



# ACCI POLICY STATEMENT

## REGIONAL DEVELOPMENT POLICY

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### PRINCIPLES OF REGIONAL DEVELOPMENT POLICY

Business in regional Australia is a vital contributor to the nation's economic wealth, providing about half of our nation's export income and employing one third of the workforce. However, the profitability of regional small businesses is lower than that of small business in the capital cities and the gap is widening.

The implications for regional development are significant. Regions do not grow unless regional business is also growing.

How to respond to the challenges facing regional businesses and our regional communities is an important national policy issue. Getting the climate right for doing business and addressing the barriers to investment are the most important actions that governments can take to speed up the rate of economic development outside of our major urban centres.

The factors that will contribute to prosperity in regional Australia are common to all Australian communities. ACCI believes regional Australia will benefit most from government policies that promote economic growth, competition, the efficient and sustainable use of resources and remove impediments to enterprise, consistent with the interests of the community overall.

Thus, regional development policy must support, and be consistent with, the achievement of national and state economic, social and environmental objectives. Divergence from this principle is only justified where the need is demonstrably different from the nation as a whole.

ACCI contends that, in the main, regional development policy will be initiated at state and/or regional level. ACCI believes:

- at regional and community level, policies and strategies to achieve agreed economic, social and environmental objectives must be developed by the regions themselves and based on a cooperative approach by the community, business and government (federal, state and local);
- the appropriate role for government is to act as a facilitator and foster cooperation between business, the community and governments (at all levels) to develop solutions that meet specific community needs; and
- government services need to be flexible and tailored to the needs of communities, not providers.

### POLICY OBJECTIVES

ACCI's overarching policy objectives include:

- the development by the Commonwealth and the states of a comprehensive statement of nationally agreed principles as a framework for communities and businesses to plan confidently for medium and longer-term regional development initiatives and identify investment opportunities, as well as impediments, for growth;
- recognition and understanding of the role of business and industry in creating prosperity and employment in the

regions;

- ensuring regional policy principles are consistent with ACCI's overarching economic aims of sustainable improvements in Australia's standard of living, an acceptable distribution of income and wealth across the community, full employment, low rates of inflation and a sustainable external balance;
- multiple use of natural resources, infrastructure, government resources and other community facilities as a means to open up new opportunities for business and investment, more flexibly deliver services and avoid unnecessary and costly duplication;
- flexibility in the design and delivery of policy initiatives and services to best meet the needs of businesses and communities;
- enhancement of the competitive market, including ongoing microeconomic reform, to improve economic efficiency and create opportunities for enterprise and greater user choice;
- identification of excess capacity or the potential for capacity building in regional communities and the dissemination of information on profitable opportunities for business and the community;
- the dissemination of timely, up-to-date and tailored information for business and the community on programs and services available from government;
- universal service obligations should reflect the true cost of providing a service and should be funded from publicly accountable fiscal allocations, not by the imposition of price-based cross subsidies;
- wherever possible, services provided by government should be subject to competitive tendering processes;
- single business entry points that are best managed and operated by business associations, should be maintained. These should provide:
  - information for regional businesses to access urban markets;
  - information for all businesses about infrastructure in existence and planned in regional locations; and
  - information for larger organisations and government departments about supply conditions in regional areas.

## **POLICY FRAMEWORK**

Market outcomes should underpin the direction in which resources flow. Moreover, the fundamentals of macroeconomic economic management cannot be breached whatever may be the supposed benefit:

- budgets must continue in surplus; and
- public spending must not grow any faster than the economy in general and should in most circumstances grow more slowly than the economy overall.

The issues related to regional policy are of two kinds and need to be seen and considered separately:

- the consequences from the shifts in the underlying structure of the economy have meant some activities concentrated in regional Australia are less economically viable; and
- the minimum level of services due to the population outside major metropolitan areas.

Restructuring appears to have had a greater impact on rural and regional Australia because of the general lack of employment alternatives.

Although there are some who call upon governments to take the place of private sector activity to create jobs for those who are displaced, government spending on projects whose only aim is to create unproductive jobs or inordinately delay structural adjustment would undermine Australia's economic strength.

However, given the very large adjustment costs which would reduce the social benefit of an entirely market-based solution there is a clear-cut case for government intervention to assist in the process of adjustment.

Where it is possible with a limited commitment of public funds to place some of the cost of adjustment onto the community in general, the central aim should be to improve the productive potential of regional centres to enable them to attract and hold new business enterprises.

The aim of public policy in these circumstances should be to improve the productive linkages between the local community and business development. Productive linkages include not just infrastructure but all forms of public assistance aimed at making regional communities self-reliant.

Communications infrastructure is vital and needs to be upgraded. The development of the ability to maintain contact with other areas across the globe will lower transaction costs and will be crucial to further regional growth.

Re-training and education facilities, which improve the skill base of local communities, are also critical to ensuring new investment is attracted. Inducement for new firms to locate or older firms to expand in a location will be important not just for the Government, but for displaced workers as well.

Microeconomic reform is of particular significance to regional Australia. Removing impediments from the adjustment processes of the market is one of the most important changes that governments can provide.

Similarly, removing the burden of excessive regulation from industry provides the opportunity for regional firms to improve competitiveness.

Greater flexibility in labour markets is one key area of microeconomic reform which would be of considerable benefit to regional Australia to enable firms to structure labour costs to local conditions. ACCI does not, however, support the institutionalised fixing of differential wage rates for regional areas.

A basic principle involved in determining the additional cost that should be borne by the community in providing services to regional locations is difficult to identify. Yet there are certain services that assist economic growth by attracting population and enhancing economic development.

Further details on ACCI's regional business development taxation policies can be found in the Taxation Chapter.

## **Restructuring**

The restructuring of the economy has affected all parts of the Australian community and all geographical locations. That it has had a greater impact on rural and regional Australia is in large part because of the lack of employment alternatives when a firm or industry goes into decline. In large urban areas there are many alternative economic opportunities often lacking in regional centres. The consequence is that when jobs disappear other jobs do not open to the same extent to take their place.

The Government should not, however, attempt to fill the gaps left by such restructuring. Government-directed activities whose only aim is to create jobs without genuine consideration of the effect on the level of economic growth overall would undermine Australia's economic strength. Projects of this kind can have no place in the economic development

of Australia.

ACCI does, however, believe that governments have an important role to play in creating the conditions for rapid and sustainable growth and removing impediments or heavy-handed regulations that are not only unnecessary but counterproductive in achieving community objectives.

Governments may also act as catalysts for major infrastructure projects that are necessary to improve the competitiveness of a region but would not otherwise be commercially viable. There is a place for initiatives by governments that share the risk associated with major infrastructure projects provided they seek to achieve clear policy objectives in a transparent, workable framework.

However, policy approaches by governments that artificially prop up communities or inordinately delay structural adjustment processes do not succeed in arresting the decline of communities or industries and should not be supported.

What then should be the national response to the effects of globalisation on regional and rural Australia? At one extreme would be a decision to leave outcomes entirely to market forces. This decision would allow the response to fall entirely on the owners of the land, labour and capital which were no longer competitive in the market.

There are, however, very large adjustment costs which would reduce the social benefit of an entirely market-based solution. To demand that the owners of resources, which were no longer productive in their present form, bear the entire cost of adjusting to a new equilibrium position would be highly inequitable. There is therefore a large and generally clear-cut case for government intervention to assist in the process of adjustment.

The ideal outcome would be that declining industries are replaced by others that provide new jobs at more or less the same rate as other jobs are disappearing. This is what does happen on a national scale. Ideally, this outcome would occur at the regional level as well.

In some situations, this is an impossible task. Remote mine sites, where there is no possibility of an alternative source of value added when the mining activity has ceased, provide no alternative but to relocate both the labour and whatever capital can be profitably moved.

At the other end of the spectrum, where new industries develop as others depart, the market must be allowed to adjust to new commercial realities. There is no need for additional public funds to assist in the adjustment process.

But there are then other situations where it is possible with a limited commitment of public outlays to place some of the cost of adjustment onto the community in general. The aim here is to improve the productive potential of regional centres to enable them to attract and hold new business enterprises.

## **Productive Linkages**

The aim of public policy in these circumstances should be to improve the productive linkages between the local community and business development. The notion of productive linkages encompasses the more commonly used term of infrastructure development but also emphasises the need to ensure such projects create value.

Social, environmental and external benefits must be taken into account in a properly conducted cost-benefits analysis. It is imperative that a proper estimation of the costs and benefits of any change are taken into account and this includes both the economic and non-economic benefits and costs.

Productive linkages opens the concept of what is required more widely to include other forms of public assistance beyond capital works. In earlier times the kinds of areas that public funds were drawn tended to be in the construction of roads and railways. Now the kinds of modern forms in which productive linkages occur tend to be in areas such as telecommunications and education.

It is the development of the ability of regional centres to maintain contact with other areas across the globe and lower the transaction costs of doing business that will be crucial to further economic growth.

In addition, re-training and education facilities, which improve the skill base of local communities, will be critical to ensuring that new investment is attracted. Restructuring of the economy will necessitate that new skills are exchanged for old. Acceptance of the importance of new skills development as an inducement for new firms to locate or older firms to expand in a location will be important not just for the government, but for displaced workers as well. Adapting to new circumstances will be part of the challenge facing regional centres.

## Infrastructure

Investment in and maintenance of critical infrastructure such as water and utilities, transport, telecommunications and soft infrastructure such as training, education and health services are vital to the future of regional Australia. They are the arteries of inland Australia - enabling regional businesses to source skills and inputs and deliver their goods and services to market here and overseas.

Increasing investment, planning and coordination in infrastructure is becoming a critical priority for all levels of government. However, disagreements over funding responsibilities and priorities mean that the quality of our critical infrastructure, particularly in regional areas, is steadily declining. There is an important leadership and facilitation role for the Commonwealth to play in reversing that trend.

A lack of comprehensive strategic planning and prioritisation means that necessary infrastructure is not being constructed or maintained. If it does, decisions are usually ad hoc rather than strategic. Governments must look at infrastructure planning, not in isolated parts (transport, energy and so on), but within a fully integrated framework with national, state and territory and regional priorities evaluated.

Thus, there is strong support from business for the creation of a national advisory body to help determine priorities for national infrastructure development and provide advice to the Council of Australian Governments.

## Employment, Education and Training

Our employment system should enable all Australians, including the regions, to be competitive in the employment market. This means providing people with marketable skills and developing a training system that keeps pace with the skills needs of business. Government policy must support these aims and foster a commitment to work and life-long learning.

ACCI believes the best way to secure sustainable jobs growth in regional Australia is to improve the productive capacity of businesses and regions.

Regional Australia needs a dynamic and adaptable employment system that enables business to be competitive in a national and global market. That requires flexibility in employment arrangements that enables employers and employees to best meet their needs in terms of hours of work, shifts, penalties and other conditions.

ACCI also supports the creation of jobs at local level based on incubating new businesses, encouraging clustering for efficiencies and economies of scale, working cooperatively to attract investment, marketing creatively, utilising new technologies more aggressively and improving local infrastructure and services as an effective way to improve regional employment.

This approach requires effective leadership at regional level and the positive contribution of industry and commerce. There is a role for initiatives that enable business to more effectively contribute skills and expertise to promote growth in regional communities and improve their leadership capacity.

Strategies to develop labour force skills and knowledge are integral to regional community development, and successful

skills development requires a collaborative approach between industry, government and the community.

## Provision of Services

Australians' expectations of the levels and quality of services that should be provided by the community vary widely. ACCI believes there should be a nationally consistent, agreed standard of basic or 'core' services in areas such as health, education, telecommunications, welfare and other government services.

In some cases, the Government may wish those services to be provided at a price that is below their real cost. Where this occurs, the differential should be funded not by price-based cross-subsidies but from publicly accountable fiscal allocations. Their entire cost should be borne by governments, not business.

Government initiatives should also incorporate accountability checks to measure the success of policy initiatives against agreed outcomes at community, State and national levels.

Measures which are in effect a form of compulsion to business to maintain services or investment in regional communities, either through punitive measures, universal service obligations or other forms of legislation, act against the aim of achieving sustainable, competitive business activity and impose barriers to competition.

## Competition

The application of competition policy has delivered enormous benefits to regional Australia, improving economic efficiency and acting as a powerful stimulus to growth.

Ongoing implementation of the national competition policy regime is an essential part of Australia's continuing need to remove barriers to effective and efficient competition, enable businesses to grow and empower consumers.

In pursuing these goals, the guiding national competition principles recognise that restraints on competition policy can lead to net public benefit. ACCI considers public interest and public benefit tests in competition policy are best applied in ways that maximise effective and efficient competition across the economy.

ACCI advocates that proposals to constrain competition policy on the grounds of 'net public benefit' must continue to be subjected to examination in open, transparent and rigorous inquiry processes and should include evaluation of alternative means of achieving the desired outcome.

For further information:

Greg Evans

Director, Industry Policy and Innovation

Telephone: (02) 6273 2311

Facsimile: (02) 6273 3286

Email: [greg.evans@acci.asn.au](mailto:greg.evans@acci.asn.au)