>
<td>+452,600</td>
</tr>
<tr>
<td>Male employment</td>
<td>4,766,300</td>
<td>5,160,400</td>
<td>+394,100</td>
</tr>
<tr>
<td>Female employment</td>
<td>3,637,700</td>
<td>4,071,600</td>
<td>+433,900</td>
</tr>
<tr>
<td>Number unemployed</td>
<td>764,900</td>
<td>656,800</td>
<td>-108,100</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>8.3%</td>
<td>6.6%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Labour force</td>
<td>9,168,900</td>
<td>9,888,800</td>
<td>+719,900</td>
</tr>
<tr>
<td>Labour force participation rate</td>
<td>63.4%</td>
<td>63.7%</td>
<td>+.3%</td>
</tr>
</tbody>
</table>

Source: ABS The Year Book (2003:157)

Despite continued growth in Australia’s GDP, changes in the distribution of jobs and earnings over the last decade continues to create deep social division within and across Australia's
regions leading to an increasing demand for a range of social security payments (Borland et al., 2001:2). Part of the explanation for this growing trend is that 87 per cent of the additional jobs created during the 1990s paid less than $AU 500 a week which has created an increasing class of working poor in Australia (Borland, et al, 2001:4). Indeed, Borland's research concludes that the increase in jobs paying less than $AU 600 was greater then the total increase in jobs over the decade (Borland, et al, 2001:4).

There have been two major drivers of the demand for casual labour. The first has been the change in the general industrial relations environment associated with government-led 'deregulation' agenda aimed at increasing national growth through increased productivity and labour flexibility. According to Campbell (2000), casual employees offer employers lower labour and administration costs and increased flexibility over matching labour supply to product demands. The second cause has been a function of the changes in the structural demand for labour across all industries (Borland, et al, 2001:18). The problem here is that these jobs are often available on a contract basis that compromises employee financial insecurity and the ability for a large proportion of the workforce to plan for their long-term financial futures eg including effecting Australia's level of home ownership (Campbell 2000; Society St Vincent de Paul 1998:9).

Another problem according to research by Borland et al (2001:10-12) is that part-time and casual average weekly earnings continued to decline relative to full time earnings in the 1990s. For example, by 2000 the median part time casual employee earned only 23.5 per cent (down from 25 per cent in 1990) of the average income of persons in full-time permanent employment (Borland, et al, 2001:12). Indeed, Borland concludes that 75 per cent of job growth over the 1990s was concentrated in two employment cells – full time managers and professional and part time casual workers (2001:13).

Spatial implications of employment trends

The shift in employment trends in Australia results from both a complex mix of national policy, supply and demand and structural forces (Borland, et al, 2001; O'Connor, et al, 2001; Mangan & Williams 1999; ACIRR 1999). All of which combine to have a major spatial impact on the distribution of employment, and employment opportunities, within and across Australia's regions.

Policy changes introduced to the official measure of the unemployment rate in the 1990s also tend to mask substantial spatial differentials in unemployment distribution (NIEIR 1999 &
A state-by-state breakdown of the official unemployment figures in early 2002 highlights the spatial dimension to Australia's unemployment problems. With a national rate of 6.9 per cent, rates range from 5 per cent in the ACT and NSW to more than 8 per cent in Tasmania (Kryger 2001:1). On a regional basis, below the level of the state boundaries, the variations are even more dramatic. For example, the rate was over 12 per cent in statistical regions such as the Richmond-Tweed/Mid-North Coast and Wide Bay-Burnett regions and, at the local area level, over 20 per cent in Kingston (Queensland) and in Elizabeth, South Australia (Kryger 2001:1). According to the estimates based on ABS Small Area Labour Market Data in March 2002, of Australia's 1,300 Statistical Local Area (SLA) – roughly equivalent to the size of one local government area - there were 13 with an unemployment rate of greater than 20 per cent. There were a further 42 SLAs with an unemployment rate between 15 and 20 per cent (Kryger 2001:2). While SLA unemployment figures remain estimates, and need to be viewed with some caution, they are, nonetheless, the clearest indicator of the significant spatial variance of unemployment levels across Australia’s regions.

The next Table (2.4) offers some further insights to the spatial distribution in employment across Australia’s regions by linking industry type to the portion of workforce in particular regions. It highlights that across all regions there is some evenness in the contribution of industry types to employment and yet there remains some stark and important differences – particularly in terms of employment growth areas. This is particularly so in differences between capital city and major urban areas and non-metropolitan regions in terms of financial and property and business services employment.
Table 2.4: Proportion of workers, by industry and region, 1996

<table>
<thead>
<tr>
<th>Industry</th>
<th>Capital cities</th>
<th>Major urban areas</th>
<th>Regional towns</th>
<th>Rural towns</th>
<th>Rural areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>0.6</td>
<td>0.6</td>
<td>3.7</td>
<td>9.6</td>
<td>32.1</td>
</tr>
<tr>
<td>Mining</td>
<td>0.4</td>
<td>1.3</td>
<td>3.0</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>13.6</td>
<td>13.1</td>
<td>11.6</td>
<td>11.1</td>
<td>8.3</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>1.1</td>
<td>1.3</td>
<td>2.1</td>
<td>1.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Construction</td>
<td>6.0</td>
<td>7.5</td>
<td>6.8</td>
<td>6.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Retail and wholesale trade</td>
<td>19.8</td>
<td>20.5</td>
<td>21.1</td>
<td>17.03</td>
<td>12.6</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>4.5</td>
<td>4.1</td>
<td>4.3</td>
<td>4.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Communication</td>
<td>2.3</td>
<td>1.5</td>
<td>1.6</td>
<td>1.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Financial, property and business services</td>
<td>13.5</td>
<td>10.4</td>
<td>7.6</td>
<td>5.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Public administration</td>
<td>4.9</td>
<td>4.6</td>
<td>4.6</td>
<td>7.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Private and government services</td>
<td>27.4</td>
<td>30.2</td>
<td>29.6</td>
<td>28.7</td>
<td>21.4</td>
</tr>
</tbody>
</table>

Source: Hicks (2000:11)

In summarising spatial employment trends between 1986 and 1996 Hicks concludes the following. There was an increase in retail-wholesale trade; property and business services; accommodation, cafes and restaurants; education; health and community services; cultural and recreational services; and personal and other services. While there remains decreases in agriculture, forestry, fishing and hunting; mining; electricity, gas and water; and transport and mixed results across the regions for the other industries i.e. manufacturing; construction, communication services; and government administration and defence (Hicks 2000:9). Clearly those regions with a greater dependence on agriculture, mining, electricity and gas, manufacturing and communication services have a structural disadvantage to those that have a higher proportion of employment in the services sectors and the new growth industries (discussed below).
Other social, economic and health problems following employment and income spatial trends

Australia's growing spatial income and employment inequality is also associated with a rise in a range of other social, economic and health problems.

In a 1999 study by Jesuit Social Service, the distribution of social disadvantage in Victoria and New South Wales was shown to be increasingly entrenched and was falling disproportionately on some urban and rural communities rather than others. In the most comprehensive survey of its type, 622 postcode areas in Victoria and 578 in New South Wales were compared against ten indicators of social disadvantage to develop a picture of 'cumulative disadvantage'. The indicators used in the report were: unemployment; low income; low birth weight; child abuse; left school before the age of 15; emergency assistance; court convictions; child injuries; mortality; long-term unemployment; unskilled-workers, and court defendants (Jesuit Society Service 1999:7).

According to this investigation, compared to the state as a whole, on a per capita basis, the top 30 disadvantaged areas in NSW accounted for:

- four and a quarter times their share of child abuse;
- three and a quarter times their share of emergency assistance;
- three times their share of court convictions and long-term unemployment; and
- a little under one and a half times their share of leave school before 15 years.

The top 30 disadvantaged areas in Victoria accounted for:

- three and a quarter times their share of emergency assistance claimants;
- two and a quarter times their share of child abuse cases;
- twice their share of court defendants
- one and a half times their share of child injuries; low income households; psychiatric hospital admissions; and
- one and a half times their share of leave school before 15 years of age (Jesuit Society Service 1999:44).

The report argues that a spatial approach for measuring disadvantage could better assist government to target programs and develop preventative strategies.
Yet another report, the Social Health Atlas of Australia, produced by the University of Adelaide, indicates that the health divide between the rich and poor increased between 1985 and 1995 (Glover, J. et al, 1999). Australia’s bottom fifth of income earners were twice as likely to die from heart complaints or lung disease than are the wealthiest fifth. The difference in death rates from heart disease between the poor and wealthy has grown from 1.55 times higher to 1.92 times higher between 1985 and 1995, and for lung disease the rise is from 1.53 times to 1.90 times (Glover, J, et al, 1999:v-vii). Moreover, this has occurred in a context where there has been an overall national drop of 20 per cent in all deaths from all causes and a 40 per cent drop for deaths from heart disease over the same period (Glover, J. et al, 1999).

Just as with income and employment inequality, many of the health problems in Australia exhibit an alarming spatial dimension. The Northern Territory recorded the highest heart disease rate at almost three times the national average, which is attributed to its higher indigenous population. Inner Sydney, which takes in South Sydney, Botany, Marrickville and Leichhardt, with its higher rates of homelessness and vagrancy, has a 47 per cent higher death rate from heart disease than the national average. This contrasts the wealthy suburbs of Sydney’s northern beaches, Hornsby and Ku-ring-gai where the death rate from heart disease is 40 per cent lower than the national average. A similar divide occurs in Melbourne where the more affluent inner eastern suburbs are 40 per cent lower than the national average while inner Melbourne is 24 per cent above (Glover, J. et al, Vol. 1&2, 1999).

Housing affordability another indicator of spatial inequality

As briefly mentioned earlier, home affordability is also becoming a key driver of Australia’s rising spatial inequality (Badcock and Beer, 2000; Berry, 2002; Kelly, 2002). According to one research paper, in 2000, no low-income household could afford to buy a 3-bedroom house in Adelaide, Melbourne or Sydney (AHNRC, 2001:14). The same research suggests the number of households in ‘housing stress’, i.e. the bottom 40 per cent of low income earners who pay more than 30 per cent of gross income on housing costs, increased in most Australian capital cities between 1986 and 1996 (as a portion of total households renting privately). In Adelaide, the portion climbed from 63% to 76%. In Melbourne from 60% to 74%, while in Sydney it went from 67% to 80% (AHNRC, 2001, p12). According to Berry (2002), some of the causes of the current crisis include relentless rising house prices, mismatch between housing needs and outcomes, falling stock of low-rent accommodation, increased social segregation leading to spatial enclaves of rich and poor residents, a vicious circle of
disadvantage and marginalisation associated with income and employment disadvantage already discussed (Berry, 2002:2).

Research by National Economics (2002), in the latest State of the Regions Report, confirms an increasing concentration of housing wealth in fewer and fewer Australian regions. The report concluded that the wealthiest 20 per cent of regions had gained 41 per cent of the growth in housing value since 1996 (National Economics, 2002: chapter three). By another estimate, the number of Australian households in dwelling stress has grown from 90,000 in 1986 to over a quarter of a million households in 2001 in major capital cities’ regions alone (AHNRC, 2001).

According to Kelly (2002) and AHNRC (2001), without changes to current policy settings, increasing disparities in housing wealth in Australia will be a major driver of increased inequality across Australia’s regions in the decades to come. For example, Sydney is increasingly becoming too expensive for many to live. Much of Sydney’s boarding and hostel accommodation for the poor is being converted to the more lucrative backpacker hostels and elegant urban apartments (private housing). The current crisis in public housing and homelessness in Sydney prompted some to describe it as ‘the greatest social problem we now face – without doubt and without equal’ (Sydney Morning Herald, Good Weekend Magazine 9 September 2000 p.22). This has been exacerbated by the fact that the Commonwealth contribution under the Commonwealth State Housing Agreement continues to decline as do state government public housing stocks (AHNRA, 2001:24).

**Australia’s growing inequality attracts international attention**

The United Nations (UN) Development Programme paper the Human Development Report, the authors report found that, while Australia ranked as one of the most liveable countries in the world, its income inequality was among the highest of the developed countries (UNDP 1999). The report ranked 174 nations on issues such as standard of living, life expectancy and education, found that the richest 20 per cent of Australians earned almost 10 times per head more than the lowest 20 per cent. The report concluded that Australia had not been successful in reducing poverty, and inequality remains a major problem. In particular, as others have identified, it recommended that Australia needed to develop policies that focus on relieving poverty and inequalities on a spatial basis.
Given the above discussion it seems reasonable to explore in more detail who, and what regions, have most benefited from Australia structural reform, particularly in the 1990s, and why.

**Who are the winners from structural change and why?**

There can be little doubt that Australia’s ‘global city’ Sydney and to a lesser extent Melbourne (and their inner and outer metropolitan regions) have been the major beneficiaries of Australia’s growth over the last decade. Research by Raskall (2002) shows that 60 per cent of Australia’s GDP largely accrues to residents in inner metropolitan Sydney and to a lesser extent Melbourne and Brisbane. Because of the concentration of economic activity in some regions, other regions have had to disproportionately deal with the impacts of structural change and Australia’s unemployment burden. For example, in the late 1990s, Newcastle, Wollongong and Sydney’s western suburbs accounted for around 40 per cent of all unemployment in NSW, even though they have only 27 per cent of the total workforce. In Victoria a similar pattern repeats itself in the five areas of – Gippsland, Geelong/Ballarat, Maryborough/Bendigo, northern and western Melbourne, and Dandenong/Springvale (Clark 1998:149).

While the forces shaping the geography of employment growth remained varied, the correlation between the new growth occupations and the emergence of ‘global cities’ is a key demand factor (see Sassen 1994). Global cities are distinctive in that they develop clusters of producer service industries and knowledge based workers. Such high skilled, knowledge based, workers tend to cluster in global cities because of the greater demand for their services, for lifestyle reasons and because this is where the bulk of education and training facilities are located (NIEIR, 2002). For example, by 1997 on Sydney’s North Shore, 63 per cent of the people employed full-time worked as managers, administrators and professionals, compared to 33 per cent nationally (ABS 1998:55). Indeed, the Bureau of Statistics classified 55 per cent of all new jobs created in Australia during the 1990s as professional or associate professions: accountants, information technology workers and marketing people.

According to more detailed research undertaken by NIEIR (1998 -2002), the winning regions are those in which household members are tertiary educated and employed in high-value added industries. The losers are regions in which the proportion of household members with tertiary education was low and employment was in industries developed during the first 70 years of this century (NIEIR 1999:7-9). In an annual series of reports, begun in 1998, produced for the
Australian Local Government Association, NIEIR breaks Australia into 57 regions and measures 28 indicators to determine comparative regional performance (NIEIR 1998 & 1999). A key problem here for Australia’s non-metropolitan regions, in terms of education attainment, is the fact that the proportion of people with post-secondary education in rural regions is about 25-30 per cent less than core city regions (NIEIR 2002).

It is clear from the above that despite Australia’s strong growth of the 1990s, both across and within Australia’s regions, metropolitan and non metropolitan alike, there remains a wide divergence in economic and social conditions and opportunities. This is particularly so in terms of income, employment, public and private infrastructure, skills and education standards, knowledge-based workers, public private service provision, and access to strong labour markets (DITR 2002).

To understand Australia’s rising spatial inequalities we need to consider in more detail the causal factors driving structural change in the Australian economy. As the following analysis indicates these causal factors are often complex and multi-faceted (see for example Toner 2000; DITR 2002). But, nonetheless, at the centre is the failure of government to adequately commit resources to either ex-post or ex-ante targeted amelioration strategies to address the differing spatial impacts of either policy induced and/or market-driven structural change.

Structural changes of the Australian economy

When discussing structural change we are concerned with adjustments to the overall distribution of activity and resources across firms, industries and regions that result from either market based changes or explicit government policy changes (Savage 1998:172). With market based changes governments’ ability to govern for the negative impact remains largely ex-post (after the event). So, for example, continued advances in technology say in agricultural mechanisation, have led to farm aggregation and job shedding in much of regional and rural Australia. These technological advances are largely beyond the control of government and whether government should respond in a policy sense to this structural change will depend on many factors including the size of the impact and the balance of competing domestic political forces, i.e. the power of the rural sector lobby. However, in the case of explicit government policy changes Savage (1998:172-173) makes the point that there is an opportunity for government to alter policy to ameliorate against the adverse impact of structural change in the
policy design stage (ex-ante). More importantly, this includes its role in making further ex-post policy changes when the full impacts of adjustment and distribution effects are known.

The level of policy induced structural change in Australia over the last three decades has been significant by world standards and in many ways relentless (discussed in more detail in the next chapter). Indeed, according to a 1998 Productivity Commission (PC) research paper, between 1970 and 1994, Australia’s average rate of structural change was greater than in 15 select OECD countries (i.e. the United States, Canada, Japan, France, West Germany, Italy, the United Kingdom, New Zealand, Belgium, Denmark, Finland, Netherlands, Norway and Sweden). And, while the Hawke/Keating Labor governments (1983-96) at least attempted to strike some balance between economic efficiency and social and spatial equity, it has been the introduction of a neo-liberal inspired regulatory framework that has dominated the national economic reform agenda for most of that time.

The following Table begins to offer one perspective into the changing composition of Australia’s industrial base since the early 1980s.

Table 2.5: Change in share of exports 1984/85 to 1997/98

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Rural</td>
<td>32%</td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>Minerals and fuels</td>
<td>32%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Manufactures</td>
<td>17%</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>Services</td>
<td>16%</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>8%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: modified from DFAT, Trade Outcomes and Investment Statement (1999:3)

It is clear from Table 2.5 for example, that service, manufactures and ‘other’ are becoming increasingly important to Australia’s export performance and this implies a dramatic shift in resource allocation in the domestic economy (i.e. in employment and investment). In 1985 the rural and mining sector accounted for around 64 per cent of Australia’s exports. By 2000 the situation is almost reversed with rural and mining sector at 41 per cent and service, manufactures and ‘other’ now accounting for 59 per cent of all exports. Although manufactured goods have increased as a percentage of total exports, the manufacturing sector’s in terms of its contribution to national GDP continues to decline. Between 1970 and 1994 the manufacturing sector share of GDP fell from 24 per cent to 13 per cent. Moreover, by 2001
only 23 per cent of Australia GDP comes from all primary and manufacturing activities combined - while services accounted for 72 per cent of GDP (Stimson 2001:200). Of course, as discussed above, most of this service activity is predominantly in urban capital city based industries.

Having the capacity to absorb the forces of structural change

Some recent research by the Productivity Commission confirms that changes in industry and employment composition effects different regions in different ways - depending largely on their ability to absorb change. For example, measuring the comparisons of structural change in employment across industries and regions over time the Commission devised a structural change index (i.e. change in employment share of a common set of 60 industries across 113 regions). Under this index a change value index of 10, between 1981 and 1996, indicates that 10 per cent of the region's workforce in 1996 would need to be relocated to other industries to maintain the employment share existing in 1981 (PC 1998:27).

Overall the Productivity Commission (1998) found that Australia's metropolitan regions have endured an average structural change rate of 14.3, which is below that of Australia's non-metropolitan regions (18.9). Australia's non-metropolitan regions also displayed the greatest variation in their rates of structural change. The index for non-metropolitan regions ranged from 7.4 in Lyell on the West Coast of Tasmania to 9.8 in Lower Murrumbidgee in New South Wales, while for metropolitan Australia's rates of change ranged from a high of 16.2 to a low of 12.1 (PC 1998). The lower variation and rates of structural change in metropolitan regions reflects, according to the Commission, their greater diversity of economic activity and higher levels of employment, i.e. metropolitan regions could better absorb the impacts of structural change. Non-metropolitan regions tend to have a smaller employment and industry base with a greater dependency on agriculture and mining and, consequently, are less able to absorb the forces of structural change.

The Commission's conclusions support the earlier finding of NIEIR and others already discussed in this chapter. The regions experiencing the highest rates of structural change in employment were typically those most heavy reliant on mining and agricultural and labour intensive manufacturing (textiles, clothing footwear and base metals). These are the industries where the largest job shedding occurred over the period considered. Conversely, in regions where the service sector was large rapid structural change was more easily absorbed (see also DITR 2002).
There remains a complex interplay of forces that continues impact differently across Australia’s regions metropolitan and non-metropolitan alike. Regions such Northern, greater Hobart and Mersey-Lyell Tasmania, Northern and Western Adelaide, Western Victoria, Victoria’s La Trobe Valley region, South Australia’s Spencer Gulf region, Queensland’s Wide Bay Burnett and many outback Aboriginal communities are typical of regions that continue to struggle with structural change.

Some of these forces include:

- extensive restructuring or shrinkage of the region’s industrial base;
- declining terms of trade;
- increased import penetration from low wage exporting countries;
- job destroying rather than job creating technological change;
- mismatch of skills and emerging employment opportunities, including failure to address skill shortages in potential growth areas;
- declining public expenditure and restructuring (contraction) of public sector agencies, services and programs;
- aging and/or inadequate infrastructure provision (soft and hard);
- corporate down-sizing and contraction of industry to larger regional centres and/or metropolitan areas, particularly by the financial services, and
- periodic deflationary policies, which tend to have a disproportionate impact on regional areas (Bell (ed) 2000; Green 2000:9; NIEIR 1998 -2002; Wiseman 1999; Bryan and Rafferty 1999; DITR 2002).

Moreover, the decline of services (public and private) has also been a key feature of the regional in decline. For example, Australia Post cut the number of its post offices after corporatisation by 25.6 per cent between 1991 and 1997 (Gerritsen 2000:125). In a large number of cases these offices were replaced by community mail agencies, usually operating out of an already established local business such as a general store or newsagency. The replacement of a stand-alone post office with community mail agent typically meant the removal of at least three jobs from a local community. This phenomenon can also been seen in the massive staff reductions in decentralised State Rail and Telstra depots (Gerritsen 2000:125-126).
Although not specifically the focus of this thesis, many Australian regions have dilapidated and/or inefficient infrastructure much of which requires a significant public-good funding component to insure both infrastructure renewal and future provision (Commonwealth of Australia 2000; AusCID 1999). For example, declining or inadequate infrastructure - road, rail, sewerage, water, power, telecommunications - and services provision in transport, health, education, housing, childcare, community centres, financial, and leisure sectors continues to present major problems.

Severe environmental problems associated with congestion and urban sprawl, pollution, quality of water, wastewater, irrigation, land clearing, dryland salinity and soil erosion also continues to erode the physical and economic capital of Australia’s regions.

Environment: the cost of economic growth

This thesis is not primarily concerned with evaluating the current state of Australia’s ecological environment. Others have made comprehensive contributions to this scholarship elsewhere (Goss et. al/1995; Commonwealth of Australia 1996; MDBC 1997 & 1999; LWRDC 1998a & 1998b; Price 1999; Williams 1999; Yencken & Wilkinson 2000; Environment Australia 2001). Suffice to say that the 1996 State of the Environment Report identified loss of biodiversity, land degradation and deterioration of inland waters, as Australia’s most pressing issues, problems that also impact on Australia’s marine and estuarine environment. A second group of problems identified in the report relate to Australia’s energy and resource use in general (Yencken & Wilkinson 2000; Environment Australia 2001). The primary concern with these problems in this thesis is to briefly highlight the interdependency that exists between the environment, industry and Australia’s regions metropolitan and non-metropolitan alike.

Some of the more alarming symptoms of the effects of current land and energy use practices in Australia include:

**Acid soils** - 24 million hectares of agricultural land is affected by soil acidity with pH below 4.8 and production losses to the nation expected to exceed $134 million per year (LWRRCDC 1998a).

**Water** - around 70 per cent of stored surface water in Australia is used for irrigation, as is the majority of abstracted groundwater. Damming, and water diversion from natural river flows,
has had a major impact on the health of many of Australia's southern river systems and capital city drinking water. Post European land and water use practices have increased the levels of sediment, salt and nutrients reaching streams. The Western Australian Government Salinity Situation statement of 1996 stated that 36 per cent of the State's divertible surface water has become too saline for further use, with a further 16 per cent under immediate threat (Price 1999; Williams 1999).

**Toxic algae blooms** – A recent report found that toxic algal blooms in fresh water systems cost the nation about $AUD200 million a year. The problem emerges when high nutrient loads coincide with bodies of still water, which occurs across Australia's metropolitan and non-metropolitan regions. The report estimated that the direct cost to those that must take the water at $AUD100 million and the cost to other activities such as fishing and tourism at an extra $AUD76 to $AUD136 million per annum (*The Weekend Australian* 22-23 April 2000, p.10).

**Vegetation** – Australia's rural landscapes is scared by a loss of native vegetation largely due to over-grazing and land clearing. For example in Western Australia 82 per cent of the State's 20.8 million ha of private held agricultural land is already cleared. Land clearing continues to be a major issue in Queensland the flow-on effects of which affect metropolitan and non-metropolitan regions across Australia's east and southern coast. As much land has been clear in Australia since the 1950s as was cleared in the 120 years that preceded it (Grose 2002: p.C6).


**Energy consumption** – Per capita energy use in Australia is high by world standards and continues to grow having doubled over the last 25 years (*Environment Australia* 2001). Most of this energy is fossil fuel generated and a low energy price as a result of market deregulation (NCP) is driving increased consumption (*Environment Australia* 2001).

The continued degradation of Australia's environment undermines Australia's long-run production potential and its clean, green 'competitive advantage' in many agricultural products. In an increasingly environmental aware and sensitive global market the adherence to many of the principles captured in the notion of sustainable regional development (SRD<sup>+</sup>) is becoming more important. Moreover, as Australia's becomes signatory to more international conventions on the environment the impact on particular regions needs to be given greater consideration.
Australia’s current environmental problems stem from two main factors (Goss et. al 1995; Commonwealth of Australia 1996; MDBC 1997 & 1999; LWRRDC 1998a & 1998b; Price 1999; Williams 1999; Yencken & Wilkinson 2000; *Environment Australia* 2001). The first is the failure of past national governments to develop institutional arrangements to facilitate greater collaboration between the three tiers of government on environmental matters and the impacts of development. This includes the failure to enforce states to demonstrate greater accountability and transparency on matters of environmental management. The second stems from the historical failure to develop production systems, agriculture technologies, species of plants and animals, and land (including urban) management practices more suitable to the Australian landscape. Much of this results from the fact that policy-makers, urban planners, local governments, scientists and primary producers, until the second world war, simply did not have the scientific knowledge or understanding to predict the impact that land practices would have on the balance of Australia’s fragile ecology.

Yet concerns over impending environmental problems had been raised at the national level since 1945. Indeed, between 1945 and 1983, some 17 Parliamentary and other reports called for national action on land conservation issues only the see little or no comprehensive national response (Toyne & Farley 2000:4).

Recognition of the enormity of the environmental crisis that faces Australia’s regions has brought together strange political bedfellows. For example, the National Farmers Federation (NFF) and the Australian Conservation Foundation (ACF) released a joint report in May 2000 that called for $AUD65 billion package over 10 years to reverse the environmental crisis on the land. The Commonwealth government, in response to these concerns, and the ongoing work of the Murray Darling Basin Commission (MDBQ), announced a $AUD750 million five year funding commitment to address the salinity issues. However, the Commonwealth government funding is contingent on receiving matching funds from the state and Territories – a situation that was not yet agreed at the time of writing.

Moreover, for many Australians living in metropolitan regions urban congestion, water and air pollution remains major issues that cannot be separated from broader urban/regional development concerns (Latham 2002). This was highlighted at a National Summit of planners in June 2001 coordinated by the Royal Australian Planning Institute (RAPI) where a communiqué was signed that identified a need for national government to link the principle of SRD with industry and urban/regional development. The majority of Australia’s population lives in urban river catchments and their collective impact (power usage, sewerage, industrial
waste, transport pollution etc) affects the quality of the waterways and estuaries, soils, air and drinking water - the very systems that sustains them.

Furthermore, the environmental problems of metropolitan regions are often linked to activities in non-metropolitan regions and affect other industries, and vice versa. For example, land clearing in Queensland affects the quality of the Murray River, which is the source of the city of Adelaide’s drinking water (Hill 2000). Similarly, greater consumption of energy in cities means increased mining and processing facilities as well as heavy transport movements in non-metropolitan regions. Much of this activity is associated with higher pollution levels (Environment Australia 2001). A recent Productivity Commission (2003) report found that continued bad land management practices by Queensland farmers was a key threat to the very survival of the Great Barrier Reef (the Reef is a listed World Heritage area and also supports a multi-billion dollar regional tourism industry). The report said that soil erosion and runoff of fertilisers and chemicals from the Queensland beef and sugar industries were major contributors to the continued degradation of the Reef and its environs (Productivity Commission, 2003).

These types of complex environmental, industry and spatial interdependencies pose particular challenges for the development of national regional policies.

Conclusion

Factors such as globalisation, technological advances, as well as government reforms, have combined to create rapid structural change in the Australian economy since the 1980s. Despite continued national economic growth in the 1990s, the Australian economy in 2002 is characterised by rising spatial disparities and inequalities. Spatial inequality in this sense includes the distribution of wealth, infrastructure, skills, knowledge-based workers, service provision, emerging industries, affordable housing and access to strong labour markets. The implication is that low-skilled workers and poorer regions continue to lag behind under the current national policy settings (NIEIR 1998-2002; Productivity Commission 1999; Green 2000). For many Australians national growth is being achieved at the cost of their of human, social and environmental capital.

The regions in Australia that have most benefited in terms of income and employment opportunities have been the ‘global cites’ of Sydney and Melbourne and their outer
metropolitan regions. In these regions there exists a correlation between the new growth occupations and the emergence of clusters of producer services and knowledge-based workers. However, even in these region there remains a widening gap between the working poor and the working rich. We have also witnessed a trend within metropolitan Australia where higher income/work status households are increasingly concentrated in inner suburbs while, conversely, lower income/work status households are being concentrated in outer suburbs where employment opportunities are falling (Moriarty 1998; NIEIR 1998 & 1999). Some other regions have benefited from the expansion of key industries such as dairy, processed foods, wine and tourism while and some provisional centres have grown as key services centres – but not to the extent of the larger metropolitan regions.

Moreover, since 1996, there has been an acceleration of the income and employment gap between rich and poor workers, rich and poor regions, as well as growing disparities between metro and non-metro Australia (Harding 2000). Part of the explanation has been the rise of ‘centralisation forces’ whereby government and private sector activity and services have consolidated and retracted to larger regional centres, metropolitan regions and global cities, at the expense of the more rural and remote regions.

These economic disparities across many Australia’s regions emerge as result a complex interface of other spatial and structural factors. Typically these factors include: extensive restructuring or shrinkage of the industrial base; declining terms of trade; increased import penetration from low wage exporting countries; job destroying rather than job creating technological change; mismatch of skills and emerging employment opportunities; increasing casualisation of the workforce; declining public expenditure and restructuring (contraction) of public sector agencies, services and programs; aging and/or inadequate infrastructure provision (soft and hard) and, corporate down-sizing and contraction of industry to larger centres.

Ironically, many of the policy induced structural reforms over the past two decades were implemented in the name of increasing Australia’s economic efficiency and labour productivity (discussed in detail in the next chapter). However, as this chapter demonstrates, it could be argued that the spatial problems that arise from underemployment (under-utilised labour) and under-utilised infrastructure in some regions have implications for higher costs of labour and additional infrastructure expenditure in expanding regions. These additional costs in stronger regions, and resulting expansion in government transfer payments in poorer regions, when taken together, continue to undermine any notions of national economic efficiency gains. The problem remains that for most of the last 20 years neo-liberal policies that promote national
economic growth have been held out as the panacea for Australia’s economic and social problems. However, for the most part, policy-makers have largely ignored the actual spatial implications of this high growth market-led strategy, i.e. the fracturing of the Australian labour markets, the regional benefits and costs, the changes to the distribution of income and employment, as well as the environmental costs.

The brief discussion on Australia’s environment indicates that Australia faces major problems to sustain its long-term productive base and wellbeing of it metropolitan and non-metropolitan regions. Part of the problem has been that domestic institutional arrangements have failed to both protect Australia’s natural resource base and to ensure transparency and accountability on matters of environment management between the tiers of government. More generally there has been a failure of policy to link the issue of sustainability to broader questions of industry, social and regional development policy (discussed in the next chapter). Interestingly, some more recent initiatives by the Commonwealth government such as Landcare and the establishment of the MDCL suggest a momentum toward regionalism in addressing some environmental problems in Australia.

The next chapter begins to explore the origins of Australia’s particular model of competitive Federalism and the institutional arrangements that historically underpinned Australia’s patterns of settlement – and how they changed in the 1980s. This provides a better political understanding of the underlying forces of the structural change that continues to affect Australia’s regions (the consequence of which was discussed in this chapter). It then looks in more detail at how successive Commonwealth governments have responded or failed to respond to Australia’s regional development problems. The major focus of what follows is on the Howard government’s approach to regional development since 1996. This next chapter draws out the context for chapters four, five and six that attempt to explore alternative theoretical and policy approaches for regional development.
THE COMMONWEALTH'S ROLE IN REGIONAL POLICY: THE HAWKE/KEATING AND HOWARD YEARS

Introduction

As Stilwell has argued, 'in the economy, place and space are continuously confronted by the integrating effects of changes in transport and communications technologies, trade and investment' (1994:7). Similarly change in public sector management and policies – the way national government operates and what it does and chooses not to do based on its ideological belief – also influence spatial development patterns.

Until the 1980s, Australia’s inter and post-war governance arrangements, in particular, focused public management processes and outcomes to assist industry and infrastructure development. There was a conscious attempt by national policy-makers to incorporate issues of equity with industrial development (economic growth). Government interventions gave emphasis to achieving equity in income distribution, the achievement of full employment; and, increased welfare and service provision. These institutional arrangements acted to buffer Australia’s regions from the more immediate vagaries of capital restructuring. Various regions and fractions of private sector capital, in particular, manufacturing, mining and rural, benefited from the multiplier effects of government investment, activity and protection during Australia’s formative years. In many ways interventions by the state accentuate the multiplier effects of private investment and the spread of key industries with policies to protect industries, assist technological transfer, raise real incomes and provide services and infrastructure - with development predominantly favouring Australia’s metropolitan regions.

Interestingly, however, since Federation there has been no national consensus or coherent policy approach to spatial planning or regional development policy. Rather, Commonwealth governments tried at different times various sorts of policies that have had an ‘explicit’ regional development dimension. That is, regional policy has been on and off the national agenda and Commonwealth influence has been for the most part ‘implicit’.
Yet, the notion of spatial equality, in terms of access to and the standard of services and representation and participation in Federal Parliament remains a cornerstone of Australia’s Constitution. These equity concerns remain the basis for the financial arrangements between the federal, state and local governments (captured in the guiding principles of horizontal fiscal equalisation – HFE). Moreover, the Australian Senate continues to give a spatial representation and balance to national decision-making.

An important factor that has traditionally worked against achieving a national approach to spatial planning and/or regional development has been Australia’s particular model of ‘competitive Federalism’ \( ^{\text{vi}} \). Under this model the tiers of government have been preoccupied with addressing the ‘vertical fiscal imbalance’ and often greater collaboration and coordination has been the real cost (Stilwell and Troy 2000). Moreover, as discussed earlier, over the years Australia’s State and Territory governments have been locked in competitive bidding wars for footloose investment – offering inducements such as financial, infrastructure or reduced environmental regulation used to entice capital investment. The legacy has been that for the most part state governments in Australia have operated in competition with each other, particularly in terms of regional and industry development. Furthermore, Australia’s local governments have had fewer resources and less responsibility to address regional issues than their counterparts, for example, in Britain, the USA and many European States (Gleeson 2001:135). Together these factors have lead to poor collaboration between governments (in terms of industry and regional policy and environmental management) and to ad-hoc spatial development patterns often resulting in the duplication and waste of public resources (see Sorensen 2000:19).

Between 1983 and 2001 much changed in Australia’s approach to national economic management and the way the state acted in its role as an adjunct to technological, market and corporate processes discussed above. This began under the Hawke/Keating Labor government whose economic policy, whilst encapsulating some spatial aspects, was, nonetheless, dominated by a free market led agenda to internationalise (deregulate) the Australian economy (Argy 1998; Cloney 1998; Pusey 1990; Stilwell and Troy 2000). Policy-makers under Labor were pre-occupied with interventions designed to facilitate a macro and micro economic restructure of the Australian economy (neo-liberal inspired reforms). Examples of which were Labor’s heightened commitments to multilateral trade negotiations the establishment of the Council of Australian Governments (COAG) and the introduction of National Competition Policy (NCP).
The dominant neo-liberal approach created an unresolved tension for Labor policy-makers between implementing market reforms and somehow maintaining a notion of (spatial) equity. In particular, the spatial impacts of policies that promoted 'competition,' user pays principles and market driven outcomes ran contrary to those associated with the traditional goal of achieving full employment and the cross-subsidisation of services and infrastructure. The implementation of neo-liberal policies has resulted in the diminution of the traditional institutional buffers that cushioned Australia’s workers and regions from the direct impacts of capital restructurings (structural change).

Labor at least had some urban and regional, social, and labour market programs designed to address the impacts of structural changes, however, they were quickly abolished with the election of the Howard Liberal government in 1996. For the Howard government regional development was seen as a state government issue, particularly in metropolitan regions. According to the Howard government, there was no constitutional rationale for its involvement in regional development (Sharp 1996). However, as a means to placate its National Party coalition partner, and address the political backlash associated with declining service in non-metropolitan areas, the Government announced a 'whole of government' approach to issues effecting 'regional Australia'. Moreover, the philosophical belief that dominates the Howard government's approach to regional policy is that market adjustments will ameliorate most problems over time (Productivity Commission 1999). This has resulted in what can best be described as an ad hoc and highly political approach to regional development policy and problems by the Howard government.

This chapter begins with a brief discussion of the competing forces that influenced spatial development patterns in Australia’s metropolitan and non-metropolitan regions since Federation in 1901. The latter discussion in the first half of the chapter is concerned with the distributional effects, policy tension and inconsistencies (inequalities) that have resulted from market driven changes to the national governance arrangements since the 1980s. This gives some more context to the spatial inequality issues discussed in the last chapter. The second half of the chapter looks at the various national governments ‘implicit’ and ‘explicit’ regional development polices. The main emphasis is on the period since 1983 under the Hawke/Keating and Howard governments. The discussion on the Howard government in particular explores the politicised nature of policy development on regional problems in Australia and the difficulty this creates for promoting alternative policy ideas.
This chapter demonstrates that, with one or two exceptions, issues concerning regional
development (or structural adjustment) have never been institutionalised in any systemic way
into national economic planning. And, despite some attempts at regional policy, industry and
regional policies have been treated as separate issues by successive national governments.
When regional policies have been introduced they have rarely been coordinated between the
tiers of government, and grossly underfunded (particularly when compared to the level of
direct subsides given to industry in Australia).

Much of the detail in the second part of the chapter on the Commonwealth's approach to
regional development policy since 1994 draws from the personal experience of the author. It
has been confirmed in several semi-structured interviews with former and/or current officers
of the Commonwealth government. These interviews were conducted either in person or by
telephone. The officers interviewed were at the time intimately involved in the issues this
chapter explores. Some were either Section or Branch Heads who often acted as note takers at
meetings when issues to be discussed arose. Similarly, in their positions they were often
required to offer advice on these issues, prepare confidential briefs and answer correspondence
for the responsible Minister's office. They included officers from the former Departments of
Housing and Regional Development (DHRD) and Transport and Regional Development
(DTRD) (some have moved to other portfolios or have left the public service). It also includes
interviews with officers from the Department of Transport and Regional Services – DTRS\textsuperscript{viii} -
the current portfolio responsible for regional development policy.

The historical factors influencing Australia's spatial patterns of development

\textit{Federation 1901: Australia's governance arrangements}

After a decade of protracted debate, Australia became a nation in 1901 when a majority of
voters in New South Wales, and each of the other five separate British colonies, ratified the
draft constitution to form a Federal system of government in 1899 (Brodie 1984; Jaensch 1987;
Hall 1998). As Hall (1998) discusses, the decision on how to govern the Commonwealth of
Australia split the powers and divided them between the national Parliament and the six state
parliaments. For example, foreign affairs, tariffs, defence and immigration were to be federal -
education and health to be with the states. All other powers not specified in the Constitution
(residual powers) accrue to the states, and if inconsistencies arise in the interpretation of
Commonwealth and state legislation, Commonwealth law prevails.
In terms of parliamentary representation, all colonies agreed that the electorates for the Lower House would be based on population distribution, i.e. the Senate, the upper house of review, would require an equal number of representatives from each state to ensure the larger states did not override the interest of the smaller states. A High Court was established over the State Supreme courts. The result is a three-tier system of government, with the national Parliament in Canberra, state parliaments in Brisbane, Sydney, Melbourne, Hobart, Adelaide, Perth and Territory governments in Darwin and Canberra. The third tier is local government, which includes shire councils and town councils and comes under state jurisdiction (by the year 2000 there were 661 local governments across the six states).

The legacy of the Australian constitutional arrangements is that it has embedded an historical tension between the powers of the National, state (and Territory) and local governments (Stilwell and Troy 2000:909). For the most part, the three tiers of government in Australia operate independently of each other, particularly in terms of economic development policy. This remains the case despite an increase in cooperation at the various heads of government meetings begun in the early 1990s that evolved out of a perception of common problems and perceived benefits (discussed in detail latter in this chapter under COAG and NCP). It is worth quoting Painter (1998) at length on this issue.

In Constitutional terms, the governments are independent of each other. Constitutionalised cooperative or joint decision-making arrangements are exemplified by the German Federal constitution: first in the composition and powers of the upper house, the Bundersat, to which the provincial governments (or Land) nominate representatives, and which has equal law-making powers with the lower house; and second in the ‘functional’ division of powers with the principle law-making powers over most matters lying with the Federal parliament, and the provincial governments implementing Federal laws and a plethora of ‘joint programs’. But the Australian Constitution (like the Canadian) set up wholly distinct governing systems (‘parallel rather than interlocking’) with separate sovereign parliaments and executive agencies. Any interaction or joint action has evolved out of practical exigencies of such arrangements, the original arm’s-length relationship remains intact. Adversarial politics and joint administration coexist as a matter of course (Painter 1998:23).

**Forces shaping post-war growth: Australia’s metropolitan settlement expands**

While Australia’s early economic development was dominated by the export of agriculture and mining products its metropolitan settlements were critical in arranging global trade for farmers, i.e. providing port access and the business service needed to run the economy (O’Connor et al 2001:12). Already by 1910 fifty per cent of Australia’s population lived in its metropolitan and urban regions (BRS 1999). The population of metropolitan Australia accelerated during the
inter and post-war years driven by an expanding manufacturing base. In particular, multinational firms, whose strategy for their subsidiaries in Australia was one of supplying the domestic market and not export-oriented production, came to dominate Australia's industrial base. The generous levels of protection that prevailed in Australia attracted large amounts of foreign investment, and return on this investment was high by global standards (Crough and Wheelwright 1983:3-4). Part of the government's rationale was to access the latest technology in manufacturing that was mostly controlled by foreign firms and to diversify Australia's manufacturing base. American companies that entered the Australian market seeking and taking advantage of protection during these years included: Alcoa, Ford, Chrysler, General Motors, Esso, Mobil Oil, Caltex, International Harvester and IBM (Crough and Wheelwright 1983:3-4).

So while domestic political arrangements enshrined the position of rural and mining capital as the export oriented wealth creators in the Australian economy, employment and development became increasingly concentrated in metropolitan regions. Manufacturing was seen as providing manufactured goods for the domestic consumption and employment in urban (and some larger regional centres) with manufactured imports filling domestic demand for more sophisticated manufactured products. According to Bell (1993:24), an initial post-war surge (in which 149,000 manufacturing jobs were created between 1945 and 1949) was more or less sustained throughout the post-war boom with manufacturing employment growing from 890,000 in 1949 to 1,315,000 in 1967. Between 1946 and 1960 the annual rate of growth in manufacturing production averaged 6.5 per cent (Bell 1993:24). Most of this manufacturing investment went to New South Wales and Victoria (Edgington 1989:234).

The growth of domestic manufacturing had a significant spatial impact on Australia's social composition in terms of the distribution of income, employment and demand for housing. For example, in the manufacturing heartland of Victoria, Melbourne, by 1947, manufacturing accounted for 41 per cent of employment and it was common for blue-collar workers to live in the central core suburbs (Port Melbourne, South Melbourne, Collingwood, Fitzroy and Richmond). Moriarty (1998:211-218) presents data that shows that 73.4 per cent of central core households were low income, blue-collar workers, compared with 51.2 per cent across the rest of Melbourne. Only 6.4 per cent of Central core workers were in the high-income bracket (professional/managerial/administrative), compared with 17.1 per cent for the rest of Melbourne.
By 1964, 50.2 per cent of central core households were low income, blue-collar workers, compared with 33.3 per cent across the rest of Melbourne. While only 13 per cent of central core workers were in the high-income bracket, compared with 18.9 per cent for the rest of Melbourne. A trend emerged where manufacturing jobs (and low-income workers) were moving from the central core to the outer suburbs and larger regional centres, where factory and land costs were cheaper and road access easier, while high-income earners were concentrating in the centre core. By 1976, the centre core only had 29.4 per cent of Melbourne’s manufacturing jobs or less than half the 1947 share. Manufacturing employment had moved to the middle and outer suburbs and with it low income, blue-collar workers – again driving new patterns of settlement in metropolitan Australia.

The distributional effects that flowed from manufacturing protection, centralised wage system and government provision of services and infrastructure worked at many levels to ensure full employment, a decent living wage (and full-time work) and greater certainty, particularly for middle to lower paid, less skilled workers. Research indicates, for example, that by 1982 some 45 per cent of the Australian workforce was clustered on earnings of between 75 and 125 per cent of national median (or middle) earnings (NATSEM 2000). For most of the post-war period there remained bi-partisan support for types of governance arrangements discussed above. While the terms of trade were in Australia’s favour, and internationally its primary markets were guaranteed, these institutional settings seemed to deliver Australia a standard of living the envy of many developed countries.

A period of inward looking industrialisation

This is not to deny that there was not a ‘competitive’ cost to Australia’s chosen path to industrialisation in the post-war years. Gilmour (1982), for example, has described this period of Australia’s industrialisation as ‘truncated industrialisation’.

Truncated industrialisation occurs when the foreign subsidiaries which dominate the domestic market do not carry out all the basic functions from original design to marketing necessary for developing, producing and selling their goods, but instead rely on their parent companies for one or more of these functions (Bell 1993:34).

Typically, a number of structural characteristics can be identified with this type of truncated industrial growth. First, the factors that usually make the subsidiary innovative and capable of developing new products for domestic or overseas markets are usually weak or absent, particularly with respect to R&D functions, which usually remains the domain of the parent
company. Second, this reliance on parent companies means that branch plants are often significant importers of goods, services and skills (Bell 1993:35). Most alarmingly, often the linkages between endogenous and foreign capital remain weak in terms of inter firm interdependencies, the level of skill transfers, developing collaborative R&D and innovation relationships. National industry policy focused on import protection against finished manufactured goods, i.e. cars, footwear clothing and textiles. Yet there remained very little focus on Australia’s dependency on high levels of import of capital equipment (inputs to local production processes) that characterised Australia’s manufacturing base. According to Bell (1993:80):

Thus, instead of responding to the increasingly capital and technology intensive pace of manufacturing being forged in the more advanced industrialised economies in the period, Australia saw an ageing of its manufacturing capital stock (from 7.8 years in 1966-67 to 10.2 years in 1983-84) with a rising expenditure on repairs and maintenance relative to expenditure on new equipment (from 28 per cent in 1972 to 68 per cent in 1984).

Another consequence of these institutional arrangements has been Australia’s failure to develop an entrepreneurial or investment risk-taking culture outside the traditional agriculture, mining and property development sectors (particularly in high tech, value-added manufacturing and information technology). Australia remains criticised in many quarters for its small venture capital industry, its risk adverse financial institutions and for its inability to commercialise domestic research into viable new products and industries (Canberra Times 5 October 2000, p.13).

The forces shaping Australia’s non-metropolitan settlements

Several forces, including on-going technological advancements, have combined since the 1970s to effect population and industry change in Australia’s non-metropolitan regions in particular. These forces include changes to the demand factors that resulted from Britain’s entry into the Common Market in 1973 and changing consumer preferences. It also includes the continuing decline in Australia’s terms of trade as commodity prices fall relative to manufactured goods and rising farm costs. Other factors have been the decline (and contraction) of local manufacturing in some regions associated with deregulation. Finally, the continued reversal of
former government policies directed at encouraging farm settlement has been a major factor (Pritchard and McManus 2000).

The so called ‘Closer Settlement schemes’ were seen both as a means of rewarding and resettling returned soldiers after the two world wars and to increase Australia’s population. The schemes involved the government purchasing large agricultural holdings and subdividing into smaller lots of land. Many of these smaller holdings proved economically unsustainable particularly through times of adversity (droughts and price slumps) and many required further assistance and/or amalgamated during the 1930s through to the 1970s (Maddock and Mclean 1987:153). The emphasis of government policy shifted from closer settlements to amalgamation from the 1960 and 1970s with the introduction of comprehensive state grants (Rural Reconstruction) Act of 1971 (and the 1976 Rural Adjustment Scheme). Here the focus was to encourage further amalgamation (to medium and larger land holdings) and assist in the exit of nonviable farmers and their families from the land.

A gradual shift from labour intensive farming via the use of labour saving new technologies saw farm labour drop 15 per cent between 1954 and 1976, while real farm output doubled (Maddock and Mclean 1987:153). According to the Australian Bureau of Statistics, since the 1980s agricultural establishments in Australia have fallen by more than 13,000 – or 10.5 per cent (Anderson 2000:2). As a consequence since 1932 the number of people employed in the Australian farm sector has fallen from 31 in every hundred to four (The Bulletin 13 June 2000, Vol. 118, p. 46). This trend in agriculture enterprise decline in Australia is, of course, consistent with trends in most developed economies, as the global terms of trade have moved against commodities to manufactured goods. Over the same period, for example, the US lost some 220,000 farms (at about the same rate as Australia), while, the EU lost 2 million farms - a staggering 22.5 per cent of its agriculture businesses (Anderson 2000:2).

In short, since the 1970s, Australia’s non-capital city regions had to rely increasingly on a combination of fluctuating world commodity prices, their strategic location in terms of transport or communication links, and their role as a regional service centre for their economic and social being (ABARE 2001). More recently there has been a growth in food and beverage manufacturing, tourism, services, and retirees’ income driven settlement particularly along Australia’s life-style coastal regions (Tonts 2000:54; Salt 2002).
Spatial distribution of Australia’s population in 2001

As the following population data indicates, with some variation in Queensland and Tasmania, most of Australia’s development has been concentrated in its capital city regions. Indeed, most of the Australian population (83 per cent) lives within 50 kilometres of the coast. Very small towns and localities of less than 200 people contain 11.5 per cent of the population while the remaining 2.5 per cent live in larger country towns (ACOSS 2000:2; BRS 1999).

While the population split between metropolitan and non-metropolitan Australia, as a whole, remained relatively steady between 1971 and 1996 (Productivity Commission 1999:18), the demographic composition and industrial characteristics between the different states and Territories varied significantly. Two states (Queensland and Tasmania) and the Northern Territory have a majority of the population living outside the capital cities. Most of the states and Territories have large non-metropolitan regions that consist of urban centres that provide services to the surrounding districts. These larger regional centres have varying industrial compositions from those that are dependent on single (or a few) industry (ies) to those with quite a diversified industrial base. Moreover, the rapid spread of major metropolitan/non-metropolitan centres and advances in modern transport and communications also acts to blur traditional boundaries between the urban fringe and rural areas across Australia.

Having discussed some of the general forces that have shaped Australia’s spatial patterns of development, we now look in more detail at the Commonwealth’s implicit and explicit role in regional development. These implicit and explicit activities continue to have important implications for development in Australia’s regions.

The Commonwealth’s implicit role in regional development

Fiscal federalism - spatial equity in service delivery and standards

The Commonwealth’s indirect involvement in spatial development patterns has occurred through national industry policy and infrastructure provision, transport, roads, ports, airports and communications. There has also been tied Commonwealth Specific Purpose Payments (SPP) and joint Commonwealth-state grant programs for public housing and rental assistance (Commonwealth State Housing Agreement), education, health and legal aid. More generally the Commonwealth has provided untied grants (Transfers) to states and Territories including
financial assistance grants (FAGs) to local government to spend on priorities as they see fit (Garlick 1999; Beer, Bolam and Maude 1994). The bulk of the funds are allocated through state structures and decision-making processes. Importantly, as discussed below, the guiding principles behind these transfers historically have been to seek equity and/or financial redress of geographic disadvantage across states, Territories and (through the states) to local government.

A key element of Commonwealth Transfers to the states and Territories has been the concept of horizontal fiscal equalisation (HFE) where Commonwealth grants are provided to each State/Territory to provide an average standard of services to their citizens (Industry Commission 1999:311-313). The Commonwealth Grants Commission was established in 1933 to assess claims by states for financial assistance (special grants) under section 96 of the Australian Constitution (Grants Commission 2000). The Commission developed a fiscal equalisation system (formula) to distribute Transfers based on state and Territory population, expenditures and revenues and any disabilities facing particular states and Territories. With the introduction of uniform income taxation in 1942, the capacity of states to raise revenue sufficient to meet their expenditure was severely curtailed. In 1976, general revenue sharing arrangements were introduced and the amount of assistance made available was decided by the annual Premier’s Conference (prior to this assistance was determined on a state by state basis with the Commonwealth).

Importantly, the Commonwealth determined the overall size of the pool of grants allocated to the state and Territory governments. The Transfers were also untied general revenue grants, leaving each state and Territory free to decide its own spending priorities (on a per capita basis the smaller states and Territories tend to receive more than the larger states). In 1999-2000, for example, the Commonwealth distributed $AUD17.8 billion between the states and Territories in untied general revenue assistance Transfers (Treasury 2000). As with the general assistance Transfers, the Commonwealth FAGs to local government component is also untied and consists of an equalisation and local road component (local roads being about a third of the total). In 1999-2000, for example, total FAGs represented about $AUD1.271 billion of general revenue assistance which was made up of an $880 million equalisation component and $390 million roads component - approximately $880 million of the total went to councils in rural and regional Australia (Treasury 2000).

The revenue raising mechanisms for the Commonwealth to fund its untied grants pool changed with the introduction of a broad-based Goods and Services Tax (GST) in July 2000. The Howard government pledged that all revenue generated by GST would flow to the state
and Territory governments – estimated at $AUD24.1 billion in 2000-2001 (Treasury 2000:2). Specific Purpose Payments - $AUD17 billion in 1999 - remain unaffected by the introduction of the GST. The new financial Agreement between the Commonwealth and states indicates that there is no intention of cutting aggregate SPP as part of the reform processes – but does not specifically exclude such cuts in the future (Webb 2000). In effect the size of the grants pool grows under the GST, and therefore the Commonwealth no longer decides the total amount of Transfers, but the distribution mechanism (HFE) and the ‘untied’ nature of the Transfers remain largely unaltered.

Interestingly, the Commonwealth does not require the states (or local government) to tell them in any great detail how SSP grants or GST revenues are spent. Nor is there any requirement to give a spatial breakdown on what spending occurred where in each state. Moreover, as Chapter two highlighted, despite these massive transfers spatial inequalities continue to widen in Australia. Perhaps a more detailed look at the state of fiscal federal relations can give some insight into why inequalities continue to widen.

Research by Gerritsen (2000:126) suggests that the level of general-purpose grants to the states have in fact declined by 50 per cent in real terms between 1985 and 2000. This is because the indexation of financial assistance grants for population and inflation put a floor under the grants but did not provide for real growth (Webb 2000). The following Table (3.1) also indicates that since 1991-92 Commonwealth assistance to local government has been declining as a total percentage of GDP although the national economy has been growing.

Table 3.1: Commonwealth assistance to local government 1991-2000 ($AUDM)

<table>
<thead>
<tr>
<th>Year</th>
<th>FAGs</th>
<th>Road</th>
<th>Total</th>
<th>GDP</th>
<th>% of Total Grants to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>715.0</td>
<td>303.2</td>
<td>1,018.1</td>
<td>405</td>
<td>0.251</td>
</tr>
<tr>
<td>1992-93</td>
<td>730.1</td>
<td>319.0</td>
<td>1,049.1</td>
<td>426</td>
<td>0.246</td>
</tr>
<tr>
<td>1993-94</td>
<td>737.2</td>
<td>322.1</td>
<td>1,059.3</td>
<td>449</td>
<td>0.236</td>
</tr>
<tr>
<td>1994-95</td>
<td>765.5</td>
<td>330.5</td>
<td>1,087.0</td>
<td>473</td>
<td>0.236</td>
</tr>
<tr>
<td>1995-96</td>
<td>806.8</td>
<td>358.0</td>
<td>1,164.7</td>
<td>507</td>
<td>0.230</td>
</tr>
<tr>
<td>1996-97</td>
<td>833.7</td>
<td>369.9</td>
<td>1,203.6</td>
<td>532</td>
<td>0.226</td>
</tr>
<tr>
<td>1997-98</td>
<td>832.9</td>
<td>369.6</td>
<td>1,202.4</td>
<td>564</td>
<td>0.213</td>
</tr>
<tr>
<td>1998-99</td>
<td>854.2</td>
<td>379.0</td>
<td>1,233.2</td>
<td>595</td>
<td>0.207</td>
</tr>
<tr>
<td>1999-00</td>
<td>880.6</td>
<td>390.7</td>
<td>1,271.3</td>
<td>632</td>
<td>0.201</td>
</tr>
</tbody>
</table>

Gerritsen concludes that subsequent cost shifting over this period between the tiers of government has impacted most severely in Australia’s non-metropolitan regions and on local government.

The cuts also have the advantage of being able to ‘jurisdiction shift’; the burden of the unemployment created by state service shrinkage, falls upon the Commonwealth budget. The states’ environment duties can be devolved to local government. The consequence of the vertical fiscal imbalance in our federation bears disproportionately upon the residents of rural and regional Australia. ... Declining state fiscal resources, exacerbated by the narrowing of their own resource revenues and reduced intergovernmental transfers, have interacted with the changing nature of government in Australia (Gerritsen 2000:126).

According to Stilwell and Troy (2000:924-925), the marginal status of local government is a historical reflection of a set of deep-rooted legal, economic and political constraints that affects its capacity to respond to spatial and regional problems. They make the point that, economically, local government remains the least well-resourced tier of government, gaining only 4 per cent of the total income tax pool (with the state governments gaining 20 per cent and the Commonwealth 75 per cent approximately). Politically and legally, local government remains a function of state government (local government is not mentioned in the Australian Constitution) and is periodically undermined by state governments, leading to restructures and, in the extreme, their dismissal (Gleeson 2001:137; Stilwell and Troy 2000:925). Indeed, state government contribution to local government revenue declined from 15 per cent in 1974-75 to around 7 per cent by 1997-98 (Tuckey 2002).

The problem here is that the decline in transfers to states and local government has occurred at a time of sweeping ideological-driven change to the functions and activities of governance arrangements in Australia. Taken together these factors are a significant cause of widening regional disparities in Australia.

Neo-liberal inspired policy reforms since 1983

The Hawke/Keating Labor governments (1983-96) were dominated by the dual objectives of creating an internationally competitive, export-oriented, industrial base and reorienting the Australian economy towards the markets of the Asia-Pacific region. A key argument, put at the time, was that the liberalisation agenda was the right strategy to address Australia’s perennial Balance of Payments (BoPs) problems/constraint (Garnaut 1989; Bryan & Rafferty 1999). This
political and economic strategy has been described as a period dominated by ‘progressive competitiveness’ (Wiseman 1999:21). This was the situation where:

... the social-policy agenda was based on targeting social-wage and income-transfer programs to groups most disadvantaged by economic restructuring and deregulation. However, the core business of government remained the restructuring of and deregulation of the Australian economy so as to increase competitiveness in global markets (Wiseman 1998:21).

In short the key elements to Labor’s strategy during this period were as follows. First, deregulation of the domestic financial market and the floating of the Australian dollar to encourage the productive flow of investments. Second, deregulation of trade barriers and an increased emphasis of multilateral free trade negotiation and agreements, i.e. participation in GATT, development of the Cairns Group of commodity exporting nations for lobbying GATT, and the regionally focused Asia Pacific Economic Co-operation Forum (APEC). Average effective rates of assistance to manufacturing had fallen from 35 per cent in 1975 to 5 per cent in 1994-95, while assistance to agricultural industries fell from 13 per cent to 11 per cent over the same period (Stewart 2000:4-5). Third, an emphasis on microeconomic reform aimed at the dual objectives of improving the productivity of Australia’s export sector and national competitiveness. This included sectorial adjustment industry plans for the automotive, textiles clothing, footwear and steel sectors. The purpose of these plans was to facilitate industry adjustment to the cold reality of international competition not to enhance the institutional framework to develop innovative, export orientated, sustainable industries (Cloney 1998).

Labor reforms also incorporated the privatisation of formerly public owned entities in banking, transport and telecommunication, public sector restructuring, expenditure cuts and reduction in grants to the states (Bryan and Rafferty 1999; ACIRRT 1999; Beeson and Firth 1998; Wiseman 1998; Argy 1998; Bryan 1995). The final element of Labor’s progressive competitiveness strategy was a pro-active labour market policy aimed at encouraging the unemployed into a range of labour market programs. As Wiseman (1998:45) observes ‘this was driven by a belief that the encouragement of skills formation is one of the few ways in which national governments can actively intervene to improve national competitiveness’. Despite its range of options, the 1994 White Paper on Unemployment concluded, however, that the best way to attack unemployment was to continue the liberalisation of the Australian economy.

It is important to note however that while clearly fixed on achieving the liberalisation of the Australian economy the Hawke/Keating governments maintained some elements of the old
post-war redistribution mechanism within its broader policy framework. That is Labor came to the understanding that the quest for economic efficiency could be tied to a broader reform agenda based on social equity and inclusion (Stilwell 2000:50-51). This included a welfare safety net, the Accord with trade unions, pro-active labour market programmes, and, for the most part, a commitment to universal health and education (Argy 1998:250).

Also changes to the nature of public management arrangements that were begun in the late 1970s under the Fraser government were further institutionalised under Labor during this period. This had the longer-term effect of heightening the power and influence of central agencies - Treasury, Finance and Prime Minister and Cabinet (Cloney 1998). These agencies were at the vanguard in the push for liberal reforms and increasingly gained control over the activities of other line agencies that had expanded during the inter- and post-war years (Gerritsen 2000:134; Brown 2001; Pusey 1990). The diminution in the influence and activities of line agencies in effect ‘distanced’ the policy-maker elite, not only from alternative policy ideas, but also from the concerns of communities and workers most affected by the spatial impacts of structural change.

A closer look at the introduction of Labor’s National Competition Policy (NCP) provides a case in point.

**Competition policy and COAG**

Part of Labor’s liberalisation agenda incorporated the commissioning of the *Hilmer Report* (1993), which recommended opening up private sector competition in all areas of economic activity, and a new agenda of ‘competition policy’ to drive public sector reform (Beeson & Firth, 1998). At the national level the Council of Australian Governments (COAG), established by Hawke in 1992 as the body charged with the role to overcome the problem of intergovernmental overlap and duplication, became the vanguard for introducing NCP. NCP was a ‘stick’ the Commonwealth wielded to align Commonwealth and state central agencies into a rapid phase of competition led reforms. Gerritsen (2000:134) argues:

> COAG is in reality a set of institutions driven by central agencies at state and Commonwealth levels ... each set of central agencies is united by a common desire to achieve whole-of-government control over their respective line agencies.

The intentions of NCP reforms were aimed at creating ‘competitive neutrality’ that is to reduce the supposed unfair advantages enjoyed by the public sector in the delivery of economic and infrastructure services. According to Hilmer, the problem was that Australia’s governance
structures - public sector regulation particularly in power, water and transport - were producing anti-competitive behaviour and artificially high prices. Industry Commission modelling at the time indicated if Hilmer’s reforms were adopted consumers would be better off by some $AUD1,500 each year, and GDP would be 5.5 per cent, or $AUD23 billion, higher than otherwise would be the case (Toohey 1995:9).

A National Competition Council (NCC) was established to monitor the implementation of NCP and set obligations that states and Territories meet in order to get their ‘competition payments’. This means that state and Territory governments are penalised for not implementing reforms fast enough. For example, in 2000-01 competition reform payments to the states and Territories totalled $AUD463.4 million – in 1999-00 the total was $AUD647.6 million (www.ncc.gov.au). However, both Queensland and the Northern Territory governments had payments suspended because of NCC recommendations to the Treasurer that they had not met certain reform obligations (Treasurer 2000, press release no. 103).

The problem with NCP is that its implementation and spatial effects run contrary to the fiscal equity objectives that underpin Commonwealth transfers payments to states and local government as discussed earlier in this chapter. According to Gerritsen (2000:135):

... NCP poses a fundamental contradiction to the guiding principle of Australia federalism: horizontal fiscal equalisation (HFE). The NCP seeks ‘competitive neutrality’, or the creation of perfect markets and an end to cross-subsidisation. HFE seeks equity, or the financial redress of geographic disadvantage, of necessity a contrary principle to competitive neutrality.

A few examples illustrate the contrary impact of NCP on regions. The case study on the Mid Murray Region in Chapter eight highlights NCP reforms in the water industry undermining the capacity of some rural water authorities to finance future infrastructure needs. This is particularly where cross subsidisation of water infrastructure (charges in larger centres subsidising small population centres) remains crucial to service provision. Another example of the contrary impact of NCP is its impact on the rationalisation of Australia’s airports. Before NCP Australia’s international airports, particularly Sydney, cross-subsidised the entire network (urban, rural and remote) of Australian airports (Gerritsen 2000:135). Before the Commonwealth sold off its international airports Sydney, for example, charged a standard landing fee of $AUD3 per kilogram which subsidised the operations of less busy airports. In January 2000, Sydney airport was charging $AUD0.60 cents per kilogram, while airports such as Rockhampton in Queensland, in order to maintain its infrastructure, were required to charge $AUD8 per kilogram. As Gerritsen concludes:
The overall national welfare - in terms of allocative efficiency of the economy - may be assisted by such reforms. But for business in regional centres (and Rockhampton with a population in 1996 of approximately 55,000 is a major regional centre, not a rural backwater), it means significant cost penalties erode their competitiveness and profitability. This has important implications for the citizens of Rockhampton to have access to air travel and the convenience of airfreight (Gerritsen 2000:136).

The Commonwealth's explicit involvement in regional/industry policy 1944-2001*

The Commonwealth's explicit involvement in regional development policy has neither been consistent nor continuous in the post-war period. Historically, as discussed earlier, some regions (metropolitan and non-metropolitan) have, from time to time, benefited directly from government decisions to (re-) locate industry, build infrastructure such as irrigation schemes, and/or place government agencies or services in particular places. Examples include Commonwealth and state government expenditure on industry support for manufacturing, agriculture research and development, education, defence, housing, health and infrastructure, i.e. roads, rail, aviation, power, and water (supply, sewers, dams, irrigation). Specific industry programs, examples include support of: automobiles in Geelong, Victoria, and Elizabeth, South Australia; energy in Victoria's La Trobe Valley region; iron, steel and metal in Newcastle and Wollongong, NSW, and Whyalla, South Australia and the Snowy Mountain hydro-electric scheme in southern NSW.

Moreover, state governments have traditionally been more interventionist and ambitious with their plans for decentralisation than the Commonwealth (discussed below). However, from time to time, state Premiers have asked for greater Commonwealth participation in regional development (Harris 1989).

Regional development policy, on again, off again...

As early as 1944 the Premiers' Conference called by the Labor Prime Minister John Curtin began to initiate a phase of intensive regional planning activity - this enthusiasm for national intervention reflected the stronger fiscal position of the Commonwealth relative to the states in terms of income tax revenue raising. Between 1944 and 1947 several Curtin-led Commonwealth-state conferences were held to discuss national economic development through coordinated regional planning. Australia was subsequently divided into ninety-seven regions each consisting of a grouping of local authority areas. As a result of this process regional development bodies were
established in New South Wales, Victoria and Tasmania with road district councils used for the same purpose in Western Australia (Harris 1989:108). As Harris details:

In New South Wales, for example, the state was divided into twenty regions with regional development committees comprising twelve members, six from local government, three or four from offices of state departments placed in the region, and the remainder from the private sector. The function of the committees was to prepare development schemes for the region, undertake reviews of regional resources, indicate the kinds of services that would be required to develop those resources most effectively, and to estimate the population that the region might support (Harris 1989:108-109).

After Labor lost office in 1949, the Commonwealth abandoned its involvement in regional planning and development and individual states were left to their own resources to fund and sustain the processes they had established. Both New South Wales and Victoria pursued elaborate schemes to decentralisation based on various forms of subsidies to encourage industries to relocate or to remain in country towns. They were also quite unselective, ‘treating the whole of the state outside the capital (and sometimes even parts of the capital) as eligible for Assistance’ and often-local government was not part of the planning process (Cloney 1990:2).

For the next twenty-three years under successive Liberal-Country party Coalition governments, however, the Commonwealth showed no interest in any comprehensive involvement in regional development and spatial planning (Harris 1989:108; Garlick 1999). This reflected the traditional Liberal government philosophical view in Australia that regional and urban development issues are essentially state government responsibilities. However, recognising that the Labor Opposition was politically capitalising on this neglect, the McMahon government established the National Urban and Regional Development Authority (NURDA) just two months before it lost office in 1972 (Harris 1989:109).

With the election of the Whitlam Labor government in 1972 a change in economic philosophy saw urban and regional development issues again on the national agenda – however, this was very much a top down approach to regional development policy. The Commonwealth renewed its interest in regional development and spatial planning and established the Cities Commission (evolved from NURDA) and the Department of Urban and Regional Development (DURD). Moreover, proposed radical amendments to the Grants Commission Act intended to provide financial assistance directly to Australian local authorities. This was to be provided through a newly established regional organisation or body that represented local government in approved groupings of regions, i.e. cooperative networks of local authorities working at a larger regional
scale (Harris 1989:109). Other initiatives included the development of new ‘growth centres’ or satellite cities where the Commonwealth would work with local government and state government in developing growth centres outside the capital cities. Although many centres were considered under the program the only one that formerly began under the scheme was in Albury-Wodonga on the Victorian New South Wales border.

With the removal of the Whitlam government in 1975, the Fraser-led Liberal Country Party government again rejected the Commonwealth’s role in spatial planning and regional development. Similarly, the Grants Commission continued to consider the requirements of individual councils (authorities) and not larger groupings or regional organisations in its deliberation of financial assistance. Eventually the Grants Commission’s process devolved to each state having its own grants structure negotiating directly with its local government.

Labor’s explicit commitment to spatial policies 1983-96

With the election of the Hawke-led Labor government in 1983 regional and urban programs slowly began to re-enter the national policy debate — reflecting Labor’s traditional philosophical concern for spatial development and social equity issues. In particular, with the recession of the early 1990s, the Labor government attempted to reinvent itself with its 1994 Working Nation economic policy statement ($AUD6.5 billion over 4 years). Its aim was to reduce unemployment to 5 per cent by the turn of the century. This would be achieved by redesigning its labour market programs and introducing a raft of new measures in the areas of education and training, new income measures and support, industry science and trade initiatives, infrastructure and regional and urban development.

Labor’s spatial programs and processes were aimed at opening up more direct communication between regions and the Commonwealth (ABM 1995). It is interesting to note, however, that Labor’s major regional and urban programs were introduced between 1991 and 1995, some eight years into its thirteen-year reign. Again this reflects the fact that issues of urban and regional development policy played second to other major social and economic reforms. Moreover, each policy emanated from a different portfolio, which is consistent with the history of policy separation in Australia between industry, employment and urban/regional development issues65. Six initiatives in particular are worth mentioning here. They are, between 1983-91, the Country Centre’s Project (CCP), Office of Labour Market Adjustment (OLMA) initiatives, and, between 1991-96, Building Better Cities Programs 1 & 11, Local Government Development Program (LDGP), Regional Development Program (RDP), and the Area Consultative Committees (ACCs) program.
CCP and OLMA initiatives

The CCP program, whilst a modest initiative, focused Commonwealth attention on working with communities (11 country centres in all) to develop self-help and local management approaches to address economic development issues. It began as a pilot project in 1986 and received initial funding of some $AUD500,000 (Taylor and Garlick 1989:92). According to Taylor and Garlick (1989), it represented a move away from the 'top down' approach where national government policies were focused on problem regions, to one where government worked with local stakeholders ('bottom-up') to facilitate 'longer run social and economic growth' (quoted in Beer 2000:175). On the other hand, a more substantial program, yet still modest, OLMA sought to address unemployment issues in areas most adversely effected by structural change (measured by above average unemployment).

Funding was provided for the establishment of business incubators, new local enterprise ventures and expanding existing business capacity. Funds were for both metropolitan and non-metropolitan regions and were mainly targeted at labour market training and education initiatives. Total OLMA spending in 1994-95 was $AUD27 million, however, this was spread across 150 OLMA approved regions (Beer 2000:175). Local committees, made up of business, government and community members, were formed as part of the OLMA program (130 in all) and were eventually merged with Area Consultative Committees established in 1995 (and discussed below).

Building Better Cities

The Better Cities Program (BCI) commenced in 1991 and sought to reform urban management processes by creating model partnerships between the three tiers of government, communities and the private sector to improve the urban environment (predominantly capital city but included non-capital city regions, i.e. Bunbury, WA and Newcastle NSW). Some $AUD800 million was allocated to the program with funds spent on a range of urban schemes including an advanced technology park, to medium-density housing redevelopments, and transport initiatives (Stilwell and Troy 2000:914). Collaboration with state and local governments during the BBC was achieved because Commonwealth funds were usually boosting state and local government priorities (Gleeson 2001:145). Some twenty-six Area Strategies were developed under the BBC programs against the core objectives to: promote economic growth and microeconomic reform; improve social justice; promote institutional reform and ecologically sustainable development. Building Better Cities II (BBCII) was introduced in 1995 based on the new objective of growth management, urban renewal, and
economic gateways (and included some non-metropolitan centres). The BBC program was abolished with the election of the Howard Liberal government in 1996.

The Local Government Development Program (LGDP)

The LGDP had funding of $AUD50 million for four years from 1994-95 to encourage reform within local government.

The Regional Development Program (RDP)

Through the newly created Department of Housing and Regional Development (DHRD), the RDP, despite its faults, embraced a return by the Commonwealth to considering many of the spatial regional and industry concepts and problems that faced Australia's regions in the mid-1990s. Labor's introduction of the RDP, drew its influence from the CCP (discussed above) and a long history of international experience of spatial policy and practice (discussed in Chapter four).

A process of community consultation that began in 1994 launched 47 Regional Development Organisations (RDOs) across Australia. These RDOs began exploring the impact change had on their communities and to develop strategies to stimulate regional development. The RDP provided $AUD150 million over four years to RDOs that had broad-based local membership capable of dealing with development problems and regional issues (Commonwealth of Australia 1994). Funds were available for infrastructure audits, planning and priorities ($AUD70m), and for supporting organisation structures, smaller projects, skill enhancement and leadership ($AUD80m). In principle, infrastructure and projects funded were to have emerged from the strategic planning process in each region as identified priorities for regions to achieving long-term sustainability and heightened competitiveness. The objective was to 'cocktail' Commonwealth funds with matching dollar for dollar contributions from the region (local business) and other tiers of government.

Despite its faults and critics, the establishment of the RDP began a collaborative process that enabled Australia's regional communities to assume a much greater responsibility for determining their own futures. Moreover, as opposed to the Whitlam government's re-entry to regional development and planning in the 1970s, the Keating government's RDP was premised on establishing new institutions to facilitate a 'bottom-up' approach designed to help regions help themselves (Beer 2000; Garlick 1999; Forth 1996:76).
Although marking a return to spatial policy, the financial commitment of Labor to the RDP was marginal in the context of the total *Working Nation* expenditure (some $AUD150 million from $AUD6.4 billion). Moreover, as others have argued, the Hawke/Keating government's foray back into regional policy was less ambitious than the Whitlam government's DURD experiment of the early 1970s (Stilwell and Troy 2000:914). In any case, the RDP only ran for 18 months so no serious evaluation of its efficacy as a program could sensibly be made (Forth 1996:88).

**Area Consultative Committees**

Finally, under Labor, Area Consultative Committees (ACCs) were also introduced in 1995 to act as the government's key regional network for issues associated with employment, education, training and youth affairs (from the Employment portfolio). Working in partnership with Government, community and the private sector ACCs (through the development of local employment strategies) were to provide the leadership for communities to make the most of their economic and labour market strengths. ACCs were envisaged to generate local support and facilitate the introduction of the Keating government's new labour market programs. Their role was also to ensure that employment and training programs linked to regional development opportunities and where new regional development organisations formed (under the RDP) they could become subcommittees of such structures (Commonwealth of Australia 1994:173). According to several DHRD officers interviewed for this research, the ACCs and the RDOs, both at the federal level and on the ground, acted for the most part, in isolation if not in direct competition with each other (Brown 2001a). The ACCs were retained with the election of Howard government in 1996.

**The descent from regional to rural development (1996-2001)**

In 1996, the newly elected Howard government wasted no time slashing Commonwealth expenditure in its first Budget - some $AUD9.4 billion (a clear signal of its commitment to smaller government and a guiding neo-liberal philosophy). The new Treasurer, Peter Costello, most clearly outlined the government's specific and general policy targets and goals in a Menzies Lecture in 1997. These targets and goals comprised of bringing the underlying budget into surplus in three years, a commitment to flexible domestic product and labour markets, increased trade liberalisation, reduced government ownership and opening capital markets (Costello 1997). The clear difference between Labor's and the Howard government's reform agenda was Labor's philosophical commitment to continue to address issues of social equity and spatial development as part of its broader liberal reforms.

The clearest example of this difference is that in coming to office the Howard government cut Labor's regional development and urban programs, ending the Commonwealth's involvement
in regional development policy. In his media release the Minister responsible, the Hon. John Sharp, MP said that ‘there is no rationale or constitutional basis for Commonwealth involvement’ in regional development (Sharp 1996a). The Minister instead announced a ‘whole of government’ strategy to address the issues affecting ‘regional’ Australia, i.e. initiatives for communities in non-capital city regions. In the absence of a national framework for regional development, the government subsequently announced a range of ad-hoc initiatives for some regional communities and industries affected by change (Gray and Lawrence 2002). What little support was forthcoming for these select communities was premised on a philosophic belief in self-help and market driven solutions to regional adjustment problems.

The following demonstrates the descent of regional policy under the Coalition government and explores the politics and ideology behind this descent. This is presented by examining a series of Ministerial Statements on Regional Australia that have accompanied each of the Howard government’s Budgets since 1996.

Regional policy under Minister Sharp: 1996 – 1997

The Coalition government in the lead-up to the March 1996 election, among other policies, ran on an agenda to conduct a Commission of Audit (to review all Commonwealth expenditure) and to abolish the Labor government’s labour market and Better Cities (urban) programmes. In its pre-1996 election policy statement Recharging the Regions the Coalition indicated it would retain the RDP and shift the emphasis to assisting provincial cities and rural areas and away from capital city regions (Hawker 1996:3).

It was not until its first Budget, following the Commission of Audit findings in June 1996, that the Coalition government took the decision to abandon the RDP altogether (it had already abolished the DHRD). The Minister’s press release announced savings to his portfolio of $AUD150 million which was testament to the general political environment of early Howard years as seeing cost cutting as a policy virtue in its own right. As a result of this decision some 220 staff in Canberra, state and regional offices were sacked and the network of regional organisations established had their funding ceased. A small internal team (5 staff) remained to wind-up the outstanding RDP contracts as well as the Building Better Cities program (some other wind-up functions were out-sourced to the National Capital Authority). A Regional Affairs Unit (7 staff) was subsequently established within the DTRD to handle matters relating to the government ‘whole of government’ to regional Australia (staff interview 2002).
I

Ologically driven budget cuts

The size of the cuts of the first Howard government may have come as a surprise to many in the Australian electorate, but not to the Coalition that had planned cuts of this magnitude since 1993. As discussed above, many of the cost cutting initiatives were identified in the government’s Commission of Audit, completed and released a few months after the 1996 election. In particular, the Audit identified a $AUD10 billion deficit from the former Labor government (Costello 1996; Dullard and Hayward 1998). The point remains, however, that some $AUD10 billion cuts to Commonwealth expenditure of ‘wasteful and unnecessary government spending’ had been identified in *Fightback*, the political and economic manifesto of the John Hewson-led Liberal party at the unsuccessful 1993 Federal election.

Interestingly, Access Economics, a consultancy/forecasting organisation, had provided the economic analysis for *Fightback*, and its director, Geoff Carmody, served as executive officer on the 1993 Commission of Audit for the Liberal-led Victoria State government (Dullard and Hayward 1998:25). The chairman of the 1996 Commission of Audit was Robert Officer, Deputy Director of AMP, Chair of Finance at the Melbourne Business School, and former Chairperson of the Victorian Commission of Audit. Mr Officer was also a member of the right wing think tank, the Institute of Public Affairs, in 1993 and 1996 (Dullard and Hayward 1998).

It is clear that cuts of this magnitude were on the agenda regardless of the Budget position inherited by the Liberals in 1996. The deficit simply provided the political justification to enact its ideological commitment to smaller government – the regional and urban programmes were easy targets.

The ‘whole of government’ response: smoke and mirrors

Having ended the RDP, and having nothing to offer in its place, the Minister of the then named Department of Transport and Regional Development (DTRD) wanted to reassure his rural and regional constituents that the government was not specifically discriminating against them in announcing its Budget cuts. Four retrenched officers from DTRD were assembled to write the forward and coordinate the August 1996 Budget Statement, *Rebuilding Regional Australia* (staff interview 2000). The Department of Prime Minister and Cabinet had been asked to search through Commonwealth programs and make a list of those whose expenditure impacted on regional Australia. The Howard government was attempting to sell the message that the benefits from its ambitious economic reform agenda, i.e. deregulation, waterfront reforms, lower interest rates and lower inflation, would provide lower cost structures for increased investment for rural based industries. And, although it had no specific program for
regional development, Commonwealth expenditure in non-metropolitan regions would be better coordinated and targeted under a Coalition government.

The four officers articulated a ‘whole of government’ strategy for the government, part of which was their recommendation to establish the Ministerial Working Group on Regional Affairs (MWGRA) to be chaired by the then Minister for DTRD. The MWGRA was suggested as a peak ministerial forum that the government could use to coordinate and give substance to its whole of government approach. The MWGRA would give rural and regional Australians a sense that Ministers were coordinating their activities and focusing on their economic development needs across portfolios. After its first meeting in November 1996, Minister Sharp said in a press release that the government had established the MWGRA as one of its ‘highest priorities’ (Sharp 1996b). The officers were aware of the rising backlash against the government in rural and regional constituencies as a result of cuts in funding and a loss of services (discussed below).

The MWGRA failed to get either Ministerial or bureaucratic support for its activities and subsequently collapsed through a general lack of interest after five or so meetings, over a period of about 18 months (staff interviews 2000). Despite the best efforts of the new Parliamentary Secretary for Regional Development, Michael Ronaldson, MP, who assisted Sharp in coordinating the MWGRA, Ministers began sending their junior ministers or advisers along to meetings; eventually the MWGRAs just faded away. Similarly officers of DTRD, who were acting as secretariat to the MWGRA, faced strong resistance from other departments in their efforts to coordinate activities across portfolios given the government had ended its commitment to regional development (staff interview 2000).

In the first eighteen months of the Howard government no new program funds flowed to the DTRD, the portfolio responsible for economic development in regional Australia. Minister Sharp and his parliamentary office were under constant pressure from various regional groups who had lost funding in the Budget cuts and were demanding action. The best Sharp could do was to announce and re-announce a series of major programs (from other portfolios) that focused expenditure outside the capitals to create the illusion that these initiatives were somehow part of a coordinated, whole of government, regional development strategy. This included initiatives such as: $AUD1.25 billion Natural Heritage Trust (Environment portfolio); $AUD525 million Agriculture – Advancing Australia package (Primary Industries portfolio); $AUD250 million Regional Telecommunication Infrastructure Fund (Communications
portfolio); and, $AUD30-40 million Regional Assistance Programme (RAP - Education portfolio).

The reality was that the Minister responsible for regional development had no input to the design of these initiatives and no say in how funds were to be allocated (for example he had no influence over RAP funding which operated across Australia’s regions). The Minister was given a $AUD10 million fund to mop-up Coalition pre-election promises (made in key marginal seats) and to meet obligations for flood mitigation and a major salinity management project that had been inadvertently cut when the RDP was abolished (staff interviews 2000). The increasing backlash over government cuts and declining services in regional areas led Minister Sharp, on at least two occasions, to write to the Prime Minister outlining his frustration at being the Minister responsible for regional development with no program or funds available to specifically address regional issues (staff interviews 2000).

In an effort to lift the Commonwealth profile in regional development Minister Sharp called a meeting in February 1997 of all state and Territory regional development Ministers to explain the Coalition’s ‘whole of government’ strategy (staff interviews 2002). Department officers involved in the meeting recollect that it became very clear to State and Territory Ministers present that the Commonwealth had in fact nothing on the table to offer to assist regional development, infrastructure funding or structural adjustment (issues they had raised). Most of the conversation centred on how the Commonwealth devised its rationale for the allocation between the states of the Regional Telecommunications Infrastructure Fund - the responsibility of the Communications Minister who was not part of the meeting. While Sharp could give the government line on this issue in reality he had nothing to do with the program or its implementation. Nothing tangible came of the Ministers meeting other than an official Communique.

As a reflection of the Howard governments total philosophical withdrawal from urban and regional policy, another Ministers meeting was not held until November 2000 (nearly four years on). It not surprising perhaps that Minister Sharp’s focus during his term was on waterfront, transport, rail and aviation market-led reforms. He stood down as Minister in September 1997 over allegations he abused parliamentary entitlements.

Ad hoc nature of the government’s approach

Three decisions during the period typify the Howard government’s highly political, inconsistent and ad-hoc approach to assisting some communities struggling to cope with structural change.
As part of the government’s $AUD2 billion rail reform package, Cabinet agreed in November 1996 to a $AUD20 million regional assistance package for workers and communities most affected by the changes (Ronaldson, 1996). The rail reforms resulted in new private enterprise firms operating the former Australian National (AN) rail business and consequently resulted in large job losses. According to officers involved the $20 million package resulted from a deal brokered between the union movement and the government as a means to progress its rail reform package. Aside from this aspect, the decision followed due process in getting Cabinet approval before the Minister formerly announced it. In contrast, in May 1997, the Howard government agreed to allocate a $10 million assistance package to assist the Hunter region following the decision by BHP to phase back its Newcastle operations (Ronaldson 1997).

Officers directly involved in the decision at the time confirm that Howard’s action in this case was purely political. That is, the NSW Labour government had announced a $10m state package in response to the proposed BHP closures. In this case the Commonwealth package was not considered or approved by Cabinet before the Prime Minister committed to match the NSW government grant – it was policy on the run.

Another highly political regional assistance package involved a deal between the Howard government and Senator Harridine from Tasmania who at the time held the balance in the Australian Senate. The Coalition needed Senator Harridine’s vote to pass its Legislation for partial privatisation of Telstra through the Australian Senate. Tasmania subsequently received $AUD50 million for various regional development initiatives and a further $AUD58 million from the $250 million Regional Telecommunication Infrastructure Fund (Sharp 1997:10).

These packages were not part of a national spatial framework or institutionalised process for dealing with communities impacted by structural change. As the discussion in Chapter two highlights, many other regions faced business closures and/or massive industry restructuring during this period but received little or no assistance and attention from the government during this period.

Re-packaging existing programs

The Hon Mark Vaile replaced Sharp as Minister for Transport and Regional Development in October 1997, facing much the same dilemma – no program or funding for regional development. However, within the Transport portfolio the government created a new junior Minister role for Regional Development, Territories and Local Government - as a means to heighten the public perception at least of the importance of regional issues. In terms of regional development, the junior Minister, Alex Somlyay MP, followed Sharp’s lead of trying to
more clearly differentiate existing Commonwealth spending between metropolitan and non-metropolitan Australia (Vaile and Somlyay 1998). For example, in preparation of the 1998 statement by Vaile and Somlyay, funding for the National Highway is identified as $AUD676 million with more than 90 per cent of funding going to regional areas (Vaile and Somlyay 1998:15). Similarly, of the total local government financial assistance grants of $AUD1.229 billion some $800 million is identified for councils in regional Australia.

Mr Somlyay also wrote to the Prime Minister in the lead-up to the 1998 Budget asking for funds from the second partial sale of Telstra for a modest regional development program – this was again rejected (staff interview 2000). In the May 1998 Budget the DTRS received $AUD10 million to develop a communications strategy to better understand regions and communicate government initiatives. As part of the May Budget process officers of the DTRD prepared the statement Regional Australia: Our Commitment. In this statement they coined a new phrase, the Regional Australia Strategy, which the government embraced and began to promote – even though, in reality, there was no strategy (staff interview 2000).

**Bureaucratic-led initiatives: keeping the regional development door open**

Whilst there was not a willingness by the Coalition to support a specific regional development program in its first three years in office, officers from DTRS developed two separate low-cost initiatives for the Minister to consider. Both of these examples illustrate the difficulty of developing initiatives that run against the political tide and have not emanated from the key central government agencies.

The first was the introduction of Regional Impact Statements (RIS) and, the second, the Regional Forums Program. The intention of RIS was to ensure that Cabinet Submissions would identify the likely regional impact – positive or negative – of any new policy/program or significant changes, particular in terms of impacts on services, employment and investment (staff interview 2000). Cabinet approved RIS in July 1998 yet it took until February 1999 for their implementation. Officers involved in the development of RIS confirm that the delays came from their counterparts in the Prime Minister’s department who felt the implementation of RIS was not a high priority (staff interview 2000). After protracted negotiation about the form and processes involved in preparing an RIS the Prime Minister’s department rejected the requirement that Ministers prepare an amelioration strategy when a negative impact was identified (part of the original draft guidelines for RIS).
In other words the Prime Ministers’ office watered down RIS to simply require Ministers to keep Cabinet informed of the potential regional impacts of proposals brought to Cabinet. There was not a requirement for them to amend their proposal or to suggest remedial action as was originally intended. Again this is illustrative of the dominant government view that regional adjustment was simply a function of market forces and that there was no role for government in addressing spatial adjustment issues in a systemic way.

The second initiative was the Regional Forums Program that aimed at introducing institutional changes to give substance to the ‘whole of government’ rhetoric. Officers of the department prepared a brief to Ministers Anderson and McDonald seeking their approval to undertake three pilot regional forums to facilitate the interaction between regional stakeholders and the Commonwealth (staff interview 2000). The program consisted of identifying stakeholders in a region and developing a Regional Futures Brief that identified key priorities for the sustainable future of the region. The Commonwealth would engage a consultant to undertake this regional collaborative process. As part of the processes a regional forum would be held where the Minister (and/or junior Minister) would attend along with senior representatives of a number of Commonwealth portfolios. The intention here was to listen to regional concerns (identified in the Futures Brief) and to form stronger links with state and local government representatives. The Commonwealth would then have three months to formally respond to the regional priorities identified through the process as articulated in the Brief.

The objectives of the Forum program were two-fold (staff interview 2000). Firstly, the Futures Brief was to become a living document to be revisited every three to four years reviewing its implementation, effectiveness and, consequently, establishing new priorities, i.e. a living ‘State of the Region’ report. Secondly, that this process would over time shape the programs and expenditure of the Commonwealth agencies involved in better reflecting regional needs. The processes included the Commonwealth talking to state, local government and local business about cost sharing arrangements and contributions to individual projects identified. Paralleling this local process was the establishment of an interdepartmental committee (IDC), or Working Group, at the Commonwealth level to facilitate a whole of government response across relevant portfolios. It needs to be emphasised that there was no new money being offered to the DTRS to support this program (i.e. the Forums were conducted with no set budget to go to the region).

What was envisaged for the Forums program and what eventuated were two very different things. Ministers Anderson and Macdonald agreed to the pilots but perhaps not surprisingly,
suggested that Forums be held in regions that encompass their electorates and not the regions identified in the original brief. Three Forums were conducted under the program in Spencer Gulf, South Australia, New England region in New South Wales and Northern Australia - encompassing North Western Australia, Queensland and the Northern Territory.

Much of what flowed from the Forums in terms of the Commonwealth’s response was a series of commitments from individual portfolios to accelerate the access of existing programs to that region (officer interview 2002). For example, in the Spencer Region the Department of Industry, Science and Resources (DISR) under its Invest Australia program placed an officer in the region to undertake an investment strategy. Similarly, the Department of Employment, Workplace Relations and Small Business (DEWRSB) were able to source funding for several projects under its RAP programme. However, no new money as such came from portfolios to assist these regions (officer interview 2002). For example, all three regions identified increased road funding as a priority, however no new road funding came from DTRS as part of the Forums program. The Regional Forums trial ended with the Commonwealth response to New England Forum in October 2001.

There was general frustration expressed by many who participated in the process that DTRS had no funds dedicated to the Forum Program and this diminished its ability to leverage commitments from other Commonwealth agencies and local stakeholders (staff interview 2002). The Futures Briefs became static ‘reports’ on each of the forums, to be shelved and archived rather than a living State of the Region brief to be revisited and renewed. However, ultimately, the process itself would strongly influence at least two new Commonwealth initiatives - the Roads to Recovery and the Sustainable Regions programmes - both programmes offering increased flexibility in funding directly to regions – (staff interview 2002).

The announcement of these programmes reflected a general resurgence in regional issues that followed the appointment of Minister John Anderson, MP to the Transport portfolio. However, what becomes clear is that this resurgence reflects a political response to potential electoral problems in non-capital city electorates for the Coalition and not a philosophical commitment to regional development policy.

**The rise of John Anderson, Minister for Transport and Regional Services**

The appointment of the then National party’s deputy leader, John Anderson, as Minister for Transport and Regional Services (DTRS) in October 1998, was something of a turning point in the evolution of the Coalition commitment to non-metropolitan regional problems. Three
factors emerged that gave Anderson far more political muscle within Cabinet than his Ministerial predecessors and hence enhanced his capacity to get regional issues, in the political sense, back on the national agenda.

The first factor was the threat posed to the Coalition government by the rise of Pauline Hanson’s One Nation party – a right wing conservative and nationalist party. This political urgency was heightened by the result of the Queensland State government election of September 1998, where One Nation gained strong electoral support largely from the National party’s traditional heartland of the rural and regional Queensland constituency (Anderson 1999). Anderson, on becoming Minister, quickly arranged a tour of Queensland where One Nation had successfully tapped into the electoral disillusionment felt by many of declining services and structural adjustment costs associated with Budget cuts and globalisation. As reported in the popular press, One Nation’s campaign against the sale of Telstra alone won an estimated one million votes in regional areas (Canberra Times 5 February 2000:C1-3).

Such was Anderson’s concern that he would subsequently appoint a one-off Community Liaison Officer based in Longreach, Queensland, to better coordinate Commonwealth community relations, service delivery and grant applications (staff interview 2000). At the time of writing no other Community Liaison Officers have been appointed in any other part of Australia.

The second factor that began to elevate Anderson and regional problems during this period was the mounting public evidence of increasing regional problems. For example, during this period the government conducted, or was conducting, several Parliamentary inquiries in response to problems in non-metropolitan regions. The findings of these inquiries fuelled backbench pressure within the Coalition over a range of regional issues including a loss of services and infrastructure and the negative impact of NCP. Adding to the government’s problems was the work of Australia’s Human Rights and Equal Opportunity Commissioner, Mr Chris Sidoti. Through a series of Bush Talks, Sidoti was highlighting in a very public way a range of social problems being fuelled by rising poverty in Australia’s rural and remote communities and the failure of the Howard government to address them (Sidoti, 1999).

Moreover, internal market research undertaken by the Communications Branch in DoTaRS as part of the Regional Australia Strategy had identified many of the same government failings. The final report was handed to Anderson in September 1999 – earlier drafts of the findings had been fed to the Minister’s Office on an on-going basis. The report by Quantum Market
Research (QMR 1999:6-11) was conducted by a phone interview of 1501 people asking their views on government performance in regional Australia. The major issue of concern according to those surveyed was unemployment (28 per cent) - this was more than triple the next two responses (roads and crime). The research found respondents expressed a strong sense of abandonment by the government (governments in general) and a feeling of alienation reflected in an inability to influence decisions made by the Commonwealth. Over 90 per cent felt it was important that decisionmakers for regional and rural Australia actually live in the area (QMR 1999:9). Fewer than one in ten respondents felt the Commonwealth was doing a good job in nearly all areas tested. More than half had the opinion that a poor job was being done in terms of giving priority to local issues, consulting the community and showing genuine empathy for local needs (QMR 1999:11).

It was against these types of mounting political pressures that Anderson called for a National Summit for rural and regional Australia (held in October 1999).

The third factor that elevated Anderson’s ability to get regional issues back on the Coalition’s agenda was his promotion to leader of the National Party on 1 July 1999 and then to Deputy Prime Minister on 20 July 1999 (following the resignation of Mr Tim Fischer). All previous Ministers in the regional development/services portfolio were more junior, both in the National Party and, in particular, within the Coalition ranks.

Interestingly, the results did not come in immediately for Anderson. However, he did move quickly to enhance the Regional Services division of his portfolio. In the May 1999 Budget statement, Regional Australia Meeting the Challenge, for example, the only new initiative for the Regional Services division was the $AUD70 million Rural Transaction Centres programme. This program funded by the social bonus of the second partial sale of Telstra provided small rural communities with funds to establish access to basic services such as banking, post, phone, fax and Medicare Easyclaim. This proposal, however, was put forward in the Budget process by another Commonwealth agency and given to DTRS in the last weeks before the Budget was announced (staff interview 2001). Again, the Minister responsible for regional Australia did not develop this program – he was, at the last minute, given the task to implement it (staff interview 2001). Some other funds came to local government areas of the portfolio in the form of the Local Government Incentives Program - $AUD7 million.

Minister Anderson was successful in 1999 in bringing to his portfolio some small elements of the Primary Industries portfolio such as the Rural Plan and Rural Communities programs and a
unit responsible for the production of the annual government information publication the Rural Book. Anderson also established the Regional Women’s Advisory Council and a Rural and Regional Women’s unit with Regional Services division. However, as part of a far more ambitious attempt to increase the size of the regional service division of his portfolio, he had sought to change the administrative arrangements to administer ACCs (and the Regional Assistance Programme) from DEWRSB and the Regional Tourism Program from the Industry portfolio (staff interview 2001). As one officer interviewed recalls, the Ministers responsible for these programs rejected Anderson’s proposal out of hand (staff interview 2001). Instead Anderson announced a series of Memorandums of Understanding with other Ministers over a series of programs that affected regional Australia.

Response to the Summit – the tide began to turn

In the May 2000 Budget statement Regional Australia Making a Difference Minister Anderson begins to articulate the government’s response to the Regional Australia Summit. At the Summit the government announced the creation of the Foundation for Rural and Regional Renewal a philanthropic organisation the Commonwealth contributed $AUD14 million to establish. The Foundation, a semi-autonomous organisation, supports a range of initiatives to assist communities and business investment to work together to build local capacity and diversify their activities. This was followed in June 2000 by the announcement of the Regional Solutions programme - a $AUD90 million initiative over four years for communities to identify and implement development opportunities more specifically to meet their needs.

However, Regional Solutions combined the elements and resources from two earlier programs Rural Communities and Rural Plan that had reached the end of their funding cycle in the Primary Industry portfolio (staff interview 2002). Although touted as a new initiative by the Minister, Solutions simply continued to target the same small rural communities struggling with the impacts of change as had it predecessors. In this sense it was not a new initiative at all. Moreover, others have pointed out that the bulk of the Solutions programme’s funds disproportionately favoured electorates of National Party members (Cherry 2002).

Another initiative to emerge in late 2000 was the Roads to Recovery Program - a $AUD1.2 billion over four years program. Roads to Recovery was important because for the first time funds went directly to local government ($AUD850 million of the total to rural and regional councils) and this allowed councils to spend on their local road priorities (Anderson 2000). Of most interest is that the Commonwealth enacted new Legislation to enable it to provide funding directly to
local governments for the first time thus avoiding having to go through the states (Anderson 2001). Allocation between councils within each state is in accordance with the formula adopted by the State Grants Commission for distribution of Financial Assistance Grants (FAGs) identified for roads (as discussed in Chapter two).

As mentioned earlier, additional and flexible roads funding had been identified as a priority on Anderson’s visit to Queensland when first coming to the Transport portfolio, again at the Summit, and repeatedly through the Regional Forums program. The better than expected Budget position in 2000 provided the funds for Solutions and Roads to Recovery. More to the political point, however, it highlighted the government’s need to boost its profile in rural and regional electorates particularly for the coming 2001 Federal election.

The May statement says ‘this Government’s goal is to ensure that all Australians share in the wealth of the nation and the opportunities presented in the new century, regardless of where they live’. Moreover, ‘we will focus our attention more strongly on the impact of economic and social policy on individual communities’ (Anderson and Macdonald 2001:1). Interestingly, the statement overview (forward) makes no reference to the Howard government’s ‘whole of government’ approach or its ‘Regional Australia Strategy’ the centrepieces of its four previous statements (between 1996 and 2000).

A new framework for regional development?

In August 2001 Minister Anderson launched the Stronger Regions, a Stronger Australia statement at the National press Club in Canberra which included a $AUD100.5 million over four years Sustainable Regions Programme. This package was made up of:

- The Sustainable Regions Programme
- A reduction in charges for agricultural exports
- A Regional Business Development Analysis study
- Enhancements to National Competition Policy; and
- An Access to Government Information Program.

According to officers of DoTARS, the experience of the Regional Forums pilot program had an influence on the rationale and design of the Sustainable Regions Programme. The Sustainable Regions Programme aims to help communities in eight ‘prototype’ regions to develop programs and test future development options. The selected regions were determined on a number of criteria including unemployment, family income, and interestingly, their commitment to take
charge of their own future (Anderson 2001). Interestingly, in a break from the first five years of Coalition regional initiatives, urban fringe areas outside the capital cities also qualify for funding under Sustainable Regions. Each of the regions would receive around $AUD4 million per year for three years (this varies between regions) for a range of projects including local infrastructure, skill building, encouraging small business and local enterprises as well as for social development and environmental issues.

Following the re-election of the Howard government in October 2001 Minister Anderson further strengthened his portfolio through changed administrative arrangements that finally brought ACCs (and RAP funding) into DoTaRS. For the first time under the Coalition, this administrative change gave the Minister responsible for regional development an institutional and spatial framework to address regional development issues across metropolitan and non-metropolitan Australia.

These programmes and administrative changes placed the Commonwealth back into the area of regional development potentially at least in a more engaging way. However, in many ways they simply picked up on the spatial policies begun under Labor's RDP in 1994. For example, under the Sustainable Regions Programme regions are given funds to establish a Local Advisory Committee, initiate plans for future development, identify priority projects (development options) and make recommendations to government for funding - all of which were part of the RDP process. Some significant differences are that under Sustainable Regions selected regions have a set budget whereas under the RDP regions competed for a share of national program funds. Sustainable Regions also only applies to eight prototype regions whereas the RDP established regional development organisations that covered all of metropolitan and non-metropolitan Australia.

At the time of writing Sustainable Regions was being implemented and a new charter, enhancing their regional development focus, for the national network of ACCs was being developed. In keeping with the longer tradition of treating separately, industry and regional policy, DoTaRS has no formal links to the industry portfolio or its programmes. Moreover, the Government's industry policy statement Developments in Australian Industry Policy 2001 has only one reference that links industry policy to regional development (DITR 2001:14).
Conclusion

Until the 1980s Australia’s institutional arrangements worked to address issues of equity with economic development. Under this regulatory regime there was bi-partisan support to guarantee full employment and a greater emphasis on the distribution of wealth particularly for Australia’s low skilled, lower and middle-income earners. Part of these arrangements included tariff protection, cross-subsided services and infrastructure much of which benefited private investment. While these activities overwhelmingly favoured major projects and investment in Australia’s metropolitan regions successive governments attempted at least to maintain institutional structures that saw services and jobs flow to non-metropolitan regions. This remains implicit in the financial arrangements (HFE) between the Commonwealth, state and local government (although local government remains the least well-resourced tier of government within this arrangement). Yet, Australia’s particular model of competitive Federalism continues to undermine attempts between the tiers of government to better coordinate urban and regional development outcomes – issues around addressing the fiscal imbalance continue to dominate Commonwealth state relations.

From time to time the Commonwealth developed explicit regional development programmes but these were short lived - being introduced by Labor governments and removed by succeeding Liberal governments. There has been no sustained agreement between the tiers of government that regional/industry policy could be used as a framework for achieving better spatial planning and balancing efficiency, equity and environmental concerns.

Traditional institutional arrangements changed with the election of the Hawke/Keating governments in the early 1980s. And, as a consequence, the traditional buffers between workers and regions and the immediate impacts of capital restructuring were systematically eroded. The Hawke/Keating governments adopted a ‘carrot and stick’ approach to entice state and local government to enter into a new range of spatial policy initiatives (‘little’ carrot ‘big’ stick). The carrot was Commonwealth money through various spatial programs such as BBC, RDP, and AGGs. As already explained, in terms of the total Working Nation package, the Commonwealth’s commitment to regional development was a modest one at best. The sticks were the penalties imposed for failure to comply with competition reforms particularly in terms of NCP payments to the states (the resources and penalties associated with this initiative were much larger in comparison). These more recent market-driven developments run contrary to traditional equity objectives of the Commonwealth.
Between 1996 and 2001, the Howard government attempted to promote its ‘whole of government’ approach as its way of addressing the concerns of regional Australia (non-metropolitan regions). The approach proved to be a poor substitute for national regional development policy at it was highly political, largely ad-hoc and inconsistent. Evidence of this is the widening gap between poor and richer regions and workers and general rise in spatial inequality discussed in Chapter two. The National Regional Summit was called in an attempt to appease an increasing rural and regional political backlash against government in late 1999. This did not reflect an increased commitment by the government to regional development policy but a response to mounting political pressure from various quarters and in particular the rise of One Nation. By 2001 the government had dropped much of its ‘whole of government’ rhetoric and announced its first substantial regional programme - the Sustainable Regions Programme - for eight select regions. This was done in the context of the lead-up to an October Federal election and reflected the need for the Coalition to address a rising political backlash across non-metropolitan electorates.

The fact remains however that between 1996 and 2001 the Howard Liberal government had no coherent policy rationale or framework for dealing with the spatial impacts of structural change. Nor did it have a national approach to regional development (or urban) policy relying instead on market forces to determine the national distribution of income, employment and economic opportunities.

Given that the Australian government had chosen for the most part to abandon regional development policy between 1996 and 2001, it is worth reviewing recent international academic analysis of different approaches to regional theory and practice. The next three chapters offer some alternative theoretical approaches to neo-liberal theory and policy that may form the basis for rethinking Australia’s approach to addressing its regional problems.
Chapter 4

THEORETICAL FRAMEWORKS: A CRITICAL REVIEW OF POST-FORDIST AND ECONOMIC GEOGRAPHY LITERATURE

Introduction

The purpose of this chapter is to review and critically evaluate recent developments in industry/regional development literature and ideas and consider their implications and suitability to the Australian case. The literature to be discussed has emerged in response to three interrelated events: the stagnation of growth in the world economy during the mid-1970s to the early 1980s; the subsequent erosion of the institutions that underpinned the Keynesian inspired post-war economic order; and the rise of the highly contested concept of ‘globalisation’. Of particular interest is that much of what is to be discussed offers a theoretical explanation of the structure of industry, innovation and economic growth that cannot be separated from the social, cultural and institutional structures of the nation, and sub-national ‘region’ or location, in which the economic activity occurs.

Most salient, it offers an alternative approach to neo-liberal-led reforms and attendant policy prescriptions that emphasise the price mechanism and market efficiency as the sole determinant of international competitiveness. As the last chapter indicated, neo-liberal policies have dominated Australian economic management for much of the past two decades. Yet, this approach has had little success in addressing regional disparity in the Australian context (as discussed in Chapter two). In contrast, much of what follows identifies successful collaborative processes and strategies where government supports regions to better manage the impacts of changed market conditions on the local production system. Most importantly, however, there is potential within this collaborative framework to address a range of issues other than just market efficiencies: this includes human capital and learning, innovation, social and environmental issues (a key theme of this thesis).

Specifically, it has been debates associated with post-Fordist literature that have significantly influenced international policy-makers to concentrate more on region (spatial) specific ‘capacity’ and institution-building activities to achieve national/local economic development. This includes an increased focus by national and local policy-makers away from individual firms to a concern with the geographical site within which firms operate. It suggests that
national and local policy-makers have an active role in providing the supply-side activities that underpin regional innovation and competitiveness; and, exploring new mechanisms and approaches to facilitate collective action and learning. In short, it is argued that regions that have performed best over a sustained period of time are those that have developed the local socio-economic environment in which government, firms and communities share experience, build trust, collectively learn, and compete collaboratively (see Henton et al 1997). Post-Fordist literature indicates that it is the strength and the synergies between national and local, formal and informal, institutional arrangements that determine a region’s (and nation’s) capacity to respond to change. As Macleod (1999:1) concludes:

It is almost axiomatic now to proclaim that, as economic activity becomes more globalised and the nation state relinquishes its role as the ‘natural economic zone’, certain regions re emerging to become the key engines of wealth creation. A number of influential academic perspectives have contended that the political, social and geographical shaping of this regional resurgence is partly dependent on the existence or otherwise of a regionally based institutional thickness or an innovative milieu (quoted in Giordano 2001:26).

More generally much of what follows challenges the dominant economic paradigm that suggests neo-liberal inspired policies premised on ‘deregulation’ are the only option for government policy-makers in an emerging knowledge-based economy. Indeed the broad conclusion to be drawn from the following is that more interventionist public policies are required to nurture regional/industry development in an era of increased globalisation. Public and public/private partnerships that support the growth of endogenous SMEs, strategic infrastructure, local capacity and skills, institution building and promote continuous learning are required to capture opportunities in the emerging knowledge-based economy. This is because as the pace of technological change increases firms and communities need to be engaged in a process of continuous innovation and learning in order to adapt to the forces of change. Building a capacity to respond to change rests on a foundation of increased public and private investment in, for example, education, training and R&D (innovation).

Although the mechanisms for national regulation of the macroeconomy have changed in a period of increased globalisation, government’s ability to facilitate economic activity and to influence and sustain economic actors within their boundaries remains strong (Hirst and Thompson 1992). Moreover, as competition in the global knowledge-based economy intensifies it becomes increasingly incumbent on government to foster a supportive national system of innovation that nurtures a knowledge economy (Gertler 1992).
Many of these ideas are explored in the major theoretical subsets of the post-Fordist debate to be discussed below, namely: neo-Schumpeterian, neo-Smithian, and neo-Marxist (and economic geography) literature (Amin 1994). Amin (1994) usefully reduces the debate to these three main contrasting theoretical streams (neo-Schumpeterian - techno-economic determined change; neo-Smithian - flexible specialisation or ‘production’ driven change; and neo-Marxist or French Regulation School - the role of ‘embedded institutions’ in economic development) (see also Malmberg 1997; Amin and Malmberg 1992; Elam 1990).

This chapter begins with an overview of the post-Fordism debate and reflects on the diversity and difference of perspective within the broader post-Fordist literature. As will become clear, many of the ideas that underpin the following theoretical and empirical studies are interrelated and, consequently, on occasions overlap - this is particularly so with the economic geography and national systems of innovation (NSI) literature. This is not surprising as most post-Fordist/economic geography literature has its origins in Marxist political economy and as such brings to its study the usual critiques and debates contained in Marxist explanations (Waitt et al. 2000, Chapter three). This literature differs in the way emphasis is placed on purely economic forces in shaping social life on the scope for autonomous action on the part of the state, on the importance granted to cultural and non-market influences, and on the potential to reform capitalism (Waitt et al. 2000:76). As will become clear from the following discussion, post-Fordism remains a debate and not a universally accepted theory as such (Amin 1994; Tomaney & Ward et al. 2001, Chapter one; Gibbs et al 2001). But, nonetheless, along with Porter’s industry clustering agenda (discussed in Chapter five), its contribution has had an important influence on international thinking in regional development and industry policy.

Following this discussion we consider the implications of post-Fordism for regional development policy for small peripheral economies like Australia. Here we begin to explore the possibilities and challenges to spatial approaches to industry and regional development given Australia’s particular model of competitive Federalism and its contemporary industrial structures.

Post-Fordism: an alternative to neo-liberalism

According to post-Fordist logic, the driving force of the Fordist mode of capital accumulation is the mass production dynamic, pioneered in the US by Henry Ford during the 1920 and 1930s. The Fordist management strategy is reliant on the intensification of work, the detailed
division of tasks and mechanisation to raise productivity, and various forms of ‘monopolistic’
regulations to maintain this self-reproducing growth regime (Amin 1994:9; Jessop 1991;
Tomaney 1995). The post-war period in western economies was dominated by a Fordist mode
of capital accumulation. This mode of production can be characterised by large industrial
complexes, blue-collar work, tariff protection, full employment, centralised bureaucracies of
management, mass production of standardised goods, the welfare state, the dominant position
of mass political parties (Amin, 1994:2).

What was unique about this period was that Keynesian inspired fiscal policies generated tax
revenues sufficient to finance welfare expansion, and provide the material basis for the class
compromise between capital and labour. As Jessop (1994:256) suggests, in so far as full
employment was achieved in a unified labour market, it reduced the volume of primary poverty
among working families. This in turn created room for more generous income maintenance
programs for other groups that both sustained and expanded mass consumption. Jessop makes
the point that ‘if the Keynesian Welfare State helped to secure the conditions for Fordist
economic expansion, the latter helped to secure the conditions for the expansion of the
Keynesian Welfare State’ (Jessop 1994:256). Others argue that the distinguishing feature of
post-war period was not so much that it was ‘Fordist’, but that it was underpinned by ‘the
institutionalization of a particular balance of class forces, in which rising wages and rising levels
of social expenditure were the price paid for the industrial and political integration of the
working class’ (Tomaney 1994:183).

Post-Fordism then is a debate about the transition from one dominant phase of capitalist
accumulation (Fordism) to another (post-Fordism), based on a fundamentally different set of
social and political arrangements. That is, post-Fordists’ perceive that capitalism is at a
crossroads and that new sets of forces – technological, market, social and institutional – are
taking different institutional forms to those which dominated the western world’s economic
development in the post-war period (Amin 1994:1). In this sense one would have to agree with
Elam’s (1990) observation that, in many ways, the post-Fordist debate is a contemporary
expression of a classic debate about capitalism’s future, its dynamics and its survival.

Important to this thesis, post-Fordist literature suggests that the economic geography of a new
era of global capital accumulation is, at once, a global and a local phenomenon:
The new organisational networks, involving foreign direct investment and alliances, are transnational in their operational structure. But, in contrast to Fordism, production in individual localities, it is argued, is neither footloose nor reliant on non-local linkages. This is because the achievement of flexibility and new economies through the decentralisation of management and production is said to favour the establishment of strong ties and linkages at the local level; the global integration of production, thus, could unleash powerful decentralising tendencies and raise the potential for greater local embeddedness of the division of labour (Amin and Malmberg 1992:228).

In many ways post-Fordist literature attempts to understand the implications of the removal of the post-war institutional structures, and theorises about what new socio-political arrangements (regulation) might emerge. And, more particularly, what will be the implications for global, national and regional (local) economic development of these new arrangements, particularly in a period of increased globalisation. The point to what follows is that the global changes are creating significant pressures on nations in terms of not only how they structure government but on the design and direction of regional/industry policy and program delivery.

In the main, post-Fordist literature emerged as a reaction to the rise in neo-liberalism and its attendant market-led policy prescriptions. As Amin (1994:5) notes 'an underlying theme in the post-Fordist debate is the search for political project which is more democratic, more egalitarian and more humane than neo-liberal conservatism'.

The major theoretical themes within post-Fordism

A complement to the main post-Fordist theoretical themes (drawing influence from each) is the more contemporary economic geography literature, which focuses more specifically on the contribution of ‘location’ to the processes of learning, innovation and competitiveness. The economic geography literature seems to particularly attempt to answer the question: what are the precise characteristics or localised capabilities that distinguish innovative and competitive regions in a ‘knowledge-based economy’? (Malmberg 1997). The following sections give an introduction to each of these theoretical contributions to the broader post-Fordist debate utilising Amin’s categorisation. The following analysis distinguishes between the micro and macro economic aspects of the post-Fordist debate, i.e. micro – neo-Smithian and flexible specialisation, and macro – Regulation and neo-Schumpeterian perspectives. It begins with a brief discussion of neo-Marxist, regulation theory.
Neo-Marxist – Regulation School

During the 1970s, political economist theorists in France began to stress how different development patterns characterised economic systems in an attempt to explain the dynamics of long-term cycles of economic activity (Amin 1994:7). In particular, the French Regulation School (Aglietta 1979; Lipietz 1985 & 1987; Boyer 1988) presented a theoretical discourse on the organisational changes to the "Regulatory Regime", that were embodied in the transition from a Fordist to a post-Fordist model. The ‘Third Italy' concept, a more empirical oriented analysis, was advanced as a new development model based on medium-sized firms, in which there were highly flexible production processes and a highly specialised division of labour among local areas (more recent aspects of the economic forces shaping the Third Italy are discussed below). The post-Fordist economy, it is argued, is one characterised by a flexible production system that is able to cope with high market volatility and customised goods, and has developed a flexible system of specialisation (Capello 1994).

Regulationists work from the assumption that the history of capitalism on the world scale is characterised by a sequence of specific social formations, which differ from each other greatly depending on the underlying basic structure, or ‘institutions’ (Esser and Hirsch 1989:73). In this way they appose an interpretation of Marxist theory that sees history unfolding according to pre-determined economic tendencies of the dominant capitalist mode of production, i.e. Marx’s theory of historical materialism (Esser and Hirsch 1989; Elam 1990). That is, they reject the notion that the complex structure of society can be simply reduced to a base-superstructure model and point to the existence of a second constellation of dynamic forces in the historical development of capitalism; a largely autonomous sphere of ‘polico-institutional forces’ (Elam 1990). These politico-institutional forces, or sets of embedded social practices, regulate and reproduce a given accumulation regime. This is achieved through application across a wide range of areas, including the law, state policy, political practices, industrial codes, governance philosophies, rules of negotiation and bargaining, cultures of consumption and social expectations:

The aim of the French regulationists was to develop a theoretical framework which could encapsulate and explain the paradox within capitalism between inherent tendency towards instability, crisis and change, and its ability to coalesce and stabilize around a set of institutions, rules and norms which serve to secure a relatively long period of economic stability. This conceptual effort was underpinned by the observation that the stagnation of growth in the world economy after the mid-1970s amounted to much more than a cyclical lull, symbolizing a general crisis of the institutional forms that has come to guide the post-war world economy (Amin 1994:7).
Finally, it can be said that regulation theorists tend to point to the unique spatial characteristics of industry location, industry configuration, as well as the non-economic institutional arrangements in an attempt to understand the dynamics of economic performance. More recent economic geography literature, for example, is concerned with the interconnectedness of firms (collaboration) in an attempt to understand industry 'competitiveness', innovation and learning and the role location plays in the learning process (Lee and Wills 1997; Maskell and Malmberg 1999). Maskell et al. (1998), for example, identifies the characteristics of localised 'capabilities' to include four main elements: the institutional endowment; the build structures; the natural resources; and the knowledge and skills of an area (Malmberg 1997:577).

In another study, Saxenian (1994) has also argued that the continued economic dynamism of Silicon Valley has to do with the collaborative industry networks that promote collective learning and flexible adjustment. It follows that this in turn is interdependent with 'the region’s dense social networks and open labour markets that encourage experimentation and entrepreneurship' (Malmberg 1997:577). Other examples of regional collaborative learning and industry clustering include: industrial districts in semi-urban location (such as those in the Third Italy); areas such as Baden-Wurttemberg in Germany, where leading-edge engineering firms, such as Bosch, rely on sub-contracting and supply networks for their flexibility; and in inner-city environs such as motion pictures in Los Angeles, and the furniture industry in London (see Amin and Malmberg 1992).

NeoSmiithian

This second theoretical group approaches the topic of the determinants of industry 'growth' and 'innovation' from a microeconomic analysis of the firm, with an interest in agglomeration economics and the role of positive externalities.

Piore and Sable (1984) in their work The Second Industrial Divide, ultimately place the changing face of modern markets - a new development model based on medium-sized firms, in which there are highly flexible production processes and a highly specialised division of labour among industrial districts - at the centre of the new global economy (see also Sable 1989). The new era in flexible production emerged in response to the contemporary instability, uncertainty and apparently irreversible fragmentation of core markets in the major capitalists' economies (Amin and Malmberg 1992). Industrial districts, it is argued, avoid the worst effects of economic stagnation because they are not dependent on income that is determined on price competition and low-wage mass production techniques alone. Rather, these districts use flexible machines and skilled workers to make semi-customised goods that command an affordable premium in
the market, and they constantly renew their products and production methods (Sabel 1989:106). Neo-Smithians contend that the continuing process of market fragmentation has fundamental consequences for the organisation of production and the choice of technique (flexible specialisation). And that this in turn is facilitating an irreversible rise of locally clustered production systems out of the crisis facing Fordist mass production techniques (see Elam 1990; Amin and Malmberg 1992; Rosenfeld 1995).

Importantly, flexible specialisation can be achieved by restructuring either 'internally' into autonomous production units, or 'externally' by outsourcing selected components to smaller, independent firms (Rosenfeld 1995:16). As Tomaney (2001:5) summarises:

> A degree of firm specialisation means that the production process is contained within inter-firm linkages that guarantee external; and scope economies, often using new technologies. The nature of the inter-firm division of labour generates powerful agglomeration effects, hence the use of the term ‘industrial districts’. Firms both compete and collaborate with each other – a situation that comes about because of the mutual trust of a shared craft and industry culture.

Most salient, however, is that such a transformation is said to imply a return to place and a dependency on local proximity between stakeholders involved in the local production process (Sabel 1989; Amin and Malmberg 1992).

As Sabel (1989) and others document, the paradigm case of an industrial district is the so-called Third Italy – identified in contrast to the impoverished South and the old industrial triangle of Genoa, Turin, and Milan. The Third Italy is said to stretch from the Venetian provinces in the North through Bologna and Florence to Ancona in the South, which produces among other things knitted goods (Carpì), special machines (Parma, Bologna), ceramic tiles (Sassuolo), textiles (Como, Prato), agricultural implements (Reggio Emilia), hydraulic devices (Modena), shoes, white goods, plastic tableware, and electronic musical instruments (Ancona) (Sabel 1989:107).

Other examples of industrial districts includes the Second Denmark – Jutland, the traditionally poor agricultural region in the country’s West that now produces textiles, garments, furniture, machine tools, and shipbuilding in various industrial districts. The Swedish metalworking producers in Smaland, West Germany’s industrial districts in the Land of Baden-Württemberg that includes products in textiles, garments, textile machinery, machine tools, and automobile components. In the US there are the two high-tech industrial districts: the centre of semiconductor production in Silicon Valley, south of San Francisco, and the concentration of mini-computer producers along Route 128 circling Boston. In Los Angeles there is a
concentration of firms that specialise in processes closely related to the motion picture industry including television, video games, music recording industries, among others (Sabel 1989:107). In northeastern Mississippi, in and around the rural region of Tupelo, some 250 furniture companies and 80-supplier firms work across a multi-county industrial district or industry cluster. Similarly, there is a heavy concentration of hosiery producers and suppliers in Catawba Valley of North Carolina, and around Fort Payne, Alabama (see Rosenfeld 1995).

According to the neo-Smithian logic both the mass production and the flexible specialisation, or craft production, models have coexisted since the nineteenth century, with neither gaining technological superiority nor inevitable dominance over the other on grounds of economic efficiency (Amin 1994:14). Piore and Sabel identify two industrial divides - the first associated with mass production techniques from the 1920s and 1930s, the second that began with the stagnation of the world economy in the 1970s leading to an emphasis on flexible specialisation production techniques. In short, the 1970s economic crisis (long recession and period of stagflation) posed a threat to mass consumerism because of the growth in demand for non-standardised, better quality, short-shelf-life goods. As international competition increased firms became more reluctant to make long-term investments in product-specific machinery as the products market often disappeared before the machines costs were recovered (Sabel 1989:102). These market trends gave prominence to a rise in non-specialist and highly flexible manufacturing technologies and flexible work practices that favoured smaller batch production without loss of scale economies or manufacturing efficiency (Amin 1994:14).

Neo-Smithians argue that the defining feature of the new flexible production accumulation systems has been the recent advancements made in information and communications technologies (ICTs) (Capello 1994:190-192). In short, advances in computer-aided design (CAD) and computer-aided manufacturing (CAM) technology have allowed firms to exploit different production outputs from the production process. With the advances in re-programmable technologies, the same fixed capital can be used for different production processes allowing firms to exploit ‘economies of scope’. Economies of scope can be characterised as those economies achieved in the production cycle that result from the use of a single set of facilities to produce or process more than one set(s) of goods. As Capello explains:

Since the re-programmable capacity of this technology facilitates a flexible use of capital in the production process, the purpose for which capital is used has become general or non-dedicated. As a consequence, capital investment is no longer tied to an individual product cycle (Capello 1994:192).
These neo-Smithian ideas run through the contemporary economic geography literature, particularly focusing on attempts to explain differences in regional learning in terms of the specialisation and interrelatedness of the industrial base of the region (see Pyke and Sengerberger 1992; Markusen 1996; Kelly and Helpper 1997; Maskell and Malmberg 1999). These authors suggest that from a spatial concentration of firms in similar industries 'there is a greater chance of contact with early adopters of new technology, more rapid circulation of information and specific technologies, and a greater susceptibility to bandwagon effects from the greater mass of potential adopters' (Malmberg 1997:577).

Much of this literature is influenced by earlier theoretical work on industrial districts by the economist Perroux. For Perroux, what lifted an economy out of the 'stationary state' to which classical static theorists since Adam Smith had relegated it in the long run is the role of innovation (Harrison 1992:473). Industries making old and new products will, on average, be expected to grow at different rates. The different trajectories will, in turn, affect other firms and industries, initially through 'backward and forward' linkages at prevailing relative prices, and over the long run, through changes in relative prices, and in investors’ expectations (Harrison 1992:473). As Harrison argues:

> Although Perroux’s ‘growth poles’ (poles de croissance) referred to sectors rather than to places as such, it follows directly from his argument that locales in which the newer industries producing the innovative goods (and services) are situated will not only grow faster than the average for all localities or regions, but – through linkage and price effects – these growth impulses will be diffused and multiplied, making the complexes of linked industries and their locales more attractive to the next wave of investors (Harrison 1992:473).

It was the French economist Boudeville among others that transferred Perroux’s notion of ‘growth poles’ to geographic space by suggesting firms may cluster together and that spillovers may be contained locally rather than over the economy as an whole (Murphy et al. 1997:17). As Harrison argued, it can be said that Perroux’s theorising permitted the closing of a circle that associates innovation activity with the creation of agglomeration economics (Marshallian externalities and agglomeration theory). There is also a link here between Perroux’s work and neo-Schumpeterian thought, discussed shortly. According to Harrison (1992:473) this association is the key to explaining which places grow and which do not, and by what process that growth occurs.
Some critical observations of the neo-Smithian view

As Amin (1994) discusses, Piore and Sabel's theory has attracted its fair share of criticism, much of which centres on the fact that flexible specialisation theory is constructed around dual oppositions, i.e. mass production versus flexible specialisation. Under this scenario each industrial paradigm is caricatured as rigid past versus flexible future, unskilled Fordism versus skilled flexible post-Fordism (see Amin 1994:15; Tomaney 1994). Moreover, others suggest neo-Smithians are being too naive in imagining a large-scale return to a craft industrial paradigm, with critics arguing that the embedded structures of Fordism will adapt to new circumstances and persist (see Elam 1990; Tomaney 1994). In a more obvious challenge others suggest this approach makes the error of equating only industrial efficiency with competitiveness, thereby underestimating the power of TNCs to continue to dominate markets via their grip over finance, distribution channels, market outlets and advertising (see Elam 1990; Amin 1994:16). This observation is particularly relevant to the Australian case where the domestic economy is dominated by a large number of multinational firms (this point is explored in more detail at the end of this literature review).

Meanwhile, others challenge the neo-Smithian notion that there has been a clearly identifiable break-up of the dominant mass markets (Fordist) paradigm at all. According to Elam (1990), Piore and Sable can be seen as failing to distinguish between extensive product differentiation by established large-scale producers and market fragmentation favouring new small-scale producers (Elam 1990). While other critics such as Capello (1994:192) point out that while new technologies allow for economies of scope, nonetheless, high volumes of production, which exploit economies of scale, can still dominate the phase of production that deals with sub-assembly. Moreover, Schoenberger (1998) and Ducatel (1989) suggest that an increase in return to small-scale production is made problematic because of the high rates of capital utilisation required to fully amortise the high up-front cost of investment needed to set up flexible production processes (quoted in Capello 1994:193). Rather Capello and Williams (1990) argue that firms must strike a new balance between the benefits that can be achieved between economies of scale and scope. An example here is to be found in the automotive industry where large car manufacturers, for whom economies of scale remain important, can also exploit economies of scope at the production level because the new re-programmable technology allows the use of the same production chain for different models of cars.
Similarly, Hollingsworth and Boyer (1997) make the point that both forms of organising principles – mass (standardised) and flexible production – have coexisted since the rise of Fordist production, and will largely remain complementary.

For example, standardized systems of production have always required customized machines or some form of flexible production. And flexible production processes have required standardized equipment and therefore some standardized production processes. In other words, the customization of products has long been based on standardized production of component parts and equipment. (Hollingsworth and Boyer 1997:21)

They also draw attention to the work of Hirst and Zeitlin, and Pollert, who argue elsewhere that firms engage in hybrid forms of production, producing both long and short runs of particular products engaging in both flexible and standardised production. These hybrids are usually embedded in a dominant type of social system of production (Hollingsworth and Boyer 1997:21). While others have simply made the point that the neo-Smithian theoretical view paints too rosy a picture of the future under the flexible specialisation paradigm (Amin 1994:16).

**Does size really matter?**

A further criticism of the neo-Smithian project is that much of the industrial districts and industry clustering literature seems to suggest that it is the activities and relationships between endogenous small to medium size firms (and their flexible production processes) that are the key to new economic development patterns. This begs the question, do the sizes of the firm really matter under a post-Fordist paradigm? Some argue, for example, that as large firms establish relationships with local suppliers they can inadvertently become an anchor for cluster activity; however, it is the activity of the large firm that remains the key to posterity of the industrial district, not the flexibility of SMEs. Harrison (1992), for example, contends that, to a considerable degree, small firms lag behind large firms in the use of technology and in wage benefits, and that SMEs are led and dominated by the largest firms. He contends that the large firms create the many small firms as commodities; with the expectation they will merge into larger firms. It should be noted however, that Harrison’s argument is not aimed at the concepts of clustering, industrial districts or at the importance of establishing networking relationships among firms. Rather he objects to the current public policy emphasis on SMEs arguing that large firms remain the main source of employment and economic growth (Rosenfeld 1995:33).

The above observation aside, public policy that supports the development of endogenous SMEs remains a key element of industry/ regional development strategies in many OECD
countries (Hugonnier 1999). In short, the reasons can usually be reduced to three interrelated assumptions. Firstly, that SMEs on average are more labour intensive than are larger firms; secondly, that SMEs in general account for more of the economic activity in regional economies particularly, in rural and remote economies; and thirdly, that supporting the development of endogenous SMEs is a way of developing local entrepreneurship and innovation, and that this will in turn ensure long-term economic growth. However, Harrison is right to question the superficial distinction policy-makers often make between the benefits to a national economy between large firms and SMEs activity (see also Parker 1999).

Perhaps in many ways the distinction between large and small firms is becoming irrelevant because, in an effort to remain competitive, large firms are increasingly disaggregating their production processes (see Tomaney and Ward 2001:5-6.) A recent academic exchange in the journal Industrial and Corporate Change perhaps captures the point to the above discussion. The following stems from Saxenian’s (1999) comment on an article by Kennedy and von Burg entitled ‘Technology, Entrepreneurship and Path Dependence: Industrial Clustering in Silicon Valley and Route 128’. Specifically, she rebuts their arguments that Silicon Valley’s economic dynamism can be explained by the ‘technological trajectories or path-dependency’ of its leading firms, and that its regional dynamics are best understood through an analytical separation of established firms and the environment supporting new firm formation (Saxenian 1999:105).

Kennedy and von Burg sought to challenge the findings of Saxenian’s 1994 book, Regional Advantage: Culture and Competition in Silicon Valley’s and Route 128, in which she argued that Silicon Valley’s regional advantage stems from an institutional environment that supports continuous innovation and collective learning among its firms and community. In their article, Kennedy and von Burg offer their own model for understanding of the determinants of economic growth in Silicon Valley’s and Route 128. Their methodology approach rests on dividing the economy into two sectors: (Economy 1) large established firms; and (Economy 2) entrepreneur and small firms. Each segment is associated with set a of institutions: the former with universities and corporate research labs, the latter with venture capital and other business services that support start-ups. According to Saxenian (1999), this is not a useful distinction and is not representative of the development path of many Silicon Valley firms. She argues instead that firms like Netscape and Yahoo are the most recent examples of the rapid pace at which start-up firms become established firms and, therefore, blur the boundaries between Kennedy and von Burg notions of what constitutes new and old; large and small.
Saxenian makes the point that in Silicon Valley large firms such as Sun and Hewlett-Packard decentralised to the extent that many of their smaller divisions are hard to distinguish from new start-up firms. Furthermore, individuals in Silicon Valley regularly leave jobs at established firms to form start-ups, and vice versa, all the while maintaining networks of crosscutting personal and professional relationships (Saxenian 1999:108). Accordingly, it is not unusual for individual engineers working at established firms to act as business angels for new firms, or for established firms to organise venture capital for start-ups in related ventures (Saxenian 1999:108). Moreover, entrepreneurs in Silicon Valley collaborate regularly with universities and corporate research labs, while established firms rely heavily on local investment banks, venture firms, lawyers, market research firms and consultants (Saxenian 1999:108). In short, Saxenian is arguing that there is no meaningful distinction between Economy 1 (large established) firms and Economy 2 (start-ups) as the Kennedy and von Burg model would prescribe. Ultimately, for Saxenian, Silicon Valley's and Route 128 success remains in the institutional and social structures that embody intense interfirn communication and learning processes (Saxenian 1999).

The message to take from Saxenian is that the challenge for policy-makers wishing to stimulate strong and innovative firms (SMEs or larger firms) is to focus on improving the institutional environment in which the firms are embedded. Whereas the neo-liberal policy approach to industry support focuses on issues such as getting the macro setting right, tax reductions and labour market deregulation, a post-Fordist approach suggests another path is warranted. This approach focuses on spatial programs for the delivery and development of R&D support, networks, industry clusters, education and training, strategic infrastructure, technology and information diffusion and on issues such as regional access to capital. As Parker (1999:16) concludes, a neo-liberal approach to industry support is ‘more likely to create an environment in which low quality, low wage employment is generated in SMEs with little future’.

Just as neo-Marxist and neo-Smithian thought challenges the neo-liberal approach to industry development and policy so too does neo-Schumpeterian theory. However, as with the earlier discussion neo-Schumpeterian theory also has its critics.

Neo-Schumpeterian and national (local) systems of innovation

Neo-Schumpeterian theory differs from Regulation and neo-Smithian theory in the way that it gives prominence to technology and technical standards in initiating, sustaining and separating individual long cycles of economic development/growth. As Elam (1990) concludes, thus, the history of capitalism is the history of technological revolution, and the post-Fordist era is
synonymous with the dictatorship of information technology. From this perspective, the main focus of neo-Schumpeterian economics is not on aggregate demand (Keynesian economics) or competition and free markets (neoclassical economics), but on the role of ‘innovation’ in the process of capitalist growth and accumulation (Phillimore 1998:50). A return to Schumpeter’s ideas was assisted by the fact that neoclassical economics has no clear explanation for economic growth and consequently lacked a theory of technology in that process (see Phillimore 1998:51; Rosenberg, N. 1982).

Much of pioneering work on neo-Schumpeterian theory is credited to the research Freeman and Perez and their colleagues undertook in the mid-1980s at the Science Policy Research Unit (SPRU) at Sussex University (see Elam 1990; Amin 1994:12). Freeman and Perez’s (1998) ideas on innovation built on the earlier work of Kondratiev and Schumpeter, but do not blindly follow them (see Phillimore 1998). Kondratiev in the 1920s focused his research on the long-wave (fifty-year) boom and bust cycle that characterised economic development of the capitalist economy. Schumpeter developed Kondratiev’s work further in the 1930s through his work on the role of innovative entrepreneurs in giving birth to a new paradigm for economic growth (Amin 1994:12):

... the successful transition from one long wave to another is dependent, first, on ‘quantum leaps’ in industry productivity, which are secured once pioneering advances in technology diffuse across the economy. Second, it is dependent on ‘matching’ innovation within the framework of socio-institutional norms and regulations, in order to facilitate such diffusions. Once these conditions are achieved, a new long wave of growth can said to be in full swing, with a distinctive techno-economic paradigm that establishes across the economy (Amin 1994:12).

A key theme of neo-Schumpeterian literature is that it adopts an institutional and historical approach to its analysis that implies policy implications and preferences that will be, for the most part, determined by the specific circumstances and histories of the companies, industries and nations concerned (Mytelka 2000; Sorn-Friese 2000; Phillimore 1998). Consequently, as Phillimore (1998:55) points out, for neo-Schumpeterians policy prescriptions are generally more varied and ‘there is no one policy which can fit all circumstances, in contrast to neoclassical economics where general rules are often applied’. In a survey of recent development innovation literature, Phillimore (1998) makes two further observations in terms of the links between innovation and national and local institutional structures that are worth quoting here. Firstly:
... innovation is best understood as a system, in which innovative firms operate 'in the context of the institutions, government policies, competitors, suppliers, customers, value systems, and social cultural practices which determine their opportunities' ... These systemic features constitute the 'selection environment' in which firms find themselves and evolve.

And second:

... national systems of innovation are extremely significant, despite globalisation, since it is national institutions, values and culture which govern the behaviour of many actors and the quality and extent of linkages between them... (Phillimore 1998:54).

These themes are best captured in the ideas associated with national systems of innovation (NSIs) literature, a notion first coined a decade ago by Freeman, Lundvall and Nelson (Somn-Friese 2000:1). In an attempt to explain the determinants of innovation, the NSI approach breaks down a firm's environment into user-producer relationships and their relationships to the production system. NSIs provide a conceptual framework that sees innovation as an interactive process in which firms interact with other firms and are in turn supported by national and local institutions and organisations (or an 'innovation system'). These institutions and organisations incorporate industry associations, R&D, innovation and productivity centres, standards setting bodies, universities and vocational centres, information gathering organisation, financial services, the regulatory and policy environment, and cultural norms and practices (Mytelka 2000:17).

More recently, regional policy, particularly in the European Union (EU), has emphasised the importance of developing regional innovation system (RIS) in its less favoured regions as a priority of its Structural Funds Guidelines 2000-2006 (Landabaso et al 1999:1). The RIS pilot project differs from its predecessor STRIDE – Science & Technology for Regional Development in Europe – which was a largely linear program providing supply-side inputs to the local innovation system such as physical infrastructure and technology capabilities to stimulate the innovation process. RIS, on the other hand, acknowledges that innovation is more complex and depends on the day to day activity of local actors (competing firms, suppliers and customers) as well as the networks that link those actors and the institutional setting in which they are embedded (Landabaso et al 1999). In other words RIS links the supply-side factors (STRIDE program) with the demand-side factors (social capital and firm activity) at a regional level by deliberately improving the structural-competitive side of endogenous firms, SMEs in particular. The RIS program emerged from the understanding by EU policy-makers that a lack of social capital explained, in many instances, the poor record of
EU less-favoured regions in converting scientific and technical knowledge into commercial
products and service. For these regions simply supplying knowledge infrastructure was deemed
insufficient when often the demand factors were absent.

As Mytelka concludes, ‘from a policy perspective the innovation system approach draws
attention to the behaviour of local actors with respect to three key elements in the innovation
process: linkage, investment and learning (Mytelka 2000:18).

Inter-firm and public sector co-operation and the institutional framework within
which these relationships take place are the key sources of regional innovation.
Innovation being the end-product and the regional ‘learning’ dependent on the
quality and density of the above relationship, being the process (Landabaso et al
1999:7).

Importantly, Somn-Friese makes the point that the NSI concept is different to earlier
theoretical contributions centred on national science systems and technology policy
approaches. The distinction is particularly salient to small- to medium-sized economies wishing
to improve their economic performance. According to Somn-Friese:

In a big country such as the USA with dominating firms operating at the
technological and scientific frontier, formalised scientific knowledge and high-tech
investments are the most direct source of economic growth. In many of the old,
industrialized small and medium-sized countries formalized scientific knowledge
and high-tech investments, while still of some importance, are not the most
important direct source of economic growth. Hence investment in ‘low-tech’ sectors
with long national and institutional history may indeed contribute more to
economic growth and performance. Also, at least in small open economies
economic growth depends more on a wide range of factors besides formalized
scientific knowledge and technological development. It also depends strongly on
the interaction between education, knowledge diffusion, structural flexibility,
innovation, and competition (Somn-Friese 2000:3-4).

These neo-Schumpeterian themes have much in common with recent developments in
economic geography literature that explores the extent that synergies between universities,
research and technical facilities and firms within a region are committed to collaborative
learning and innovation processes (Malmberg 1997:577). Zucker et al. (1994), for example,
studied the relationship between university-based ‘star scientists’ and biotechnology firms in
California to conclude scientific discoveries in that location exhibit a natural excludability
(quoted in Malmberg 1997:577). In other words, discoveries that emerged in that particular
location could only have occurred there because of the institutional arrangement that facilitated
interaction and the sharing of research knowledge within that community. Feldman and
Florida (1994) have also presented survey results that demonstrate a connection between
'industrial creativity and the regional supply of external technological resources, such as concentrations of industrial and university R&D; agglomerations of manufacturing firms in related industries; and networks of business service providers' (Malmberg 1997:577).

Although Freeman and Perez gave recognition to some socio-institutional factors, the neo-Schumpeterian approach has been criticised by some for being too technologically deterministic. For example, Elam (1990) argues that technologically induced changes in products, processes and communications systems are given prominence in neo-Schumpeterian theory over social, organisational or market changes that might also influence economic efficiency and growth. Similarly, Nielsen (1991) argues that neo-Schumpeterians reduce notions of the macroeconomy to a narrow focus on its technical attributes only (Amin 1995:13).

While not elaborated here, many of the above themes have much in common with the developments in the 1980s in evolutionary economics (Dosi et al. 1988). This literature seeks to understand the process of innovation and growth in modern economies by understanding the actual systematic linkages between firms and other institutions (Sheehan 1999a:2). Moreover, this literature puts emphasis on the understanding that technological change is cumulative and path dependent relying as it does on tacit knowledge accumulated through past experience and past institutional structures (Sheehan 1999a:4).

**Economic geography**

Early urban economic geography writers such as Harvey (1973) utilised class analysis to understand the social processes that were producing inequalities within cities in relation to the dominant means of production (Waitt et al. 2000:76-80). Others, such as Castells (1983), looked at spatial patterns of development to understand the way labour (class relations) were 'stabilised' and 'socialised' to reproduce the condition that helped sustained the economic base (structural determinism). In other words, as Waitt et al. (2000:78) argue, these geographers attempted to 'trace out how capitalism shapes the form and organisation of cities and the consciousness of their inhabitants'. Massey's (1984) work on regional development challenged the concept that 'place' was simply a 'passive surface' on which capitalism and its productive processes took their toll. Instead, Massey argued that the particular characteristics of place help to differentiate regional conditions and shape the local process of capitalist restructuring, social development and class relations (Waitt et al. 2000:79).

More contemporary, economic geography thought focuses more explicitly on the importance of 'place', learning and issues to do with the emergence of the 'knowledge-based economy' (see
especially Antonelli 1999; Maskell and Malmberg 1999). The knowledge-based economy can be characterised by increasing investment in R&D and intangible investments, as well as rapid qualitative change and a growing element of customisation and design (flexible specialisation) in the production of goods and services (Malmberg 1997). It follows from this understanding that the competitive nature of firms has shifted from 'static price competition towards dynamic improvement, favouring those which can create knowledge more quickly than their competitors' (Malmberg 1997:574; Maskell and Malmberg 1999).

The knowledge-based economy: what does it mean?

It is important to reflect on what we mean by the concept of knowledge in a knowledge-based economy, as opposed to concepts such as data and information. As Riem-Tam (BRW 23 June 1999, p.57) explains, data are transactional records created by the operational activities of business, while information is aggregation of data into meaningful compositions. Knowledge, on the other hand, is the interpretation of information into meaningful actions and decisions - the intuitive element. Reim-Tam elaborates on the concept of knowledge as follows:

It is also possible to define what knowledge is not. It is not process-driven. It is not an outcome or product. It exists in every successful business. It is not information, but the interpretation and application of information, something that is made by individuals: people. On this basis, knowledge resides in an individual, and outcomes come from knowledge successfully applied by an individual (BRW 23 June 1999, p.57).

The concept of a knowledge economy then refers not to the availability of data sets or information, but to the institutional environment that supports individuals and firms in the process of learning. According to Sheehan:

The process by which knowledge becomes incorporated in economic activity is referred to as innovation, which has recently been defined, at the firm level, as 'applying ideas new to the firm in products, processes, services, organisations, management and marketing' ... Hence innovation is a much broader concept than R&D or even the application of technology, as that term is commonly understood, and covers a wide range of ideas-based improvement processes. Romer (1992) has stressed that here the ideas refer not just to a few major discoveries or changes but to a million little things which improve the operation of firms or other institutions (Sheehan 1999a:1).

In this learning environment companies become knowledge enterprises that can best sense and interpret the future needs and wants of the market, design commercial solutions and deliver directly or via strategic alliances (BRW 23 June 1999, p.57; see also Meskell and Malmberg 1999; Larcombe 1997).
Two more important distinguishing features of the knowledge-based economy need to be made. First, the knowledge-based economy is premised on the notion of increasing rates of returns, as knowledge inputs do not diminish with use. This contrasts with the traditional resource-based economy (agriculture, bulk-goods production and so on) where inputs are subject to diminishing returns, a concept that better fits conventional economic equilibrium modelling. Second, the process of globalisation tends to transform much formerly localised input into ubiquities, while knowledge and learning processes tend to remain unique, or sticky, to particular regions despite the internationalisation process. As Malmberg observes:

... the classical Weberian distinction between localized and ubiquitous production factors has not lost its relevance in the wake of the ongoing internationalization process. ... a continuous process of 'ubiquitification' leads step by step to the erosion of the advantageous effect of most previously localized factors of production. Thus, a large local market becomes less of a locational advantage when transport costs are gradually lowered; when customers become less loyal to local suppliers; and when trade barriers are eroded. Similarly, local suppliers of machinery cease to be a locational advantage when equipment of identical quality is available worldwide, at more or less the same price. One of the few remaining genuinely localizes phenomena in this increasingly 'slippery' global space economy is precisely the stickiness of some forms of knowledge and learning process (Malmberg 1997:574).

It is also important to note that knowledge in the context of the above refers to tacit knowledge, which is embedded in the minds of individuals and firms, and the routines of organisations, of a given place. The suggestion here is that tacit knowledge is not as easily transferable as codified knowledge (that relies on formal learning at educational institutions) and this fact underpins the importance of the learning characteristics of 'place' in the knowledge-based economy.

The discussion so far has looked at the post-Fordist sub-themes neo-Marxist, neo-Smithian, neo-Schumpeterian and economic geography theories in some particular detail. The following offers some broader observations and criticisms of post-Fordist thought in general.

**Critical observations on post-Fordism literature**

The weak point of much of the post-Fordist literature remains empirical validation (see Tomaney & Ward eds 2001; Malmberg 1997:578; Malmberg et al 2000). Glasmeier and Fuellhart (1996) and Staber (1996) for example, have undertaken case studies that raise questions about the learning qualities of regionally embedded clusters of firms. In perhaps a
more fundamental way, Amin and Malmberg (1992), challenge the implication of flexible specialisation theorists' that this new approach (transition to local production complexes in a post-Fordist era) constitutes a change in direction of the dominant mode of capital accumulation (Fordism). It is worth presenting their critique in some detail as it captures a range of problems associated with post-Fordist literature in general, and neo-Smithian theorising in particular.

First, they argue that the often-cited examples of the flexible specialisation and Marshallian tendencies, such as Silicon Valley, the Third Italy, for example, do not always capture the true dynamics driving economic success (Amin and Malmberg 1992:232-233). They cite the success of cities such as London, Milan, Frankfurt and Paris as major centres that have achieved growth through their control of finance, management, innovation, business services and infrastructure. And major provincial centres such as Birmingham, Turin, and Manchester have achieved growth through new combinations of industry, office relocation, and their intermediate roles in the financial and service sectors. Moreover, certain rural areas have achieved growth through new combinations including further capital intensification in agriculture, the development of light industry, and immigration by wealthier commuters looking for a pleasant life-style.

Secondly, the post-Fordist flexible specialisation model is said to be both static and too short term. Here Amin and Malmberg (1992) argue that Silicon Valley, for example, is exhibiting symptoms of internal fragmentation as the regional economy matures. That is, Silicon Valley is increasingly being drawn into a wider spatial division of labour because of the impact of intensive inward investment by non-US firms, and because of the export of labour-intensive and intermediate production functions to areas of cheap labour and emerging markets. Similarly, Italian industrial districts are undergoing change as they begin to substitute external linkages for local ones as they fight the threat of takeover of local banks by foreign financial institutions. Also, in these districts there has been a rise in local industrial consortia seeking to integrate vertically or export capacity and know-how overseas due to increasing competition from newly industrialising countries.

Third, they argue that the spread of localised production complexes is restricted by the fact that many of the conditions for success are not easily transferable.
Localisation of the division of labour requires a gradual build-up of know-how and skills, cooperative traditions, local institutional support, specialist services and infrastructure. These not only take time to consolidate, but also escape the traditional instruments of policy intervention owing to their ephemeral and composite nature (Amin and Malmberg 1992:232-233).

Finally, they question the ability of regions to coordinate and act autonomously in the interests of international capital (i.e.-TNCs) in locations where international capital dominates. Some argue, for example, that large firms are able to internalise critical production and service functions, and as a consequence do not necessarily form complementary relationships with other local firms (see Norton 1992; Enright 1993; Tomaney and Ward 2001). For Amin and Malmberg, the central question here is ‘whether the functional status of the branch plants and local divisions of the TNCs has changed so much that they can now act as growth poles for regional development. For this to occur, at least two basic conditions would need to be met: first, a significant improvement in local buyer-supplier linkages and second, a genuine transfer of function and strategic authority to local management’ (Amin and Malmberg 1992:246).

The importance of embeddedness and trust in post-Fordist thought

The following begins to explore the fourth theme identified in the introduction by looking more closely at the relationships that characterise institutional networks and industry clusters.

Harrison (1992) observed, at a theoretical level, that the key to understanding the dynamics of economic activity in the post-Fordist paradigm resides in the active role given to concrete personal relations and social structures or ‘networks’ (Harrison 1992:477). This contrasts with traditional neoclassical economic theory that assumes relations of production and distribution of goods and services are essentially untouched by sociological, cultural, and political considerations (Gordon and McCann 2000). Neoclassical theory excludes notions such as ‘the size of the firm, its location and the history of one’s community, family and ethnic ties, the presence or legacy of attachment to guilds, or commitment to place’ (see Murphy et al. 1997:19). In a similar way, Hollingsworth and Boyer (1997:3), argue that whereas the neoclassical paradigm assumes that individuals are sovereign, they argue that individual action is influenced by the hold that ‘institutions’ – the social system of production - have on individual decision-making.
By a social system of production, we mean the way that the following institutions or structures of a country or region are integrated into a social configuration: the industrial relations system; the system of training workers and managers; the internal structure of corporate firms; the structured relationships among firms in the same industry on the one hand, and on the other firms' relationships with suppliers and customers; the financial markets of a society; the concept of fairness and justice held by capital and labour; the structure of the state and its policies; and a society's idiosyncratic customs and traditions as well as norms, moral principles, rules, laws, and recipes for action.

While each of these components has some autonomy and may have some goals that are contradictory to the goals of other institutions with which it is integrated, an institutional logic in each society leads institutions to coalesce into a complex social configuration. This occurs because the institutions are embedded in a culture in which their logics are symbolically grounded, organizationally structured, technically and materially constrained, and politically defended (Hollingsworth and Boyer 1997:2).

This would indicate that current theorising in post-Fordist literature appears also to go beyond traditional Marshallian externality (agglomeration) theory and the Industrial-Complex models of Isard et al (1951) noted in Gordon and McCann (2000). An Industrial-Complex model is concerned primarily with trading links between firms and it is these inputs and output relationships that principally govern their locational patterns (Gordon and McCann 2000:3). That is, an Industrial-Complex occurs when spatial clustering is the result of firms aiming to reduce transaction and production costs by co-locating and thus ensuring monopoly profits for the firms in the complex. The purpose of the early works on Industrial-Complexes was to provide insights into how expenditure patterns and the spatial behaviour of firms were interrelated. Typical of this model are Oil Refining, chemical and pharmaceutical and automotive complexes (Gordon and McCann 2000:4).

What separates the contemporary industrial district literature from this more traditional agglomeration, industrial-complex stream is the notion of 'embedding'.

The idea that economic behaviour has become increasingly disconnected - disembedded - from social relations since the development of industrial capitalism was first popularised by Polanyi (1944). Embedding describes the situation where firms relate to one another by better understanding one another's formal organisational boundaries, rather than solely through the price-mediated exchange of commodities (Harrison 1992). For Harrison, where firms plan and bid on contracts together, receive technical, financial and other services as part of the common local pool rather than on a firm-by-firm basis, is what distinguishes industrial districts (1992:478). Because ownership remains in private hands, firms in industrial districts continue to aggressively compete with one another and with firms in other regions. Firms that are
neighbours are said at least by Sabel (1989) to compete on quality and technique, but less on price. According to Harrison:

> Whilst emphasizing the mutual/shared benefits to individual firms/plants/production units of co-location (such as access to a larger, more specialized local labour pool, and the realization of scale of economies in infrastructure provision), both agglomeration theory and transaction cost economies nonetheless follow standard neoclassical logic in conceptualizing local economies as collections of atomistic competitors, formally aware of one another solely through the intermediation of price/cost signals, embodied in contracts of varying completeness. By contrast, contemporary industrial districts theory emphasises the contextual significance of communal non-economic institutions and the importance of relations of 'trust' in reproducing sustained collaboration among economic actors within districts (Harrison 1992:469).

Harrison develops his ideas on the importance of embeddedness and trust by drawing on Granovetter’s critique of Williamson’s (1975; 1985) theory of explicit and implicit contract. The Williamson-inspired neo-institutionalists presented elements of imperfect competition, namely the problems of bounded rationality (imperfect knowledge) and opportunism, especially in large hierarchical corporations, as being consistent with the basic premise of neoclassical reasoning (Harrison 1992:476-477). Granovetter (1985) argues that a Williamsonian notion of trust, achieved through contract, is rather a functional substitute for trust. A closer examination by Granovetter suggests that there is (1) more order to interactions across the boundaries of independent firms and (2) more disorder within (even hierarchical) organisations governed by rules and contracts than has been generally recognised. As Gordon and McCann (2000:4) discuss, there are three key features to Harrison’s notion of trust behaviour exhibited among firms in an industrial district. Firstly, firms within the social network are willing to undertake risky cooperative and joint ventures without fear of opportunism. Secondly, firms are willing to re-organise their relationships without fear of reprisal. Thirdly, firms are willing to act as a group in support of common mutually beneficial goals.

Harrison uses Lorenz’s study of the evolution of subcontracting relationships among the mechanical engineering firms around the French towns of Lyons to illustrate the above point. According to Lorenz (1988; 1989), in his interviews with owners and managers, an emotive vocabulary emerged that continually emphasised the importance of informal ties that go beyond contract relationships. This included notions such as partnerships, loyalty, morality, and mutual trust (see Murphy et al. 1997:20; Gordon and McCann 2000:4). Harrison also highlights the work of Sabel’s 1990 study of the industrial districts of France, Germany and Italy that emphasised the role of trust in wage negotiations. Formal collective bargaining at the regional and national level set only minimum pay scales and working conditions, with local adjustments
being negotiated between actors linked to the district competitiveness. Sabel acknowledges that strikes occur but they are usually short lived, 'and the resulting compromises between management and labour produce agreements in principle rather than detail rules' (Harrison 1992:478).

To characterize this as Williamsonian 'incomplete contracting' would be a mistake. Sabel’s point is precisely that the ‘incompleteness’ of these labour-management agreements is not an unfortunate constraint on the parties, but rather a desirable, intended, perhaps even necessary part of the process (Harrison 1992:478).

The types of international dynamic discussed above led Harrison (1992) to observe that the social relationships that underpin the Italian industrial districts collaborative competitiveness, may not be sustainable under the constant pressure of competitive forces from larger, more powerful, more distant and impersonal global economic forces (Harrison 1992:479). A brief examination of both the history and contemporary dynamics of the Italian industrial districts appears to support many of Harrison’s observations and concerns.

**Italian industrial district - The Third Italy**

As indicated above, much of the contemporary economic success of the Third Italy can be traced to the institutional arrangements, or regional approaches to collective action between government, communities and firms, struck in the immediate post-war period (Porter 1990; Harrison 1992; Putnam 1993). Importantly to what develops below is that membership of an industry cluster in the Emilia-Romagna region has a direct bearing on firms internal governance structures (its size in particular). A vibrant co-operative movement emerged in Italy’s Emilia-Romagna region, for example, in agriculture at the end of the World War Two (WWII) that was followed by co-operatives in associated activities that included financing, technical assistance, training, and marketing. Officials in Emilia-Romagna sometimes refer to their system of public economic development agencies as ‘incubators without walls’ (Harrison 1992:475).

Many of these institutional structures were nurtured and supported by the two dominant political parties of the day, the Christian Democrats and the Italian Communist Party, both as a means to ensure electoral support in the North and to promote economic development (Giordano 2001:26). For example, formed after WWII, the National Confederation of Artisans (CNA) defines its member firms as those that consist of fewer than twenty employees,
excluding family members (Harrison 1992:475). The Italian government also created regional
governments in the 1970s, devolving many former central government responsibilities to the
newly established regional governments (Putnam 1993).

Since the early 1970s, many of Italy's regional governments adopted the use of co-operatives,
trade associations and small business assistance programs as policy instruments to stimulate
regional economic development. The first of these public-private partnerships in Emilia-
Romagna was ERVET established in 1974 with support from local banks and trade
associations such as CNA. Other sector specific service centres established in this region
include CITER (1980), which assists the knitwear and fashion sector, CESMA (1983), for
agricultural machinery, CERCAL (1983) for shoes, and QUASCO (1985) for the construction
sector. And RESFOR (1986) that was created by the firms of the region to find qualified
subcontractors from within the region rather then having to draw in labour from outside
(Harrison 1992:475).

The region has a population of 4 million living in urban centres of between 100,000 and
380,000 and is home to over 340,000 SMEs, 200,000 of which are one person operations
(Tsipouri 1999:29). Twenty-five thousand of these SMEs are manufacturing firms that employ
around 30 per cent of the workforce in the region (Tsipouri 1999:29). The region has always
had a strong export focus and all efforts of regional and local government are aimed at
developing the strength of industry clusters (through assisting with technology diffusion and
education and training for example), and not at directly subsidising individual firms. Moreover,
the goal has been to assist in the growth of endogenous firms and not to chase footloose
foreign firms to re-locate to the region.

The success of the Third Italy region is also attributed to the strength of its industry clusters of
specialised machine-tool manufacturers. Italy's machine-tool manufacturers sector is the fourth
largest in the world behind Japan, Germany and the US, with sales of $3.45 billion in 1997 (The
Economist 2 January 1999, pp.57-58). The average size of Italy's tool making firms is small
compared to the other major players. Italian machine-tool firms total 450 with an average of 70
employees, while in Germany, for example, 320 firms have an average of 200 employees (The
Economist January 1999, pp.57-58). Elena Ferraro of IECO, which makes machines for melting
and electroforming gold, points to the importance of collaboration and customer feedback as
keys to understanding her firm's success (The Economist 2 January 1999, pp.57-58). Most of the
firm's sales (60 per cent) are within Italy, and are largely customised machines tailored to the
need of Italy's sophisticated goldsmiths. Between IECO and the nearby firm Sisma, they

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supply nearly eighty per cent of the world’s market for machinery used in making gold jewellery (The Economist 2 January 1999, pp.57-58).

Herein lies a problem for many machine-makers and other successful industry clusters in Italy. Many Italian industrialists believe that increased competition, both from firms within the clusters and from rival international firms, largely brought about by changes in communications and trade regimes, has the potential to weaken the very collaborative foundation of Italy’s industry cluster success.

For example, Barilla, the world’s largest pasta manufacturer, prefers to utilise its 100 people strong engineering division to develop and modify its machinery and computer software in order to maintain its competitive edge on its rivals. Similarly, Safilo, the second largest producer of spectacles with a turnover of $345 million in 1997, also has a 50 people strong engineering division. Its chairman, Vittorio Tabacchi, is not comfortable at the thought of letting local machine-tool manufacturers modify their machines to Safilo specification, as this would allow the information to fall into the hands of competitors (The Economist 2 January 1999, pp.57-58). At the same time, according to others, this threat acts as a stimulus for more innovation and the desire to move to the higher value-added end of markets. For example, Italy maintains an edge in quality products even in industries where other nations have a comparative advantage. Chinese firms have successfully imported Italian looms and other technology in the development of their cashmere industry, and they continue to improve the quality of their products. However, the best cashmere garments still come from Biella in Italy.

Similarly, Southeast Asia dominates the mass market for spectacles, but Italy remains the dominant player at the top end of the market. According to The Economist (2 January 1999, pp.57-58) cheap glasses (mass-produced) cost $4 to make and sell for $15, whereas Italian designer glasses cost $12 and sell for $150. In gold jewellery, leather and tiles, Italian firms remain the dominant player at the high value-added end of the market, even as others have come to dominate the lower end (The Economist 2 January 1999, pp.57-58). Part of the explanation for this lies in the fact that new technologies (IT&C) have allowed the intimacy that used to be possible within Italian clusters to take place over longer distances. That is, foreign customers are becoming an important source of feedback in their own right to leading Italian firms (The Economist 2 January 1999, pp.57-58).

Only time will tell if the institutional structures that have nurtured the development of highly successful and innovative industrial districts of the Third Italy will be able to withstand and
respond to the increasing pressures of globalisation. Perhaps post-Fordist theory can offer us some further insights to the economic challenges and opportunities that lie ahead.

What does the post-Fordism debate imply for the future of regional development policy?

**Neo-Schumpetarians**

For neo-Schumpetarians, developments in information technology, i.e. microelectronics-based products, processes and communication networks lie at the centre of the next long phase of capitalist economic development. This fifth Kondratiev is to be characterised as the information economy paradigm and will forever alter patterns of work and consumption, and the location and mode of production (in this way the following is also consistent with neo-Smithian logic of flexible specialisation).

The fifth Kondratiev is speculated to be innovation and knowledge intensive and based on information technology carrier branches such as computers, electronic capital goods, software, telecoms, robotics, electronic data banks, and information services. It also involves a shifting emphasis in production from scale economies, rigid technologies and compartmentalization, towards scope economies, flexible manufacturing systems and integrated design, production and marketing. It involves the development of new computer network-based forms of intra and inter-organizational collaboration and communication and has seen the rise of new patterns of work including tele-working, home-working and flexible hours. The fifth Kondratiev involves new patterns of consumption such as tele-shopping, enabled by advanced telecommunication systems and gives rise to new geographies of production and consumption based on distance-shrinking technologies (Amin 1994:17).

Understood in these terms, neo-Schumpeterian economics (NSE) is not a theoretical movement that seeks to fundamentally challenge the underlying dynamic of the capitalist productive system. As Phillimore argues:

NSE starts and ends with the dynamics of capitalist growth, but attempts to harness them more effectively by using collective policy instruments and actors and by setting a relatively high social and economic floor to the competitive processes inherent in the system, thus imparting a more progressive character to it (Phillimore 1998:66).
Importantly, from a public policy perspective, the transition to a neo-Schumpeterian model for growth is not assumed to be inevitable, but rather to be predicated on profound changes in attitudes and behaviour, and in institutional priorities (Amin 1994:17). Indeed government is seen as a key agent for facilitating change to the new information economy via its role as provider for many of the supply-side inputs necessary to consolidate the necessary social, economic and structural change. Much of the government’s role evolves around developing policies and programs that stimulate the take-up of new technologies and production processes, and encourages an environment for continuous innovation and learning. These supply-side policies and programs include: training and education to encourage research, innovation and new skill information; support for technology upgrading and industry-university research links; initiatives to develop advanced telecommunications networks; strategic support for new industries and new services; and support for learning and adaptation of new management and organisational cultures (Amin 1994:17).

In the Australian context, these neo-Schumpeterian views and policy recommendations were championed in the Australian Business Foundation’s (ABF) 1997 report The High Road or the Low Road? The report, prepared by the University of Western Sydney’s Professor Jane Marceau et al. (1997) proposed a number of policies and pathways for the transition of the Australian economy into an innovative rich, knowledge intensive learning economy. This included measures aimed at encouraging business and industry networks, promoting R&D, building global marketing and distribution channels for local industry, and dramatically increasing investing in public infrastructure. More recently, in February 2000, some 500 participants assembled in Melbourne to attend Australia’s first National Innovation Summit—a joint business Commonwealth government initiative. Many of these neo-Schumpeterian views and ideas were discussed and an Innovation Summit Implementation Group (ISIG) was established to report to government by August that year. At the time of writing the Howard government was yet to respond to the ISIG recommendations.

**Neo-Smithians**

Neo-Smithians would also be comfortable with much of the above, however, because they place more importance on the role of firms in endogenous development and the spread of industrial districts, they tend to emphasize microeconomic reforms via local collaboration and local flexibility. As Sabel argues:
Like the finns, the localities know that they must survive in a turbulent economic environment; like the finns, they must accommodate volatility through flexibility, though for localities this naturally means facilitating the recombination of resources among companies, so that the latter may better redeploy them internally. And as with the firm, many localities will renovate themselves only with the greatest difficulty (Sabel 1989:129).

Labour market reforms (flexibility), for example, could occur through greater collaboration between trade unions and employers' associations as they work to develop pools of local craft labour, i.e. an increased focus on vocational and technical training, with particular attention to re-qualification of the semi-skilled workers (Sabel 1989:144). National education and training institutional arrangements could be integrated into the local by these same collaborative bodies in order to maximise their impact on the particular specialised flexible firms in a given locality. The implication is that the same collaborative processes could work across a range of other areas such as education, health, infrastructure, the environment and social welfare, for example. As discussed in Chapter one, this is the mechanism used to balance questions of efficiency, equity and environmental sustainability. These 'high trust' collaborative arrangements would have the effect of strengthening both supra-local institutions and, at the same time, create a macro-regulatory system of flexible specialisation (Sabel 1989:145). Unlike the neo-Schumpeterians that see government as a key agent for change, neo-Smithians would be more comfortable with government as a 'facilitator' of change. One suspects Sabel and others would be more in tune with Henton's (1997) notion of the resurgence of 'civil society', and the role of 'civic entrepreneurs' as the agents of change (to be discussed below).

Regulation theory

Regulation theorists, on the other hand, tend to have more socialist inclinations than the other streams of thought discussed above. Accordingly, they are far less certain and, therefore, less prescriptive on the shape of a new era of capitalism founded on rapid technological change and more flexible modes of production. Esser and Hirsh (1989) for example paint a very pessimistic picture of the future of new models of capitalism based on their observation of the impacts of change on workers in communities in Germany. Within the new mode of accumulation they outline five tendencies or patterns that are emerging:
... new technology-based work, representing lay-offs, worker segmentation and social marginalization; a strengthened industrialization of the service sector, representing changes in the social structure towards white-collar strata, and the erosion of collective identities via the use of new technologies; enforced mobility in labour markets provoked by new geographies of employment, resulting in a breakdown of family and community ties; growing social polarization between high productivity/high consumption strata and low-wage or no-wage strata; and an individualization and pluralization of life-styles as the result of the preceding tendencies (Amin 1994:18).

More fundamentally they see dramatic changes in the regulatory framework governing this new mode of accumulation and argue that this process would entrench inequality at the heart of the new system.

This they characterize as a strengthening of monopolistic regulation and governance of the economy. They stress the role of advanced technologies in integrating firms and industries, of new small firms networks and of processes of international concentration and coordination in the hands of major firms and financial institutions. They signal the weakening of trade unions as a "regulatory" institution. They envisage a scaling down and a reorientation of welfare services towards the 'economically active' groups in society. Finally, they anticipate a new corporatism involving state and industry alliances in the high technology sector and select groups of privileged workers (quoted from Amin 1994:18).

Jessop (1994) warns that with the transition to this new mode of capitalist production traditional policies associated with the Keynesian Welfare State are increasingly becoming subordinate to the state's needs to promote innovative, flexible production and an open economy (Jessop 1994:263). That is these processes are placing increased pressure on states to create flexible labour markets and/or remove the constraints to international competition as well as provide the supply-side inputs to underpin economic competitiveness. Jessop describes this restructuring and reorientation of the economic and social function as a type of 'Schumpeterian workfare state'. He cautions, however, that unlike the Fordist era that had a strong reinforcing ideology securing the rules of the game, a role played by the US as the dominant hegemon, post-Fordism as a self-reproducing growth regime has yet to secure a dominant ideology of its own. Important to the argument of this thesis, what Jessop does observe, however, is the 'hollowing out' of the nation state in the emerging context of a simultaneous internationalised and regionalised post-Fordist mode of accumulation (Jessop 1994:264-266). According to Amin:
The process is said to represent a reordering of state-economy relations and state functions in a dual direction. The first is an enhanced role for supranational institutions and political configurations in providing regulatory authority and strategic guidance for the world economy. The second is a transfer of authority downwards to the local state, which increasingly assumes the role of customising local supply-side conditions to underpin Schumpeterian competitiveness (Amin 1994:28).

The second aspect of the ‘hollowing out’ thesis is most salient to this work. Quoting Amin and Robins (1990), Jessop makes the following points: globalisation of the world economy means that ‘the local economy can only be seen as a node within a global economic network [with] no meaningful existence outside this context’ (Jessop 1994:271). As discussed in Chapter one of this work, it would appear that although the notion of the nation-state is being challenged at many levels by the process of globalisation, somewhat paradoxically, its activities and influence at the regional and local level are in many ways being heightened. Even within an increasingly global economy we can observe a greater focus by policy-makers on local and regional development, particularly with regard to forming regional partnerships, regional labour market policies, education and training, technological transfer, infrastructure, local venture capital, innovation centres, science parks (Jessop 1994:271; OECD 1997 &1999).

Jessop characterises the emergence of local ‘re-engagement’ by the nation state as a shift in functions downward towards issues associated with local ‘governance’ and away from traditional concerns of local government.

Thus local unions, local chambers of commerce, local venture capital, local education bodies, local research centres and local states may enter into arrangements to regenerate the local economy. This trend is also reinforced by the central state’s inability to pursue sufficiently differentiated and sensitive programmes to tackle the specific problems of particular localities. It therefore devolves such tasks to local states and provides the latter with general support and resources (Jessop 1994:272).

In terms of the governance of the Schumpeterian workfare state, according to Jessop, three possible regulatory forms could emerge. The first is neo-liberalism, i.e. market-led reform; secondly, neo-corporatist, i.e. strategies that draw on selective institutional interests mediated by the state; thirdly, neo-statism, i.e. state guided economic reorganisation (Jessop 1994:266-267). The point Jessop is making is that any one of the three regulatory regimes is as likely to emerge as the other, depending on the institutional legacy and the balance of political forces in specific social formations. Moreover, as in the case of the activities of the European Union, for example, he observes elements of the three regulatory regimes combined within and across different levels of political organisations (Jessop. 1994:266).
Collaboration the key: building social capital

Much of what Jessop observes above is confirmed in a series of case studies undertaken in the US by Henton et al in 1997. In Grassroots Leaders for a New Economy, Henton et al profile four communities – Austin, Texas; Cleveland, Ohio; Wichita, Kansas; and Silicon Valley, California - and the two states of Arizona and Florida, to conclude their success is built around new collaborative approaches to achieving regional development.

Communities across America are figuring out that world-class economies need world-class communities. They are experimenting with new types of public–private relationships and organizations to keep moving forward in a time of change. They are building a new type of community – an economic community. Economic communities are places with strong, responsive relationships between the economy and community that provide companies and communities with sustained advantage and resiliency. Economic communities integrate the economy (the world of work) and the community (the world of living). These communities have learned that the secret of successful regions is effective collaboration among business, government, education, and community leaders in addressing new challenges and opportunities (Henton 1997:5).

In a similar finding Putnam's (1993) study of Italian regions concludes that the economic performance of Italy's northern regions is historically better than its southern regions because of the community links and relationships which are a key component of the northern regions 'social capital'. According to Putnam, social capital is made up of the networks, norms, and trust that enables community collaboration in the pursuit of shared regional objectives (Putnam 1993:167). For Putnam, a community in which trust and networking (social capital) is strong, and where leadership, organisation and problem solving (human capital) is high will be better placed in terms of grasping opportunities than communities where one or both forms of capital is missing (Gray & Lawrence 2002:283).

In contrast to Jessop, however, Henton sees not the 'state' but a new class of 'civic' entrepreneurs as being the major catalysts for new collaborative arrangements that underpin the economic community model discussed above. Civic entrepreneurs often come from business, but can come from government, education and other sectors. They provide leadership and build relationships between the economy and the community and bring people and institutions together across jurisdictions to work on the long-term development of their region (Henton 1997:6). Henton draws on the earlier observations of Drucker (1995) in developing his concept of the renewal in emphasis on the civil sector and civic entrepreneurs. According to Drucker:
The knowledge society has to be a society of three sectors: a public sector, that is, government; a private sector, that is, business; and a social sector... it is in and through the social sector that a modern developed society can again create responsibility and achieve citizenship, can give individuals (and especially knowledge people) a sphere in which they can make a difference in society, and a sphere in which they re-create community (quoted in Henton 1997:17).

A common thread that runs through the work of Henton and Jessop is the notion of an emerging 'Schumpeterian workfare state'. And in the case of Henton, a direct link also exists to Schumpeter's earlier work on the role of entrepreneurs acting as agents of economic change, which underpins Henton's notion of civic entrepreneurs (Henton 1997:31).

Perhaps one of the most salient aspects of the spatial approaches to economic development policy discussion thus far is that, because of the changes to the nature of global production, enhancing the competitiveness of sub-national economies has become an increasingly important political issue. This process has increased the activity of the state in the sense that in most cases it is the major provider of the supply-side public goods needed to lift the competitiveness of regions in areas such as facilitating greater collaboration, education, telecommunications and transport infrastructure (OECD 1997 & 1999). To achieve this end politicians, in democratic states at least, have to pay greater attention to the varying performance of their regional economies in the need to both lift competitiveness and influence employment and living standards in an effort to gain continued electoral support (Wiseman 1998:38).

Implications for small-industrialised nations

Much of what has been discussed so far draws examples from regional economies in large industrialised nations where endogenous capital remain dominant. Yet globalisation and the spread of MNCs activities have particular implications for key industries and knowledge intensive sectors of small-industrialised economies (Marceau 1999:4-5).

Understanding the structure and innovative capacity of firms operating in the domestic market is essential to understanding the potential of applying ideas associated with post-Fordist literature, i.e. networking, clustering partnerships, collaboration. The problem here is that industrialised economies like Australia, New Zealand and Ireland are characterised by small populations, small domestic markets and, compared to large industrialised economies, have
limited private funds to spend on innovative related expenditures such as R&D (a role traditionally played by the public sector).

Australia's industry base is made up of three types of businesses: large domestic oligopolies, foreign multinational companies, and small- to medium- sized enterprises. Given the high MNC firms presence (discussed in Chapter two), the historical absence of an export culture in manufacturing, a weak venture capital market and the distance to key markets, most Australian owned firms remain small by international comparison. According to the ABS statistics, for example, in 1995 of the 393,000 firms operating in Australia 93 per cent had less than 20 employees and 7 per cent or some 27,000 firms had 20 or more employees (Sheehan 1999b:2). The share of Australian firms with less than 20 employees is almost twice that of the US, and, conversely, the US share of firms with 500 or more employees is twice that of Australia (Sheehan 1999b:2).

The difficulty for Australian policy-makers is that foreign owned or controlled firms have traditionally had limited commitment to innovation, R&D and export activity in Australia, operating as they do through vertical linkages and intra firm supply chains (and management hierarchies). A recent OECD report on the Australian economy concluded a major structural problem remains its weak inter-industry linkages due in part to the over dependence on multinational firms (Lucarelli 2003: 84). According to the same report this creates the situation where production and knowledge flow links are not embedded in the local education, training and research institutions. The problem here is that multinational firms have dominant positions in Australian high-technology and medium-high-technology manufacturing industry - the very target of much of policy development tools espoused by post-Fordist literature eg industry clusters and regional innovation systems (Sheehan 1999b:7; DITR 2002).

Given the structure of Australia's industry base and the importance of technology firms to the knowledge-based economy, a policy to increase high technology exports and R&D expenditure would need to target and rely on the commitment of foreign-owned firms. The dilemma here is that, for the most part, these firms' priorities are guided by their global production strategy and head office concerns and not, necessarily, by domestic concerns for the need to foster innovation and a knowledge-based economy in Australia. Research also indicates that although small Australian firms as a whole tend not to export or spend on R&D those that do have a much higher export and expenditure on innovation ratio, particularly in manufacturing (Sheehan 1999b:5; DITR 2002). Industry and regional policy in Australia's case would need to consider how to specifically target and win the commitment to the process of small high-tech
Australian firms that exhibit a higher propensity to export, undertake R&D and commit to local collaborative process.

Moreover, the central question here is whether many of the foreign firms that dominate much of Australia's industrial base are willing to act collaboratively with other endogenous firms, government and local communities to achieve broader regional/industry development objectives. It is perhaps the case that will be determined by how a region fits into the supply and value-chain activities of particular MNCs (and/or where the value-added activity is located).

Much of the often cited examples in post-Fordist and economic geography literature, in contrast, are characterised by regional economies where the industrial base is 'home base' to firms that are often export focused and/or have ready access to large consumer markets. Moreover, in the US and Italy, for example, local and regional governments are more powerful than is the case in Australia's particular model of competitive Federalism (discussed in Chapter two). The three tiers of government in Australia tend to operate in isolation and compete for foot-lose capital, which often mitigates against greater government collaboration in areas such as regional, and industry development and planning. Perhaps in regions such as the Third Italy there is sufficient critical mass and vested interest to support the necessary institutional structures that underpin local collaborative processes for economic renewal and ongoing innovation. Issues such as sufficient level critical mass and the balance between endogenous and foreign firms remain more problematic in a small-industrialised economy like Australia, for example, particularly in high technology manufacturing (the next chapter also highlights the same problem in the New Zealand economy).

Conclusion

As this chapter has argued, post-Fordism remains a debate, rather than a universally accepted theory. Whether we are currently witnessing a genuine transition from one dominant mode of capital accumulation and mode of regulation to another remains highly problematic. We can observe the world's transition from an industrial age to information age with the advent of rapid advances in information technology and shrinking transaction and transport costs. On balance, however, modern firms, and in particular MNCs, exhibit a propensity to engage in hybrid forms of production, producing both long and short runs of particular products engaging in both flexible and standardised production. Therefore, a more evolutionary interpretation of change, which stresses a mixture of continuity and change from one period to
another, is perhaps a more appropriate interpretation of current changes in the international political economy (Amin 1994:3; Tomenay and Ward 2001).

Under this scenario the particular mode of production, flexible specialisation or mass production, is the result of the profit maximisation strategy of individual firms, and is determined by its ‘place’ in a particular pattern of international or domestic production. Place in this instance refers to a firm’s geographical location and institutional environment, as well as its place in the value chain of production. A key characteristic of globalisation is that production can now be broken down into its component parts – design, manufacturing, assembly and distribution – and firms can spread these activities across countries (or within national boarders) to exploit transaction and production cost differences.

What the preceding discussion on post-Fordism tells us, from its competing theoretical viewpoints and various case studies, is that the institutional structure of a particular location is often the determining factor in this process. Whether the institutional structures are a state construct, the result of private sector or civic collaboration, or a combination of all three, is dependent on the history of a given country’s (or region’s) particular institutional legacy and balance of socio-political arrangements. While the forces of globalisation have reduced state activity in many areas, it has also heightened the role of government in enhancing the national and local institutional environment to support individuals and firms in a continuous process of learning.

The question that remains, however, is can these types of successful supportive institutional arrangements be created, or transferred, from one region to another? The discussion on the Third Italy, and Henton’s case study of industry clusters in the USA demonstrates success depends on the level of commitment and support, in terms of personnel, time and resources, of the stakeholders engaged in the local collaborative planning processes. Whether it is government the private sector or a regional organisation that leads this process depends on the particular socio-political history of a given jurisdiction. However, government maintains a dominant role in shaping the national and local institutional environment in which change occurs. What seems important is the creation of a local transparent and collaborative decision-making framework that draws knowledge, expertise, resources and leadership into a shared long-term planning process to manage change. However, as Chapter two and this Chapter argue, Australia’s particular type of competitive Federalism, with each tier of government for the most part working in isolation, and its industrial composition, tend to work against the development national/local collaborative processes.
The most salient point to post-Fordist literature is that it elevates the importance of the institutional environment, concrete personal relations, social capital, collaborative networks and soft and hard infrastructure in underpinning innovative, economic activity. From this understanding regional development policy represents a collective response to support strategies for ongoing economic and social renewal. The strategy in many instances is to stop leakages and the erosion of the financial, physical, social and human capital and to enhance value-added activity in the local production system. This contrasts with traditional neoclassical economic theory that assumes spatial patterns of development, and relations of production and distribution of goods and services, are determined by market forces and price relationships alone, and are, therefore, essentially untouched by sociological, cultural and political considerations. As Amin (1994:3) has suggested elsewhere, socio-economic history is best considered a complex and heterogenous process of many determinants.

Contributions from the economic geography literature have been particularly important in identifying the localised capabilities that distinguish innovative and vibrant regions from poorer performing regions. Similarly, neo-Schumpeterians emphasize the importance of the role of 'innovation' in the emerging information age and stress government's active role in facilitating the take-up of new technologies and production processes to encourage an environment for continuous innovation and learning. These supply-side policies and programs include: training and education, innovation and new skill information; support for technology upgrading and industry-university research links; initiatives to develop advanced telecommunications networks; strategic support for new industries and new services; and support for learning and adaptation of new management and organisational cultures. This approach suggests that learning is not the sole province of firms nor is it the sole product of market relationships but of equal if not more importance is social structures and relationships.

Moreover, but perhaps not surprising, the same collaborative processes that underpin post-Fordist theory and approaches can also better balance concerns for efficacy, and equity. These similarities are in the emphasis both place on the importance of 'bottom-up' community-driven initiative and the development of local planning processes that better link government, the private sector and communities to jointly address social and economic problems.

Chapter five presents a look at the role of industry clusters (and networks) in more critical detail and particularly Michael Porter's contribution to the more recent international resurgence in regionalism. It would appear that many national governments (and regions) around the world are turning to industry clusters as policy tools to address issues of regional disparity,
industry and regional development in an era of increased globalisation. The themes explored in this next chapter include the inherent tension in Porter’s cluster analysis, seeing where industrial clusters sit in terms of the broader neo-liberal post-Fordist debates, and the problems for policy-makers of introducing a cluster-led development strategy in small peripheral economies dominated by foreign capital and a neo-liberal regulatory regime.
Chapter 5

PORTER AND THE SHIFT FROM ‘COMPARATIVE’ TO ‘COMPETITIVE’ ADVANTAGE: MAKING SPATIAL ECONOMIC ANALYSIS MAINSTREAM

Introduction

An important theme in international approaches to industry policy and regional development has been the emergence of the industry cluster theory that draws much of its theoretical basis from Porter’s seminal book The Competitive Advantage of Nations (1990). Whilst Porter popularised the concept of an industry cluster, its origins as an economic development tool remain uncertain (Anderson 1994; Henton et al 1997; Rosenfeld 2001 a & b). Nonetheless, it seems that policymakers around the world, across the political spectrum, have modified elements of the cluster framework in developing micro policies that enhance economic development opportunities for their ‘regions’ (Anderson 1994; Henton 1997; Porter 1998a; Enright 2000; Rosenfeld 2001 a&b).

A cluster development framework is concerned with the way a nation organises its economic activity on a spatial basis. In this sense it is an organising strategy that links agglomeration (externalities) and industrial complex (input-output models) effects with post-Fordist approaches (discussed in Chapter four). A cluster development strategy is concerned with industry structures (of related firms) including their technical input-output relationships, as well as economies of scale, scope, and information flows and knowledge spillovers (or untraded interdependencies). At the same time a mature cluster, what Enright (2000) describes as an ‘working or overachieving cluster’, is concerned with focusing stakeholder attention on the ongoing improvement of the collaborative environment (institutional framework) of the region in which firms operate - as well as the human and physical infrastructure of the local production system.

The main appeal of cluster-based approaches is that they focus public policy away from directly assisting firms (the ‘picking winners’ problem) towards private/public collaboration aimed at building and stimulating the innovative capacity of people and industry in a given locale. Government’s role is to improve the institutional supports of the cluster, i.e. education and training, research and business services. It also has a role in supporting the productive inputs of clusters - the human resources, physical infrastructure, scientific infrastructure, the level of intervention will be determined by the particular historical political arrangements of
given states (regions). It has been Porter's work that has in many ways been responsible for popularising post-Fordist ideas into mainstream business economic literature and policy.

The major part of this chapter seeks to critically evaluate Porter's cluster theory and position his analysis in terms of the broader debates with the post-Fordist literature discussed in the previous chapter. It highlights its limits arising from its association with neoclassical theory and the neo-liberal policy agenda. In particular, the New Zealand case study is used in the second part of this chapter to highlight the problematic nature of the adoption of an industry clusters approach for policy-makers in small peripheral economies where the regulatory regime is dominated by a neo-liberal logic. The emphasis here is on exploring the necessary (pre-)conditions conducive to developing industry clusters and the problems for policy-makers that emerge when these conditions are absent. The final part of this chapter explores the relationship between business and institutional networks and industry clusters, which for the most part are treated as separate and/or used interchangeably in spatial literature. The question here is whether the former is a necessary, but not sufficient, precondition in developing the latter.

The global/local paradox

Interestingly, the adoption by policy-makers of industry clusters has occurred during a period in which the growing mobility of international capital and globalisation has, according to the neo-liberal view, challenged the state’s ability to manage industry and regional policy in the national economy. In contrast, Porter's insights on the determinants of international competitiveness suggest a role for government in promoting industry by supporting the supply side inputs (microeconomic) to local production processes. Porter's work highlights an inherent paradox that has come to characterise the globalised economic activity of the last decade or so. On the one hand, globalisation appears to diminish the importance of both the nation-state and location because of the increasing mobility of international capital, changes in global production processes (characterised by the emergence of global corporations) and advances in communication and information technology. On the other hand, as others have observed, there has been an increase in the concentration of industries and economic activity in particular regions and increased state support of industry activity. This is what Enright (2000) has described as the simultaneous globalised and localised tendency of globalised activity and is a re-occurring theme of this thesis.
This apparent paradox reflects the fact that as capital expands some firms maintain hierarchical controls and concentrate value-added activities in their home market and some other key centres. In contrast, others firms adopt a less-hierarchical mode of operation, combining local and global forms of industrial networking entrenching themselves in the local production process (see Amin and Malmberg 1992:245). Firm-state relationships (and policy approaches) differ depending on whether interaction is between a firm in its home market or a host country government dealing with foreign capital (see Dicken 1994). There will be a mix of corporate governance structures of firms operating in a given location and this will determine the parameters of government/market interdependencies at the regional level as well as the type of cluster approach to be emphasised (Chaiton et al 2001).

**Why Porter?**

Porter's work on industry competitiveness, in particular, is important to this research for five reasons. First, Porter makes the observation that it is regions and their firms that compete in the global economy not nations (consistent with the above). Consequently competitive advantage is created and sustained through a local process where national economic structures, values, cultures and histories contribute to competitiveness (Porter 1990:19). Secondly, he elevates the theoretical concept of 'competitive advantage' over the dominant economic analysis of international competitiveness of comparative advantage. Third, he advances the importance of the spatial phenomenon of 'industry clusters' as a key to explaining why some regions' industries are more successful than others. Fourthly, he makes the point that you don't have to be big (a multinational) or into 'hi-tech' to be successful in the global economy. He argues that the core of the German economy consists of $25 million to $100 million companies while in Italy it is $10 million to $50 million companies (Porter 1998b:15). Finally, Porter's work makes the links between industry and regional development policy and the need for specialised infrastructure (soft and hard) as a key to the development of internationally competitive regions.

Moreover, Porter's cluster thesis warrants separate consideration from other spatial approaches because there remain key differences in these approaches both at the level of policy and theory. Although sharing much in common with many post-Fordist observations, Porter's theoretical approach is, nonetheless, steeped in a neo-liberal, business management discourse that promotes market outcomes and cautions against government intervention. Unlike post-
Fordism, Porter is not seeking to offer an alternative to the dominant neo-liberal economic paradigm. Rather, he seeks to understand the 'local' determinants (the industry conditions, i.e. inputs, competition, demand and linkages) that underpin the competitiveness of firms in a global market. Like Regulation and neo-Schumpeterian theorists, Porter acknowledges the importance of the institutional environment (collaboration and macroeconomic stability) in developing sustainable industry clusters. Most importantly, however, for Porter the institutional environment only provides the context for firms to pursue wealth; institutional conditions will not create wealth in themselves only firms do this by producing high value products (Porter 1998a:4). Like neo-Smithians, Porter believes that wealth creation depends on the microeconomic foundations of competition in the economy and, ultimately, this resides in the innovative capacity of its firms as they move to more productive strategies and increased creativity.

Of particular importance to small-industrialised peripheral economies, unlike neo-Smithians and neo-Schumpeterians, Porter argues that creating higher value for products does not necessarily mean moving to high-technology goods or flexible specialisation production techniques (nor does it preclude this). Rather, Porter makes the point that a nation can be prosperous and productive in virtually any field because what matters is how a nation competes not what industry it competes in (Porter 1998b:3; Stevens 1995). He uses Italian shoes and tourism as examples of 'mundane products' that can create value added through strong brands (and image), marketing, design, and quality of products (and experience). He makes the point that to support high wages (and this is the goal of industry clustering) nations need to apply better levels of technology to develop unique products and production processes that competitors can not easily produce or can only produce after delay (Porter 1998b:3). So in terms of small peripheral industrialised economies, such as Australia, Porter's insights are particularly salient.

Cluster examples

According to Porter, clusters provide the building blocks of a productive, innovative economy (Porter 1998b:8). Examples of clusters used in his works come from Holland, Norway and the US. Holland's flower industry has over 60 per cent of the world's fresh cut flower export market yet Holland has very little arable land and very unpredictable weather (Porter 1990:85-86). Part of Holland's success, according to Porter, is to be found in the five institutions dedicated to research and development of flower growing, and in its specialised glasshouse, flower handling and shipping-related industries. The Dutch financial sector also offers
specialised financial services tailored to fresh cut flower industry needs, including the granting of loans using bulbs as collateral. Another industry cluster example can be found in Norway, which accounts for 10 per cent of all the world's seaborne transportation despite being a small economy. According to Porter, the reason is to be found in the variety of related industries and suppliers and specialised institutions that have come to support and shape Norway's maritime industries. This includes the banking and financial sector that provide specialised financing to Norwegian ship builders and the Norwegian universities that support and undertake substantial maritime R&D.

In sum, there is a critical mass of unique knowledge and capability in Norway in the maritime field that came together from the chain-reaction effect of combining a group of firms, industries, and institutions in the same field in the same place (Porter 1998b:8).

Finally, Porter cites the wine industry cluster in California that consists of about 440 wineries and approximately 3,000 independent growers of grapes that supply those wineries and a large array of institutions that support both groups (Porter 1998b:8-9). Specialised trade associations collect data about the industry from around the world and specialised trade journals, newsletters, and magazines published in California build the industry reputation locally and internationally. The University of California at Davis supports the cluster and is regarded as one of the world's leading centres for wine-making technology. Through these processes and linkages a critical mass has emerged that supports ongoing innovation and wealth creation within the Californian wine cluster.

Porter's observations have been a major catalyst to the resurgence in spatial policy approaches to industry policy and regional development - yet important tensions and contradictions remain in his analysis.

Critique of Porter's model

The critique of Porter's work focuses on, firstly, the theoretical assumptions of his model, secondly, on the inherent tensions within it and, finally, on his policy prescriptions.

Philosophical origins of Porter's ideas

With the publication of his best selling books *Competitive Strategy* (1980), *Competitive Advantage* (1985) and *The Competitive Advantage of Nations* (1990) Porter elevated the 'region' as central unit
of contemporary economic analysis and establishes himself as one of the world’s leading authorities on the notion of competitive advantage. It could be argued that the primary purpose of his 1990 work, including case studies in ten high performing nations, was to provide the empirical case to elevate his ideas on a ‘new economic paradigm’ of competitive advantage, over the dominant Heckscher and Ohlin’s model of comparative advantage.

As Porter discusses (1990:10-30), according to Adam Smith’s notion of absolute advantage, a nation exports an item if it is the world’s low-cost producer. David Ricardo refined this notion to that of comparative advantage, recognising that market forces will allocate a nation’s resources to those industries where it is relatively more productive. This means that a nation may still import a good where it is the low-cost producer if it is even more productive in producing other goods. In Ricardo’s theory, trade was based on labour productivity differences between nations. The most dominant contemporary notion of comparative advantage stems from the work of Heckscher and Ohlin. Their approach is based on the notion that all nations have equivalent technology but differ in their endowments of factors of production such as land, labour, natural resources and capital. Consequently, nations gain factor-based comparative advantage in industries that make intensive use of the factors they use in abundance. However, for the theory to work there are assumed no economies of scale, that technologies everywhere are identical, that products are undifferentiated, and that the pool of national factors is fixed. Moreover, the theory assumes that factors such as skilled labour and capital do not move among nations.

In an era of increased globalisation many of these assumptions simply do not reflect contemporary industry structures or patterns of international trade. The assumptions that underpin factor comparative advantage were, as Porter (1990:10-30) argues, more persuasive in the eighteenth century and nineteenth centuries. During this time many industries were fragmented, production was more labour and less skilled intensive, and much trade reflected difference in economic conditions, natural resources and capital. These factor conditions may remain important in industries dependant on natural resources, in those where unskilled or semiskilled labour is a dominant portion of costs, and in those where technology is simple and widely available. However, many modern firms are characterised by the use of sophisticated technology (and face constant technological change), economies of scale and have highly skilled and specialised labour. Moreover, most products are differentiated and buyer needs vary in different markets. Most firms are knowledge-intensive with the role of factors being less significant to costs, and capital and labour is highly mobile. Therefore, according to Porter, the theory of comparative advantage in an era of increased globalisation is rendered obsolete.
According to Porter, government’s role is to develop and promote policies that enhance what he has identified as the universal ‘attributes’ of competitive advantage. From his 1990 work Porter concludes that there are four fundamental attributes of competitive advantage of a nation (region):

1. **Factor Conditions** - access to specialised pools of talent, technology, infrastructure and capital;

2. **Demand Conditions** - sophisticated demand in the home market;

3. **Related and Supporting Industries** - a critical mass of local suppliers of critical inputs; and


Porter (1990:71-72) represents these four attributes diagrammatically as points on a diamond of interacting competitive forces. Porter explains that to be competitive, a region must continually upgrade itself, become more sophisticated in how it competes, move to a higher level of skills and technology to continually improve the quality of its services and other inputs to its productive base. Therefore, ultimately for Porter, competitiveness is all about increases in productivity; regions that are able to increase the value of outputs for each of their inputs will be more competitive relative to other regions. It should also be remembered that Porter’s work on the determinants of competitiveness were developed by examining regions that were already economically vibrant and whose industry structure is dominated by the activities of endogenous capital.

Porter only briefly discusses his idea of industry clusters in his 1990 publication (see Porter 1990:164-175). Indeed, there is a long tradition of economic thought that, in a far more sophisticated way, deals with many of the themes touched on by Porter’s analysis, i.e.

- externalities, agglomeration, innovation and cluster theory (see Chapter four; Murphy, Pfister and Wu 1997; Gordon and Ward 2001). What Porter does is promote industry clusters as a means of understanding the processes regions (and their firms) need to focus on if they are to lift competitiveness in an era of increased global competition and rapid technological change. Nonetheless, according to Porter the ultimate challenge to regions and their firms is to get their price right (i.e. increase their productivity) so they can be more competitive in a relative sense to other firms and regions. This creates an unresolved tension in Porter’s analysis.
Porter's analysis begins with the assumption that the market best allocates resources; that economic growth is the primary policy objective; that state intervention is best kept to a minimum; and, wherever possible, market principles should prevail in all spheres of public policy. As will be demonstrated, his policy prescriptions to government remain consistent with the assumptions outlined above and are presented to government as being in the general good. That is, there is the claim of social and economic neutrality where in the long run economic gains from the prescribed policy will flow and benefit all (the implication here is that increased competitiveness equates to a better standard of living). From this understanding Porter sees globalisation as a process that offers almost limitless competitive opportunities and the goal of policy is then to improve ‘competitiveness’ and push for growth.

However, a rigid Porter approach justifies a particular set of social and political arrangements that benefit some interests, ‘winners’, or successful regions, over ‘losers’, or poorer performing regions. Moreover, a strict adherence to this approach makes non-market concerns of communities, such as social justice, income redistribution, employment and the environment subordinate to the ongoing objective of wealth creation (i.e. productivity gains).

However, the central unresolved tension in Porter’s work is between his acknowledgments that institutional factors (non-market factors) matter as a determinant of relative competitiveness and his suggestion that ultimately competitiveness depends on productivity (price) gains. A by-product of his analysis is that he observed that government policy, business and community processes (institutional arrangements), were as important a determinant of industry success in the 1990s, as was price in the ten nations studied (Porter 1990:19). Through his case studies he observed the benefits that accrue to firms through working collaboratively to enhance the productive base of the region. Paradoxically, however, whilst offering his analysis of industrial development as a ‘new economic paradigm’, Porter remains, nonetheless, constrained by the very orthodox neoclassical view he is attempting to challenge. Porter’s conclusions, and policy prescriptions, emphasize policies that highlight the positive effects of market competition and productivity growth, and cautions against government ‘intervention’. Government’s role, according to Porter, is to ‘push and challenge its industries to advance, not provide ‘help’ so industry can avoid it’ (Porter 1990:30).

Yet the question remains, if the attributes of competitive advantage (discussed above) that Porter attributes to successful clusters are absent, what are regions and governments meant to do? The New Zealand case study at the end of this chapter sheds some light on this dilemma.
A problem for Porter is that although he acknowledges real world economic activity, such as scale of economies, monopoly and oligopolistic firms, multinational firms and institutional (non-market) factors he, ultimately, has no theoretical framework to deal with them. As already discussed, this is because his new paradigm rests on the neoclassical paradigm that assumes markets operate best when there is 'perfect competition'.

The world of perfect competition is one of multiple small/ producers and sellers, all price takers, where there are assumed no economies of scale; i.e. monopoly and oligopoly are considered an aberration in this perfect world. For Porter, for example, the domination of an industry in a given nation by the manufacturing activity of a foreign-owned firm would be seen as a competitiveness weakness. Yet many small- to medium-sized advanced industrial economies (like Australia and New Zealand) are dominated by the presence of MNEs. More to the point, in these nations it is the decision-making of the subsidiary activities of MNE that has a large effect on many of the universal attributes of Porter's competitiveness diamond in the domestic economy. This includes the level of competition, critical mass, supply chains (level of value-added activity), exports, infrastructure investment, training, sourcing inputs, the levels of collaboration with local industry, marketing and R&D. As Enright (2001:88) reminds us more than a third of international trade consists of shipments or transactions (intra-industry) between the world's 500 biggest companies.

One could argue that, rather than being an aberration from the perfectly competitive model, monopolies and oligopolies are a natural consequence of unfettered market capitalism and indeed are the driver of the capitalist accumulation process.

This reflects the fact that under a capitalist model of accumulation empirical observation suggests that firms, ultimately, seek to maximise (global) market share and maximise (monopoly) profits. As early as 1942, for example, Schumpeter, among others, argued that capitalism was in fact being driven by oligopolistic markets; a market situation that enabled large firms to earn sufficient profits to undertake the necessary levels of R&D and market development to drive further innovation. Schumpeter made the point that the capitalist system is driven by innovation - in products, processes, work organisation, finance and markets - and the ability of entrepreneurs to secure monopoly profits from these innovations, at least in the short term, is the key in explaining capitalism growth.
The search for such profits was the main cause of the process of 'creative destruction' which Schumpeter saw as endemic to capitalism. Creative destruction - the replacement of product and process (and their owners) by other, invariably superior products and techniques - propelled capitalist growth, primarily through the imitation and diffusion of innovations and through the efforts of entrepreneurs to improve on them in order to secure a share of the newly created or altered market. Competition was crucial to the process, but it was competition between entrepreneurs aiming to securing monopoly profits (or a share of them), not competition in the neoclassical sense of perfectly competitive markets (quoted in Phillimore 1998:51).

**Porter’s conclusions and policy recommendations: constrained by utilitarian philosophy and neoclassical economics**

The problem is that Porter’s conclusions and policy recommendations remain consistent with a long tradition of neoclassical economic theory and the philosophical origins in which it is situated. Proponents of the neoclassical view determine that competitiveness in the end is all about relative price and factor endowment Porter simply redefines the traditional notion of factors from land, labour and capital to a more broadly defined set of factors/inputs. He groups these new factors of production into human resources; physical resources; knowledge resources; capital resources and infrastructure (Porter 1990:74-85). Neoclassical economics can be seen as a subset of a broader political-economic philosophical tradition of neo-liberalism where advocates believe, as a general rule, that the prescription for short-run optimal resource allocation is also the core recipe for maximising the rate of long-term growth (see Wade 1992:271). That is, neo-liberals see getting the price of the different factors of production (land, labour and capital) right as the key to long-term economic success:

'getting the price right' is both a necessary and a nearly sufficient condition for maximising the rate of long-term growth ('getting' in the sense of letting prices find their right levels, and 'right' in the sense of the relative prices established in the freely operated domestic and international market (Wade 1992:271).

The tensions in Porter’s work reflect the inherent tension in origins of neoclassical theory itself. The neoclassical paradigm finds its philosophical origins in Benthamite utilitarianism. It was the English philosopher Jeremy Bentham who argued the amount of pleasure an individual receives is the best measure of value and price. From this understanding the role of government should be minimal, as economic activity is best left to individuals to decide (see Nobbs 1997, Hunt 1979). Utilitarianism was the starting premise from the 19th century ‘marginalist revolution’ in economic theory, which challenged the classical economists, Ricardo and Smith’s, dominant ‘labour theory of value’ (see Hunt 1979:237). The labour theory of value
showed how productive labour was the source of surplus labour and it was the contribution of surplus labour that made the expansion of capital possible, i.e. surplus labour created profits.

The most important point here is that the labour theory of value highlighted the inherent nature of the class struggle in the capitalist model between capital and labour by focusing on the social context within which economic activity occurred. This explanation had, to that point, served the interest of the industrial capitalists of the day in that it provided an understanding of the source of their capital accumulation (Hunt 1979:269). However, other fractions of capital, namely the merchant capitalists and landlords who received their income from ownership and market exchange, required an explanation of capital accumulation that would better serve their interests in their economic and political struggles against industrial capital (Hunt 1979:269). According to Hunt (1979:269), this required an economic theory that ‘sanctioned private ownership of capital and land, while extolling the social beneficence of exchange’.

Originating in the 1870s, economists such as Jevons, Menger, Walras and later Marshall contributed an economic theory that seemed to accommodate merchant capitalists and landlord needs (see Gamble 1986:25-54). The marginalist revolution provided a theory that reduced the notion of value to a mathematical problem that involved the usefulness of a good underpinning of the consumer demand for it. Neoclassical economics determined that all economic behaviour could be explained by the actions of rational, utility maximisation individuals considering prices in a free market of exchange. This economic behaviour was also the most efficient means for a society to allocate resources as all supplies and demands are brought into equilibrium through price flexibility.

In this very deliberate way neoclassical economists moved the focus of economic analysis to questions concerned with price and markets, and away from the social context within which markets operate. In other words, the debate moved from a study that emphasised the nature of capital, its social relationships and institutions, to one that studied the determinants of price (Dobb 1973; Gamble 1981 & 1986).

**Regions consist of more than markets**

Another problem with a pure Porter’s approach is that it fails to recognise that regions are made up of individuals who are often, at the same time, consumers, constituents, parents and workers and not just inputs to the production process. That is to say a region is derived from the complex interactions and associations that develop between economic, socio-cultural, political and institutional actors (Giordano 2001:26). The fact remains that in any given place
individuals often have quite different and competing concerns over issues as diverse as employment, income distribution, health and education, social justice and the environment. For example, in a study by Foster-Bey et al (1999) on the optical cluster in Lawrence, Massachusetts, they found 30 per cent of the population lived in poverty and the city had the lowest per capita income in the state. Most people in this region were employed in low-skilled jobs such as janitor services for the high tech optical industries (Rosenfeld 2001a:5). The problem here is that these types of equity concerns quite often clash with the interests of achieving market efficiencies, i.e. allowing market forces to allocate resources that determine social and economic outcomes.

As the Chapter two discussions indicated, resolving the above equity and employment issues are at the heart of the interrelationship (unresolved tension) between government and the private sector in general. In an era of increased globalisation, the nation-state and the private sector both have an interest in capturing greater market share and more value-added activities, the nation-state, however, is responsible and more concerned with the spatial costs and benefits of these activities on the home production system. This is because, in democratic states at least, ultimately, governments are judged not only on their economic performance but also in relation to their record on issues such as employment, health, education, social justice and the environment, for example.

Common themes in international cluster development strategies

Having noted the contradictions and tensions in Porter’s analysis, the notion of clusters as an organising strategy for industry and regional development has been carried forward by other policy-makers, practitioners and theorists around the world (Sabel 1993; Saxenian 1994; Rosenfeld 1995; 1996; 2001a&b; OECD 1997; Enright 2000; Brown 2001; Green 2001). In many ways it has been developments in post-Fordist literature (discussed in the previous chapter) that has put the emphasis of understanding industry growth and innovation back on the importance of personal relationships and the institutional environment within which economic activity occurs. Moreover, it has been those that have adapted Porter’s cluster observations to make better use of institutional networks (i.e. collaborative non-market organising strategies) that are leading the resurgence in spatial and regional policy internationally (discussed below).
It would appear that it has been the national/local organising and collaborative processes that underpin the clusters approach (drawn largely from the Northern Italian experience) that has been embraced (and modified) to facilitate local economic development and manage change. As discussed above, the objective of a mature industry cluster is to create an institutional framework that focuses stakeholder attention on building the human and physical assets of the local production system. In short a mature cluster-led development strategy requires the following organising processes.

- **Stage 1, Mobilisation** – building interests and participation among stakeholders and a shared vision;
- **Stage 2, Diagnosis** – mapping and assessing the firms and interdependencies that comprise the cluster and the human, physical and institutional infrastructures that support it;
- **Stage 3, Collaboration and institution building** – convening stakeholders in working groups to identify priorities, challenges and actions to address shared problems and create change; and
- **Stage 4, Implementation** – building commitment among stakeholders to take action and identify or create intermediary organisations to sustain and implement the cluster strategy (modified and taken from EDA 1997).

Interest in clusters for example has seen the recent establishment of private sector entities such as The Competitiveness Institute in Spain and Clusters Asia Pacific in Australia - whose role it is to promote the benefits of clusters-based initiatives to industry, government and community groups. The emergence of industry clusters has led many national governments to re-examine the issues of spatial industry and regional development both as a means to address structural adjustment and to stimulate innovation and economic rejuvenation in poorer performing regions (discussed in chapter six). For example, in a survey of the way governments have developed and modified Porter's observations to suit their own cluster development strategies, Enright (2000) lists the following common themes that appear across nations, noting that the degree of intervention varies from government to government. Enright suggests that as part of a cluster development strategy governments have tended to develop policies that seek to:

- improve the general business environment, i.e. review taxes, streamline administration;
- provide information and data specific to particular clusters;
- provide basic infrastructure, education and training;
- foster business networking and inter-firm collaboration;
- provide business services; and
Many countries have sought to focus on the expansion and deepening of their endogenous economic base, by defining local clusters and trying to promote and develop them further (Austria, the US, Spain, and Italy are typical here). While, other countries have sought to actively import or transplant outside firms in an attempt to build clusters (supplier networks) around them (Ireland, Scotland, Wales, Northern England, Malaysia and Singapore, for example). Enright (2000:312) suggests that government attempts to target specific cities and regions as preferred regional headquarters is a more recent play on this same cluster-led development theme. Some governments have adopted a catalytic or indirect role in their approach to cluster facilitation with an emphasis on promoting private sector participation. Here Arizona in the US and Quebec, Canada, where the government has invested in research, education, training, infrastructure and networking programs and offers only limited direct support to firms, are examples (see Rosenfeld 2001a & b; Henton 1997 for clusters in the US). Other governments, in contrast, have taken a more interventionist path to cluster facilitation. Several European governments and Malaysia, for example, have actively sought out potential firms and offered them infrastructure, tax breaks, direct subsidies and training grants and so on, to aid cluster development (Enright 2000:313-314).

While many nations have embraced a cluster-led development strategy others have attempted and failed; New Zealand between 1991 and 2001 offers a case in point. The following discussion on New Zealand offers a comparison for Australian policy-makers of the challenges of adopting a cluster-led development strategy in small peripheral economies. New Zealand offers a particularly useful comparison because like Australia its national economic regulatory regime, until very recently, has been dominated by a neo-liberal logic. New Zealand, like Australia, has very few global firms (in terms of leading exporters and endogenous multinationals) and therefore lacks the critical mass and domestic demand Porter's cluster model requires. Also, like the Australian case, successive New Zealand governments for the period under consideration devoted very few resources to implementing a national regional development framework. They have instead relied on the same self-help development philosophy that has characterised the Australian government approach to regional development since 1996. Yet successive New Zealand governments since the 1990s have actively sought Porter's ideas and attempted to implement his policy prescriptions. For these reasons a consideration of the impact (barriers and challenges) in the New Zealand case of implementing post-Fordist reforms offers some useful insights for Australia policy-makers. Porter's own observation (discussed at the end of this chapter) on what changes need to occur
for the New Zealand economy to benefit from a cluster-led development agenda are particular insightful. Material for this section was gathered as part of a research trip taken to New Zealand in March 2000.

Adopting a cluster agenda and the challenges for small peripheral economies: Porter in New Zealand

The reform years 1984-1999: the rise of the Washington Consensus

New Zealand has a land mass the size of the United Kingdom (divided between two islands) and a population of 3.8 million - approximately the size of the city of Birmingham, UK (Hickling 2000:9). The New Zealand economy is a small advanced economy with high concentrations of foreign ownership and remains largely dependent on the exports of agricultural products for its national income. By international standards its business sector remains very small - only 1200 companies and organisations have 100 employees or more, 800 are in the private sector (Hickling 2000:9). The economy has gone through a period of rapid domestic ‘deregulation’ and economic internationalisation over the past 15 years.

In 1984 the newly elected Labour government, with Roger Douglas as the Minister for Finance, adopted neo-liberal reforms to internationalise the New Zealand economy (Lamer 1998; Argy 1998). The New Zealand period of economic reform was inspired by what New Zealand academics have come to describe as the so-called ‘Washington Consensus’ (see Eichbaum 1999; Harris 1999:20). These reforms began under Labour and were continued under subsequent National party governments. The first phase 1984-90 tackled economic issues such as monetary policy, trade and tax distortions and the NZ financial market (Argy 1998:185). The second phase 1991-96 was more radical in nature and tackled labour market and welfare reforms, the liberalisation of the coastal navigation, and was premised on fiscal consolidation (Argy 1998:185; Kelsey 1995 & 1993). However, as Harris has observed:

The ‘WC’ became a formula that was applied regardless of time and place, structural conditions, political circumstances, administrative competency, institutional sophistication or even cause of economic malaise. ... The elements of the WC tend to focus on redefining the role of the state in economic life (Harris 1999:20).

NZ government’s approach to regional development

In general the period was dominated by a government (and Treasury) view to liberalise the national economy and to oppose measures of financial support for business and to regional
development programs. A specific regional development program had operated in New Zealand between 1972 and 1986 but was axed as part of the new reform agenda. The Program was administered through the Department of Trade and Industry (DTI) and consisted of two components. The first was suspensory loans for the purchase of new plant and equipment and buildings through DTI. The second component was the Development Finance Corporation (DFC), which acted as a development bank for industry development in priority regions.

Between 1973 and 1978 some $NZ240 million was spent on regional development under these two initiatives (Alliance 2000:51). The Program objectives were as follows:

- to achieve a more even distribution of development having regard for regional aspirations;
- to consider alternatives to the growth of Auckland and Wellington metropolitan areas in order to reduce the adverse social and economic effects of large-scale migration;
- to foster growth in regional areas with rates of growth below the national average;
- to enhance the quality of life in rural and urban areas through increased opportunities in employment and improving housing and education, social, cultural and recreational amenities; and
- to improve the quality of urban development, particularly in areas of major population growth (paraphrased from Alliance 2000:50-51).

The DFC proved to be a profitable business, however, in 1986 it lost its regional development role and was converted into an ordinary investment bank. As part of the government’s financial reform agenda, it was subsequently taken over by the National Provident Fund and Solomon Brothers and crashed (went bankrupt) during the financially speculative times of the late 1980s. The Labor Party introduced the Business Development Program in 1991 and established a national network of Business Development Boards to facilitate regional business development ($NZ50,000 maximum grant). This program was also axed in 1998.

In 1998-99, about $NZ100 million per annum was being spent by the National Party government on enhancing industry and economic development. This included about $NZ20 million for technology grants; $NZ10 million for the BIZ programme -business training and advice shop –and about $NZ60 million for the activities of TradeNZ (The Independent 22 March 2000, p.23). When one considers the majority of TradeNZ funds were for export facilitation, enhancement and promotion, and not specifically for SME and/or regional development, one can see how little consideration regional development was afforded by the national government. It also indicates that TradeNZ had to work very hard (with little resources) to do what they could in this area of policy.
The Porter Project

On the invitation of TradeNZ (New Zealand’s Department of Trade), Porter visited New Zealand in 1991 to advance his competitive advantage (cluster framework) approach to the New Zealand government. The findings were published in Crocombe, Enright and Porter (1991) and became known as the ‘Porter project’ (Williams 1995). The researchers attempted to apply Porter’s competitiveness diamond analysis to the New Zealand economy using his 1990 work and international case studies to benchmark New Zealand’s international competitiveness. Researchers began by identifying clusters of industry in which New Zealand performed and had the largest share of the world market (that is, where New Zealand has a share of world exports that exceeds its national average share of 0.3 per cent between 1985 and 1987) (Crocombe et al 1991:42).

The following details the Porter project major findings:

- New Zealand has failed to broaden and upgrade its competitive advantages to cope with increasing international competition;
- New Zealand specialises too much in resource-based activities such as agriculture, these have low entry barriers and face powerful buyers;
- The education system had too little participation and insufficient focus on vocational needs;
- R&D and innovation spending by the private sector was too low. NZ firm strategies were too short term and demonstrate little investment in human resource development;
- Capital cost constraints exist, i.e. low household savings with social welfare and Government deficits undermine savings;
- Past government subsidies and protection have stopped the development of competitive supporting industries needed in clusters (with the exception of farming and horticulture);
- Firm rivalry has been limited;
- Firms need to develop clusters, focus more on knowledge and innovation, invest in human resources development, corporate leadership and adopt more global strategies; and
- Government needs to avoid protecting industry, continue institutional change, encourage innovation, upgrade skills, reduce flow of skilled emigrants, stimulate more domestic competition, maintain an open economy, improve transport and communications infrastructure, improve access to capital and stimulate clusters (as summarised in Galt 2000).
The Porter project had a two-pronged impact on policy-makers in New Zealand. For many the Porter project justified the hands-off, market-led internationalisation of the domestic economy that had been under way since 1984. Several of those interviewed in New Zealand as part of this thesis felt that this was particularly so in the key national government portfolios of Treasury and Commerce - where there was little or no support, or funding, for more strategic business or spatial development initiatives. They expressed the view that treasury believed that once government had extracted itself from its traditionally interventionist role in the domestic economy that the private sector and entrepreneurs would do the rest.

For others, at the national and local government level, the Porter project legitimised the development of a broader national industry clusters agenda. It also justified a role for the state in supporting the supply-side inputs to enhance and grow successful industries and, at the same time, facilitate regional economic development. Led by Ifor Ffowcs Williams, general manager of the Strategic Development Unit in TradeNZ, a small and committed few began to build on their understanding of the cluster agenda and began to share their learning with different industry and businesses leaders across New Zealand’s regions over about eight years. This included actively promoting clusters to local government and regionally based development organisations as a useful collaborative and coordination economic development tool (Williams 1997).

Many of the local government and regionally based development organisations interviewed for this thesis confirmed that with little or no support coming from the national government for business, industry or regional development, the industry clustering agenda offered at least something to address their local economic and employment deficiencies. Between 1992 and 1997, officials from TradeNZ visited high-performing clusters in the US, Denmark, Norway, Valencia in Spain, and Emilia Romagna in Italy. They drew on a vast array of academic influences and engaged Professor Mike Enright from Harvard, a co-author of the Porter project, to further develop New Zealand’s cluster and local economic development agenda (Williams 1997:26). A workshop was arranged in Auckland on industry clustering which included Stuart Rosenfeld, from North Carolina, author of the highly influential 1995 publication Industrial Strength and Strategies: Regional Business Clusters and Public Policy. This workshop drew together TradeNZ understanding of the cluster approach and presented the findings to regional development agencies, Business Development Boards and local government officials.
TradeNZ also encouraged New Zealand businesses (exporters) to work together for their mutual benefit through the development of what Williams (1995:3) coined as informal ‘soft networks’ or, more formerly, Joint Action Groups (JAGS, of which there were 35 nationally). The JAG initiative was complemented by the establishment of Hard Business Program that supports networks between small- and medium-sized businesses (exporters) to achieve objectives that would not be achieved working as individuals. This includes such activity as jointly establishing an office, warehouse overseas, sharing common export brands, joint investment in plant and equipment, or sharing the costs of hiring specialist staff (Williams 1997). Each of these programs was funded on a 50/50 basis between TradeNZ and the firms or economic development agency involved.

From the interest raised by TradeNZ, clusters were identified and/or formed across New Zealand regions with local government, local development agencies and practitioners taking a leadership role in their development. Since 1997, industry-clustering consultants such as Paul Frater, of the firm Innovation and Systems, and Ifor Ffowcs Williams’s, now of Cluster Navigators New Zealand, together with organisations such as Business and Economic Research Ltd (BERL), took a led role in stimulating and identifying industry cluster across New Zealand. While most industry cluster activity is still in its formative stages (varying stages of maturity) the collaborative, organising strategy and ideas that underpin cluster-led economic development have been widely spread across New Zealand’s regions.

The rise of spatial inequality in New Zealand

The increase in New Zealand’s income inequality has been proportionally larger than in most developed countries and is one of the highest in the OECD (O’Dea 2000). Between 1984 and 1996, according to research by Chatterje and Podder, the top 20 percent of income earners in New Zealand benefited most from market-led economic reforms. Indeed the top 10 per cent of income earners increased their income share from 25.6 to 29.6 per cent of national income with most of this increase concentrated in the top 5 per cent (Alliance 1999: 17). Even more strikingly, the remaining 80 per cent of income earners actually experienced a reduction in their share of national income. As is the case in Australia, New Zealand Treasury research shows that the proportion of middle income households have fallen while the low income and high income bands have both increased (O’Dea 2000). According to the same research, 60 per cent
of the increase in income equality is structural in nature. That is, the increase is accounted for by widening income differentials in occupation, education, industry and age (O'Dea 2000).

The rise in the levels of poverty in New Zealand during the reform years had a distinct spatial dimension particularly in terms of employment and income (Philpott 1999:93-94; O'Dea 2000). There has been a stark difference in the spatial distribution of employment and income activity across New Zealand's regions (with 75 per cent of residents living in New Zealand's North Island and the remaining in the South Island). For example, Auckland in 1996 had a population of just over 1 million and a median income for males of $NZ24,401. In contrast, New Zealand's West Coast of the South Island had a population of 30,000 and medium income for males of $18,521. Between 1996 and 1998 Auckland experienced a 14.6 per cent rise in full-time equivalent employment (FTE) while the West Coast experienced a 0.3 drop in FTE (Box 2000:8). Auckland has a wage premium over its non-metropolitan regions in New Zealand of around 13 per cent (Box 2000:19). The Deputy Government Statistician, Dianne Macaskill, recently confirmed that population increases continue to concentrate in the north of the North Island and in Auckland in particular (Statistics New Zealand 1999).

An analysis that looks at the four major cities of Auckland, Wellington, Hamilton, Christchurch and their environs makes the picture of concentration appear even starker. In 1999 an estimated 52 per cent of New Zealand's population lives in one of these localities and each continues to grow as fast or faster than the national average of 0.5 percent (Statistics New Zealand, 1999). According to Statistics New Zealand of the 70 territorial authorities that cover New Zealand, twenty-three had growth rates above the average in 1999. Four recorded positive population growth, but below the national average, four had no change and 39 recorded an estimated decrease in population growth 1999 (Statistics New Zealand 1999). According to an Alliance Party policy paper, employment and population trends in New Zealand between 1986 and 1996, perhaps not surprisingly, moved together. Auckland experienced the greatest growth, and the central North Island, East Coast, South Island West Coast and Otago-Southland experienced the lowest increases or absolute declines (Alliance 2000:25).

In terms of the New Zealand national labour market, FTEs grew by 3.81 per cent between 1986 and 1996 (or by 52,977 FTEs) and employment opportunities remained divided along ethnic lines. Between 1986 and 1996 the number of unemployed grew from 62,000 to 140,600 with the official unemployment rate of 7.6 per cent in 1998 being double the 1985 level (Alliance 2000:27). Moreover, as the following table indicates, there was a strong ethic
dimension to New Zealand's unemployment statistics that implied that the burden on structural adjustment had fallen disproportionately on New Zealand's non-European citizens.

Table 5.1: NZ Unemployment rate by ethnic groups – September 1998

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Employed</th>
<th>Unemployed</th>
<th>Total Labor force</th>
<th>Unemployment rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>European</td>
<td>1,433,500</td>
<td>81,400</td>
<td>1,514,900</td>
<td>5.4</td>
</tr>
<tr>
<td>Maori</td>
<td>134,100</td>
<td>29,100</td>
<td>163,200</td>
<td>17.8</td>
</tr>
<tr>
<td>Pacific Island</td>
<td>64,500</td>
<td>11,700</td>
<td>76,200</td>
<td>15.4</td>
</tr>
<tr>
<td>Other</td>
<td>85,000</td>
<td>12,200</td>
<td>97,300</td>
<td>12.6</td>
</tr>
<tr>
<td>Total</td>
<td>1,717,000</td>
<td>134,500</td>
<td>1,851,500</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Source: Alliance (2000:8)

There was also a spatial element to the distribution of New Zealand's ethnic unemployment. For example, in September 1998, in a total labour force of 571,000 the unemployment rate in Auckland was 6.6 per cent, or .6 per cent below the national average. However, for the Maori community of Auckland it was 14.4 per cent, Pacific Islanders 15.4 per cent, while for European Aucklanders it was 3.6 per cent (Alliance 2000:29). The Maori and Pacific Island communities represent about only 8 and 9.5 per cent of Auckland's total labour force respectively (European workers account for 73 per cent). In Christchurch a similar story unfolds. For Christchurch the unemployment rate for September 1998 was 7.1 per cent, for the Maori community it was 10.4 per cent, Pacific Island 10.6 per cent, while for Europeans it was 6.8 per cent. The Maori and Pacific Island communities represent about 3.8 and 1.2 per cent of Christchurch's total labour force respectively (European workers account for 91 per cent). The higher levels of unemployment for non-European New Zealanders undermines the economic base and the social and family structures of these groups as well as challenges the process towards reconciliation in New Zealand (Alliance 2000).

Industry clusters and regional development on the ground

For the period under consideration, the major barrier to establishing industry clusters, or undertaking regional development initiatives, remained the lack of vision by national government and a lack of public/private finance to support regional organisations, projects and infrastructure. Most local governments and economic development agencies had to rely on their own ratepayer base, or increased borrowing, for their funding regional initiatives.
Naturally this tended to favour cluster/regional development initiatives in the larger cities and more populous regions over the smaller regions and local government areas. For example, in Palmerston North, in the central North Island (population 73,000) a new super regional development agency, Vision Manawatu, was formed in 1998 to combat regional decline and to maximise, streamline and better coordinate the region's approach to regional economic development. Vision Manawatu is a partnership of funding and resources between the Manawatu Commerce Centre, Central-Power Co, the Palmerston North Enterprise Board, the economic development units of both the Palmerston North City Council and Manawatu District Council and the Knowledge Centre at Massey University (with an initial budget of $NZ1.5 million).

John Hickling, chief executive of Vision Manawatu, stated that he had no doubt that the need for the organisation emerged from the 'inequality left by 15 years of economic reforms, where the cities (Auckland and Wellington) grew at the expense of the regions' (personal interview). According to another interviewee 'a protracted period of industry contraction and corporate takeover has seen jobs, industries and services leave the regions and/or be relocated to the larger cities'. The same person indicated that in the last five months of 1999 five companies in Palmerston North had been taken over by Australian-based firms at a cost of 360 local jobs. At the time this research was undertaken Pacific Dunlop, another Australian-based multinational firm, had taken over a local garment manufacturer and was announcing plans to rationalise its operations. This local firm produced 1 million garments (thermal underwear etc) a year, employed one hundred people, and exported 50 per cent of its production. Those interviewed felt very pessimistic about its place in Pacific Dunlop's global operation and were preparing a case to approach its management to promote the factory's importance to the region's future.

Before Vision Manawatu, and without national government participation, according to those interviewed, the region simply did not have the resources or strategic tools to address its regional problems (the point was also made that it is still deficient of investment for major infrastructure projects). A new business plan and a focus on enhancing the region's appeal and advertising its cost and logistic advantages, as well as expanding its industrial base through industry clusters, form key planks of Vision Manawatu strategy to attract investment (from industry and government). Industry clusters have been formed in defence (25 firms) with both an airforce and army base in the region, food (20 firms) and call centre (12 firms) sectors. The local defence cluster is now linked to the defence industry JAG established 10 years earlier by TradeNZ to enable firms involved in the defence exports sector to better share their
knowledge of the market. Vision Manawatu is also keen to develop Palmerston North as a strategic cargo hub which includes upgrading the international airfreight capacity of its airport.

Interviewees suggested that the forming of the food cluster was instrumental in convincing Goodman Fielder not to rationalise its newly acquired Ernest Adam baking and milling operations in Palmerston North. Instead they argued Goodman Fielder should instead base its distribution and production locally. After a presentation by the Vision Manawatu’s chief executive to the manager of Goodman Fielder’s New Zealand operations, pointing out the distribution and cost benefits of Palmerston North, jobs have actually expanded from 120 to 140. However, interviews also confirmed that this was at the cost of the loss of one hundred jobs in Goodman Fielder’s Christchurch operations. Whilst the initiatives by Vision Manawatu are in their infancy they indicate a community strongly committed to collaborative regional economic processes to best coordinate resources, commit to a strategic vision and attract investment.

Across New Zealand there are numerous examples similar to the above where local government has led efforts to build public/private networks to begin the process of greater collaboration. But there remain very few, if any, examples of mature industry clusters - in most cases the focus is on increasing dialogue between local government and business, i.e. appointing regional development officers, developing hard business networks and raising the regional profile (marketing strategies). The exceptions are perhaps film/television and marine exports in and around Auckland, the Earthquake Engineering Services in Wellington, and the defence industries in Palmerston North. All these localities, perhaps not surprisingly given the above discussion, are in New Zealand’s North Island.

*Porter returns in 1998*

Against this type of background, Porter returned in 1998 to revisit where New Zealand stood in the global economy and to see what progress had been made on industry clusters since 1991. In a way, Porter returned to New Zealand and argued for many of the same microeconomic interventions that he had outlined in 1991 - with some notable, and quite surprising, exceptions. Much of the following demonstrates in a practical way the inherent tensions and contradictions in Porter’s cluster model for small peripheral economies.

On the macro side, Porter thought New Zealand had accomplished a great deal in terms of structural change that had created a stable macroeconomic, legal and political, environment (with low inflation and interest rates). According to Porter, government had also removed itself
from areas of the economy that it ought not to have been (deregulation, corporatisation). Porter, however, argues that macroeconomic policies alone do not create wealth and that real wealth is created with reforms of the microeconomic foundations of the economy. Accordingly he suggested the government set a ‘positive’ and ‘affirmative’ vision for the New Zealand economy (Porter 1998b:140).

However, Porter was disappointed by New Zealand’s economic performance over the interceding years, i.e. declining or static real incomes and GDP per capita, poor exports, poor R&D and innovation levels (Porter 1998b:13). He argued the government had no vision for the country, other than to ‘liberalise’, and was acting as if the reform agenda had ended (Porter 1998b:14). This view was confirmed by a New Zealand Treasury working paper that concluded that economic growth had been less than was hoped for at the outset of the major reform process began in 1984 (Galt 2000). The author concluded that there were ‘no obvious policy options’ that would dramatically improve New Zealand’s growth performance. Perhaps surprisingly (or not so surprisingly, perhaps) the author argues that the failure has been one of individuals and firms to take the opportunities created by the macro reform agenda (Galt 2000:13).

Porter argued that the New Zealand government needed to make a greater commitment to innovation, R&D, training and in general create a system that could substantially improve human resources. He called for continued reform of the tertiary sector so New Zealand universities (and Crown Institutes) could not only generate new technologies but also generate new companies and generally better collaborate with industry (Porter 1998b:15).

More to the point, Porter called for the New Zealand government to make a commitment to an aggressive industry cluster policy and to not be so hamstrung by the concept of ‘neutrality’ particularly when it comes to corporate investment (Porter 1998b:15).

New Zealand, so far, is not yet fully harnessing the cluster approach to drive industries to the next level. In many industries there are many small industry associations that are looking out for their one piece of the puzzle. They do not talk to each other, they do not want to work together, they do not want to come under the same umbrella to think about concerted strategy for building assets, capabilities and skills. This is the next agenda (Porter 1998b:17).

Porter also called for the New Zealand government to become more ‘interventionist’. In terms of corporate investment Porter argued the government should consider tackling the task of increasing corporate investments that have a social benefit, such as R&D and training, by offering ‘incentives’ (Porter 1998b:16).
I am not advocating that the government gives grants or pays for corporate research projects, this is not the right way to go about it. The right way is to focus on providing incentives for all firms, not favouring a few. If a company in New Zealand wants to double its R&D budget, however, a tax credit for part of the increase is a powerful incentive. If a company wants to expand its training, the government ought to be willing to chip in something because this creates an asset for the nation that will allow it to move to much higher levels of productivity (Porter 1998b:16).

On the demand side Porter suggests the government change its procurement policy and use this to stimulate domestic industry (a Keynesian demand policy). Because of the small domestic market, Porter suggests the government could stimulate innovation through its own procurements by shopping on quality - setting high domestic standards - and not simply to shop on price (import replacement).

*New Zealand’s problem*

The problem until 2001, was that a neo-liberal logic informed the national regulatory environment in New Zealand and this ran contrary to many of the interventions the national government needed to make to stimulate the pre-conditions for a cluster-based development strategy. Whilst hard networks became established across New Zealand’s regions investment by the state in the supply side inputs, institutional ‘soft’ structures and collaborative networks were ignored. As Macleod (1999) points out the prosperity of a region is not exclusively dependent on the processes occurring in the region. That is national expenditure in areas such as welfare, health, defence, housing, education and training, infrastructure and business support etc, also impacts on the local production system. As does the governance structures of local firms (how they plug into the global market) in terms of the depth of the local interdependency.

The problem is that the New Zealand economy remains dominated by its agricultural sector, has a high level of foreign ownership, a small domestic market, and very few global export-led medium-sized endogenous firms. These structural factors continue to effect universal ‘attributes’ that determine Porter’s notion of competitive advantage. It is not surprising then that on his return visit to New Zealand in 1998 that, given the economy continued its poor performance, Porter would call for the type of interventions described above.
Cluster and networks

The discussion on soft networks, or JAGS, in the New Zealand case study gives an opportunity to explore the links between clusters and institutional networks in a little more detail. This is important because often the literature on industry and regional development confuses, or uses interchangeably, these terms.

The confusion emerges because the catalysts for both business networks and cluster-based development strategies originated from various studies undertaken by academics and policymakers of Northern Italy in the 1980s (Rosenfeld 2001a:1). In particular, Denmark’s Ministry for Trade and Industry announced the first business networks program ($25 million) in 1990 which quickly became the benchmark for similar programs in the US (the Manufacture Extension Partnership – Rosenfeld 2001b), Norway ($25 million, 1991) and Australia with the Business Network Program, 1995.

The success of Northern Italy’s regions was interpreted by researchers (Sinclair 1999:1) as being attributed to the inter-firm collaboration (and the support services) that gave the regions SMEs access to external economies of scale (Rosenfeld 2001a:1). These business network programs - what Ifor Ffowcs Williams (1996) describes as ‘hard’ networks - were primarily concerned with training brokers (facilitators) to develop the horizontal linkages between firms of three or more (Rosenfeld 2001b). In the Australian case the emphasis was on joint marketing alliances for increased export (Sinclair 1999:4). Business networks were often the beginning of a process that focused firm attention on the potential to form strategic alliances, partnerships, joint ventures and other forms of contract relationships. Ultimately, the objective of the business networks program is to benefit profits and/or shareholder value of the firms involved; business networks had no specific spatial objectives other than business outcomes (Rosenfeld 2001b).

In contrast, researchers, such as Putnam, Harrison, and Saxenian et al, continued to spend more time exploring the social support structures (formal and informal institutional networks), which underpinned successful industry clusters of Northern Italy (Rosenfeld 2001a; Harrison 1992). From this further analysis it becomes clear that the emphasis of industrial districts in Northern Italy lay not in the role of business networks but, rather, on ‘stakeholder’ collaboration or institutional networks. This is what Ffowcs Williams (1996) describes as ‘soft’ networks to distinguish them from the hard business networks, or JAGs, discussed above.
This understanding is consistent with the importance of enhancing institutional thickness as means to facilitate sustainable regional development as discussed in chapter one.

The objective of 'soft' or institutional networks is to support the collaborative framework and inputs, human and physical, for the ongoing development of the local productive system. A stakeholder in this sense refers to players such as government, higher education institutes, finance sector, regional development authorities, labour representatives, environmental bodies, industry and community groups and individual firms (suppliers and distributors). By way of example, in 1997 in Lumezzanne, Italy, local stakeholders established a non-profit entity Lurnatel to act as a key development agency for the region. The new agency also delivered government programmes and services in the region. The local regional bank, Banca Popolare di Brescia, the local council, supported Lurnatel, as did telecommunications firm Italtel Telesis, which undertook industrial policy interventions to support local enterprise and capacity development (Brown 2001:81). Lurnatel grew to around 15 staff and established a business incubator adjacent to its premises and provided a range of services to local firms including marketing, financing, and innovation, training and IT support (Brown 2001:82).

The point here is that individual firms may come and go within an industry cluster (and/or industrial district) but the institutional framework (soft networks) that underpins the local production system is the 'continuum' that nurtures the next generation of entrepreneurs and new start-up firms (Tsipouri 1999:29-30).

Moreover, these institutional networks not only include business networks but also can include employment, education and training, health, technology, environment, innovation and finance networks. In other words institutional networks are formed as an organising means to better plan and target resources at the gaps and/or strengthen the weaknesses of the local socio-economic production system. It is the organising processes and the intermediary groups established to plan and identify the human and physical inputs that distinguish a mature cluster-based development strategy from an a-spatial business network approach. This also takes the concept of industry clusters beyond neoclassical inspired agglomeration and industrial complex theoretical explanations of the determinants for the spatial concentrations of industrial activity (i.e. beyond the notions of externalities, price and input-output relationships).

Importantly, however, as Chaiton et al (2000) observe, although a cluster-based development strategy has a geographical focus, it has no set boundaries as such. This is because industry value chains extend interactions and interdependencies beyond the cluster's geographical limits.
particular places with a high level of MNCs activity (either foreign or endogenous firms). The challenge of stakeholders is to create the horizontal linkages that deepen (or embed) as much of the interdependencies (value-added activities) in the local productive system. The more value-added activity undertaken enhances the local human and physical asset base and consequently its innovative potential. This is also consistent with Green's (2000) analysis of a 'boundaryless' cluster emerging with the ITC sector in Ireland where MNCs play a major role.

Porter's cluster approach argues that it is the characteristics of 'place' aided by proximity that underpin competitive advantage and this competitive dynamic between firms and other stakeholders re-enforces the internal dynamic of firms (Chaiton et al 2000). As argued earlier, this is so because globalisation and advances in technology create conditions where speed, flexibility, variety and innovation form the foundation of a competitive local productive system. This in turn relies on the learning capability of firms and increasingly the learning capabilities of the 'place' firms are located — particularly tacit knowledge, which is embedded in the minds of individual and collective organisations that is not easily transferable from place to place (discussed in chapter four). From this understanding it is clear that institutional networks, and not hard business networks, are a necessary precondition in developing industry clusters and a defining organising mechanism in a cluster-led development strategy.

It is also clear from the New Zealand case study that clusters failed to emerge because government, particularly in a small peripheral economy, needs to support the growth of institutional networks and the intermediary bodies that drive them. Porter’s call for greater intervention on his return in 1998 is about developing institutional networks and increasing domestic demand as the foundations for a cluster-led development strategy in New Zealand.

Conclusion

Porter's contribution to industry clusters and a cluster-led development strategy remains a vital one — many of his observations on industry size and the continued importance of low-tech industries remain salient for small peripheral industrialised economies. Moreover, Porter's work more than any others has popularised the concepts of regionalism and industry clusters to policy-makers and business alike. However, within Porter's model of regional competitiveness there remain many unresolved tensions and contradictions. These are the legacy of the philosophical tradition within which Porter's (neoclassical) theoretical approach is based. These tensions are between the unresolved contradictions that local institutional factors shape
the pre-conditions for competitive firms with the observation that, ultimately, it is price relationships (microeconomic, productivity gains) that matter most. For this reason Porter’s policy prescriptions promote market outcomes and caution against government intervention, which reduces the ability of communities to address non-market concerns, i.e. employment and unemployment, income distribution and the environment, for example.

Because of these reasons Porter’s work within the broader post-Fordist debate sits most comfortably within the neo-Smithian stream. Neo-Smithians assume that wealth creation resides in the micro-foundations of competition and firms. It has been other theorists and policy-makers that have taken the notion of industry clusters to focus more on the institutional factors, the collaborative processes that shape the pre-conditions for competitive regions, as the key to a cluster-led development strategy. This latter approach is more consistent with neo-Schumpeterian, neo-Marxist and economic geography insights (discussed in chapter four).

The example of New Zealand highlights the problems of adopting a Porter approach to cluster-led development for small peripheral industrialised economies. The lesson from New Zealand is that it is difficult for regions to capture value-added activity in the local production system when the activities of MNCs and a neo-liberal national economic regulatory regime dominate the economy. The dilemma for Porter is that these two factors dramatically impact on the very factors, conditions, demand and competition, on which he builds his competitive advantage model. In chapter four, we are reminded, for example, that in Emilia-Romagna, Italy, the National Confederation of Artisans (CNA) defines its member firms (those that receive benefits from the association) as those that consist of fewer than twenty employees. This institutional factor (along with others) goes a long way in shaping the size, interdependencies (horizontal linkages) and nature of competition in Northern Italy’s industry clusters. In New Zealand these types of institutional networks, regulatory supports structures and processes, as well as state funds for regional development, were absent for much of the period between 1991-2001.

The discussion on the distinction between business and institutional networks highlights that it is institutional networks that matter most to regions trying to compete in an increasingly knowledge-based global economy and that choose a cluster-based development strategy.

The next chapter explores national approaches to addressing regional disparities and regional development problems across a range of selected countries. The emphasis here is on the institutional and financial commitment of national governments to this process as well as the
general trend toward devolution and decentralisation in enhancing local/national collaboration and planning. The point of the last two chapters and the next is to lay the ground for further comparison between international developments in spatial polices and practice and the recent Australian experience.
Chapter 6

INTERNATIONAL APPROACHES TO REGIONAL DEVELOPMENT

Introduction

Thus far we have argued that, since the 1980s, there has been resurgence in the view that the development of 'regions' (sub-national economic units) necessitates policy consideration and analysis in its own right and that many governments have become more active in facilitating regional development outcomes as part of national macroeconomic planning. This chapter presents examples, up to the year 2001, of different ways national governments are responding to the challenge to formulate regional policy. In particular the emphasis is to understand the mechanisms (policy, programme and legislative) used by national governments to achieve regional development goals. This is presented under two headline themes. The first theme looks at examples where an overreaching national economic strategic framework is enacted to address issues of regional disparity. The emphasis under this theme is to drive a national approach to lift the performance of poorer regions toward higher identified benchmarks of social and economic performance. The European Union's (EU) approach to regional development is perhaps the exemplar of this approach (discussed below).

The second theme seeks to focus national regional policy and programmes on the drivers of local competitiveness, i.e. building on entrepreneurship and innovation at the sub-nation level. The United States best illustrates the second approach where a strong strategic federal government framework (or peak institutional structure) is not part of the regional development policy agenda. In sum, the EU approach is a more institutionalised, prescriptive and 'top down' approach to regional development while the US is a more 'bottom-up' approach. However, as the following demonstrates, the absence of a strong national institutional framework does not necessarily imply less intervention, which is often assumed, particularly in the case of the US.

Although coming from a different starting point, the common trend under both themes discussed here is that both focus on devolving and reorganising national, state and local relations in an effort to promote the development of local capacity and resources (and achieve national goals). As will be discussed, there are also numerous program variations within this common trend.
This chapter does not attempt to offer a critique or measure the efficacy of the individual programs or policy approaches mentioned; its more limited purpose is to give an indication of the general policy trends and mechanisms used to facilitate greater devolution/decentralisation. Nor does the following include in any great detail the various agricultural support programs that also operate in each country – which are themselves quite substantial and affect capacity and resources in non-capital city regions. The rationale here is that if one included agricultural support programs one would also need to look at other portfolios such as health, environment, education and defence in greater detail and then likewise determine their direct or indirect impacts on regional development. Similarly, state and local government activities in local economic development are not the central focus here – although, again, they too remain substantial and are referred to from time to time.

Examples in this chapter are drawn from the EU and the countries of England, Ireland, Canada, and the US. These examples have been selected because the author travelled to each and conducted interviews with policy-makers, regional leaders, and regional development practitioners as a public servant on a fact-finding mission on regional policies in September 1997. Some of the background material was collected during this visit from the various government agencies and in semi-structured interviews with officers from the departments concerned. More recent material comes from various department web sites, personal interviews and academic papers.

The discussion begins by looking at examples of regional development policies and programmes consistent with the first theme, i.e. a national strategic framework approach to address regional disparities.

Theme one: a national framework approach to address regional disparities

The exemplar of a national strategic approach to address regional disparities is the EU approach (Giordano 2001). Since EU President Delors’ 1993 White Paper on Growth, Employment and Competitiveness, there has been a resurgence of regionalism within Europe. In particular, the EU has operated a financial instrument called the Structural Fund to address long-term social and economic problems among EU member states (EC 1998). The two common philosophies that underpin the Structural Fund are, firstly, the goal of equalising the performance of Europe’s regions by raising the performance of the poorer performing regions. Secondly, the notion of subsidiary – the idea that decision should be taken at the lowest
appropriate level. So in the case of the EU ‘regional’ generally refers to geographical areas within member states.

The EU’s Structural Funds and Framework Programmes are aimed specifically at building regional capacity in industry clusters, research and education, enterprise adaptability, lifelong learning, infrastructure and cultural development (Green 2000:2; EC 1998). Grants allocated to member states (and their regions) between 1994-1999 were in the order of 154.5 billion EUR (approx $AUD300 billion) (EC 1998). A new Structural Funds Guide for the period 2000-2006 was announced in early 2000.

In terms of deciding its funding and distribution, the EU sets a GDP and per capita income average, ranks each state and region and allocates resources accordingly. The EU works with member states and regional authorities to promote development and reduce inequalities (regional disparities) and promote cohesion. The grants are channelled through two to six year development programmes that are negotiated between the European Commission (EC) and each member state, and implemented in cooperation with regions and local authorities concerned. These programmes detail the specific priorities and measure eligibility for financial support. When programmes for each country have been agreed, the relevant national authority announces the availability of funds and calls for project submissions (i.e. it is the national authority that makes the vast majority of funding decisions, not the EU).

The four elements of the fund between 1994-1999 (EC 1998) were as follows:

- The European Regional Development Fund (ERDF-48% of Fund)
  - transport, environment, education, health, job-creation investment, SME services, local development
- The European Social Fund (ESF - 24%)
  - training and recruitment schemes for unemployed and disadvantaged groups
- The European Agriculture Guidance Fund (EAGGF- 16%)
- The Financial Instrument for Fisheries Guidance (FIFG -2%)

EU funding is targeted according to specific ‘objectives’ that recognise the diversity in performance and condition of member countries and their industries and regions (sub-economies). These objectives include (EC 1998):

- regions whose development is lagging behind (objective 1 - accounts for 70% of total funds)
- regions seriously affected by industrial decline (objective 2)
- rural areas (objective 5b)
- regions with an extremely low population density (objective 6)
- long-term unemployment and the socio-economic integration of excluded groups (objective 3)
- unemployment associated with industrial change (objective 4)
- structural adaptation of agriculture and fisheries (objective 5a).

Importantly, all projects that receive EU funding must also receive co-financing from state and/or other sources (underlying the principle of partnerships). The EU contribution to any one project will vary from 25 to 85 per cent. On top of these grants the European Investment Bank supplies loans for development projects. The main point here is that the EU focuses its grants programs on large geographical regions (or entire countries) while individual member states operate across smaller geographical areas.

The advent of the EU’s Structural and Cohesion funds have had, and continue to have, a significant effect on regionalism within member states particular in terms of industry and regional development policies and programs. For example, in 1993, in addition to the Structural Fund, the EU Cohesion Fund (per cent of total EU grants) was established to finance transport and environment related infrastructure in four countries that were deemed most in need: Greece, Portugal, Ireland, and Spain.

A key part of the trend in EU policy (and the effect of its funding) has been to instigate the move to greater devolution and regionalism among its member states. This is perhaps most developed in the United Kingdom.

Devolution in the United Kingdom

The most visible sign in the UK of a national commitment to devolution was the establishment of ten Government Offices of the Regions (GOR) in 1994 (Mawson 1999). Before this time regional governance arrangements in the UK were divided by overlapping functional and institutional boundaries (Mawson 1999:73).

The establishment of the GOR institutionalised distinct geographical defined units that integrated the delivery of programs and services from the Departments of Trade and Industry (DIT), Employment, Education, Environment and Transport (Mawson and Hall 2000). The
National office of DTI set the policy framework and GOR and Business Links Offices deliver programmes and bid for regional and business grants (against national criteria). The task of the GOR was to deal with business issues, improve regional competitiveness and encourage partnerships between regional organisations including the development of regional strategies (urban renewal and economic development).

Importantly, as Gibbs et al (2001:107) argue, GOR were part of the Tory administration’s strategy to satisfy EU requirements of having an effective regional body to design and implement Single Programming Documents (SPDs). A Single Regeneration Budget (SRB) operated in each GOR that combines 20 programmes into one budget directed towards partnership projects for local regeneration and economic development based on an agreed strategic vision (Mawson and Hall 2000). The SRB also acts as a mechanism to attract Structural Funds from the EU.

The creation of the GOR gave each region a local mechanism and funding pool to shape government activity toward agreed regional priorities across a range of policy areas. For example, GOR Directors could approve projects up to 2 million pounds before seeking ministerial approval, however, the Minister would approve individual government grants over 1 million pounds (Rundle 1997). Moreover, the Director was responsible for the delivery of a wide range of government services through the GOR, including export advice and regional selective assistance (RSA). In designated Assisted Areas (determined by levels of unemployment and industrial decline) the availability of RSA (these grants range from 5 to 15 per cent of start-up costs for fixed assets) played a major part in facilitating inward investment and promoting SMEs (Rundle 1997). Other grants available through the SRB include the English Partnership programme that promotes regeneration of derelict, vacant under-used land and property for attracting new investment, and urban renewal. Training and Enterprise Councils (TECs) played a similar role in attracting and offering assistance to inward investment.

Under this approach there existed (potentially at least) strong links between industry policy, regional development and urban development across UK regions. For example, acting in concert with the activities of the GOR are organisations called Urban Development Corporations established by the Conservative government in the 1980s (Mawson 1999). These 12 corporations, with a geographical spread across the UK, grant planning permission for development in their area; acquire, manage and sell land; provide utility services and roads and require local authorities to adopt them; provide various forms of aid to developers and
businesses. They have played a major role in attracting EU funds, inward investment and stimulating regional development to the regions where they are situated.

**Increased devolution: The Blair years**

In 1997/98 the Blair Labour government commenced an even more ambitious programme of devolution that saw regional governments established in Scotland, Wales and Northern Ireland. In England eight new semi-autonomous Regional Development Agencies (RDA) were introduced. Under this new arrangement the framework within which GORs operate were redefined (Roberts and Lloyd 2000). GORs are now seen as the voice of central government in the regions (DTLR 2001:3), and their function is to coordinate the delivery of the program and services of several government agencies and to inform central agencies of their local impact. This overcomes criticism by some that GORs did little more than increase central government control in the regions and indeed undermined local input into the regional development process (see Gibbs et al. 2001). RDAs, that cover the same geographic area as GORs, on the other hand, are semi-autonomous development agencies, with an independent Board, made up of local leaders, whose function is to develop and implement an agreed regional development strategy.

In reality central government maintains influence over RDAs, for example, by approving appointments to RDA’s Board and shaping the framework for strategy development. RDAs have five functions: economic development and regeneration; the promotion of investment and competitiveness; the promotion of business efficiency; the promotion of employment; to enhance employment skills in the region; and, to contribute to sustainable development (DTLR 2001; Mawson 1999:75).

The point to the above is that in the UK the national government has undertaken significant decentralisation/devolution and institutional reform to support local development objectives empower regions and promote local capacity and resources. This has included the establishment of RDAs that focus on enhancing strategies for local economic development. A large part of this institutional restructuring has occurred because of funding criterion that is attached to receiving EU Structural and Social Cohesion Funds.
Devolution in Ireland

Ireland also has gone through a process of devolution as a means to address its nation’s regional disparities and to be consistent with the larger EU’s planning framework. In the late 1980s, Ireland was in dire straits economically. An over dependence on rural production, high unemployment, low GDP growth, high debt and continued emigration of its youth, had come to characterise much its economy (Tomaney 1995; Adshead and Quinn 2000; Turok 2001). It was from this malaise that the first four-year National Development Plan (NDP) was prepared to address Ireland’s economic future and, importantly, to meet the EU criteria for programme funding (Adshead and Quinn 2000:214). According to Adshead and Quinn (2000), it was not until the second NDP, for the period 1994-99, however, that local urban and rural development became a ‘key element’ of the national planning process (see also Turok 2001). The second NDP did not introduce local urban and regional development to Ireland but rather, for the first time, it incorporated regional-based development strategies (and local partnerships) within a coherent national planning framework (Adshead and Quinn 2000:271; Turok 2001:137-139).

A highly influential report, the Ollitton Report, identified two major problems associated with Ireland’s economic development path of the 1980s that would subsequently shape its approach in the 1990s. Firstly, in order to entrench and gain long-term benefits from inward investment for the national economy, Irish firms needed to improve their ‘competitiveness’ across all aspects of their activities, i.e. management, technology and innovation, production, training, distribution and R&D. Secondly, Ireland’s long-term economic success would depend less on EU funds and new inward investment, and more on growing endogenous Irish firms and increasing the value of the supply linkages between the overseas and Irish firms (moving down the path of industry clustering) (Tomaney 1995:106-107).

Institutional reforms begin

A number of government initiatives were set up during this period to facilitate the growth of endogenous Irish firms, greater devolution, increased inter-government collaboration and coordination. Part of these changed governance arrangements included the establishment of an Inter-Departmental Policy Committee on Local Development; a Minister of State for European Affairs and Local Development was appointed and a Devolution Commission was established charged with investigating all aspects of decentralisation (Adshead and Quinn 2000:220).
The second National agreement 1990-1993 saw the establishment of 38 local partnership companies across Ireland (20 urban areas and 18 rural) which was monitored by a national organisation called Area Development Management (ADM) P/L. The focus of the partnerships was how the existing physical and institutional resources in a region can be better focused on the needs of the poor and unemployed. ADM had a unique role of facilitating dialogue and negotiation between partnerships and the government. It also allocated funds based on approved regional plans of partnerships (Turok 2001:140). Several agencies were involved in partnerships usually through their regional offices. These include the Department of Enterprise, Trade and Employment, Department of Social, Community and Family Affairs and the Department of Education and Science (Turok 2001).

In 1993 the government also established 35 County Enterprise Boards across Ireland that report to the Prime Minister’s Department (Department of Taoiseach). These Boards, supported through the Department of Enterprise, Trade and Employment, focus local activity around strategies to address key issues of local small business, employment, services and enterprise development. The Boards are a partnership between local business, local government, interest groups (trade unions etc.) and state agencies (DETE 1997). Each Board provides a single point of contact at the local level and is responsible for small business and investment areas not covered by state agencies. They develop their own County Enterprise Plan and strategies to address local enterprise development (typically firms up to 10 people) and job creation. Boards work closely with the Irish government and its Agencies in the delivery of national priorities. For example, in their first three years of operation, the Boards approved more than 6,000 local enterprise projects from 50 million (Irish) pounds in grants and provided 9,000 full-time jobs and 1,800 part-time jobs (DETE 1997). The funding of each Board is related to an annual performance agreement, with targets and performance indicators. There are also Partnership Panels made up of community, local government, trade unions and industry that focus on planning strategies to address the key issue of long-term unemployed.

Along with these reforms, the Industrial Development Agency (IDA) was given the explicit role of facilitating inward investment (including its spatial direction and targeting supply linkages) and Forbairt was established to grow endogenous Irish firms (SMEs). To achieve these ends, the IDA was restructured in 1994 as an Agency of Forfas - the policy and advisory board for industrial development in Ireland (IDA 1996). Forbairt set itself the ambitious target of increasing sales of endogenous firms to 15 billion pounds and to double endogenous firms’ commitment to R&D by the year 2000. By 1996, sales had reached 13.5 billion and R&D expenditure by the EU ‘Measure1’ initiative had increased four times its 1994 levels (IDA
The IDA reporting to the Minister for Enterprise, Employment and Trade (DEET) along with its sister Agencies - ForFas and Forbairt (now part of Enterprise Ireland) – became the primarily players responsible for regional development in Ireland.

The IDA is an autonomous state agency funded through government grants and supported by various EU programmes. It operates through a nine-people Board made up mostly of the private sector (banking, finance, manufacturing sector representatives) with one senior academic and government bureaucrat. The Board is responsible for setting the strategic direction of the Agency and uses sub-committees to support its work. The Board has authority to approve grants to a certain statutory defined level, and recommends to government grant requests above this level. The objective of the IDA is to contribute to Ireland’s economic development by encouraging the expansion of the existing base of overseas companies in Ireland. This also includes convincing new overseas companies of the value of investing in Ireland, in manufacturing and internationally traded service, and fostering the national objective of regional industrial development. The IDA encourages firms to look at various locations when considering investment but leaves this role to the local organisations to ensure it has the necessary skills, infrastructure and investment environment to be competitive with other locations. The IDA has 8 regional offices throughout Ireland, which are linked internationally to 6 offices in the USA, 3 in Europe and 5 in the Asia Pacific including Sydney, Australia.

It is from the activities of these agencies, the IDA, Enterprise Ireland, ForFas, County Enterprise Boards, Partnership Panels and some non-government agencies that the bottom up - top down nexus for regional development and EU grants in Ireland are coordinated to assist industry growth and spatial development patterns.

*Explaining the growth*

Ireland has experienced an unprecedented level of economic growth over the last decade - averaging 8 per cent (Green 2000). With its rapid employment growth, high wages, high skills, and high value-added exports many commentators have described it as the ‘Celtic tiger’ of Europe (paralleling the rapid rise of the East Asian tigers of the 1970s and 1980s). As with the Asian tigers, Ireland’s growth has been export-led with 90 per cent of its GDP sold abroad – it has averaged annual increase in exports volumes of 12 per cent (Green 2000:4). Two thirds of all its manufactured output and 80 per cent of its manufactured exports were driven by direct foreign investment (DFI) – Ireland gained 23 per cent of all Europe’s FDI in 1997 (Green 2000:5).
Two schools of thought are emerging among academics in explaining Ireland’s success. For some it has been the development of the *Flexible Development State* in Ireland that has been a major factor in explaining its economic success in the 1990s. The thinking here is that various governance arrangements, as described above, have been introduced by the Irish government to nurture post-Fordist networks of production and innovation as a means to facilitate international investment and broader national and local development goals (O’Riain 1999; Green 2000). As O’Riain explains:

Growth in Ireland is driven not just by foreign investment therefore but by two relatively distinct modes of integration into the global economy - the partial local embedding of global corporate networks and the increasingly successful integration of local networks of endogenous firms into global business and technology networks. These two globalizations are further embedded within a set national neo-corporatist institutions which have managed the relation to the global economy of both the macro-economy and of unionized workers. Since 1987, a series of national “social partnership” agreements have negotiated wage restraint, public spending limits and some efforts to bridge exclusion at the local level (O’Riain 1999:np).

However, whilst not underestimating the importance of changed institutional arrangements, others make the point that the explanation of Ireland’s success remains somewhat more problematic. Other factors that need to be included are that Ireland benefited from footloose US investment during the 1980s because of the UK’s late entry into the EU, before which Ireland was the only English-speaking location in the EU. Other sets of contributing factors include Ireland’s 10 per cent corporate tax rate for foreign firms, its capital expenditure associated with telco facilities and EU membership, and its well educated and organised labour force (Gunnigle and McGuire 2000).

Despite Ireland’s economic success over the last 10 years spatial disparities continue to widen and the Irish government continues to adjust its plans. It has been Ireland’s central region that has attracted development while other areas lag behind. Dublin and the surrounding Mid-East region saw an increase of 51 per cent of employment between 1991 and 1998. During the same period its population grew by 13.5 per cent compared to the national average of just 5 per cent (OECD 2001). In response the IDA has set a target to direct one half of all new jobs from inward investment to the Border, Midlands and West Regions.
EU trend to support ‘competitiveness’ and ‘innovation’ in regions

The EU puts a lot of emphasis in its regional development policies and programmes in support of lifting the competitiveness of its regions including promoting the use of development tools such as industry clusters (EC 2002). According to Landabaso (2001:6), 73 of the 107 responses for funding from less favoured regions for 2001-2006 European Regional Development Funds have identified institutional networks, innovation systems and/or industry clusters as key parts of their development strategy. For example, Enterprise Scotland, Scotland’s peak development agency, has committed 38 million pounds over four years to a biotechnology cluster and 46 million pounds to its semiconductors cluster (Brown 2001:67). In Northern Ireland, the Centre of Competitiveness (formally the Northern Ireland Growth Challenge) is a not for profit company that drives an ambitious cluster agenda. Following work by the Monitor Company in the mid-1990s, seven key sectors have been identified for cluster development in Northern Ireland. These include engineering, food processing, health, software and telecommunications, textiles and apparel, and education, training and human resources (Brown 2001:58-59). Each sector has a dedicated secretariat (working group) that drives a vision for that industry through a strategy that incorporates business networks, conferences, workshops, mentoring, R&D, collaborative research, study visits, to name a few.

More recently, the Irish government, through the Higher Education Authority, established a Centre for Innovation and Structural Change (CISC) at the National University of Ireland, in Galway. CISC was established as a key plank of the Irish government’s commitment to innovation and regional/industry development as part of the EU supported National Development Plan 2000-2006. The CISC’s takes an interdisciplinary approach reflecting the strong influence of post-Fordist ideas (discussed in chapter four) on its research agenda. The CISC will draw on the economics of innovation, technological change and industrial organisation, geography, the analysis of information systems, management, industrial relations, marketing, information technology and engineering. In particular, it will focus on the five key research areas of systems of innovation, industry clustering, international traded services, inter-organisational systems and high performance work systems (www.miugalway.ie/cisc).
Theme two: supporting the drivers of local competitiveness

As stated earlier it is the United States (US) that best captures the contrasting approach to regional development away from a national top-down approach that narrows the gap in disparities across regions to an emphasis on investing in the drivers of local competitiveness. Interestingly, although the emphasis of policy is on ways of building local competitiveness, the US government has a longer history then the EU of programmes that specifically target its ‘distressed regions’. In the US case, however, the driver isn’t regional disparities as much as addressing issues associated with structural adjustment pressures in particular regions. From a high point of direct federal intervention in regional and urban policies in the 1970 and 1980s there has also been a gradual devolution, or transfer of responsibility, to state and county governments (Carlisle and Scharer 2001:215). As will be discussed, the US Federal government’s commitment to regional development is estimated at $12 billion per annum with a further $1.4 billion annually for tax incentives to assist states create jobs, build infrastructure and support commercial development (OMB 2002:2).

Created in 1965, the Economic Development Administration (EDA), part of the US Department of Commerce, provides grants for infrastructure development, local capacity building, and business development to help communities in economically distressed areas lift their competitiveness (EDA 2000a). According to the EDA, a distressed region is one that is experiencing long-term economic decline, i.e. high unemployment or low per capita income (EDA 1999). Regions could have been affected by military closures or defence industry downsizing, sudden and severe economic impacts (mono-industry closure, globalisation, natural disaster), or could be attempting to achieve economic self-sufficiency to compete with more internationally competitive regions.

The US government enacted a raft of legislation in 1965 that would fundamentally re-shape federal and state government institutional arrangements in relation to regional and urban planning and development. For example, the Public Works and Economic Development ACT of 1965 established the EDA and with it some 320 regional development organisations known as Economic Development Districts (EDDs). EDDs operate through boards that are composed of locally elected officials, business leaders and minority representatives. The EDDs are involved in developing a coordinated planning strategy that fosters a partnership between economic development professionals and the community for the purpose of identifying local priorities that promote economic growth and creates jobs. US state governments could not receive EDA funds without agreeing to form regional districts and, in most cases, match
federal funds (Carlisle and Scharer 2001:217). All public works and economic adjustment grants given under EDA programs also need to be consistent with an approved Comprehensive Economic Development Strategy (CEDS) – regional development plan - administered by the state government. In the fiscal year 2001 public work grants represented $286 million of the total appropriation for the EDA programs of $410 million ($AUD820 million approx.) (EDA 2000b).

The EDA works with other key US agencies and peak non-profit organisations to coordinate its objectives and to influence the national urban and regional development agenda. This includes the Departments of Defence, Labor, Energy, Agriculture, Housing and Urban Development, the Environment Protection Agency, the US Corps of Engineers, and the Appalachian Regional Commission. The federally funded Appalachian Regional Commission, for example, funds 69 Local Development Districts (LDDs) across 13 states (EDA 2000a). There is also the District of Columbia program and the Mississippi Delta Region programme that covers 236 Counties across eight US states (OMB 2002:6). The EDA also supports a peak national body called National Association of Development Organisations (NADO) that represents all these groups, and is itself a major lobby group to the US government on the issue of regional development.

According to Department of Commerce 1999 Fact Sheet, in 35 years the EDA has completed over 40,000 projects and invested more than $16 billion in grants. It is estimated that the EDA has generated more than $36 billion in private sector investment and helped create or sustain 3 million private sector jobs. Some of the key elements and funding (approximate) of the EDA’s program for 2001 were:

- Public Works - $289m - public works infrastructure to upgrade physical infrastructure and establish and support private sector investment;
- Economic Adjustment - $49m - to assist state and local interest design and implement strategies to adjust or bring about change to an economy. This program supports three types of activities: strategic planning, project implementation and revolving loan funds;
- Defence Adjustment - $31m -to communities where major defence facilities have closed or down sized;
- Research and National Technical Assistance - $15m - to develop a comprehensive base of information to measure economic performance and program impact. To gather information about economic development issues and to disseminate information to local, state, and national economic development practitioners;
- Partnership Planning Grants for Economic Development Districts, Indian Tribes, & Other Eligible Areas - $24m - to provide ongoing support to the formulation and implementation of local economic development programs that build local institutional capacity; and
- Trade Adjustment - $10m - EDA supports a nationwide network of Trade Adjustment Centres (12). These Centres offer assistance to trade-injured firms. This includes flexible adjustment assistance to firms injured by imports, i.e. help them to compete globally again. Grants are normally for 50 percent of identified need or $75,000 whichever is less.

The EDA also has a Revolving Loan Funds where one-off grants are given to communities to stimulate commercial development and create jobs and where, upon repayment, the principal and interest stay in the community for re-lending (EDA a&b 2000).

**The US government’s role in shaping the institutional structures**

The US government’s historical role of contributing to the institutional thickness that governs regional development activities is unique in terms of the other countries studied in this chapter. So while it remains true that it is local, county, and state authorities that play a more explicit (and public) role in industry promotion and regional development, often with the private sector acting as the key driver\(^vi\), it is equally true that the US Federal government continues to influence and shape the institutional fabric and capacity building activities that drive regional development in the US.

This is particularly so in the role the tertiary sector plays in regional development as well peak regional development organisations in training and educating economic development practitioners and organisations. For example, the EDA supports 69 University Centres to integrate programs of higher education into the local communities across the US (EDA 2000a). Moreover, according to the President /CEO of International Economic Development Council (IEDC), Jeffery Finkle, in his experience in the US it is the land-grant universities and colleges, and not the Ivy League universities, that are the major contributors to local economic development (Finkle 2001). The land-grants colleges and universities emerged from the Morill Acts of 1862 and 1890. These Acts were concerned with, according to Bonnen (1996), the social role universities played in bring opportunity to disadvantaged agrarian and urban (industrial) workers and communities across the US.
Most leaders of the land grant movement were populists who saw a small powerful elite of Mellon, Rockefeller, Carnegie, Gould, Fisk and others amassing great fortunes while farmers and industrial workers were being reduced to the status of peasant. This concentration of industrial and political power, they believe, threatened to destroy democratic institutions and the existence of the middle class from which they came (Bonnen 1996:2).

The Act authorised the granting to each state of 30,000 acres of federal land, the revenue from which was to be used as an endowment, support, and maintenance of at least one college (NASULGC 2001). According to National Association of State University and Land-Grant Colleges (NASULGC) state and land-grant universities now generate $5 average return for every $1 of government grant received. More importantly, in each state of the US they act as a major stimulus to the regional economies - generating jobs, attracting investment in new high-tech businesses, educating the work-force and increasing state tax revenue (NASULGC 2001).

As Finkle (2001) suggested, from an economic development perspective, it is inevitably the land-grant universities that have offered their land to establish business incubators, research and technology parks across US regions. Interestingly, the land-grant university and colleges program is administered through the US Department of Agriculture. The EDA is also a long-term supporter of peak regional and urban development bodies in the US in their role of disseminating information and techniques for improving business and employment growth and in assisting distressed communities (by delivering government contracts from various federal agencies).

In May 2001, the Council for Urban Economic Development (CUED) - funded by the EDA since 1967 - and the American Economic Development Council – AEDC (the oldest peak economic development association in the US) joined forces to create the IEDC. The IEDC has over 4000 economic development professionals as members and offers a range of economic development tools and training courses to help professionals build the capacity of local economies (Sampson 2001). The IEDC recognises professional development through its Certificate Economic Developer (CED) course and regional development organisations through its Accredited Economic Development Organisation (AEDO) accreditation scheme. Federal government contracts (to deliver government programs) accounted for about 80 per cent (or approx. $900,000) of CUED’s $1.2m annual revenue base in 1986 (Finkle 2001). However, after the Reagan government years, when federal grants to non-profits groups were severely curtailed, CUED actively sought to increase its membership base and raise its members fees to become less reliant of federal funding. Under the new merged entity, the
IEDC, Finkle says that Federal government contracts accounts for about 20 per cent of its $4.2m annual revenue base (or approx. $840k).

Despite a growth in CEUD’s (IEDCs) revenue base, the US government has made a consistent contribution to this peak regional development organisation for nearly four decades.

Other US agencies that influence regional development

As well as the EDA, a number of other US agencies and federal strategies have a large impact on spatial development patterns in the US. For example, the Department of Agriculture (USDA) has initiatives that seek to maintain and create jobs in rural communities (less than 50,000 populations). USDA has some 40 agencies responsible for programs and over 2000 regional bureaus across the US. Most of the USDA’s grants are for loans to communities of less than 20,000 people. The USDA in 1995-96 allocated $161 million for this purpose. In the early 1990s, the US Federal government formulated the National Rural Development Partnership that led to the establishment of the following two councils the National Rural Development Council (NRDC) and the State Rural Development Councils (SRDCs). The partnership operates by the SRDCs bringing forward strategic issues to the NRDC whom then together implement strategies to address these development priorities (www.rurdev.usda.gov/nrdp).

The USDA’s Rural Community Advancement Program gives grants, loans and loan guarantee to rural communities under three funding streams for Water and Wastewater, Community Facilities and Business and Industry development (OMB 2002:4). The USDA allows 25 per cent of the funding of the allocation under each stream to be moved between streams depending on the demand and priorities of individual states.

Another important US community development programme is the Community Development Block Grants (CDBG) administered by the Department of Housing and Urban Development (HUD). Established around the same time as the EDA, CDBC is now the premier and largest grant programme for assisting larger, smaller cities and Counties to address community development and revitalisation issues. At around $5 billion annually CDBC is a massive grants programme (HUD 1999:15; OMB 2002:2). In 1998, for example, some $4.675 billion of CDBG were distributed to 968 entitlement communities (large, small medium and small cities and counties) across the US and some 3,000 small communities (HUD 1999:15). These grants are directed primarily at low and moderate-income persons in poorer communities. While the federal government sets national programme goals and eligibility requirements, CBDC grants
are administered by state government who are free to set additional objectives, establish
priorities, develop new programmes and determine what projects will be funded (Carlisle and

Interestingly, the 2002 US Budget allocated an additional $1.8 billion for HUD’s Home
Investment Partnerships Program in an effort to expand the supply of affordable rental and
increase homeownership for low and moderate-income families across the US (OMB 202:2). Clearly, as in the Australian case (discussed in chapter two), the US also has increasing social
problems associated with the falling levels of homeownership among its low-income earners
and the issue of housing affordability in general.

Another federally funded organisation with a significant spatial impact on innovation in US
manufacturing is the National Institute of Standards and Technology (NIST). The NIST assists
industry to develop technology to improve product quality, to modernise manufacturing
processes, to ensure product reliability and to facilitate rapid commercialisation of new
products (Eberts and Erickcek 2001:268). It operates through a network of 75 local
manufacturing extension partnerships (MEP) that assist SMEs to improve their production
processes, management and financial systems as well as acting as a local information service.
Apart from these, the Department of Interior (DOI) and the Bureau of Indian Affairs (BIA)
also have a range of economic and social development programs that specifically assist Native
American Tribes and organizations.

From an administrative point of view, what distinguishes the US approach to regional and
urban development is that often loans, block grants or revolving funds stays in the community
being assisted and are acquitted over time against an agreed highly flexible plan. This approach
contrasts with the Australian experience. In Australia programme funds are the responsibility
of the lending agency and if not spent according to the Parliamentary Appropriation (as agreed
with the Department of Finance) they are returned to consolidated revenue.

US tax incentives to facilitate urban and regional development

Federal and state governments in the US use massive tax incentives schemes as policy tools to
shape urban and regional development outcomes. Both the US Federal (through HUD) and
state governments have programs that designate particular regions as renewal communities,
enterprise and/or empowerment zones (RC/EZ/EC). These RC/EZ/ECs extend tax
exemptions (income, land, payroll and corporate) and other state, federal and county benefits
(public infrastructure, wage subsidies and cheap loans etc) to firms operating or that re-locate
to designated regions (Manning 2001). These are massive tax assistance packages by any measure. For example, in December 2001 40 urban and rural RCs and 8 new urban EZs were designated who combined will benefit from $22 billion in tax incentives (www.hud.gov/offices/cdp/economicdevelopment/programs/rc). These RC/EZ/ECs programs usually operate for a given period (10 years in the case of the federal program) and regions are determined eligible by meeting certain poverty, unemployment and other criteria determined by the particular state or federal program. Again, in order to qualify under the federal program regions must produce a long-term strategic plan including measurable objectives that are benchmarked (Manning 2001).

Industry clusters: a key regional development tool in the US

As discussed in chapter 4, industry clusters have become a key economic development tool across the US over the last few decades (Henton et al, 1997). Henton has documented the rise of industry clusters in the US in Austin, Texas; Cleveland, Ohio; Wichita, Kansas; and Silicon Valley, California - and the two states of Arizona and Florida. More recently, Rosenfeld (2001 a&b), reviews an additional 14 mature industry clusters across the US and the peak organisation driving their analysis (driven by/or state, local or privately funded organisations). He emphasises that their vitality is contained in their formal social and institutional frameworks. Accordingly, clusters in the US are understood both as a process, a way to better understand how an economy works and to organise strategies, and, an outcome, or a critical mass of geographically bounded interdependent firms (Rosenfeld 2001a:17). Much of what Henton and Rosenfeld describes is consistent with neo-Schumpeterian and neo-Smithian ideas discussed earlier.

A third way? The Canadian experience

While most the above two themes represent the dominant approaches to regional development the Canadian experience perhaps offers insights into a third way. In many ways the Canadian approach to regional development falls between the national framework – regional disparities - and building competitiveness themes already discussed. The Canadian’s draw on both approaches (implementing institutionalised devolution and promoting local competitiveness) with an emphasis on the US approach of supporting SMEs, innovations and clusters as a means to assist regions develop. They do this utilising a variety of public and private sector (state supported) mechanisms.
Instituciohal arrangements in Canada

In Canada the Federal government's approach to regional development is both decentralised and differentiated within a well-defined institutional structure - as in the EU and UK examples. However, within this structure, the Canadian government varies its programs and policies through four peak regional development Agencies. The geographical coverage of these Agencies incorporates all Canada's provinces, i.e. each Agency incorporates more than one province. The four key Agencies, which report to the Industry Canada portfolio, are:

- The Atlantic Canada Opportunities Agency (ACOA);
- Department of Western Economic Diversification (WD);
- The Federal Office of Regional Development - Quebec (FORD-Q); and,
- The Federal Economic Development Initiative in Northern Ontario (FedNor).

As in the US case, however, the emphasis of each Agency is to support SME development, entrepreneurship, community networks and planning, human and physical infrastructure (i.e. partnership between federal, provincial and municipal governments). There is a particular emphasis on overcoming market failures in terms of financing SMEs and regional infrastructure and development projects, i.e. meeting the needs the commercial financial sector will not serve because of high risk and poor rates of return.

Interestingly, and unique to Canada, each of the federal agencies constitutes an independent ministry, located in the region and headed by a Secretary of State for the region that reports to Industry Canada. There is also a coordinating Bureau for each agency in Ottawa, the national capital. The federal government adjusts its funding to each Agency based on that region's given development strategy (programs), regional potential and resources. In the Canadian example federal government program and policy flexibility is the key to its devolved regional development model.

Other key parts in the regional development framework

There is an emphasis in Canada on institutional arrangements and programs that target overcoming market failures particularly in terms of supporting and financing the growth of endogenous SMEs. Important players in this regard are the Community Business Development Corporations (CBDC) and the Business Development Bank of Canada (BDBQ). There are 240 CBDCs across rural Canada, which are fully funded by the federal government (ACOA 2000).
They are non-profit organisations and comprise a board mostly of local business leaders that provide technical and loans support for local SMEs and entrepreneurs. Their lending success to date is on a par with private sector loan performance in terms of failure rates and lending performance (ACOA 1997b). CBDCs also deliver the federal government's Self-Employment Assistance (SEA) program (ACOA 1997b). The SEA program was established to provide financial assistance to unemployed workers who want to start their own businesses (average cost to government for each business of $20,000). Each province and Agency utilises CBDCs in different ways to deliver various programs.

The Business Development Bank of Canada also plays a key role for the Canadian government in assisting the financing of regional development initiatives. It is one of two key policy tools utilised by the Canadian government in this regard. The Bank's mission is to help create and develop Canadian SMEs by offering relevant financial services such as venture loans and capital as well as extensive business counselling, training and monitoring services. The Development Bank compliments the services offered by private-sector financial institutions by working closely with them to facilitate the needs of SMEs. It has a network of (approximately) 78 branches across Canada and is part of the Industry Canada portfolio. In 2000, for example the federal government allocated an additional $80 million to the Development Bank to specifically support the growth of knowledge-based export oriented small businesses (RC 2000).

The second policy tool that helps the Canadian government promote SMEs growth and regional development across Canada is the Canada Small Business Financing Act (CSMFA). This Act and its program have been modified since its introduction in 1961 yet its main purpose remains the same. In essence the government of Canada guarantees loans to small business, which have been assessed and recommended by banks and other financial institutions, to the value of 85 per cent of the amount of a lender's loss (ACOA 2000). Since 1995, borrowers have paid for the program through user fees as part of the guarantee conditions (ACOA 2000).

As well as these entities and initiatives there are also Regional Development Boards that are co-funded by federal and provincial governments - these involve local government (municipal government) and focus on strategic regional economic planning and community development. It is worth looking at a Canadian development Agency to see how regional development works in practice; particularly in terms of national, Agency, and state government relations.
The Atlantic Canada Opportunities Agency (ACOA)

Formed in 1987, the goals of ACOA are to create jobs, build a strong economy, encourage greater enterprise, support business growth, build local capacity, facilitate greater economic diversity, and maintain incomes. This is achieved across six strategy areas:

- entrepreneurship development;
- trade;
- innovation and technology;
- tourism;
- business management practices; and
- access to capital and information (ACOA 2000).

Background information from ACOA (1997a) indicates the Agency covers four Provinces of Canada with a population of 2.5 million, with an area the size of France (500,000 sq. kms); it has some 40 CDBCs operating within its jurisdiction. The region is sparsely populated and has a heavy dependence on the resource industries, i.e. agriculture, fishing, forestry and mining. Some export-oriented manufacturing industries include fish product and newsprint (pulp and paper and wood products). Unemployment in the region has been consistently higher than the national average (14 per cent compared to 10 per cent national average) and income per capita has been well below the national average - $17,800 compared to $22,800 national average - (ACOA 1997a). Many of the regional problems of Atlantic Canada can be characterised by structural change affecting the fishing industry where Northern Cod fish stocks are declining and as a consequence quotas and restrictions now apply (ACOA 1997b). Since the early 1990s, there has been a five-year shutdown of commercial salmon and restrictions on caplin fisheries - this has impacted directly on 20,000 jobs in Newfoundland, alone (ACOA 1997).

ACOA has three major budget activities. Firstly, to oversee the federal-province agreements for economic development; each of the four provinces enters into a series of cost-share agreements to fund strategically important initiatives in their province (that are deemed in the national/provincial interest). This may include infrastructure, market and trade development, innovation and technology transfer, human resource development, and environmental projects. Secondly, ACOA (in partnership with the provinces) gives support to a network of community-based organisations that focus on economic planning and business counselling (Cooperation Agreements). These organisations are independent bodies governed by a board appointed by the municipalities (local government). They were set up to build partnerships at
the local level between business, communities and government to assess the needs of each region in the provinces, develop strategies and implement economic development projects. The third major program under ACOA is the Business Development Program (BDP). This comprises a package of assistance (grants, loans, interest-rate subsidies, equity support) for SMEs as well as the provision of information, advice and consultancy and access to technology. Eligible SMEs may be provided assistance up to 50 per cent of investment costs. These funds can be used for commercial and non-commercial operations of the firm business, i.e. innovation, business studies, capital investment, supplier development, market development, and business support (ACOA 2000).

Other initiatives that support regional development includes maintaining a network of four Canada Business Service Centres that offers business a one-stop shop to government and various business services to SMEs and entrepreneurs. There is also the ACF Equity Atlantic Inc which is a $30 million joint venture capital fund between ACOA, the provincial governments and several chartered banks (managed by the private sector and making equity investments of between $150,000 and $750,000 for growth-oriented firms). The ACOA also acts as an advocate for national procurement strategies for the region that between 1987 and 2000 helped generate $800 million in goods and products purchased from local businesses (ACOA 2000).

**Industry Cluster approach embraced in Canada**

More recently the Canadian government announced a major national investment in spatial cluster-led development. For example, in its Innovation White Paper (2002) the government committed to establish at least 10 internationally recognised technology industry clusters by the year 2010. The Canadian government through the National Research Council (NRC) believes that the nation's innovative potential depends on regional capacity building that ensures regions across Canada have the potential to exploit the opportunities of the knowledge-based global economy. In June 2000, the government announced $110 million over five years for community technology clusters in Atlantic Canada including, an e-commerce cluster in New Brunswick, a life science cluster in Nova Scotia, and an ocean technology cluster in Newfoundland. It announced an additional $110 million over three years in 2001 for clusters in the nanotechnology centre in Alberta, the advanced aluminium centre in Saskatoon and fuel cell technology in British Columbia (www.ic.gc.ca/cmb/welcomeic.nsf).
Conclusion

This chapter has not attempted to offer an analysis of impact or effectiveness of the various programmes and policy approaches from the case-study countries. Its more limited purpose has been to give an overview and explore the common trends currently operating in each jurisdiction under two broad regional development themes: i.e. firstly a national approach to redress regional disparities, and secondly, an emphasis on lifting local competitiveness. The above examples indicate that under these themes each country has a highly organised approach that nurtures regional-level institutions and focuses resources to address regional development issues. And, with the exception of the US that began much earlier, since the 1990s, each state has developed practices and mechanisms for greater decentralisation and/or devolution, including the creation of semi-autonomous economic development organisations. From the above discussion, and allowing the different starting points, some common trends can be observed.

The first is the Canadian and UK decentralised/devolved approach - with the Canadian peak Agency in practice combining the functions of the UK’s GORs and RDAs into a single regional-based entity. Both governments give local analysis, planning and coordination responsibilities and varying degrees of program and funding functions to these entities. The Canadian Agencies and the UK’s GORs also devolve the activities and budgets of several government agencies, and decision-making authorities, to the regional-based entity (in the case of Canada full authority while in the UK authority within defined limits).

The second approach, in contrast, as practiced in the US and Ireland, is where the national government works through a network of approved regional Boards and department offices, which undertake local analysis, planning and coordination role under the direction of the central agency. The central agencies, in this case the EDA and IDA, maintain control over policy, program and funding functions. Remembering, of course, that Ireland’s IDA is a semi-autonomous organisation.

What also becomes clear is that in the case of Ireland, the UK, and Canada national governments are often the lead agent, and/or a partner, with other levels of government and the private sector, in promoting industry/regional development. They also actively engage in local partnerships and provide funding to support endogenous SME growth, build local capacity (social capital), support planning and collaboration, and attract inward investment (i.e. building institutional thickness). Moreover, central to their strategy is to provide finance to
SMEs, regional development projects and infrastructure (addressing market failures in the domestic financial markets). The most institutionalised of these is in Canada where both the Business Development Bank of Canada and the Canadian Small Business Financing Act ensure the availability of state-backed funds for SME development that is not readily accessible from private sector sources. While, in the US tax credits and wage subsidies seem the preferred instrument by federal, state and county governments to achieve the same ends, i.e. enterprise zones, urban renewal, and technology parks, for example. The EDA also maintains its revolving loan fund that offers one-off grants to communities to stimulate commercial development that when repaid stays in the community for future re-lending.

The above suggests that these various states are actively (some more interventionist than others) trying to replicate the local ‘success conditions’ often-cited in post-Fordist literature (and discussed in chapter four). The state, through a process of devolution and/or decentralisation, is an active player in building local/national trust networks, partnerships, collaboration and supporting the supply-side inputs to local innovation and industry development. In the US, for example, the federal government, through its funding of peak regional development organisations and universities, supports the institutional fabric within which collaborative economic development ideas and approaches are developed and shared.

It is also the case both in the US and the EU that there has been a long history of designating regions according to a set of national social and economic indicators (regional data sets) for the purpose of better spatial analysis and identifying disparities in regional performance. Unlike the Australian experience, there is a clear understanding in the US and EU of what constitutes a region for urban and regional development purposes and a deliberate attempt to understand and monitor social and economic progress of regions over time. In both cases regions are benchmarked and ranked and funding is contingent on regions undertaking regional development planning and enacting agreed development strategies (with the other tiers of government and the private sector). Clearly a key part of the success of motivating regions and other tiers of government to participate in these processes in both cases has been the massive financial assistance offered by the national jurisdiction in support of its urban and regional development objectives. This is the case whether the motivation is to narrow regional disparities, as in the EU experience, or, to lift local competitiveness, as in the US approach.

The obvious question arising from this review of international experience with regional policy is what are the implications for Australia? The following two case studies explore the problematic nature of this question.
CASE STUDY ONE: THE MID MURRAY REGION

Introduction

The main purpose of the case study of the Mid Murray Region (MMR) is to explore the intricacy of government, industry and community interdependencies in the MMR and highlight some of the competing barriers and tensions. The intention is to contrast current governance arrangements in the MMR against the structural and institutional factors that characterise successful regions often cited in post-Fordist literature. These characteristics include: a presence of highly 'innovative' firms (endogenous and/or foreign) with strong connection and commitment to the local economy (depth of interdependencies); economies of scale and access to markets (domestic/international); level of community skills, education and training; availability of venture capital; extent of formal and informal institutional arrangements (interaction between government, industry and higher learning institutions); presence of strong (high-profile) community and business leaders (entrepreneurs and/or champions); public/private support of planning, entrepreneurs, networks and innovation; and specialised world class infrastructure (soft and hard).

Methodology

During a seven-day visit to the region in March 2001 some 25 separate interviews (consisting of one to six people) were conducted with representatives of industry (small and large), higher education, local government, regional development bodies, catchment authorities, large utilities, community and social welfare groups. These interviews were spread across the region from the largest regional centre (the City of Greater Shepparton with 50,000 people) in Victoria to small rural towns in NSW such as Berrigan (with 1,000 people). Issues discussed during the case study included local regional problems, barriers to business and employment growth, local collaborative structures (business to business, between community, government and business), engagement with local, state and federal governments, innovation, education, social and environmental concerns. The researcher drew on several previous regional studies and some
personal contacts made on previous visits to the region whilst working for the Commonwealth government between 1994 and 1999. Several follow-up phone interviews were conducted to confirm the information gathered.

The discussion begins with a look at the economic, geographic and social characteristics of the MMR. This is followed by current examples of the pressures that affect the region's social and economic development conditions. Finally, based on the interviews and materials gathered, an evaluation of the MMR performance against key development characteristics of often-cited successful international regions is presented before conclusions are drawn.

The MMR offers an interesting case study for several reasons. Firstly, the MMR is a rural region with a large presence of multinational and endogenous firms that are key players in the global agrifood industry. The region's economy has over the last three decades moved from a dependence on broadacre farming to value-added food processing, particularly in dairy, horticultural and wine products. As such, it offers a chance to study an Australian rural region that is actively responding to the forces of domestic liberal reforms as well as capital restructuring and which continues to attract investment. In terms of Porter's competitiveness model the MMR appears to be an internationally competitive region in terms of its current investment, demand and supply characteristics.

However, although the region continues to attract investment and prosper it faces many regional development challenges that have the real potential to undermine its long-term success. For example, currently the region is one of Australia's largest exporters of value-added dairy products yet its irrigation system and water waste management systems are inefficient. The region's major food manufactures rely on water from open channels that are 70 to 80 years old and prone to considerable water loss and dramatic fluctuations in water quality (CMAOC 1999:17).

Another reason the MMR offers an interesting case study is because a significant amount of industry interdependencies and business flows in the region move across two state and several local government boundaries. The case study highlights the particular challenges of applying a national approach to regional development policy across multi-layered jurisdictions.
Economic and geographic profile and interdependencies

The area of the case study is the same that was covered by the former Mid Murray RDO established in 1995, funding for which ended in 1997 as a result of the Howard government's first Budget cutbacks in 1996 (see map below). The MMR incorporates portions of two separate irrigation areas, the Shepparton Irrigation Region (SIR) in central northern Victoria and the Murray Irrigation Region (MIR) in southern New South Wales. Yet the MMR as a whole is part of the Murray Darling Basin and each catchment shares many of the massive environmental problems identified with the Basin. The Murray River is what defines the state government borders and separates the SIR from the MIR. The region covers an area of over 30,000 square kilometres from the local government area of Strathbogie in the south (north central Victoria) through to Windouran and Jerilderie in the Southern Riverina (in southern NSW). The MMR has a population of 135,000 and covers 10 local government areas (Table 7.1). The major town in each area is the City of Greater Shepparton (Victoria) with a population of 50,000 and Deniliquin (NSW) with 8000 people.
Mid Murray Region

Map 1

Source: Bureau of Rural Sciences 2003
The region's major food processing plants are situated in and around the SIR, with the rice industry the most significant industry in the MIR (much of the MIR's produce flows south to be further processed in the SIR - see below). The major agriculture and horticulture industries in both regions are primarily dependent on irrigation.

Table 7.1: Statistical profile of Local Government Areas (ALGs) in the MMR - 1998

<table>
<thead>
<tr>
<th>LGA's (State)</th>
<th>Population</th>
<th>Average adult income AUD</th>
<th>Average household income AUD</th>
<th>Gross regional product $M</th>
</tr>
</thead>
<tbody>
<tr>
<td>G. Shepparton (VIC)</td>
<td>55,157</td>
<td>16,200</td>
<td>33,271</td>
<td>1221.1m</td>
</tr>
<tr>
<td>Strathbogie (VIC)</td>
<td>9,313</td>
<td>13,619</td>
<td>25,909</td>
<td>152.9m</td>
</tr>
<tr>
<td>Campaspe (VIC)</td>
<td>35,348</td>
<td>16,140</td>
<td>32,626</td>
<td>693.9m</td>
</tr>
<tr>
<td>Moira (VIC)</td>
<td>26,203</td>
<td>15,399</td>
<td>30,900</td>
<td>553.0m</td>
</tr>
<tr>
<td>Berrigan (NSW)</td>
<td>8,241</td>
<td>15,654</td>
<td>31,314</td>
<td>144.9m</td>
</tr>
<tr>
<td>Jerilderie (NSW)</td>
<td>1,892</td>
<td>17,236</td>
<td>34,995</td>
<td>69.2m</td>
</tr>
<tr>
<td>Wakool (NSW)</td>
<td>4,802</td>
<td>15,716</td>
<td>31,598</td>
<td>114.1m</td>
</tr>
<tr>
<td>Conargo (NSW)</td>
<td>1,482</td>
<td>19,284</td>
<td>40,816</td>
<td>61.3m</td>
</tr>
<tr>
<td>Deniliquin (NSW)</td>
<td>8,153</td>
<td>16,365</td>
<td>31,334</td>
<td>158.3m</td>
</tr>
<tr>
<td>Murray (NSW)</td>
<td>5,688</td>
<td>15,104</td>
<td>30,320</td>
<td>113.2m</td>
</tr>
</tbody>
</table>

Source: YourPlace (December 2000), version 1, National Economics.

The four Victorian LGAs resulted from the amalgamation of seventeen previously separate local government areas in the mid 1990s. This explains the large variance in population and gross regional product between Victorian and NSW based LGAs. As well as highlighting all economic activity in the region, the table also indicates that much of the region's production and processing occurs in the Greater Shepparton, and Victoria in general.

The MMR has had a sustained sequence of restructuring episodes over the last thirty years promoted by changes in government policy, the impacts of globalisation and a growing environmental awareness (see Gibson et al 1999). The major impacts on restructuring in the MMR include Britain's entry into the EEC and the dramatic loss of overseas markets for its agriculture products in the 1970s. The recession of the early 1980s saw the closure of the Henry-Jones IXL cannery at Kyabram and SPC and Ardmona under threat of closure. Also there has been a growing awareness of the threat of rising salinity and increasing land degradation since the 1980s (discussed below). More recently changes associated with a large influx of capital (foreign and endogenous) investment and technological change in the food-processing sector has seen the wine, dairy, rice and food processing sectors improve.
productivity and expand rapidly. Yet despite these impacts the MMR population has remained steady over the last decade with a slight decline (.6 per cent) from 1993 to 1998 (CMACC 1999:6).

At the time of writing there were over twenty major food processing facilities operating in the MMR including, Ardmona, Bonlac, Heinz-Watties, Kraft, Murray Goulburn, Tatura Milk, Nestle, Ricegrowers, Simplot, SPC and Unifoods. In a case study of sustainable development activities in the SIR and MIR in 1999, Dore and Woodhill produced the following Table as a comparison of the two irrigation areas that form the MMR (Table 7.2 - slightly modified for this thesis).

Table 7.2 Shepparton and Murray: general characteristics

<table>
<thead>
<tr>
<th>Region</th>
<th>Shepparton irrigation</th>
<th>Murray irrigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>River basin</td>
<td>Murray-Darling</td>
<td>Murray-Darling</td>
</tr>
<tr>
<td>Catchment</td>
<td>Goulburn-Broken</td>
<td>Murray Valley</td>
</tr>
<tr>
<td>State</td>
<td>Victoria</td>
<td>New South Wales</td>
</tr>
<tr>
<td>Total area (km²)</td>
<td>5,200</td>
<td>7,400</td>
</tr>
<tr>
<td>Population</td>
<td>100,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Largest town</td>
<td>Shepparton 45,000</td>
<td>Deniliquin 8,000</td>
</tr>
<tr>
<td>Estimated value of farm gate output</td>
<td>$700m</td>
<td>$280m</td>
</tr>
<tr>
<td>Main industries</td>
<td>Food processing, dairying,</td>
<td>Rice, dairying, wool,</td>
</tr>
<tr>
<td></td>
<td>grazing, cropping, horticulture</td>
<td>tourism</td>
</tr>
<tr>
<td>Estimated gross regional product</td>
<td>$2.4 billion</td>
<td>$0.6 million</td>
</tr>
</tbody>
</table>


The industrial characteristics of the MMR are typical of many non-metropolitan inland regions in Australia. That is, according to ABS classifications, the highest proportion of the workforce is employed in the agriculture and forestry followed by manufacturing, health and community services and retail sectors (as indicated in Table 7.3).
## Table 7.3 MMR industry and employment by industry characteristics

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>No. EMPLOYED</th>
<th>Mid Murray %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>11732</td>
<td>28.3</td>
</tr>
<tr>
<td>Mining</td>
<td>52</td>
<td>0.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3931</td>
<td>9.5</td>
</tr>
<tr>
<td>Electricity, Gas and Water</td>
<td>682</td>
<td>1.6</td>
</tr>
<tr>
<td>Construction</td>
<td>1961</td>
<td>4.7</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>1881</td>
<td>4.5</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>5171</td>
<td>12.5</td>
</tr>
<tr>
<td>Accommodation, Cafes, Restaurants</td>
<td>2110</td>
<td>5.1</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>1441</td>
<td>3.5</td>
</tr>
<tr>
<td>Communication Services</td>
<td>487</td>
<td>1.2</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>741</td>
<td>1.8</td>
</tr>
<tr>
<td>Property and Business Services</td>
<td>1541</td>
<td>3.7</td>
</tr>
<tr>
<td>Government, Administration and Defence</td>
<td>1375</td>
<td>3.3</td>
</tr>
<tr>
<td>Education</td>
<td>2378</td>
<td>5.7</td>
</tr>
<tr>
<td>Health &amp; Community Services</td>
<td>3318</td>
<td>8.0</td>
</tr>
<tr>
<td>Cultural and Recreational Services</td>
<td>604</td>
<td>1.5</td>
</tr>
<tr>
<td>Personal and Other Services</td>
<td>935</td>
<td>2.3</td>
</tr>
<tr>
<td>Non-classified and not stated</td>
<td>1175</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41515</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: CMACC 1999

Apart from the Commonwealth funded Central Murray Area Consultative Committee (ACC), which operates across state borders, the geographic area under analysis at the time of writing had no peak regional body representing it. The Central Murray ACC has representatives of local industry, NSW State government (Murray Development Board) and local government from NSW and Victoria; it has no Victorian government representation. Yet, as will be discussed shortly, the ongoing economic, social (lifestyle) and environmental interdependencies suggest that there is more that unites this region than the political boundaries (and groupings) that currently divide it.
Socio-economic profile in more detail

Although the MMR has had sustained investment and growth for the last three decades there remains a large spatial variance in terms of the distribution of those benefits across the region. Research by CMACC identified that although the regions average unemployment was consistent with the national average at around 6.4 per cent for some LGAs and some particular groups of unemployed it was as high as 11 to 25 per cent respectively (CMACC 1999:18). For example, in 1999 the unemployment rate in Jerilderie and Wakool was around 4 per cent while in Berrigan and Balranald it was 7.3 and 10.8 per cent respectively. In particular, youth and indigenous unemployment remains a key problem across the region. For example, for those between 15 and 19 years the unemployment rate averaged 16.58 per cent, between 20 and 24 years it was 13.22 per cent, while indigenous unemployment averaged 25.49 per cent.

It needs to be said that the MMR has a proportional higher population in percentage terms of 17 year olds (and over 60 year olds) than metropolitan Sydney or Melbourne, which perhaps goes someway to explaining its consistently high youth unemployment problems. However, another explanation may be that in areas such as Greater Shepparton and the Shire of Campaspe the school retention rates for youth in years 7 to 12 are consistently some of the lowest in Victoria (ABS 2002:53).

There is also a much higher dependency on welfare payments in the MMR and lower levels of mean taxable income than the Victorian and New South Wales State averages (ABS 2002). Across the MMR the total contribution of welfare payments to regional income was 19.3 per cent, which was four percentage points higher than the total average for both states (CMACC 1999:30). In the Greater Shepparton and Campaspe, where much of recent agri-food manufacturing and possessing investment has flowed, dependency on Commonwealth funded Job Search, Newstart and sickness benefits is one of the highest in Victoria (ABS 2002:30). In 2000 in Greater Shepparton the proportion of taxpayers on these benefits was 5.3 per cent, which was the highest in the state and well above the Victorian State average of 3.8 per cent. The Shire of Campaspe fared slightly better at 4.2 per cent. Moreover, in 2000 Greater Shepparton’s mean taxable income of AU28,929 placed in the bottom half of mean taxable income of non-metropolitan LGAs in Victoria (the state average was AU34,578). The Shire of Campaspe was in the bottom third at AU27,823 (ABS 2002:32).

Moreover, the MMR faces environmental challenges that have a real capacity to undermine the sustainability of its economic base particularly in relation to dryland salinity (discussed in chapter one). Put simply the health of the regions water systems and its water quality are key to
its future as a global food-processing region. Salinity undermines water quality and adds costs to production in terms of ongoing treatment and abatement measures. Dryland salinity arises through rising groundwater levels that leach salt out of the soil and concentrate them in surface water systems. In the state of Victoria, for example, land is deemed to be at risk of dryland salinity if the groundwater level is less than 2 meters from the surface (ABS 2002:96). The Goulburn-Broken catchment in the MMR has 10.3 per cent of its land with less than 2m to the watertable making it the worst catchment in Victoria. Moreover, over 80 per cent of the condition of the river systems in the MMR was deemed to in the moderate to very poor condition range by the Victorian Department of Natural Resources and Environment in 2000 (ABS 2002:97). Much of this is due to reduced water flows, rising salinity, waste from industry and effluent run off from irrigation which is associated with intensified food processing and production (CMACC 1999:17).

**The things that unite the MMR**

In 1998 Mid Murray Development (formerly Mid Murray RDO) commissioned the Australian Chamber of Manufacturing (ACM) to undertake an analysis of the economic transaction flows of the major food processing industries in the MMR. The region has approximately 8,500 businesses with the food processing industry accounting for 41 per cent of all manufacturing. In 1998, the food processing industry contributed over $AUD4,540 million in economic transactions in the MMR covering purchases of raw materials, labour and capital, and sales to customers (see Table 7.3). This comprised of 109 businesses producing 24 categories of food products worth annual sales of $AUD2,800 million; half ($AUD1,450 million) for export (MMD 1998:1). The information was gathered from a survey sent to 109 firms of which 52 firms responded – the survey responses, nonetheless, represented some 85 per cent of food processing activity in the region (MMD 1998:6).

**Table 7.4: MMR food processing transaction flows**

<table>
<thead>
<tr>
<th></th>
<th>Finance %</th>
<th>Raw materials %</th>
<th>Capital equipment %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>67.8</td>
<td>71.9</td>
<td>21.3</td>
</tr>
<tr>
<td>Outside region (NSW/VIC)</td>
<td>18.2</td>
<td>13.6</td>
<td>31.0</td>
</tr>
<tr>
<td>Another State</td>
<td>13.4</td>
<td>11.1</td>
<td>7.1</td>
</tr>
<tr>
<td>Overseas</td>
<td>0.6</td>
<td>3.4</td>
<td>40.6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The region exhibited very strong economic, social and environmental interdependencies. Over 85 per cent of the raw material used by the largest food processors is sourced locally (i.e. local/NSW Vic). Over 86 per cent of finance the major food processors use comes from the local economy (i.e. local/NSW, Vic) as does 52 per cent of the capital equipment used (MMD 1998). Moreover, although separate catchment areas, the SIR and the MIR form part of the Murray Darling Basin and share the Murray River and its tributaries (and the salinity and flow problems associated with the Basin). From the interviews conducted, in terms of local and state government contact and services, the movements are mostly east-west along the Murray between the larger towns. While life-style flows, sport, leisure and shopping are both east-west and, as transport and services have improved, north-south across state borders. There are very strong commercial and transport interdependencies north-south across state borders (MMD 1998).

The following explores in more detail how international, national and state forces and decision-making impact on industry structure and regional development opportunities and potential in the MMR. It also highlights the need for a more collaborative institutional framework involving industry and the tiers of government to address what are a complex range of forces that are shaping change on the MMR. It is clear that many of issues to be discussed cannot be adequately addressed by firms or the community working with one or two levels of government alone, or by simply by relying on market forces to facilitate adjustment.

**Industry pressures**

*Collaboration: the local experience*

As discussed in chapter four, the level of local interdependencies will depend in part on the internal governance structures of the firm involved (i.e. the importance of the region and plant in that structure). This in turn often depends on the personality and commitment of local managers to the local community – certainly the earlier discussion on the success of the Third Italy indicates this. In this sense firm ownership (foreign or endogenous) does not matter. What does matter, however, is the commitment of a firm to expand horizontal linkages (supply chain) to local firms and to engage in the broader regional development aspirations of the region.
Interviews undertaken in the region found evidence of capital (foreign and endogenous firms) actively engaged in community networks and broader development issues as well as examples where there was minimal collaboration or engagement. Yet it is the action of local managers that seems to matter most, not ownership - although local perceptions on this issue remain mixed. On the one hand, as one interviewee working in regional development said, 'multinationals, on the whole, are here to make a product at its lowest cost, they have little engagement with the region and are hard to access'. For even the most modest requests 'local plant managers need to contact Melbourne, Sydney, US or Switzerland for approval of expenditures to support community initiatives from as little as $500 to $1000 dollars'.

On the other hand, a CEO of a large Australian firm said, 'I could spend all my time and would need to create an economic development division to adequately respond to calls for participation on various community and government initiatives. My Board does not always appreciate the companies’ resources being utilised in this way'. In contrast a former manager of a multinational food company, and now CEO of a large Australian dairy cooperative, said that 'his former employers were very accommodating to local concerns and gave him the autonomy to spend on plant and equipment and local R&D etc'. Interestingly he said that this was not the case at other plants within the parent company and was not necessarily consistent with the corporate governance structure of the firm concerned. He put it down to two factors. The first was that his plant performed well in relation to other plants in the global network and, second, to his 'personal relationship' with a senior figure within the firm's top hierarchy who acted as a mentor and advocate.

As discussed earlier the problem here is not ownership but the corporate governance decision of firms and how they impact on local institutional arrangements. As an interviewee explains, 'many of the plant managers (of MNCs and endogenous firms) are here for two to three years and usually to do a specific job, i.e. reduce costs - which is code for downsizing staff or reducing the price paid to suppliers. They are simply not here long enough to become part of our community and our development aspirations'.

As well as corporate governance structures of firms and the commitment of individuals involved there were other external forces that influence the potential of the region's long-term economic development as well as levels of collaboration and networks of trust (social capital).
As discussed in chapter two, the same external factors (i.e. aspects of globalisation and domestic liberalisation) are affecting many of Australia’s regions, metropolitan and non-metropolitan alike. A brief look at capital restructuring of the tomato industry in the MMR, a key industry sector in the local economy, offers another case in point.

The following is not attempt to present an intimate understanding of forces shaping international restructuring of the global tomato industry. Rather the lesser task is to provide a brief background to issues raised by interviewees on the impacts international restructuring of this industry is having on local investment decisions in the MMR. In particular, it gives a context for the types of pressures the local agri-food industry operates in. It also provides some insights to the challenges for achieving a cohesive regional development planning in the MMR in the absence of an agreed governance framework (between the tiers of government the local community and industry).

**Tomato paste – external factors at play**

The tomato industry is a major contributor to the industrial strength of the MMR yet, despite deregulation, and its international reputation as being world’s best practice, segments of the industry remain under threat. The big players in the Australian tomato paste industry, and MMR, are Cedenco, Heinz and Unilever, with Ardmona and SPC producing paste as a by-product of their other tomato-based products. One such threat comes from the entry of China into the global tomato paste industry.

Interviews in the region confirmed that Australian-based firms produce tomato paste for around $AUD1100 a tonne for both domestic consumption and export. Industry sources in the region indicate that the Chinese land tomato paste in Australia for $AUD700 a tonne (at the time of writing there was a glut in the world supply of tomato paste so this price varies). However, as one interviewee pointed out, ‘the landed price of Chinese paste is not the international benchmark for tomato paste production as it reflects a subsidised price’. China subsidises its rural sector and has dedicated regional programs to support its 900 million agriculture population; aimed at keeping them out of the major cities (Bolt 2001:18). Another industry representative who has travelled extensively in China for the Australian tomato industry confirmed that, ‘some 37 tomato factories have been established in China’s NorthWest province of Xijiang since the late 1980s. China has moved from the ninth to the third largest tomato producer in the world’ (interview with local industry representative).

According to the same interviewee, three organisations - Tunhe, Tienye and Chalkis - control
much of China’s tomato production. Tienye and Chalkis are military-owned enterprises based on state farms where workers are, at best, paid subsistence wages’. As the interviewee concludes, ‘so how anyone can determine the real cost structure in China tomato industry is beyond me’. He also questions the profitability of many of these firms and worried about the longer-term impact of industry re-structuring in China on global markets (see for example industry discussion piece at www.chinafruitnews.com/news/2002-3-15-05-50-38.shtml).

The Australian government for its part treats China as a transition economy and is relying on China’s entry into the World Trade Organisation (WTO) to get a reduction in its tariff and non-tariff barriers. These multilateral and bilateral negotiations have been going on for some fifteen years (Bolt 2001:18). Meanwhile, Australian tariff barriers on tomato paste are currently 5 per cent (down from 35 per cent), while Australian exporters face tariff barriers of 19.8 per cent into the EU, 16 to 18 per cent in the US and up to 40 per cent in Asia. According to a recent Tomato Land publication, Australia is the most deregulated tomato sector in the world (www.tomatoland.com). So while Australia’s price represents world’s best practice in a deregulated domestic market, the Chinese, EU and US price continues to reflect subsided production. Australian industry sources confirmed that, utilising Italian technology and expertise, China’s tomato industry was established primarily as an export industry to attract foreign currency and development into the Xinjiang Autonomous Region (phone interview 2001; see also industry discussion piece at www.chinafruitnews.com/news/2002-3-15-05-50-38.shtml).

The local impact on regional development

Because of these types of international market pressures Ardmona, which has spent $AUD14 million upgrading its tomato processing area over the last year, decided to focus on canned whole peeled, chopped, puree and other high value niche tomato products and avoid its planned expansion into the international tomato paste market. It has invested over $AUD52 million in the upgrade of its plant and equipment in the last five years in an effort to better control fruit flows and achieve a more specialised and flexible manufacturing process. According to its CEO, ‘it’s hard enough competing with Europe and the US with their subsidies and market restrictions, but we do. But when China puts so much effort into supporting tomato paste, with no one in government recognising the impact of that distortion on markets, the whole market segment just becomes unprofitable’. He also noted that it is not just the tomato paste sector affected by these market distortions but various markets for a range of different goods. For example, ‘Greek canners control 80 per cent of the world’s canned peach market with
outmoded technology, but are well protected behind EU barriers'. His main point is that 'these market distortions are particularly important to Australia because 75 per cent of the food and fibre it trades is processed, not raw'.

The need to re-focus its production base, change its market segments, and achieve greater economies of scale in order to compete in the global agri-food sector was perhaps a key determinant in the subsequent decision for the merger between Ardmona and SPC in early 2002.

The entry of China into the global tomato market is playing itself out in other ways in the region, particularly in terms of growers, grower prices and grower rationalisation. According to another interviewee (confirmed by several industry sources), tomato growers in the MMR recently received a letter from a local MNC food processor saying they would only buy from growers that can produce larger tonnages and pay for freight for suppliers within 30 km of the factory. In reality this would eliminate the smaller average suppliers from outside the 30-km radius, leaving three large suppliers. Moreover, industry sources confirmed that the same company in question is using the emergence of the Chinese industry as a means to drive down local growers’ prices. As one interviewee, a supporter of deregulation in the tomato sector, commented ‘the rationalisation of the tomato industry in Australia (the MMR) will continue until probably there is only one of the three big processors Cedenco, Heinz or Unilever left. But there will be no loss of volume, volumes will probably increase’. The interviewee saw this as a good outcome.

Adding more weight to the concerns expressed in the MMR case study has been the more recent restructuring of Heinz tomato paste operations in Australia. As part of its 1999 Operation Excel the global food giant H.J. Heinz announced a $1.2 billion plan to restructure and refocus its global operations (www.heinz.com/2001annualreport/final_excel.html). The company closed or exited 21 factories or business around the world over two years, including rationalising its Australian and New Zealand operations. Part of the rationalisation saw Heinz Wattie’s Australasia formed (combining Australian and New Zealand operations) and the closure of Heinz’s Dandenong factory in July 2000. The Dandenong factory had been a major user of tomato past from the firm’s other plant at Girgarre in the MMR. In closing the Dandenong plant Heinz’s corporate affairs spokesman told media that part of the plant would be moved to New Zealand and ingredients (tomato paste) for the New Zealand operation sourced from a variety produces including Girgarre (www.abc.net.au/worldtoday/s153797.htm). One assumes
that, given the global nature of Heinz's supply chains, tomato paste would also be sourced for its New Zealand operation from the world's lowest cost producer, namely, China.

As well as these international industry pressures a series of domestic policy changes also highlight current structural and political barriers that increase the complexity of the issues affecting regional governance structure in the MMR. The impact of National Competition Policy (NCP – discussed in chapter two) in the MMR provides a case in point.

The challenge of National Competition Policy and the MMR

The differing regional impact of NCP has caused Australia's major political parties to review their stance on its implementation. One of the most recent inquiries into the impact of competition policy, for example, concluded that while the benefits to the national economy remain positive the cost of these reforms have been felt hardest in rural and regional Australian (Productivity Commission 1999). This is particularly so in the case the job losses associated with the introduction of compulsory competitive tendering provisions that often favoured large corporation (city based) over local companies and/or local council employees (Commonwealth of Australia 2000:166).

For example, at the heart of NCP reforms, the Council of Australian Governments (CoAG) requires the water sector, as well as rail, shipping and electricity, to be open to greater competition and to generate a rate of return commensurate with other private sector industries. This remains the case despite the fact that many of these types of businesses, not all, remain in public ownership. This continues to create spatial problems in several industry sectors. One of the problems is that each state has interpreted NCP differently with the spatial impacts varying for business and communities (particularly between capital and non-capital city regions).

The following two examples highlight the problem. In a simple example, one interviewee pointed out that NCP in Victoria only applies to government enterprises with a turnover over $AUD10 million, whereas in NSW this was set at $AUD2 million. In practical terms in NSW this meant, for example, 'that water charges rose $45 per head as a direct result of applying NCP compliance across all NSW local governments. In less populous parts of the state (in the NSW part of the MMR) the impact was proportionally higher because the additional cost was imposed across fewer industries and people' (Glesson 2001).

Meanwhile, in 1997 in Victoria, as part of NCP reforms, the then state government directed its non-metropolitan urban water (NMUs) authorities to reduce water charges by 18 per cent in
exchange for a one-off injection of funding to accelerate capital works program and retire debt. This had the effect of freezing water tariffs in that state until June 2001 (Glesson 2001). At the time of writing a pricing review was under way in Victoria to determine an appropriate rate of return for its water sector - a rate of 6 per cent on capital invested is being recommended regardless of location or type of business. This reflects a consistent criticism of NCP across Australia’s non-metropolitan regions (National Economics 2001:8). That is, NCP has limited public investment in infrastructure where the public benefits may be high but the rates of return are below private sector benchmarks.

Laurie Gleeson, CEO of Goulburn Valley Water (GVW), a major employer and provider of water infrastructure in the MMR, argues that ‘this rates of return criteria totally ignores the spatial differences that exist between urban and regional water businesses’. He makes the point that return on investment by GVW may not be 6 per cent but its contribution to community and business development goes well beyond pure financial measures.

‘GVW has a significant role to play in regional development through the provision of high quality/low cost water and waste water services to the processing industry that underpins their (and Australia’s) international competitiveness. Much of this requires increased investment that cannot be recovered under the present tariff freeze. In regional areas the cost of supplying water and sewerage services to small communities is subsidised by customers of the larger systems. Most projects undertaken by GWV are aimed at minimising environmental impacts and protecting public health by increasing water quality standards. These types of investments would not have been made by a private water business because the rates of return aren’t there’ (Glesson 2001).

His point is that the current NCP arrangements, as interpreted by the Victorian government, don’t allow for flexibility in tariff pricing or in determining appropriate rates of return in accordance with spatial characteristics. According to Gleeson, ‘an appropriate rate of return is between 0 and 2 per cent and this depends on the different characteristics of the operation i.e. its location, debt levels, age and condition of assets, costs drivers, population and distances etc’. The decision of the Review in Victoria is critical to the GVW’s future capital works program and to the sustainability of the MMR’s economic base. The GVW authorities Organisation Profile (June 2000) identifies $AUD95 million of capital expenditure over the next five years that are in jeopardy because of the rate of return requirement.

Importantly, for Gleeson (and to the earlier discussion) this includes works to assist water quality enhancement to World Health Organisation standards, environmental sustainable water treatment and disposal processes and waste minimization, to mention a few. As discussed already, these investments in quality water treatment infrastructure are key to underpinning the
MMR long-term competitive advantage as a world-class value-added food producer and exporter.

The problem highlighted by the above discussion on international and domestic pressures that impact on investment decisions in the MMR is that these problems often require a coordinated government response in terms of their affects on local the local production system. Local firms working with either and/or local or state governments alone cannot address complexity of these issues, i.e. the impacts of unfair trade, high welfare dependency, low incomes, or the varying spatial impacts of competition policy on local infrastructure investment. Nor can issues such as these be adequately addressed by a national approach to regional policy that leaves regions to development strategies based on self-help.

Clearly, the Commonwealth has a role to play given its powers in terms of tariff and trade policy and its role in implementing and determining the direction of micro-economic reforms. History tells us that state governments in Australia more often than not act in their own self-interest, which often leads to conflicting state institutional and regulatory (pricing) frameworks (as the above discussion highlights). This is a particular problem in regions such as MMR given its economic and social independencies and cross boarder characteristics. As the discussion below indicates, according to those interviewed, there is currently no cohesive regional governance structure (or network) within the MMR that regularly brings business, local, state and Commonwealth government actors together to address what is a vast and complex array of regional problems.

Having discussed some of the problems that currently impact the regional development potential of the MMR, we now turn to look at some of its strengths. In particularly we look at its strengths in terms of those characteristics often associated with post-Fordist-led regional development (discussed in chapter four).

The MMR strengths

A strength of the MMR is intellectual (human) capital in terms of community, commitment, leadership and vision, industry and state funded research facilities (better developed in the SIR and emerging in the MIR). In the area of land and water management both formal and informal linkages between industry and the tertiary sector are strong. For example the Victorian government’s Department of Natural Environment and Resources, the Kyabram’s
Dairy Centre and Tatura's Institute of Sustainable Irrigation Agriculture are active in research and development and have a strong track record in assisting industry innovation. The Goulburn Ovens Institute of TAFE in the last two years had begun to expand and develop stronger links with industry—the focus here remains on training to suit current and future industry needs. Melbourne University's Dookie College is an agricultural institute of excellence and actively engages primary producers. There is work being undertaken by the Greater City of Shepparton to turn Shepparton into a University town in its own right. This remains in its infancy but is gradually gaining momentum with local stakeholders. Similarly, in NSW, Riverina TAFE College (Deniliquin campus) actively engages local employers to shape its training programs, while Charles Sturt University, based in Wagga Wagga, is becoming increasingly interested in the Deniliquin region. On balance, collaboration between industry and the tertiary sector across the region is developing into a key part of MMR knowledge asset base.

Interestingly, however, to the author's understanding, there has not been an attempt to document and coordinate the knowledge-base assets and activity of the region and link this to a broader regional innovation system (RIS) approach (as discussed in chapter four). A RIS approach seeks to better link knowledge-based actions (focusing on supply inputs and demand factors) in an attempt to embed innovation and capture value-added activities. As discussed earlier, the MMR remains a net importer of capital equipment and technology and it would appear there has been little coordinated attempt to convert the region's collaborative research outputs into locally-based new start-up SMEs.

For example, Ardmona, at the time, had an annual turnover of $AUD165 million including exports of $AUD45 million, was a highly innovative and internationally competitive food processing firm. According to its 1999 Annual Report, it had been certified with the international quality system ISO 9002 till 2004 and the international food safety system HACCP-Codex Alimentarius 97/13A. It was an industry leader in the innovation of long life snack pack plastics (1985) and internationally recognised for its fruit imaging and sorting technology. This technology had ensured a steady stream of international visitors through the Shepparton plant and was recognised at industry gatherings as world's best practice.

Interestingly, according to its then CEO, Ardmona Foods had no immediate plans to spin-off its technological innovations into other separate commercial opportunities (locally based or otherwise). The emphasis of discussion with its CEO was to focus on its core business (food processing and product differentiation) and its people and not to be distracted from this path.
In contrast, SPC, at the time a rival local food-processing firm, under the leadership of its American managing director Peter Thor, has set on a deliberate strategy to move from a commodity-based canner to a technology-based processor and marketer (www.spc.com.au). SPC, with sales of $AUD241 million p.a., had entered into licensing and strategic partnerships in the US and Europe to exploit its unique plastic cups filling and sealing technology. It has set up a subsidiary – PAK Technologies P/L – to be run by Thor who will return to the US, to California, with SPC engineering manager Bob Laing, to manage and establish the business. Thor was previously Executive Officer with the US growers cooperative Tri Valley Growers (which went bankrupt in 2000) and President of Redback Foods USA. Tri Valley Growers had strong links to Delmonte Corporation USA. The US based Delmonte Corporation has now installed Pak Tech plastic cup line and technology and negotiations are under way for Siam Foods Thailand and Delmonte Food International Europe to follow suit. In July 2000, Duetsche Asset management (Australia) Limited and River Capital P/L took a 30 per cent equity in Pak Technologies while SPC retains 70 per cent equity (www.spc.com.au/company_pressdetail.cfm?prItemID=24).

The point here is that the current governance structures in the MMR work well to attract new investment in the agri-business sector but fail to support innovation into local spin-off value-added activities. Perhaps part of the explanation lies in the absence of mature institutional networks and collaborative frameworks of the type that seem to be present in the internationally competitive regions discussed in chapters four and five.

Institutional arrangements in the MMR

Interviews with leading industry figures indicate that networks that operate in the region tend to be focused on the interests of individual firms (firm to firm) or at an industry level, i.e. dairy, food processing, water etc. That is most networks tend to business networks as opposed to institutional networks that as discussed are more characteristics of industry clusters and/or RIS approaches to regional development. As a consequence the links between firms in the region outside business networks are ad hoc and largely informal. A CEO Group formed in the mid-1990s used to meet infrequently to look at a broader range of regional development issues but has since ceased to exist (discussed below). The linkages between industry and government are on an individual basis, either direct with state and federal government agencies in Melbourne and Canberra, or through various peak industry bodies. At Ardmona, for example, the CEO at the time was a member of the Food Industry Advisory Committee and
the Australian Food and Grocery Council, which had links to the Commonwealth's
Supermarket to Asia initiatives (since abolished).

The above is not denying that there are numerous regional (development) organisations or
groupings operating across the MMR region (Dore and Woodhill 1998:part 7.1). Organisations
such as Area Consultative Committees (ACCs), Voluntary Regional Organisations of Councils
(VROCs), local government economic development agencies, catchment management groups
and state government development boards are active across the region. However, their impact
and focus varies dramatically across the region as does their relationships with industry and
particular levels of government.

Some like the Murray VROC, for example, are dormant until issues arise or new life is borne
into them. The state government’s support of the Murray Region (one of 13 NSW State
government regional zones) brings together such a large geographical grouping that many of
those interviewed thought it had little significance to many in the MMR at all. As one local
government representative from NSW commented, ‘the Murray Region covers an area east to
west along the river from Albury to Wentworth (stopping at the South Australian border –
almost 92,000 sq km). We might as well deal directly with Sydney because all the Murray
Board’s (the state government appointed board for the Murray Region) focus is on the biggest
regional centre of Albury and not on any of us in the middle’. As an industry representative
commented, ‘the state government Development Board is designed to keep the bureaucrats
and politicians in Sydney warm and fuzzy about economic development in rural and remote
areas. As far as I’m concerned it has no practical impact in this region’.

The Central Murray ACC is the only cross-state organisation in the region and is now funded
by the Commonwealth to deliver its Regional Assistance Program (RAP) through the
Department of Transport and Regional Services (at the time of this research funding came
from the Department of Education, Workplace Relations and Small Business - DEWRSB-
discussed below). It has a Board representative of local government and industry from both
sides of the Murray (but no Victorian government representative). Some of the other groups
have industry representatives on their Boards (in some cases the same industry people) but the
problem remains that there is little collaboration amongst these groups. Interviews with various
representatives of these groups confirm that most operate in line with the criteria of their
primary funding agency.
Perhaps of most concern was that many interviewees confirmed that they compete with each other for government funding. This is consistent with the historical fact (discussed in chapter two) that the tiers of government in Australia for the most part operate in isolation and this creates structural barriers that often inhibits achieving broader regional collaboration in practice.

The following two examples highlight the legacy of the lack of government coordination in the MMR which tends to undermine regional cohesion and less than optimal regional development outcomes.

More bureaucracy – layer upon layer, upon ...

The first example involves the Central Murray ACC based in Echuca (it geographical boundary covers most of the MMR) and its dealings with DEWRSB. At the time of writing, DEWRSB had responsibility for a national network of ACCs – 56 in total. ACCs operate throughout metropolitan and non-metropolitan Australia and work through boards with representatives from industry, government and the community. Each ACC has an executive officer that carries out the daily functions and meets the reporting requirements of the Department, i.e. developing business and regional strategic plans. Under the RAP program seed funding is provided to support projects aimed at generating employment, creating small business opportunities and building the regional skills base.

In the case of the Central Murray ACC it had to report through a DEWRSB regional office in Bendigo (some 90 km away) that in turn came under the control of the Department’s state office in Melbourne. The Melbourne office ultimately reports to the Canberra office that in turn informed the Minister responsible. Each time Central Murray ACC acts it needed to satisfy each layer of DEWRSB bureaucracy. According to one interviewee in the region ‘often the various layers of DEWRSB were in conflict and the internal politics of the organisation seemed to be more important than the activities of the ACC’. Moreover, ‘the advice and requirements from the regional, state and national office is not always consistent and this leads to confusion and duplication of processes and effort’. The ACC executive officer said ‘that most of her time (and her staff’s time) is taken up writing applications (most applicants simply do not have the skills or time to complete applications) and meeting bureaucratic reporting requirements that seem to change on a whim every six months’. Moreover, many of the RAP applications were co-funded with other Commonwealth agencies. Despite the various Department layers DEWRSB required separate application from the region to the other
Commonwealth departments in Canberra (i.e. the regional and state DEWRSB offices didn’t undertake this function – the executive officer of the ACC did).

Moreover, many funding requirements from government have compliance conditions that frustrate the grant application processes and lead to less than optimal outcomes. An interviewee for local government explains that a recent successful funding application under the Commonwealth’s Networking the Nation Program required the Council to open a separate bank account to receive the funds. Given the number of grants the Council received from both state and Commonwealth government ‘it would need to set up a 50 separate accounts a year to satisfy this requirement if all levels of government applied this criterion. The bureaucrats just don’t understand the compliance costs and implications and inconvenience of such requirements’.

Another interviewee commented, ‘often we are required to acquit grants to meet the funding deadlines of the agency or the program involved. In practical terms this often means rushing projects and/or rearranging them which leads to half-baked outcomes – but satisfied reporting requirements’. One of the problems here is that the Department of Finance and Administration (DoFA) will claw back unspent funds from Commonwealth agencies and return these monies to consolidated revenue.

The current Murray Bridges Program that the Commonwealth chose to fund from its Centenary of Federation Fund provides a case in point. As an interviewee pointed out, ‘these funds now need to be spent by the end of this year (a DoFA requirement). This means that the bridges that were originally prioritised for funding, through a long local consultative process (discussed below) and confirmed in an independent study, are not necessarily going to be repaired/replaced as planned because funds can’t be expended on these bridges in the program time frame. So now the state and local governments along the Murray are engaged in a new round of debates about which bridges can be repaired/replaced to ensure that the Commonwealth’s funds flow to the region and don’t go back to Canberra’.

Interim summary: interpreting the key characteristics of the MMR

As outlined in the introductory chapter, international experience suggests that some regions respond to the forces of change better than others according to the presence, absence and level
of maturity of certain spatial development characteristics. From the information gathered for this case study, we can now gauge the MMR potential against these characteristics.

1. **highly 'innovative' firms (endogenous and/or foreign) with strong connections and commitment to the local economy (embedded);**

   **'innovation'**

   Innovation is particularly relevant in the value-added food processing sector and water industry sectors. Some individual firms are high innovators, i.e. Freestone and Benny Instruments, Ardmona Foods, Tatura Milk and Goulburn Valley Water, for example. Dairy farmers, wine makers and food processors, rely heavily on innovation and productivity increases to sustain their industry competitiveness. With high levels of exports the region is plugged into global markets and the competitive pressures this brings to the local innovation system.

   **'local interdependencies'**

   In terms of purchases of raw materials, finance and some capital equipment the region clearly benefits. However, in terms of a commitment to enhancing the 'regions' asset base as opposed to the interests of individual firms, or particular industry sectors, economic interdependencies remains poor. It should be remembered that 80 per cent of the region's capital equipment comes from outside the region. The region's poor performance in this regard is consistent across many of Australia's regions. A survey of regions by the Australian Industry group in 2001 indicated that on average only 41 per cent of raw material and 24 per cent of capital equipment were sourced locally (Ai Group 2001).

2. **economies of scale and access to markets (domestic/international);**

   Both these characteristics are very strong – the distance to markets does not seem to have been a barrier to industrial expansion in the region.

3. **high level of community skills, education and training;**

   Most of the key firms have highly trained employees; however, distance and travel remain barriers for others across the MMR. As discussed above, there is a strong knowledge industry base in the region in terms of tertiary (TAFE education and training) and research institutions. Although unemployment in the region remains low there remains high demand for skilled labour.

4. **availability of venture capital (for R&D and to encourage startups and spin-off firms);**
Given the amount of capital investment in the MMR over the last five years, and the fact that the AMC survey indicates that around 68 per cent is sourced locally, one would cautiously conclude that access to finance is not a significant barrier to economic development for the large firms. However, there appears to be no local attempt to nurture endogenous growth in SMEs (rather the reliance seems to be on attracting footloose capital to the region). One suspects that a cluster approach to economic development with its emphasis on nurturing the synergies between venture capital and new start-up firms, to take advantage of the high concentration of research and development undertaken by specialist research institutes in the MMR, is required.

5. well developed formal and informal institutional arrangements (and interaction between industry and higher learning institutions);
On would conclude that this characteristic is moderate to strong. There are clear examples of industry tertiary sector collaboration, but this is developing on a project-by-project basis rather than part of an overarching institutional collaborative framework.

6. strong (high-profile) community and business leaders (entrepreneurs and/or champions);
A very strong characteristic driven by a high representation of industry leaders including in large public/private utilities.

7. public/private support of networking, innovation and collaboration;
There appears an absence of governance structures that would support a lasting collaboration approach between the tiers of government and industry in this regard.

8. specialised world class infrastructure (soft and hard);
Although the region has world’s best technology in water treatment, food processing, packaging and transport, the condition of roads, bridges, energy, telecommunications and health infrastructure remain poor..

Potential for greater collaboration in the MMR

Is there the potential for adopting post-Fordist approaches to economic development in the MMR? Could this redress the deficiencies identified in the above analysis? The following gives two examples where the regional stakeholders came together to achieve significant regional
development outcomes in the recent past that incorporated aspects of a post-Fordist's approach.

Environmental management

The first example is to be found in the structures and processes that dealt with land and water management issues through the establishment of the Shepparton Sustainable Regional Development Board (SSRDB) and Secretariat in 1994. It focused on strategic projects and infrastructure that would repair and improve the environment and give support to sustainable agricultural and processing in the region. This included major drainage works, micro-water filtration plants and ways to treat waste from industry. This initiative received funding as a demonstration project under the Labor government's Regional Development Program (RDP). It was managed by the SRDB Secretariat (Young 1999) on behalf of the Murray Darling Basin Commission (MDBC) and had contributions from the Commonwealth, state, local government, local industry and landowners.

This project, on the Victorian side of the region at least, produced collaborative processes that transcended the more transient arrangements established to secure one-off competitive government grants that dominates regional development activity. For example, a CEOs Group, with representation from the 20 or so major processing plants, was established as a key part of the SSRDB's planning and consolidation processes. This group met periodically with community, major utilities and government representatives to drive the process and set priorities. This collaborative structure was considered by many as one of the major strengths of the SSRDB's initiative.

The reasons for the success factors of the SSRDB's water and land management project in the MMR were very clear. Earlier initiatives associated with the local Catchment and Land Protection Board (CALP Board), and the Shepparton Land and Water Salinity Management Plan (Anon 1989), convinced industry, community and government (local and state) that addressing rising salinity and water quality were keys to combating the region's environmental crisis on the land. As a consequence of Commonwealth funding, and the participation of the MDBC, formal and informal institutional arrangements were established that were transparent, clear in focus, and had a high level of community involvement and acceptance. This was achieved because there was no one individual or single firm directly benefiting from the activities of the SSRDB - as the bulk of the funds flowed into environmental infrastructure from which the community as whole benefited. It was also the case that the key drivers were
recognised as local leaders in their various fields across industry, community and government and this gave credibility to the project’s objectives.

Of equal importance was that the priorities of the SSRDB were also supported by the activities of the Mid Murray Regional Development Organisation (REDO) established under the Commonwealth’s RDP in this region at the same time. The REDO played a catalytic role in expanding the SSRDB’s focus northward into NSW’s MIR by highlighting the synergies, problems and interdependencies between the two regions. The REDO focused on building networks and linkages around common issues such as infrastructure and transport, education and training for industry, and regional export capacity building. It was successful in gaining additional funds for accelerating the construction of a series of micro-water treatment plants across the MMR.

Equally important to the success of the initiative, however, was the $AUD6 million commitment by the Commonwealth to the project which meant the initiative was well funded. As a former Board member of the SSRDB put it, ‘the Commonwealth’s money made it happen. Without that contribution state government, local landholders and business would not have committed the time and funds they did. It (the Commonwealth grant) accelerated the whole process by years - and gave our (SSRDB) activities enormous credibility and momentum’.

The activities of the SSRDB concluded in 1998, with the end of Commonwealth’s agreed three-year funding (see Young 1999:279-300). The legacy to the region, however, was that these activities meant that as new sources of government funds came available (through the Natural Heritage Trust, for example) the region had the networks, data and strategies in place to take advantage. In other words, these collaborative activities had enhanced the region’s institutional thickness in terms of addressing its environmental problems.

A bridge too far

Ironically, the same bridge project mentioned earlier offers an example of strong regional collaboration - despite interference by bureaucratic forces in its implementation stage. Under the leadership of the former Commonwealth REDO a River Crossing Group (RCG) was formed in 1997 to identify and prioritise bridges that were in need of urgent repair or replacement along the Murray River. The issue emerged because of the dramatic increase in transport flows (and tonnages) in the region and the declining state of bridges (road and rail crossings) that had to support them. The PKK Environment & Infrastructure P/L was
commissioned to investigate the flow and tonnage and to assess the economic importance of those crossings. They estimated that $AUD33.5 billion of commodities were carried across the Murray River by road and rail each year (PKK 1999). One third of the bridges carried 95 per cent of all freight and road freight represented 84 per cent of this amount (PKK 1999:A). The RCG was made up of local and state government representatives as well as business and industry leaders.

As a consequence of this collaborative process the May 2000 Federal Budget announced a $AUD44 million Murray River Bridges programme (using money from the Centenary of Federation Fund) to build new bridges over the Murray River at Cowra, Echuca and Robinvale (DTRS 2000:31). These funds were to attract matching funding from the state governments. Clearly the pressure brought to bear to expend funds earlier and change construction/repair priorities undermined much of the goodwill, collaboration and consensus achieved by the process.

The point to draw from these two examples is as follows. Both projects emerged from a shared sense of crisis and the need for action from within the region. Both drew a wide range of stakeholders into collaborative planning processes (informal networks) and formed a steering group (formal network) to drive the process. Both, in the beginning, attracted small amounts of government funding (local, state and Commonwealth) to investigate the extent of the problem and to devise the best strategies to address the issues – they had good data. Both took the opportunity of gaining access to the Commonwealth, through the local REDO, as well as local, state and federal politicians and engaged them in the process as it unfolded (a more conducive collaborative environment).

The REDO and the SRDB were important because they acted, as intermediary groups not constrained by traditional local and state government boundaries and parochialism. Both these groups also offered channels to the Commonwealth, the REDO through the then Department of Transport and Regional Development and the SRBD, through the Murray Darling Basin Commission, the Department of Primary Industry and the Department of Environment. Both projects were also transparent processes that gained a lot of local support and interest because they articulated a strategic commitment to improve the region's asset base that overcame political barriers and borders.

There exists among many community and industry leaders interviewed for this thesis a strong willingness to the concept of 'regionalism' that these two projects represent. And a very clear
understanding of what regionalism implies. As the CEO of a large corporatised government utility eloquently stated, ‘regionalism means a commitment by business, government and the community to work across political boundaries and through parochialism to achieve agreed regional priorities – for the long-term benefit of the region’. The problem is these types of projects remain the exception rather than the rule across the MMR. The fact remains that government(s), because of its various layers, different regulatory and bureaucratic processes, and general lack of coordination, remain a significant barrier to the establishment of genuine long-term cohesive governance structures in the region.

Conclusion

The question this chapter has explored is whether there is the potential for a post-Fordist approach to economic development in the MMR. This was achieved by exploring some of the international and domestic forces shaping economic development in the region and by highlighting structural and political challenges that currently operate.

The discussion has highlighted that, while the region has highly innovative firms and has attracted large flows of investment into the food-processing sector, there remain as many challenges as opportunities for its future. In particular, there are a range of complex and of often competing pressures, social, environmental, political and market, that impact on economic decision-making across the MMR. For example, many interviewees noted that while some towns, industries and individuals were benefiting from the sustained growth, others across the region are missing out (youth unemployment, education standards and welfare dependency were identified as key problems). While other industry and community leaders pointed out that the capacity of the region’s environment (ecosystem) to sustain the rapid growth in the food-processing sector (i.e. quality of water to industry and coping with industry waist) remains a major challenge.

However, one of the largest barriers to greater regional collaboration appears to be the absence of an agreed governance structure and the political boundaries and processes imposed differently by the three tiers of government. In the MMR many of those interviewed saw government processes as an obstacle to the pursuit of community-driven collaborative action and this results in poor regional development decision-making.

The problem remains that there is no overarching institutional framework that builds support for the types of cooperative action needed to facilitate a post-Fordist approach to economic development. In terms of Putnam’s earlier observation discussed in chapter four, while the
region is high in human capital, its social capital is not so well developed. Collaboration, when it does occur, operates on an ad hoc basis reflecting the various jurisdictional boundaries and layers of bureaucracy of the three tiers of government. There were several business networks across the region but these were more about business relationships rather than stakeholder or institutional networks. In the current environment, the synergies between the endogenous private sector, community and the three tiers of government remain undeveloped and opportunistic rather than being part of a collaborative institutional framework aimed at enhancing the region’s long-term productive base. This is not to deny that some of the larger local councils (Shepparton, Campaspe, Moira, and more recently Deniliquin) are pro-active in economic development. Some were engaged in attracting investment and industry to start up, expand or relocate in their local government area. However, most are under resourced and operate in isolation from the other tiers of government.

Perhaps of most concern is that this case study presented examples where state and, to a greater extent, Commonwealth activities (and/or inactivity) in the region in fact mitigate against the formation of a more collaborative approaches to address regional problems. The top-down processes devised to suit state and Commonwealth program reporting and funding criteria often create barriers to bottom-up collaboration in the MMR. The fact that each layer of government has different responsibilities and often represents the policies of different political parties means that regions have to work within an environment of competing and overlapping political and bureaucratic agendas. Moreover, it remains the case that state and Commonwealth officers in the MMR represent a particular department and program and are in most cases are not the decisionmakers (referring applications to head or regional office for approval). As a consequence, policies and programs, no matter how well intended, are often inflexible as decision-making is removed from the local sensitivities. Local stakeholder engagement with Commonwealth and state government is reduced to a ‘reactive’ process where the real art, as one interviewee put it ‘is to be the best at monitoring grant programs, completing applications and playing the political and bureaucratic processes’.

The drainage and bridge projects discussed showed that local stakeholders are willing to engage in collaborative processes when the institutional framework is more conducive to strategic planning and where the government supports the processes. In these cases the processes were transparent and focused on enhancing the region’s asset base to better ensure its long-run productive potential. Given the regional economies of scale, diversified industries base and knowledge resources (human capital and R&D) an industry clusters and regional innovations systems approach would appear to have significant potential in the MMR. A well-resourced
intermediary organisation supported by all stakeholders would need to be the driving force for this type of policy approach. It would need to be supported by an increased presence by the Commonwealth in the region and closer linkages between tiers of government and industry as a means to address what is a complex range of issues currently affecting change in the region.

A key emphasis would be to maximise the synergies between industry and the tertiary (research institutes) sector to spin-off innovative start-up firms. This would have the long-term effect of deepening the economic interdependencies in the region and increase value-added activities. This would also have the effect of instigating a strategy for mitigating against the more immediate impacts of capital restructuring in the region. Moreover, as discussed in chapter four, the collaborative processes that underpin post-Fordist theory and approaches can also be used to better balance concerns for efficacy, and equity. Local planning processes could be used as a mechanism to better link government, the private sector and community leaders to jointly address social and economic problems in the MMR. By bringing stakeholders together a more concentrated long-term focus could be brought to addressing inequalities in income, raising education standards and retention rates, and youth unemployment across the region. Other key areas of focus for the peak body would be to continue the environment work that deals with the issues of salinity, water to industry, industry waste and the health of the river systems. These issues have the real potential to undermine the long-term economic sustainability of the MMR. What is required is a collaborative approach between the three tiers of government, local industry and the community, to systematically address these issues. The above changes to governance arrangements would give the MMR the capacity to shape its future and focus its energies and resources on dealing with the ongoing challenges of change.
CASE STUDY TWO: GREATER WESTERN SYDNEY

Introduction

The main purpose of the case study of the Greater Western Sydney (GWS) is to explore the potential and barriers for policy-makers in applying spatial approaches to industry/regional development (that is the potential for public/private partnerships, industry clusters, networks and regional innovation systems in a metropolitan-regional context). As with the case study on the MMR, the intention is to assess the presence and condition of structural and institutional factors in GWS against those cited in international spatial literature. These characteristics include: a presence of highly ‘innovative’ firms (endogenous and/or foreign) with strong connections and commitment to the local economy (depth of interdependencies); economies of scale and access to markets (domestic/international); level of community skills, education and training; availability of venture capital; extent of formal and informal institutional arrangements (interaction between government, industry and higher learning institutions); presence of strong (high-profile) community and business leaders (entrepreneurs and/or champions); public/private support of planning, entrepreneurs, networks and innovation; and specialised world class infrastructure (soft and hard).

The GWS region was chosen as a case study for three reasons. Firstly, GWS highlights the importance of metropolitan/urban fringe regions to the national economy and as such underpins the point that such regions ought not to be excluded from national regional policy and analysis. Secondly, GWS is part of the Hawkesbury-Nepean catchment and recent regional strategies to address environmental concerns highlight the parallels in approaches to issues of sustainability and regional development (discussed in chapter one). Thirdly, more recently, the NSW State government has established an Office of Western Sydney (OWS) that, on the surface at least, is consistent with the international trends toward devolution/decentralisation (as discussed in chapters four and six). For this reason, although in its formative years, the OWS offers some important insights into the challenges and opportunities of devolution/decentralisation for Australian policy-makers.
Methodology

During a seven-day visit to the region in July 2001 some 15 separate interviews (each consisting of one to four people) were conducted with representatives of industry (small and large), peak business groups, higher education, state and local government, and regional development bodies. These interviews were spread across the region from Penrith in the west to Campbelltown in the south. The discussions focused on regional problems, barriers to business and employment growth, local collaborative structures (business to business, between community government and business), engagement with local, state and Commonwealth governments and their activities and education, social and environmental concerns. The researcher also drew on several previous regional studies. Several follow-up phone interviews were conducted to confirm the information gathered.

The discussion begins with a look at the economic and geographic characteristics of the GWS region. We then explore the region's industry structure looking at industry interdependences and inter-firm institutional cooperation. Next, data is presented that reflects the diversity of socio-economic conditions (employment, income, and relative disadvantage) across the GWS. We then look at regional organisations and regional frameworks that operate in GWS. This includes the role of government in fostering regional development - with emphasis here on the role of the OWS. Finally, we briefly explore recent collaborative strategies in GWS to address issues of environmental sustainability. This example, amongst other things, highlights the ongoing tension between 'responsibility' and 'financial capacity' that exists between Australia's tiers of government (as discussed in chapter three).

Economic and geographic profile

The region

The traditional understanding of the geographic area of GWS (see map at Appendix 3) represents the outcome of the NSW State government's 1968 Sydney Region Outline Plan (National Economics 2001:27). It combines the area covered by two peak local government groupings, the Western Sydney Regional Organisation of Councils (WSROC) and the Macarthur Regional Organisation of Councils (MACROC). The region is unique in that it is a 'declared' region and as such is not clearly separated from adjoining regions (GWSRDB 1999). As Table 8.1 indicates, GWS incorporates the 14 local government areas of Auburn,
Bankstown, Camden, Campbelltown, Wollondilly, Baulkham Hills, Blacktown, Blue Mountains, Fairfield, Hawkesbury, Holroyd, Liverpool City, Parramatta and Penrith an area of about 8800 square kilometres (Gooding 1999; GWSEDB 2000).

Table 8.1: Population spread across GWS local government areas (LGA)

<table>
<thead>
<tr>
<th>LGA</th>
<th>Population 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auburn</td>
<td>57,204</td>
</tr>
<tr>
<td>Bankstown</td>
<td>167,839</td>
</tr>
<tr>
<td>Blacktown</td>
<td>248,525</td>
</tr>
<tr>
<td>Baulkham Hills</td>
<td>130,302</td>
</tr>
<tr>
<td>Blue Mountains</td>
<td>75,855</td>
</tr>
<tr>
<td>Camden</td>
<td>37,767</td>
</tr>
<tr>
<td>Campbelltown</td>
<td>149,489</td>
</tr>
<tr>
<td>Fairfield</td>
<td>190,920</td>
</tr>
<tr>
<td>Holroyd</td>
<td>86,280</td>
</tr>
<tr>
<td>Hawkesbury</td>
<td>60,884</td>
</tr>
<tr>
<td>Liverpool</td>
<td>137,066</td>
</tr>
<tr>
<td>Parramatta</td>
<td>144,366</td>
</tr>
<tr>
<td>Penrith</td>
<td>171,420</td>
</tr>
<tr>
<td>Wollondilly</td>
<td>35,489</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,693,406</strong></td>
</tr>
</tbody>
</table>


Over the past 50 years GWS has been transformed from a largely rural area characterised by small population, poor infrastructure and small towns to one of Australia’s fastest growing and economically significant regions. Consequently, there is a wide variance between Councils from high-population and high-density areas such as Parramatta, Fairfield, Holroyd and Blacktown to areas dominated by natural bushland and lower-density housing like Hawkesbury, Blue Mountains and Penrith.
Greater Western Sydney Region

Source: Bureau of Rural Sciences 2003
Traditionally, GWS derives much of its economic demand and industrial capacity from its proximity to metropolitan Sydney. And, despite some recent attempts to promote greater regional identity and sense of regional self-sufficiency, the economic and employment links to Sydney (and outside the region) remain strong. For example, GWS continues to supply 90 per cent of metropolitan Sydney’s fresh food produce (TeamWest 2001). A survey by the Australian Industry Group found that industries in the region only sold 28 per cent of goods, sourced 27.8 per cent of their raw materials and 20.5 per cent of their capital equipment from within GWS (Ai 2001). However, another survey by National Economics suggests that around 70 per cent of the GWS workforce work in the region, which, they argue, underpins the notion that self-containment is improving in GWS (GWSEDB 2000:25). Certainly, the formation in the 1980s and 90s of regional organisations such as MACROC, WESROC, the Greater Western Sydney Economic Development Board (GWSRDB), TeamWest and OWS, amongst others, are conscious attempts at creating greater regional identity and economic and social autonomy from metropolitan Sydney.

As a sub-economic region GWS exhibits a population base and level of economic activity to rival any other region in Australia. For example, GWS generates some $AUD54 billion in economic output per annum, or 9 per cent of national income, making its economy the third largest behind Melbourne and Sydney (GWSRDB 2001). The current population is over 1.7 million (Table 8.1), which represents 26 per cent of NSW population and 9 per cent of the Australian population (National Economics 2001:26). According to National Economics (2001:26), the GWS region absorbed 58 per cent of Sydney’s population increase between 1986-96 (from 3.46 million to 3.84 million) and its employment base expanded from 358,000 in 1991 to 419,000 in 1996. There are some 72,000 firms (NSW Government 2000), made-up of some 63,000 small businesses employing less than 50 people (TeamWest 2001), operating across the region. Industry sectors include: agriculture, agribusiness, construction, manufacturing, pharmaceuticals, tourism, wholesale/retail, property, finance and business services, education, telecommunications and IT, health care and medical research, transport, community services and government. A burgeoning IT industry has been identified by the NSW State government that consists of some 1,500 firms which contribute $AUD2.7 billion to the national economy (OWS 2001).

While more recently there has been increased emphasis by the state government on promoting the local IT industry, the manufacturing (at $AUD20 billion a year) and retail sector remain key
parts of GWS’s economy. The sectors with the biggest annual turnover include pharmaceuticals, chemicals, petroleum and coal products at $AUD3.2 billion and food, beverage and tobacco at $AUD 3.7 billion (TeamWest 2001). The top industries in terms of employment in the GWS region are wholesale/retail (23.4 per cent), manufacturing (20 per cent), and community services (17.8 per cent). While, manufacturing can further be broken down by employment in the sector groups of machinery and equipment - 16.3 per cent, food, beverage and tobacco - 12.8 per cent, and fabricated metals - 11.4 per cent (TeamWest 2001). While the GWS region continues to go through a period of structural adjustment, manufacturing and wholesale/retail remain important, employing nearly half the region’s workers (GWSEDB 2001).

Other economic forces driving spatial development in GWS

Another factor driving industrial development in GWS has been the more recent emergence of industrial/commercial parks since the 1980s. Part of the explanation has been the increased demand by business for cheaper, serviced, industrial land (on established transport routes) outside the high cost Sydney metropolitan region.

In particular, the development of the Huntingwood Industrial Estate, with firms such as Sharp and Sony, and in Cumberland Forest, where IBM is located, has offered a means for GWS to compete with Sydney's North shore areas of Willoughby, Lane Cove and North Ryde for footloose capital (GWSEDB 2000:47). In Baulkam Hills, for example, the Norwest Business Park combines proximity to high-income residential areas with high skilled workers and access to cultural, recreational and entertainment facilities all on one 377-hectare site (Norwest Ltd 2001). It has attracted over 241 individual businesses to the Park with 23 per cent of these in the IT and property services business and has some 2000 people working in the Park, a number that is expected to double in the next two years (BHSC 2001:6). Businesses operating there include Cable & Wireless Optus, Mercantile Mutual Investments, Texas Instruments, Cathay Pacific, Schneider Electric, Le Reve Cosmetics and Wyeth Pharmaceuticals. Northwest is one of three industrial/commercial precincts operating in Baulkam Hills Shire alone - the others are the Castle Hill Trading Zone (920 businesses) and North Rocks Industrial Area (161 businesses). Norwest Limited, the organisation that manages the Park, promotes itself by highlighting its proximity to the M2 Hills Motorway and that it is 15 minutes to North Ryde and 30 minutes to the Sydney CBD (Norwest Ltd 2001:6).

Before the discussion turns to look at the spatial socio-economic aspects of development in GWS some further points need to be made about the types of industrial/commercial parks
operating across GWS. In particular, industrial/commercial parks in GWS appear to operate more as property development opportunities rather than as industry clusters and/or industrial districts associated with post-Fordist literature discussed in chapters four and five. That is, the emphasis by the developers is on capital appreciation through increasing property prices, which is achieved by attracting well-known firms that raise the overall prestige of the development.

For example, there appears to be no overarching institutional framework (business/government collaboration) that governs the innovative dynamics of the Norwest industrial park. That is, there is no evidence of technical, managerial and service support, networking initiatives and/or deliberate support for emerging SMEs in terms of R&D, business incubator, legal or venture capital needs (as suggested by post-Fordist approaches). For example, a Council representative from Baulkam Hills Shire commented that ‘Council role in terms of Norwest has been to fast track development approvals and to promote the Park in its tourism business information packages, and little else’. Indeed, the Council’s economic development unit in its draft economic development plan identifies as an ongoing weakness the low level of communication (networks) between businesses operating in its area. It also identifies poor communication between Council and business, as well as the fragmentation of business organisations representing key firms as a major weakness (BHSC 2001:7). This general lack of collaboration between industry and government and absence of networks among key firms in GWS was also confirmed in a series of workshops conducted by the Australian Business Foundation as part of its review of the regional infrastructure needs in 2001 (ABF 2001).

In this sense, the growth of industrial/commercial parks in GWS appears more closely associated with lower cost structures and business incentives the state and local government offers to attract firms. Once established their ongoing dynamic is associated with traditional externalities (agglomeration effects) and Industrial-Complex (input/output) effects that flow from co-location (described in chapter four).

**Socio-economic indicators**

Despite GWS economic dynamism and diversity, there is a clear spatial dimension to its socio-economic composition - particularly in terms of the distribution of income, employment, and disadvantage (Table 8.2 below). The region includes in its catchment some of the highest and lowest performing regions in NSW (and Australia). This reflects differences in the access and availability of infrastructure and services and the industrial and social composition of places and households (ABS 1998:53). Unemployment across the region remains higher than the
state average particularly in what others have termed the Sydney Production Corridor, which includes Liverpool, Fairfield, Holroyd and parts of Parramatta, Blacktown and Campbelltown (GWSRDB 2000:19). The disadvantage index in Table 8.2 utilises a range of data including low family income, people without education qualifications, unemployed people, people in low-skilled occupations, and people entering public housing, to measure disadvantage across GWS. Using the index, regions with a high score are relatively advantaged while low scores indicate relatively disadvantaged.

Table 8.2: Variance in socio-economic indicators across the GWS region

<table>
<thead>
<tr>
<th>LGA</th>
<th>Unemployment Rate (1996 and 2000) %</th>
<th>Number of relative disadvantage No.</th>
<th>Labour force participation rate %</th>
<th>People higher degrees %</th>
<th>Household income per capita $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auburn</td>
<td>14.3/6.9</td>
<td>932</td>
<td>54</td>
<td>8.8</td>
<td>242</td>
</tr>
<tr>
<td>Bankstown</td>
<td>6.4/6.9</td>
<td>969</td>
<td>56.4</td>
<td>6.4</td>
<td>279</td>
</tr>
<tr>
<td>Blacktown</td>
<td>8.9/6.9</td>
<td>964</td>
<td>64</td>
<td>7.3</td>
<td>275</td>
</tr>
<tr>
<td>Baulkham Hills</td>
<td>3.5/2.1</td>
<td>1019</td>
<td>66.6</td>
<td>10.5</td>
<td>425</td>
</tr>
<tr>
<td>Blue Mountains</td>
<td>6.6/5.4</td>
<td>1071</td>
<td>62.7</td>
<td>14.7</td>
<td>320</td>
</tr>
<tr>
<td>Camden</td>
<td>5.4/4.9</td>
<td>1051</td>
<td>69.2</td>
<td>7.8</td>
<td>327</td>
</tr>
<tr>
<td>Campbelltown</td>
<td>9.4/9.0</td>
<td>964</td>
<td>66</td>
<td>5.8</td>
<td>273</td>
</tr>
<tr>
<td>Fairfield</td>
<td>16.2/8.7</td>
<td>905</td>
<td>59.5</td>
<td>4.9</td>
<td>235</td>
</tr>
<tr>
<td>Holroyd</td>
<td>8.2/3.5</td>
<td>982</td>
<td>60.9</td>
<td>7.6</td>
<td>293</td>
</tr>
<tr>
<td>Hawkesbury</td>
<td>5.4/3.5</td>
<td>1036</td>
<td>69.9</td>
<td>7.8</td>
<td>308</td>
</tr>
<tr>
<td>Liverpool</td>
<td>10.2/5.5</td>
<td>956</td>
<td>63.4</td>
<td>6.2</td>
<td>276</td>
</tr>
<tr>
<td>Parramatta</td>
<td>8.6/3.1</td>
<td>1004</td>
<td>60.3</td>
<td>12.8</td>
<td>323</td>
</tr>
<tr>
<td>Penrith</td>
<td>7.3/5.1</td>
<td>1009</td>
<td>68.8</td>
<td>6.1</td>
<td>295</td>
</tr>
<tr>
<td>Wollondilly</td>
<td>6.7/4.9</td>
<td>1028</td>
<td>66.3</td>
<td>6.6</td>
<td>293</td>
</tr>
</tbody>
</table>


For example, in 1997 Fairfield’s disadvantage index was 905, ranking it in the bottom twenty disadvantaged regions in Australia, while Baulkham Hill’s index was 1128 making it Australia’s 11th relatively advantaged region. Fairfield was also in the top ten regions for employment in manufacturing with 26.6 per cent of its workforce in that sector which is some 13 per cent higher than the national average (ABS 1998:45). In 1997, Fairfield was in the top twenty regions for unemployment (16.2 per cent compared to the national rate of 9.2 in 1997) and had a labour force participation rate below the national average, 57 per cent compared to 62 (ABS 1998:46). Fairfield also had a higher proportion then the national or NSW State average of
migrants born in a non-English speaking background (over 33 per cent). The average household income per capita was $AUD253 compared to the national average of $AUD310. In contrast, Baulkham Hills had an unemployment rate of 3.5 per cent, an average income of $AUD425 and a labour force participation rate of 66.6 per cent. 16.2 per cent of Baulkham Hills population had a higher education degree compared to Fairfield’s 4.9 per cent (compared to the NSW State average of 10.5).

A clearer picture of the diversity of income across GWS is gained by looking at Table 8.3, which includes a sample of some LGA’s from GWS. It can be seen that Auburn and Fairfield have the highest percentage of household incomes in the lower brackets, while Baulkham Hills has the lowest by a wide margin. Conversely, Auburn and Fairfield have the lowest percentage of household incomes in the over $AUD2000 bracket, while Baulkham Hills has three times higher than the next nearest LGA (Parramatta).

Table 8.3: Weekly household income, proportion of households, WSROC region

<table>
<thead>
<tr>
<th>Local Government Area</th>
<th>Weekly household income between $AUD300-700 (%)</th>
<th>Weekly household income between $AUD1000-2000 (%)</th>
<th>Weekly household income over $AUD2000 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auburn</td>
<td>31.4</td>
<td>18.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Baulkham Hills</td>
<td>15.8</td>
<td>33.0</td>
<td>16.8</td>
</tr>
<tr>
<td>Blacktown</td>
<td>26.9</td>
<td>24.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Blue Mountains</td>
<td>27.0</td>
<td>23.3</td>
<td>4.8</td>
</tr>
<tr>
<td>Fairfield</td>
<td>30.0</td>
<td>20.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Hawkesbury</td>
<td>26.0</td>
<td>25.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Holroy</td>
<td>27.3</td>
<td>23.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Liverpool</td>
<td>27.5</td>
<td>23.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Parramatta</td>
<td>25.8</td>
<td>23.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Penrith</td>
<td>25.2</td>
<td>27.5</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: modified from WSROC (2001)

Clearly, the above indicates that the region has high variations in income, employment, education and health standards and services, and remains quite diverse in its industry structure and dynamic. For example, in terms of health services the University of Western Sydney was recently granted $1 million dollars by the state government to combat the chronic shortage of mental health nurses in the GWS (edge 2002:3). Moreover, it is over 2000 largely immigrant workers (80 per cent from non-English speaking backgrounds) that produce 90 per cent of Sydney’s fresh vegetables. There has been a series of reports on these workers noting the
ongoing health problems associated with their poor practice in handling chemicals and pesticides (edge 2002:9).

Spatial planning and regional groupings in GWS

Having discussed the diversity of industry and socio-economic composition and conditions of the region, the following explores the history of spatial planning and groupings in GWS in more detail. Although there is a long history of spatial planning for Western Sydney, in terms of state government provision for public infrastructure and services, it has only been recently that regional groupings have begun to have an impact on locally-led economic development planning.

State government planning process

A GWSEDB report documents several state government plans that have been designed over the years to influence spatial patterns of development in the GWS region beginning in 1949 with the County of Cumberland Plan 1949-51 (GWSEDB 2000:33). Under this Plan, in an effort to contain outward growth of urban development, a greenbelt was declared outside a 22km radius from Sydney GPO (GWSEDB 2000:33). Any expansion beyond the greenbelt would be in 'new towns' focused on areas such as Penrith and St Marys and to a lesser extent Blacktown, and Campbelltown. The Cumberland Plan was abandoned as a result of the impact of the Commonwealth's post-war immigration program where the population increases to Sydney, and GWS in particular, undermined many of the population forecasts of the planners. Due to rising land prices and unavailability of land, land was opened up in North Ryde, Dundas and Liverpool (GWSEDB 2000:33). In 1968 the Sydney Region Outline Plan 1970-2000, based on the European growth corridors model, was devised with forecasts of a 5 million population for the Sydney Region by 2000 - much of which was planned to take place in the former rural areas in GWS (GWSEDB 2000:34).

While many state government plans have been prepared over the years, none have had an explicit regional development focus rather they concentrate on the role of public infrastructure and services in facilitating population growth. Examples of state government plans that specifically incorporate a Western Sydney focus have been summarised by the GWSEDB (2000). These include the Cities for the 21st Century - 1995, Shaping our Cities - 1998, the Metropolitan Strategy - 1998, the 1998 Strategy - Shaping Western Sydney, and Action for Transport -
2010 (GWSEDB, 2000). All these Plans have in common a goal to achieve higher densities and make the major centres in the corridors self sufficient in terms of transport, health, education and employment etc (GWSEDB 2000, Chapter 3). Yet, none produced strategies to specifically develop and diversify the region’s industry base, expand its R&D or value-added activities.

As the following indicates, it is has been the influence and activities of regional groupings such as the three former Commonwealth RDOs, GROW, TeamWest, the GWSEDB and the OWS that has put the emphasis on the importance of developing ‘local’ and ‘regional’ economic development strategies.

Regional groupings

As one would expect over such a vast area as GWS, there have emerged a number of regional organisations representing a range of interests and issues: by one estimate alone there are over 80 organisations and 20 major regional strategies are currently in operation (Gooding 1999:260). It is beyond the scope of this thesis to list them all but in terms of regional economic development the following are seen as key peak organisations. Some of the key peak organisations include the already mentioned local government groupings of MCROC, WSROC, and the state government funded GWSRDB and OWS. Others major players include TeamWest, which evolved from WSROC, the GROW Employment Council, the Greater Western Sydney Chamber of Commerce, Australian Business Ltd Western Sydney, University of Western Sydney, the NSW Institute of TAFE and three Area Health Boards. In terms of the environment the three major players include the statutory authorities of Hawkesbury-Nepean Catchment Management Trust (HNCMT) and the Western Sydney and Macarthur Waste Boards (Dore and Woodhill 1999). It should also be remembered that each individual council operates some regional development unit or function. It is worth looking at some of these lead groupings in more detail.

TeamWest

A more strategic focus to regional development in the GWS region emerged from the creation of the TeamWest initiative and the establishment of the state government’s GWSEDB in the early 1990s. TeamWest emerged in response to WSROCs’ participation in the New South Wales government’s 1988 (finished in 1995) Metropolitan Planning Strategy for Sydney (Gooding 1999:259). A lobby group (lead by WSROC and joined by MACROC) was formed to try to firstly give the region a distinct identity and a higher priority in terms of state government
planning process. *TeamWest*’s second function was to create a bottom-up locally determined vision for GWS. Thirdly, to better coordinate and focus the regional organisations and state government departments that operate in GWS (Gooding 1999:259-260). Interviewees from MACROC and WSROC indicated that they had had a regional development focus for a long time but lacked private sector and political support for their activities. They argued that *TeamWest* offered an ‘independent’ mechanism to heighten pressure on the state government to better support local solutions to development issues.

Part of *TeamWest*’s rationale was that regionally-based institutions at the time tended to have a narrow focus and have limited authority or power in terms of decision-making outside the influence of the state government’s hierarchical planning processes (Gooding 1999:260). Until the *TeamWest* initiative, there was no overarching local mechanism to coordinate regional bodies across the GWS region – each operated in isolation largely from a state government perspective. *TeamWest* had success in influencing the NSW government to establish a GWS Regional Sub Committee as part of the finalised 1995 *Metropolitan Strategy* and, more recently, to appoint a Minister for Western Sydney and open an OWS (discussed below). Interestingly, funding for the *TeamWest* project came from the Commonwealth under its Integrated Local Area Planning (ILAP) program and was supplemented by various individual state government agencies and local government.

While many in GWS have supported the work of *TeamWest* others have seen it as a threat. For example, the state government funded GWSEBD in its 1999 *Greater Western Sydney Industry Strategy*, while applauding *TeamWest*’s *Regional Agenda*, suggests the Agenda was formed with insufficient private sector support. And, despite *TeamWest* efforts, it was seen as an advocacy group while it (the GWSEBD) remained the peak economic development organisation in GWS (GWSEDB 1999).

**The OWS**

The OWS was established in 1998 and reports to the Minister for Western Sydney and forms part of the Department of Information Technology and Management. Its goals are to deliver a whole-of-government and whole-of-region approach to addressing the issues of families, communities, business and the environment in Western Sydney. Its role is to:

- provide high level advice to government on Western Sydney issues
- provide strategic leadership to the region, and
- develop and drive strategic, innovative initiatives to address economic development, social and environmental priorities for the region, in partnership with industry, government and other key players (OWS 2001:8).

The use of a regionally based government office and funding of the GWSEDB by the NSW government follows similar international trends towards greater decentralisation and the use of autonomous development agencies (discussed in chapter five). However, important distinctions remain. The first is in the international examples used in this work emphasising the national government support through a process of devolution/decentralisation. For example, in the UK model the government office has a significant budget to draw on across a range of portfolios to spend at its discretion against an approved regional plan. The OWS received a Budget allocation of $AUD1 million in 1999-2000 and $1.4 million in 2001-2001 (NSW Government 2001) much of which is absorbed by salaries and hosting various regional awards and other promotional activity. The OWS has a modest budget to assist employment and IT development in Western Sydney - it has no project/program dollars of its own for regional development. Apart from its own portfolio funds, it does not draw on or direct the funding of other state government agency expenditure nor does it generate new policy directions.

The NSW government established the OWS to provide a political presence in Western Sydney with a particular emphasis on promoting the diffusion of IT and the expansion of IT firms. State agencies such as Transport and Urban Affairs and Planning and Health continue to operate as separate entities in the region with their own regional strategies - a point that brought about the TeamWest initiative discussed above. As one local government interviewee concludes, 'the OWS spends most of its time re-badging other state government agency activities and promoting and developing the IT sector in Western Sydney - which is a function of the portfolio to which it belongs'. An example of the type of badging activity referred to above comes in the form of an environmental strategy put out by the OWS which, in effect, is little more than a publicity and information brochure.

**Environmental strategy for Western Sydney**

The Minister for Western Sydney launched the *Environmental Strategy for Western Sydney* in late 1999 following the findings of an environmental conference held in 1998. The strategy has been coordinated by the OWS and released under its name. However, much of the work was undertaken by the Environmental Protection Agency, the University of Western Sydney (the work of Professor Valerie Brown), TeamWest, the Hawkesbury-Nepean Catchment Management Trust, the GWSEDB and other government agencies. The strategy has no
project/program funds itself but rather seeks to better understand and coordinate the priorities of stakeholders that most impact on the environment in GWS. The three key outcomes of the strategy seem to be as follows. Firstly, it is to conduct a range of community awareness activities in relation to the environment. Second, to prepare an annual state of the GWS environment report to NSW Cabinet, through the Minister for Western Sydney. Thirdly, to establish a Western Sydney Environmental Taskforce which includes representatives of Commonwealth, state and local government, industry, the research sector and the community.

There can be little doubt that the region needs to address some very serious environmental issues. Some of the environmental problems that face GWS include the health of the Hawkesbury and Nepean river systems and their catchment areas: much of Sydney’s drinking water comes from the Warragamba and Cataract Dams in the GWS. A history of land clearing on the Cumberland Plain, where now only 10 per cent of the original vegetation remains, has added to salinity and soil erosion as well as a decline in native fauna (OWS 2000:3). Another issue is air pollution emanating from industry and congested traffic from the rapid growth in car dependence (GWSEDB 2000:27; Latham 2002). According to one study, car ownership in GWS is growing faster than population growth that in tum exceeds current public transport capacity (National Economics 2001:9). Because of job deficits in some places in the region, Penrith and Campbelltown for instance, long car journeys to Sydney tend to congest the roads.

The point here, however, is that the approach adopted by the OWS through the strategy is seen by many in the region as largely symbolic. While strategies of this type have their place, activities such as establishing new committees, releasing grand ‘glossy’ documents and establishing new frameworks dealing with environmental issues across departments are not seen by many to promote genuine institutional reforms. Institutional reform requires changes by government that affect the enduring rules (formal and informal), traditions, customs and routines that guide local actions. As discussed in chapter one, the ultimate test for successful environmental policy, particularly in relation to regional development policy, is whether policy actually alters the decision-making processes (local/national/international) that have created past problems. There is little in the strategy that suggests it has the capacity to do this.

This is because without a radical change, the institutional structures that affect environmental management in GWS are well entrenched and are unlikely to be reshaped by the OWS strategy. The following Table (8.1) lists some of the international, national and local conventions and strategies that shape GWS environmental institutional structures.
Table 8.4: Relationship of Western Sydney environment strategy to other processes

<table>
<thead>
<tr>
<th>International Conventions:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agenda 21; Convention on Biological Diversity; Convention on Climate; Convention on Protection of World Cultural and Natural Heritage; and Convention on International Trade in Endangered Species, Flora and Fauna</td>
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<td>↓</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>National Strategies:</th>
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<td>↑</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>NSW Government:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality Management Plan and Action for Transport 2010; Water Reforms and Establishment of Sydney Catchment Authority; Waste Management Act 1995 and establishment of Regional Waste Boards; Reform of energy sector and establishment of Sustainable Energy Development Authority; NSW Biodiversity Strategy; Protection of the Environment Operations Act 1997; and DUAP Shaping Western Sydney Planning Strategy.</td>
</tr>
<tr>
<td>↓</td>
</tr>
<tr>
<td>↑</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OWS Western Sydney Environment Strategy</th>
</tr>
</thead>
</table>

The Table also demonstrates an earlier point about the imbalance in Australia between responsibility and resource allocation among the tiers of government. It can be seen that the least resourced level of government in Australia, local government, has most responsibility in terms of the day-to-day impact on the environment in GWS - but has least influence in setting the environmental framework. Local Councils in Western Sydney are responsible for environmental planning and management, land use planning, environmental heritage, development approval, implementation of regulation, and community education (OWS 1999). Local governments are also local stormwater managers and responsible for waste from domestic, commercial and industry sources. While, the NSW State government, for its part,
develops and implements environment legislation, sets strategic direction through research, policy development and planning and has some 30 agencies with a direct role in environmental management across GWS (OWS 1999:9). Added to this you have the federal government entering international conventions and setting national environment policy in areas such as water, biodiversity and greenhouse. It is local government, the least resourced level of government, which is asked to implement and meet these legislative and international convention requirements.

While the impact of the OWS Environmental Strategy remains somewhat problematic, the OWS has devised an IT Cluster initiative that in a sense is its most significant contribution to regional development in GWS.

**OWS IT Cluster: cluster or business network?**

The more significant project of the OWS, particularly in terms of regional development, is its IT cluster initiative. The OWS IT Cluster initiative draws on the cluster experience of nations such as Scotland, Ireland, Finland as well as Cambridge in England where IT clusters are most developed (OWS 2001). Following the international examples the OWS has established a steering committee to drive the IT cluster in Western Sydney. The intention is to establish a number of ‘how to’ forums for GWS based SME IT firms around issues such as networking, exports, winning contracts, tendering and identifying emerging markets. Central to developing the ideas and support for the IT cluster has been the Advancing Information Technology in Western Sydney Industry Conference held in 2000 and 2001. Although only in its formative stage at the time of writing, the objective of the IT cluster is to encourage synergies/partnerships/joint ventures among firms and stakeholders to further develop IT businesses and activity in the GWS region (OWS 2001).

In other words, the OWS IT cluster is more a business network programme which, as discussed in chapter five, is not in itself a sufficient pre-condition for developing a mature industry cluster. For example, there are no ongoing working groups established as part of the IT cluster to address industry barriers or facilitate legal, venture capital, managerial type services that nurture the growth of endogenous IT firms in GWS.

Perhaps of more concern is that other studies have identified the potential of a cluster-led development strategy in a number of industry sectors in GWS yet, to date, the emphasis of the OWS remains on high tech IT firms only. Potential clusters have been identified in food, transport and advanced manufacturing in Blacktown, chemical and engineering in Parramatta-
Auburn, IT and advanced manufacturing in Liverpool/Moorebank, horticulture in Hawkesbury, Camden, Baulkam Hills, Penrith, Wollondilly and medical, biomedical technologies in Westmead (GWSEDB 2000:13). The NSW State government spends some $AUD1.2 billion on health and health-related infrastructure and services in GWS each year (NSW Government 2001:13) which could be used to leverage a cluster-led development strategy in the health sector. Many of these other industries are more developed in terms of critical mass than the IT sector in GWS. Another of GWS regional organisations, the GWSEDB, has acknowledged this very point.

GWSEDB

The GWSEDB is a semi-autonomous organisation that relies on a number of other state (and Commonwealth) agencies to enact its initiatives. These state agencies included: State and Regional Development, Housing, Urban Affairs and Planning, Transport, Roads, and Employment. The GWSEDB received $AUD300,000 in 1999-2000 and $AUD200,000 in 2000-2001 and has no significant funds to support major regional development projects.

Established in 1994, the GWSEDB has a much more focused regional development agenda than the OWS (as Table 8.4 indicates). The GWSEDB gathers information to better understand the industry dynamics of the GWS region and works to disseminate this across industry. Its main focus is in activities such as investment and business attraction and marketing GWS. While it also looks at issues such as import replacement and SME development these are largely funded by other state government agencies. The GWSEDB has undertaken several longer-term strategic planning activities to enhance economic development including the Greater Western Sydney Industry Strategy -1999 and Strategic Planning and Transport Visions and Directions Statement. Through such planning activities the GWSEDB seeks to more actively participate in the planning structures of individual state government agencies. The GWSEDB also coordinates its activities with the Commonwealth funded GROW Employment Committee which, at the time of writing, drew its funding from the Federal Employment portfolio (the only Commonwealth player with a significant presence in the region).
Table 8.5: Activities of GWRDB and OWS (1999-2001)

<table>
<thead>
<tr>
<th>OWS</th>
<th>GWSRDB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coordinate the Western Sydney Jobs Plan (coordinating state agencies to better deliver jobs in the region)</td>
<td>GWS Marketing Program, including GWS Marketing Council</td>
</tr>
<tr>
<td>Western Sydney Industry Awards (focus on awarding local firms in areas of innovation, IT and export)</td>
<td>Publication GWS Investment Profile, Publication GWS Economic Bulletin, and Economic Powerhouse Newsletter</td>
</tr>
<tr>
<td>Corporate Partners for Change (partnership between state government and local industry to offer jobs, traineeships and apprenticeships to young people)</td>
<td>Creation online newsletter &quot;Media Net&quot;.</td>
</tr>
<tr>
<td>Sponsor and convene IT Forum for Western Sydney</td>
<td>Compile GWS statistics</td>
</tr>
<tr>
<td>Develop IT Directory for Western Sydney</td>
<td>Implementation of GWS Industry Strategy</td>
</tr>
<tr>
<td>Technology diffusion strategy for IT firms</td>
<td>Import replacement analysis</td>
</tr>
<tr>
<td>Establish IT Cluster for Western Sydney</td>
<td>GWS Call Centre Promotion</td>
</tr>
<tr>
<td>Manage and coordinate the Environmental and Arts Strategies for Western Sydney</td>
<td>Sponsor GWS Industry Awards and Australian Design Awards</td>
</tr>
<tr>
<td>Initiative for Women in Western Sydney</td>
<td>Support GWS Investment Centre</td>
</tr>
<tr>
<td>Preparation of state government response to TamWests Regional Agenda: and preparation of Western Sydney Budget Statement.</td>
<td>Industry support payments (state government grants)</td>
</tr>
</tbody>
</table>


The Commonwealth’s role in GWS: GROW

The Commonwealth’s explicit role in regional and industry development in GWS has had a not well coordinated past and, at the time of writing, is not represented. Three regional development organisations (RDOs), established by the Department of Housing and Regional Development, and two Area Consultative Committees, by the Department of Education, Employment, Training and Youth Affairs, were introduced in 1994 and 1995 independent of each other in the GWS region (although some members overlapped). That is, each of these organisations, as with the state government’s GWSRDB established in 1994, required separate Boards, separate executive structures, and had different regional boundaries. The three RDOs collapsed when the Howard government withdrew funding in 1996 and the ACCs merged to form an organisation called GROW Employment Council which delivers the Commonwealth’s Regional Assistance (RAP) and Business Incubator and employment programmes in GWS. Indeed, GROW covers an area previously served by five Commonwealth ACCs that stretches way beyond the GWS region; north-south from Berowra to Bowral, and east-west from Bondi (metropolitan Sydney) to Blackheath in the Blue Mountains (GROW 2002).
At the time of writing GROW's focus was on supporting projects that generated a high number of up-front jobs; a key criteria for its funding from the Commonwealth. This is not to deny that GROW has supported several Councils across GWS in their strategic regional development planning activities. The point here is that GROW's employment emphasis may change now that ACCs come under the portfolio responsibility of the Minister for Transport and Regional Services, where longer-term regional development planning will be given more importance. Nonetheless, GROW operates through a series of devolved Grow Teams roughly equivalent to one in each LGA across GWS. These Grow Teams work predominantly with local government and individual state government agencies such as Housing, state and Regional Development, Education and Training, and Premiers, to partner the funding of local projects to stimulate job growth and increasingly community development (human capacity). At the time of writing, GROW had no formal relationship, or had not undertaken any joint projects with the OWS.

Interestingly, GROW's chairman, Jim Bosnjak, is also chairman of the state government funded GWSEDB and both organisations share other common Board members. This perhaps explains the strong synergies between GROW and individual state government agencies which are absent in the relationships discussed in the Mid Murray case study between the local ACC and state government (chapter seven). Moreover, GROW's devolved structure, working through a series of teams across GWS, reflects a concern expressed by many that, as a focus for regional development, the GWS covers too big an area.

Size matters

Many interviewed, from local government and industry in particular, were concerned that with the establishment of the OWS the institutional arrangements will focus on grand strategies and visions and less on the regional development needs of disadvantaged places within the region. According to several people, the geographical coverage of GWS needs to be reconsidered to better reflect the extent of its socio-economic and industrial diversity (as discussed earlier). For example, the OWS has taken over the running of the Western Sydney Industry Awards that were first run by MACROC to promote industry development (and attention) in the Macarthur region of Western Sydney (Campbelltown, Camden, and Wollondilly). As one interviewee discussed, 'it was a much smaller event then and put the emphasis on industry promotion (agriculture, manufacturing and services etc) in this region'. More important, 'it focused government attention in this part of Western Sydney. Now all this has been lost because under the OWS it is the highly innovative hi-tech firms, based outside Macarthur, that get all the
attention and revive the accolades’. Moreover, parts of GWS remain outside the Sydney telephone zone that imposes added costs on local business in areas such as Penrith, Hawkesbury, Blue Mountains, Campbelltown, Camden and Wollondilly. This limits their opportunities in terms of attracting IT industries (National Economics 2001:28) and means the focus of the GWS industry awards is not on them.

Before we look at a summary of the key nature of the characteristics underlying the GWS economy, some concerns over the size of the geographical area covered by GWS need to be explored.

Work by National Economics and others (GWSEDB 2000; Latham 2002) suggests that the region could be better understood as either three or six sub-regions depending on the particular policy focus, i.e. employment or production nodes of activity. For example, in terms of three production nodes, you have the production corridor of Liverpool, Fairfield, Holroyd and parts of Parramatta, and Blacktown. This sub-region is highly industrialised and has a large migrant workforce with low formal education standards. Secondly, Baulkam Hills and Penrith and Camden remain linked to global Sydney in terms of their industrial/commercial parks and high skill, high-income workforce. Thirdly, there are those areas such as Hawkesbury and Penrith that offer life-style environments (GWSEDB 2000:19; see also Latham 2002). Similarly, the six employment nodes would sub-divide the region according to levels of skills and employment across all LGA with GWS. Or, as another interviewee put it, ‘GWS could be characterised by the geographical sub-regions of the north-west, west and south west’.

It is not the intention here to debate the merit or otherwise of the suggestions of National Economics and others. It is simply to note that the geographical coverage of the GWS, as embodied in organisations such as OWS and GWSEDB, according to several interviewees remains somewhat problematic. Certainly, the practice of GROW (discussed above) suggests a focus that better reflects sub-regional differences is required in terms of its current employment activities.

**Interim summary of the key characteristics of the GWS region**

As outlined in the introductory chapter, international experience suggests that some regions respond to the forces of change better than others according to the presence, absence and level
of maturity of certain spatial and institutional characteristics. From the information gathered for this case study, we can now gauge the GWS potential against these characteristics.

1. **highly ‘innovative’ firms (endogenous and/or foreign) with strong connection and commitment to the local economy**;

Innovation and research are high in some industries, the tertiary sector and government agencies, i.e. water and waste utilities, for example. The region has a good representation of technology/commercial parks and a strong promotional mechanism for its innovative high-tech firms through the OWS regional industry awards. However, as discussed earlier, potential industry clusters in non-IT, low-tech, transport, manufacturing and food processing across the region have been identified but receive fewer resources and/or attention from the OWS (or the GWSEDB). The existing critical mass in these sectors, as well as in health services and medical research, would appear to lend them more readily to the same institutional/business network and industry cluster strategies than IT firms.

2. **economies of scale and access to markets (domestic/international)**;

GWS is well connected into international and domestic markets across a range of industry sectors. GWS is home to more than 90 of Australia’s top 500 exporting companies (OWS 1999).

3. **high level of community skills, education and training**;

As discussed, there is a spatial aspect (with large variances) in skill and tertiary education across the GWS region. Many firms have highly trained employees and the University of Western Sydney (Commonwealth funded) and (state and Commonwealth funded) TAFE Institutes play a major educational role in the region. However, according to a report by National Economics (2001:30), increased investment is required in knowledge infrastructure as the region has a significant deficit in this area. The point they make is that local education institutions cannot keep up with demand in this field. Regional Business Chambers have more recently become active in business related training activities. The Children’s and Westmead Hospital, and associated bio-medical research facilities, at Westmead are leading, internationally recognised, medical teaching and research facilities.

4. **availability of venture capital (for R & D and to encourage start-ups and spin-off firms)**;

Funding for industrial expansion (business/commercial parks) and public investment (NSW Government 2001) appears to be strong in the GWS region. However, there
appears to be no coordinated or strategic attempt to nurture the growth of endogenous SMEs with the exception of emerging high-tech and/or IT firms. There would appear to be enormous potential for business incubators and strategic partnerships with industry (tertiary sector and medical industry for example) to nurture a diverse range of SMEs.

5. well developed formal and informal institutional arrangements (and interaction between industry and higher learning institutions);

Given the plethora of regional organisations and regional strategies in operation in GWS one would assume that formal and informal institutional arrangements are well developed. The activities of OWS, the GWSDB and TeamWest, for example, are suggestive of an institutional framework that promotes dialogue and interaction. Interaction between industry and tertiary sector seems to be more in its formative stages, however, particularly with the recent restructuring of the University of Western Sydney. Initiatives like the IT Cluster, if managed well, have the potential to strengthen these relationships. Similarly, the larger well-funded public utilities operating in GWS in water and waste have the potential to build lasting collaborative relationships with industry. However, as discussed earlier, most regional studies of the institutional frameworks across GWS conclude that there remains a weakness in the area of industry, government and tertiary collaborative arrangements.

6. strong (high profile) community and business leaders (entrepreneurs and/or champions);

GWS is well served by a range of high profile firms and individuals located in the region.

7. public/private support of networking, innovation and collaboration;

Collaboration between the tiers of government and industry in the GWS appears to be only in its formative stages. Although there are a lot of regional strategies in operation suggesting collaboration, individual government agencies tend to work within their own hierarchies and vertical regional institutions coming together when these happen to coincide with other agencies. In other words much of the work of the OWS and GWSDB seems to be constrained by the priorities and hierarchical structures of the state government agencies involved. Clearly the activities of TeamWest are attempts to change these institutional arrangements to focus more on horizontal regional structures to shape economic development in GWS. But it lacks the resources to drive this agenda. From the interviews conducted in the region, it has been individual Councils such as Penrith and Fairfield that have developed projects to strengthen business networks and encourage
local businesses to collaborate. None of the existing peak regional bodies seem to have the resources to take the lead or to sustain long-term strategic regional/industry collaboration.

8. *specialised world-class infrastructure (soft and hard).*

The interviewees participating in this case study focused their attention overwhelmingly on the region’s hard infrastructure needs, i.e. transport and telecommunications. So there are no constructive comments made here on the adequacy of the region’s soft infrastructure. According to National Economics (2001), important developments have taken place over the past decade in terms of strengthening the regional transport infrastructure. The construction or commitment to construct M2, M5 and M4 roads improving east-west and north-south links has been long overdue and most welcomed, as is the Parramatta–Liverpool transitway, a dedicated bus link between major employment zones in the region. Yet, as discussed above, traffic congestion and accessibility to efficient cross-regional transport remains a problem for many workers travelling across the region. Moreover, in terms of telecommunications, key areas of Western Sydney remain outside Sydney’s STD zone, which is a hindrance to the development, diffusion and take-up of IT.

Conclusion

The question this chapter has explored is whether there is the potential for a post-Fordist approach to economic development in the GWS, given the region’s economies of scale, economic and environmental interdependencies, industry mix and high level of knowledge-based assets (human capital). The above discussion indicates that the region has many of the underlying characteristics that support a strategic collaborative planning approach; yet important structural barriers remain. Part of the explanation for the failure of regional organisations to gain support for their initiatives is the sheer size of the region they are attempting to cover. Clearly, GWS would be better understood as three distinct regions for economic development purposes.

The emergence of organisations like the GWS EDB, TeamWest and the OWS reflect attempts at facilitating greater collaboration yet none has been able to establish their agenda in a comprehensive way across GWS. Each lacks either/or private sector, Commonwealth, state and/or local government commitment to their processes. For example, as discussed, TeamWest, supported by local government, emerged to give a vision of the region that was less
constrained by state government processes. Yet the GWSEDB claims TeamWest’s agenda was not adequately supported by the private sector and that it remained GWS’s peak regional development organisation. Meanwhile, many of the activities of the OWS and the GWSEDB remain constrained by state government priorities and processes and are underfunded. Their activities are focused on promoting the region to potential investors. These organisations have produced a number of strategy statements but offer no additional funds to support their recommended implementation. Perhaps more alarmingly, despite the importance of the region to the national economy, the Howard government has had no policy framework to consider GWS regional and urban development problems.

A key problem for GWS is the lack of a dedicated resource to sustain the necessary collaborative relationships that underpin long-term strategic regional development planning. There is a critical need to support capacity building and collaborative firm networks to attempt to capture more value-added activity in the local production system. Another problem here is that the OWS remains narrowly focused on promoting endogenous growth in hi-tech IT firms while other industry sectors with a far greater potential to benefit from a cluster development strategy are ignored. Moreover, the types of business parks that operate in GWS are driven by a property development profit rationale and not by a desire to deepen greater inter-firm collaboration or embed ongoing innovation (as discussed in Chapters four and five). In particular, there is no overarching governance structure similar to a cluster or RIS approach to facilitate managerial and technical services, networks, incubators or venture capital nor is there an emphasis to grow SMEs and/or increase R&D.

Perhaps the lessons drawn from the Third Italy (discussed in Chapter four) and in particular the use of intermediary organisations such as business cooperative and/or trade associations would prove useful in the case of GWS. A vibrant co-operative movement emerged in Italy’s north region that initiated activities including financing, technical assistance, training, and marketing to assist endogenous firm development and greater inter-firm collaboration. The purpose of these arrangements was to harness the activities of individual firms to a collaborative process that stimulates ongoing innovation and economic development in the local production system.

The establishment by the NSW State government of the OWS, while consistent with intentional trends toward greater devolution/decentralization, falls well short of delivery of greater autonomy for local regional development. Its main function in the region is to promote and re-badge existing government programmes and to promote the IT sector (reflecting its
portfolio funding). This is a poor substitute for a genuine collaborative and coordinated approach and leaves little room for re-shaping horizontal state government structures that continue to operate across GWS (which is a key function of the regional office models in the U.K. and Canada, discussed in Chapter six).
CONCLUSION

This thesis has described the nature of regional problems in Australia in the late 1990s and explored the potential role of recent developments in international spatial regional/industry policy in responding to them. The thesis explored whether there are peculiarities to Australia’s particular model of competitive Federalism that might inhibit the adoption of more spatially oriented collaborative industry/regional policies.

The data presented in Chapter two demonstrates that, despite continued growth and lower unemployment, Australia’s spatial inequalities are widening (the major theme explored in this thesis). Against this background the Howard government’s ‘regional agenda’ since 1996 has been driven by a political imperative to shore up votes and appease the disenchantment of traditional National Party voters in Australia’s non-metropolitan regions. This has led to ad hoc, ‘band aid,’ and a politically determined set of regional initiatives that have selectively supported some workers, communities and regions affected by change and not others. Moreover, what government support there has been for regional programmes has remained subordinate to a philosophical belief in the ability of market forces to address Australia’s major structural adjustment issues, and therefore, its regional problems. And, consistent with a long Liberal government tradition in Australia, urban and regional development has been seen largely as state government responsibilities and therefore an easy target for Commonwealth Budget cuts. At the time of writing, the Howard government had no coherent or comprehensive national framework to deal with Australia’s growing urban and regional development problems.

This thesis has also argued that Australia’s rising spatial inequalities are part of a global trend associated with the rise of neo-liberal policies in general and the uneven spatial impacts of globalisation in particular. Chapters two, four and five explored the ongoing tension between international spatial policy ideas (post-Fordist inspired) and practice and the elevation of neo-liberal policies (the second major theme developed).
International trend toward regionalism

The discussion indicated that globalisation, rapid changes in technology and neo-liberalism have combined to impact on the way production is organised and where it is located. This results in uneven development and the emergence of new winners and losers both in terms of people (type of skills) and places (types of industries). As a consequence, inequality in income, employment, skills, and access to services and infrastructure are widening in many economies including Australia and New Zealand. This is because jobs in the globalising economy often do not emerge in the same location where other jobs are lost. Moreover, growth jobs require different technologies, skills and occupations, which favour certain economic nodes, i.e. Silicon Valley in the US and/or Australia’s global cities particularly Sydney and Melbourne. These places benefit in part because of the positive externalities that come from agglomeration and critical mass. Because of their scale, typically these places are better able to absorb the forces of structural change.

Between 1996 and 2001 the Howard government relied on traditional macroeconomic tools to achieve national growth. The problem remains that in a globalising economy traditional macroeconomic policy such as exchange rate adjustments and changes in the money supply are less effective and somewhat constrained by international agreements (OECD, 2001). Most importantly, traditional macroeconomic policies tend to affect the economy as a whole and do not address the specific structural adjustment and development needs of individual regions – a clear area of policy neglect since 1996 in the Australian case. More generally, the Howard government has chosen to give emphasis to achieving market efficiencies (by policies such as national competition policy and deregulation) over issues of spatial development and equity concerns.

In contrast, as shown in chapter six, other countries have developed national frameworks, incorporating aspects of devolution, decentralisation and the use of semi-autonomous development agencies, to better manage the spatial impacts of change and promote endogenous SME growth as a means to facilitate regional development. Many of these international approaches to regional policy are associated with developments in post-Fordist thought. All streams of post-Fordist thought have in common a notion of devolution where the object of policy is to develop institutional changes where government partners regions to enhance outcomes and governance within the local production system (or region). Governance in this sense refers to strengthening institutional arrangements to assist the way communities collectively solve their problems and meet their current and future needs. The argument is that
these institutional arrangements provide a mechanism for better vertical and horizontal co-
ordination of local economic development (and microeconomic reforms). Through this
process government, communities and business are invited to participate in collaborative
decision-making and encouraged to undertake agreed actions (priorities) for economic and
social renewal.

As Chapters four and six demonstrated, in contrast to the Australian experience, governments
of various political persuasions have found aspects of devolution and 'regionalism' consistent
with their broader framework of economic reform in a period of increased globalisation. As
discussed, the characteristics of the region are seen by many as one of the defining
determinants to the success of internationally competitive firms. Government policies that can
influence the quality of the local environment become more important in this context. In other
words, internationally policy-makers are broadening microeconomic reforms to tailor policies
that stimulate favourable region-specific outcomes in the finance, physical, social and human
capital systems. As the discussion on post-Fordism indicated, this is particularly important as
world production becomes more knowledge-intensive and firms become increasingly reliant on
the learning capabilities of their people and their regions.

The implication is that the same collaborative processes can work across a range of other areas
such as education, health, infrastructure, the environment and social welfare, for example. So
another important insight of post-Fordist thought is that the prosperity of a region is not
exclusively dependent on the processes occurring within the region. Therefore regions cannot
and should not rely on self-help strategies alone to address their regional problems. That is, the
state still has a valuable role in areas of national expenditure such as welfare, health, defence,
housing, education and training, infrastructure and business support (Macleod 1999). In this
way post-Fordism provides a framework for stronger links between industry, regional policy
and other policy areas that have been traditionally absent in the Australian experience (the third
theme explored in this thesis).

However, as Chapters two, seven and eight have highlighted, Australia's particular type of
competitive Federalism, with each tier of government for the most part working in isolation,
has traditionally worked against the development of strong national/local collaborative
processes. Traditionally, the tiers of government have relied more on direct subsidies to
industry to attract industry development rather than an agreed coherent regional development
framework that would promote better collaboration and coordination and reduce duplication
between jurisdictions.
In contrast, post-Fordist thought is driven by an understanding that productivity of regions depends increasingly on external economies, such as local networks and associations between firms, institutions and government (the fourth theme explored in this thesis). It is the recognition of the importance of networks and trust (social capital) that distinguishes the post-Fordist approach from the neo-liberal approaches to economic development. The types of policies and strategies being pursued in this context include industry clusters, regional innovation systems (RIS), and institutional networks. The purpose of these policy tools is to focus on endogenous industry development stressing national/local partnerships and local institutional arrangements that strengthen local resources as well as social and economic capabilities. Through these policies agglomeration economies can help to reduce transaction costs, increase positive externalities, increase innovation and the growth of SMEs and entrepreneurship (OECD 2001).

In short, post-Fordism is concerned with maximising resources to enhance social and human capital, utilising 'organising processes' and 'planning strategies' that encourage greater regional-level governance of the local production system (region). As discussed in the examples of the UK, Ireland, and the US in Chapter six, the objective of spatial policies is to lift the level of value-added activity and increase the industry interdependencies.

It has been Porter's work on industry clusters, more than any other, that has made many of the concepts associated with post-Fordism and 'regionalism' more mainstream (for both business and policy-makers alike). This is because much of the post-Fordist debate moves the emphasis away from supporting individual firms to support the 'place' in which firms are based. According to Porter (1998), in a globalising economy increasingly it is regions and their firms that compete, not nations. Adopting an industry-cluster approach means that benefits accrue to individual firms through working collaboratively with other firms and local stakeholders to enhance the long-term productive base of the region. As Porter has observed, in this context government policy, business and community processes (institutional arrangements) are as important determinants of industry success as is 'price' (1990:19).

Post-Fordist approaches to regional/industry development prove popular to policy-makers across the political spectrum because they can also be justified as correcting specific market failures (OECD 2001). For example, they improve information flows, through networking and collaboration and correct the under-provision of public goods by investing in specialised infrastructure and education and training. Moreover, they release positive externalities by supporting research and development activities by better linking the tertiary and private sector.
In terms of small, peripheral, industrialised economies, such as Australia, Porter's insights remain most salient, particularly his insight that regions do not have to rely on high-tech firms to be internationally competitive (Porter 1998b). Porter uses Italian shoes and tourism as examples of 'mundane products' that can create value added through strong brands (and image) marketing, design, and quality of products (and experience). He makes the point that to support high wages nations need to apply better levels of technology to develop unique products and production processes that competitors can not easily produce or can only produce after delay (Porter 1998b:3). It should be remembered that Australia remains a net importer of hi-tech manufactured goods.

However, the discussion in Chapter five also pointed out that important tensions remain in Porter's analysis between what should be left to market forces (productivity driven) and the role of government intervention. As the New Zealand example highlighted, in small peripheral economies the decision-making of firms, including the subsidiary activities of MNEs, and what government choses to do and not do to support regional development, act as structural constraints on the Porter model's 'universal attributes'. This includes the level of competition, collaboration, critical mass (size of firms), supply chains (level of value-added activity), exports, infrastructure, training, investment, the sourcing of inputs, education and training, marketing and R&D. Moreover, as discussed in the case studies presented, in economies like Australia and New Zealand linkages between endogenous and foreign firms remain weak in terms of inter firm interdependencies, skill transfers, and developing collaborative R&D and innovation relationships.

This apparent paradox reflects the fact that as capital expands some firms maintain hierarchical controls and concentrate value-added activities in their home market and some other key centres. In contrast, others firms may adopt a less-hierarchical mode of operation, combining local and global forms of industrial networking, entrenching themselves in the local production process (see Amin and Malmberg 1992:245). As discused earlier, firm-state relationships (and policy approaches) differ depending on the whether interaction is between a firm in its home market or a host country government dealing with foreign capital (see Dicken 1994). There will be a mix of corporate governance structures of firms operating in a given location and this will determine the parameters of government/market interdependencies at the regional level as well as the type of cluster approach to be emphasised (Chaiton et al 2001).

As the discussion on Australia's industrial composition in Chapter four pointed out, many of the above constraints apply in the Australian case, as they do in Ireland and Canada (discussed
in Chapter six). In returning to New Zealand Porter acknowledged this, by advocating that government should intervene to promote the right environment for cluster development. This included re-examining government purchasing decisions (demand factors) and promoting (subsidising) R&D, innovation, training, infrastructure and private investment, for example. Much of Porter’s suggestions ran contrary to the dominant neo-liberal regulatory regime at the time.

The Australian case studies (Chapters seven and eight) drew three main conclusions in relation to the presence of the key spatial and institutional characteristics identified in post-Fordist literature. Firstly, collaboration at the regional level between the tiers of government remains poor in both regions in terms of agreed strategies and actions to address what is a complex range of pressing regional development problems. Each tier of government seems to be developing its own regional development agenda, often to the exclusion, and in competition with, the other tiers. This, in practice, means that attempts at regional collaboration and coordination are often under resourced and remain ad hoc and incomplete. Secondly, partly for this reason, institutional structures remain fractured between the tiers of government; and networks, particularly between business and government, remain weak and disconnected. Thirdly, the regions concerned focus very little attention on capturing value-added activity, nurturing emerging SMEs, and increasing the firm interdependencies (supply chain linkages) within their local economy. Strategy documents articulate the need to do these things in both regions but interviews with various stakeholders indicated that little progress has been made in practice.

Rethinking the basis for regional policy in Australia

Since Federation there has been no national consensus on spatial planning or addressing Australia’s regional disparities in terms of a coherent national approach to urban and regional policy. The experience of other countries addressing these issues provides no simple ‘model’ to import since structures vary between states depending on their particular socio-political history. However, in re-thinking the basis for regional policy in Australia there are common principles to consider. The common principles include linking regional and industry policy, utilising forms of devolution, heightening national government presence in regions, and the use of semi-autonomous development agencies. The use of semi-autonomous development organisations provides the mechanism for vertical and horizontal coordination of local economic development (OECD 2001). As the discussion in Chapter six demonstrated, it is through this framework that local commitment, input and ownership in decision-making (and
local governance) is enhanced. Also making support contingent on performance targets
(and/or agreed plans or outcomes) ensures accountability and efficiency in policymaking
and/or output-related funding. Whatever national regional structure is adopted or identified in
the Australian context, as is the case with the EU, Canada and the US, it needs to be
adequately funded and maintained.

In particular, international trends and insights into post-Fordist approaches to economic
development would suggest that governance arrangements in Australia need to move away
from the current ‘competitive Federalism’ model to a more ‘collaborative Federalism’ model.
Collaborative Federalism would be premised on a national policy framework where the tiers of
government better coordinate programmes and service delivery on a regional (spatial) basis to
address structural change. These new institutional arrangements would incorporate
mechanisms for monitoring and assessing the spatial impacts of change and enhance
collaboration between regional stakeholders, business and government, in responding to them.
The purpose would be to build the local institutional thickness that supports ongoing region-
specific ‘capacity building’ outcomes, i.e. mechanisms that look to enhance social, human,
physical and economic capital. This is the central role for government to play, according to
post-Fordist and particularly regulationist theory.

Perhaps a model along the example of the UK’s Government Office of Regions (GOR) would
be appropriate in the Australian case. The focus of a network of Commonwealth Development
Offices (CDO) could be to work with a region to develop a strategic direction with agreed
targets across a number of key areas/issues (particularly linking regional and industry
development). Based on the earlier discussion these could include: investment and promotion,
business support (emphasis on SME development), research and education, employment and
employment services, training and skills formation, transport and specialised infrastructure,
health and community services and urban and environmental planning. The CDO would also
be a one-stop shop and information point for other Commonwealth programs.

The role of the head of the CDO (appointed at the Commonwealth Senior Executive Level)
would be to engage local industry associations, community organisations, regional bodies,
training providers, local and state government representatives and business and community
leaders in collaborative planning processes. In other words the CDO would seek to tailor
policies that stimulate favourable region-specific outcomes in education, infrastructure,
technology, human and financial capital systems (OECD 2001). The rationale here is that
agglomeration economies help to reduce transaction costs, increase positive externalities such
as knowledge spillovers, and increase innovation and entrepreneurship. In many instances they are correcting specific market failures, i.e. poor information flows and barriers to capital formation.

More particularly, the CDO could focus Commonwealth purchasing at the regional level (to stimulate endogenous industry growth, as Porter recommended in the New Zealand case). It could also work to facilitate a process to stimulate import replacement in the local production system and increase firm interdependencies. This would incorporate strategies to capture value-added activity of the supply chains of key firms in regions. Clearly, utilising development tools such as industry clusters, regional innovation system and business and institutional networks would be appropriate here.

The CDO could also gather local industry and social data to advise the Commonwealth on the spatial impacts major policy initiatives such as competition policy, and the impact of imports on particular industries and communities. This would be a similar role to that EDDs play in the US where the US government provides grants for infrastructure development, local capacity building, and business development to assist communities and their trade-injured firms (Chapter six).

Importantly, in most instances, the CDO would play an enabling role in building and supporting institutional network formation - and not necessarily leading them. As Jessop (1994:273) reminds us, effective political decentralisation on a regional basis requires an adequate allocation of responsibility between the community, regional and national governments as well as proper coordination of their actions. Thus it is essential to establish new institutional arrangements and allocate specific roles and complementary competences across different spatial scales and/or types of factors, and thereby ensure effective actions. Unlike the NSW government's Office of Western Sydney model, the CDO would need to be well resourced and have a high level of autonomy from central agencies (similar to the Canadian Agency model). In other words, the devolved agency needs not only the autonomy, which assists in building local collaboration (trust networks), but the power (in this case funding) to support local action and initiatives. For this reason funding, like in the UK model, could be devolved with an allocation of between $AUD250,000 and $AUD500,000 (depending on the region) to the CDO for any one project (with amounts above this to be approved by the responsible Minister). This initiative alone would dramatically improve the level of local/national engagement in the region and overcome the concern of many of the regions to have decision-making increased at the regional level.
There are four main reasons for supporting greater autonomy (devolution). Firstly, devolved autonomy to approve expenditure and enter public/private partnerships (through agreed regional plans) would assist the CDO to build local trust networks – particularly with industry and the other tiers of government. As internal market research by DoTaRS as discussed in Chapter three continues to show that regions want a greater say in Commonwealth decision-making and want decision makers to be from the region. Secondly, this spatial framework would create a mechanism for local issues and concerns to be better incorporated in national macroeconomic planning (a two-way policy formation process). Thirdly, institutionalising this devolved spatial framework would reduce the ease by which future national governments can withdraw Commonwealth support to regional/industry development programs. Finally, in terms of natural resources management, this devolved structure would better support the government’s regional delivery of its major environmental programs.

In short, a devolved structure would position the Commonwealth to better partner regions to achieve greater balance between issues of efficiency, equity and environmental sustainability. This structure would also better position the Commonwealth to understand the spatial impacts of change and the capacity of regional communities to respond. This would provide the Commonwealth with a long-term basis to better coordinate and evaluate the spatial impacts of its policy and programs and their effects on Australia’s spatial development patterns. Moreover, it would be in the political interests of the major parties to better understand the varying performance of their regional economies. That is, there would be incentives to both lift competitiveness and influence employment and living standards in an effort to gain continued electoral support.

Financial support for the CDO

The discussion in Chapter three indicated that enormous resources flow from the Commonwealth to state and Territory governments through funding instruments such as FAGS, Special Purpose Payments and GST revenues. As indicated in that discussion, most of these funds flow through state government structures and are untied in the sense that the Commonwealth does not require recipients to report on their expenditure in terms of their differing spatial impacts and distribution. Nor does the Commonwealth formally evaluate the impact transfers against agreed ‘outcomes’. Given Australia’s widening spatial inequalities (outlined in Chapter two) it would appear much of the expenditure is failing to specifically target regional disparities.
Bringing more Commonwealth resources to support a network of CDOs doesn’t necessarily imply additional total expenditure but the better targeting of the existing transfers between the Commonwealth and other tiers of government. One approach, particularly given the size of funds associated with the GST, would be for the Commonwealth to re-visit a regional distribution of transfers similar to that attempted by the Whitlam government in the 1970s (discussed in Chapter three). Two other more radical options for funding of the CDO network, that would also be cost neutral to the overall Commonwealth Budget, could be considered.

Firstly, legislation could be changed to redirect a proportion (a certain per cent) of FAGS, Special Purpose Payments and or GST revenues to a newly established Special Account to support the CDO to achieve specific regional outcomes across health, education, transport, industry, environment, and IT, etc. Special Accounts are subject to the Financial Management and Accountability Act 1977 and have been used for initiatives such as distributing the ‘social bonus’ from the partial sale of Telstra and the Prime Minister’s Federation Fund. Or, secondly as part of the annual Federal Budget process a proportion (a certain per cent) of funds from a number of identified programmes, could be earmarked to flow to the Special Account. These programmes could be drawn from those identified in the Regional Statement that accompanies the Budget each year. These funds could be disbursed across the CDO network according to a new formula devised by the Commonwealth Grants Commission. Alternatively, the Government could adapt the same direct funding model used in the Roads to Recovery Program based on the number of local governments that make up a particular CDO’s geographical catchment.

Clearly, the legislative option would be the more complex to achieve because it would require the support of both Houses of the Federal Parliament and the support of the majority of state governments in the case of the GST legislation. The second option, which is in effect a tax on identified programmes (on their administered funding), would also meet resistance from Department Secretaries and responsible Ministers.

However, both options offer a cost neutral mechanism for an ongoing pool of funds to specifically address Australia’s urban and regional development problems and more particularly the issue of rising spatial inequality. The funds would support national office functions as well as the establishment, running (departmental expenses), programme and project activities of the CDO network. Perhaps, as in the US example, funds allocated to the Special Account would remain there for the purpose of supporting the CDO network and its activities and not be
returned to consolidated revenue in the case of an underspend in any particular CDO. This would go a long way to overcoming the 'on again, off again', effect of national government involvement in urban and regional development policy in Australia. This approach could also adopt the Canadian example of appointing a Minister for Regional Development (to run the CDO network) to ensure proper transparency and accountability procedures.

A less ambitious approach would be for the Commonwealth to pilot the establishment of two or three CDOs. Much of what is suggested requires little in new resources from the Commonwealth but rather a reallocation of existing national and state-based staff.

Finally, as discussed earlier, in the second half of 2001 the government incorporated a national network of Area Consultative Committees (ACCs) into the Transport portfolio. This change now re-establishes a national network of semi-autonomous regional development organisations that were lost in the Howard government’s Budget cuts of 1996. However, ACCs on their own currently lack the institutional and financial strength to overcome many of the structural barriers that work against better collaboration and coordination in Australia’s regions (as discussed in Chapter four and the two case studies). The ACCs role could be enhanced by working in partnership with CDOs to specifically focus on business and industry development outcomes within a particular CDO’s geographical catchment (similar to the role played by semi-autonomous agencies in the US, UK, Ireland and Canada).

However, larger institutional change is required to influence the enduring rules (formal and informal), traditions, customs and routines that guide local actions. As discussed in Chapter one, the ultimate test for successful regional/industry policy is whether policy actually alters the decision-making processes (local/national/international) that contribute to current problems. Because of Australia’s ‘vertical fiscal imbalance’, only the Commonwealth has the financial means to support the type of sustained, devolved collaboration arrangements needed to address Australia’s widening spatial inequalities.

If a larger institutional change such as a network of CDOs does not occur then much of Australia’s growth will continue to be at the expense of many of its regions’ human, social, economic and physical capital. This is because Australia’s current model of competitive Federalism creates institutional barriers for the effective pursuit of regional development outcomes more conducive to post-Fordist development theory.


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Endnotes

1. For the purpose of this thesis a region in the Australian context refers to an economic and social interrelated space that is less than the size of a State and larger than a local government area, unless otherwise stated.

2. In a very insightful analysis, Meadows' (2000) discusses the evolution of the concept 'sustainable development' and highlights the various criticisms of the use of the term since it was popularised by the Report of the World Commission on Environment and Development (WCED) in 1987. He makes the point that environmental policymaking in industrialised countries remains predominantly regulatory in nature. That is, environmental governance is based around fixing standards, issuing permits and legal enforcement and more generally re-packaging traditional pollution and nature conservation activities of the State. There has, nonetheless, also been more general reform to the 'structures and procedures of environmental governance in many industrialised countries. Particularly in relation to extension of State activities linked to international environmental conventions and the move towards promoting local sustainability actions and initiatives.

3. All dollar amounts in this thesis will be in US dollars unless otherwise stated as in the above example, which refers to Australian dollars ($AUD).

4. The Howard government introduced changes to the reporting requirements of Commonwealth Special Purpose Payments (SPP) to state governments in late 2002. These changes now require recipients to report on outcomes in a more systematic way. It is too early to see if these new administrative changes will lead to better understanding of spatial impacts of Commonwealth expenditure.

5. Although the motive for the Howard government's re-engagement of rural and regional Australia remains problematic, some bureaucratic-led initiatives to the programs and functions within DoTaRS, and elements of the response to the rural and regional Summit, provide a real opportunity to address regional problems in a more coherent and collaborative way.

6. The term SRD refers to the notion of maintaining and enhancing environmental quality and ecological integrity while not diminishing opportunities for future generations through the thoughtless degradation and/or depletion of the natural capital endowments (Dore & Woodhill 1999;6; Meadowcroft 2000). This understanding remains anchored in a history of earlier works on environmental sustainability that includes Carson (1962), Silent Spring (Meadowcroft 1974, Small is Beautiful); the Club of Rome's report, Limits to Growth (Meadow et al. 1972); and the Brundtland Report, Our Common Future (WCED 1987). Moreover, it supports the environmental argument by Bakkies and Woerdend (1997) for the general dematerialisation of all economic activity. This incorporates an understanding that environmental sustainability is dependent on a continued reduction in energy (derived from fossil fuels) and material use across all economic activity (Yenchenn 2000:10). For example the Factor 10 Club, advocates a 90 per cent reduction in material use and 75 per cent reduction in energy use in developed countries and these targets have been adopted by countries such as Denmark, Sweden and Austria (Yenchenn 2000:10). This understanding of SRD supports the expansion and assistance to environmental industries such as pollution control, waste management and treatment, contaminated land redemption, energy management, fresh water and marine pollution control and environmental education and training. In 1994 these industries were estimated by the European Union (EU) to employ one million people directly and supply approximately $AU140 billion of goods and services and were growing at a faster rate than the EU economy as a whole (Yenchenn 2000:11).

7. For a fuller understanding of the concept of Australia's multi-level system of governance see Capling et al. 1988; Stilwell and Troy 2000.

8. The author draws on his own recollection of these events. Interviews with several Commonwealth officers during the course of this research confirm the details of this chapter (many officers still work for the Commonwealth and wish to remain anonymous).

9. In May 2002, the Minister for Local Government and Territories put forward a proposal for the House of Representatives Economic Committee to undertake an inquiry into the provision of services by State and local government. The purpose of the inquiry is to explore an increase in responsibility of local government in areas such as policing and health care and to look at current Federal/State fiscal arrangements.

10. A full understanding of the Commonwealth's historical approach to regional development can be found in the publication Australian Regional Development: Readings in Regional Experiences, Policies and Projects (1989), Office of Regional Development, Department of Industry, Technology and Regional Development, Canberra, AGPS.

11. It was not until 1994 that regional development and urban policy came together under the one Minister in the Housing and Regional Development portfolio.

12. At the 2000 meeting of Ministers it was agreed to establish a Standing Committee on Regional Development (at officer level) and a formal Regional Development Council (of State and Commonwealth Ministers). These groups did not meet until May 2002 and July 2003 respectively.

13. Some of these include Regional Banking Services: Money Too Far Away, the House of Representatives Standing Committee on Economics, Finance and Public Administration, March, 1999; Jobs for Our Regions, Senate Employment, Workplace relations, Small Business and Education Reference Committee, September, 1999; Impact of Competition Reform on Rural and Regional Australia, Productivity Commission Inquiry Report No. 8, September 1999; and later, Time Running Out: Shaping Regional...

During this time the author travelled throughout New Zealand’s regions on the north and south islands conducting interviews with bureaucrats (national and local), representatives from regional organisations and regional development practitioners. Time was also spent in the major cities of Wellington, Auckland and Christchurch. During these interviews there was overwhelming agreement that the major centres of Auckland (in particular) and Wellington had grown at the expense of the non-metro regions (including Christchurch) during the reform years. As well as this, there was an overwhelming sense that New Zealanders living outside these metro-centres had largely been abandoned by the reforms undertaken by the national government between 1984-99. Interviewees agreed that the election of the Clark-led Labor/Alliance government in November 1999 reflected an electorate tired of hearing of the alleged benefits of market-led reforms. It also reflected that the Labor/Alliance coalition had both committed themselves to a strong regional development platform during the election. In February 2000, a new Ministry of Economic Development (replacing the Department of Commerce) came into being, and in June 2000 the NZ Budget allocated new funding of $NZ330 million over four years to industry and regional development (see www.mnd.govt.nz/irdev/).


Following the research visit to the MMR in March 2001 Ardmorna and SPC subsequently merged to form SPC Ardmorna Ltd on 4 January 2002. The merger formed an Australian owned fruit company with annualised sales of $AU450 million.

Some definitions of GWS only cover 12 local government areas and omit Auburn and Bankstown from its coverage. Nonetheless this thesis follows the OWS and GWSRDB’s definition of the region.