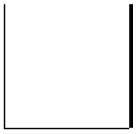

INDUSTRY COMMISSION

IMPEDIMENTS TO REGIONAL INDUSTRY ADJUSTMENT

Volume 1: Report

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Commissioners Banks and Walsh wish to thank those staff who helped them prepare this report.

CONTENTS

VOLUME 1 - REPORT

Page

ABBREVIATIONS ix

TERMS OF REFERENCE xiv

OVERVIEW AND KEY FINDINGS xv

1. THE INQUIRY **1**

1.1 Background to the inquiry 1
1.2 Terms of reference 1
1.3 Some key concepts 2
1.4 The inquiry process 5
1.5 Structure of the report 6

2. REGIONAL ECONOMIC CHANGE IN AUSTRALIA **9**

2.1 Introduction 9
2.2 Output and incomes around Australia 11
2.3 The labour force and employment 18
2.4 Population changes 26

3. THE PROCESS OF REGIONAL INDUSTRY ADJUSTMENT **29**

3.1 Introduction 29
3.2 Pressures for regional adjustment 30
3.3 Adjustment mechanisms 35
3.4 Regional adjustment and development 42
3.5 Efficient adjustment 49

4. REGIONAL MOBILITY OF LABOUR 51

4.1 Introduction 51
4.2 The mobility of the Australian population 53
4.3 Housing 59
4.4 Search and resettlement costs 66
4.5 Social security and mobility 68
4.6 Social infrastructure 72
4.7 Occupational licensing restrictions 73
4.8 Portability of entitlements 74
4.9 Summing up 76

5. REGIONAL WORKPLACE FLEXIBILITY AND LABOUR COSTS 77

5.1 Introduction 77
5.2 Australia's industrial relations framework 79
5.3 Flexibility in work practices across regions 87
5.4 Wage flexibility and regional adjustment 102
5.5 Labour on-costs 135
5.6 Further reform 139

6. LABOUR RETRAINING 147

6.1 Introduction 147
6.2 Long-term unemployment 147
6.3 Role of retraining programs 150
6.4 Labour market programs 158
6.5 Effectiveness of labour market programs 160
6.6 Labour market programs and the needs of regions 168
6.7 Conclusion 171

7. LAND USE AND DEVELOPMENT APPROVALS 173

7.1 Introduction 173
7.2 Land use regulations 175
7.3 Development approvals processes 181
7.4 Aboriginal land rights and the Mabo judgement 193
7.5 Summing up 195

8. SERVICES AND REGIONAL INDUSTRY ADJUSTMENT 197

8.1 The influence of the services sector 197
8.2 Transport services 198
8.3 Telecommunications 214
8.4 Access to financial capital 216
8.5 Fringe benefits taxation and income tax zone rebates 219

9. INFRASTRUCTURE PROVISION AND PRICING 227

9.1 What is 'infrastructure' and who provides it? 227
9.2 The role of infrastructure in regional adjustment and development 229
9.3 Allocating investments in infrastructure 239
9.4 Dealing with excess capacity 251
9.5 Greater private sector participation 254

10. REGIONAL RAMIFICATIONS OF FINANCIAL RELATIONS BETWEEN GOVERNMENTS 257

10.1 Introduction 257
10.2 Vertical fiscal imbalance 258
10.3 Specific purpose payments to State and local governments 266
10.4 Borrowing controls 273
10.5 Fiscal equalisation 274

11. ADJUSTMENT ASSISTANCE: THE REGIONAL DIMENSION 289

11.1 Introduction 289
11.2 Rationales for adjustment assistance 291
11.3 Current adjustment programs 295
11.4 Are existing programs sufficient for regional adjustment? 313

12. REGIONAL DEVELOPMENT POLICIES 319

12.1 Introduction 319
12.2 Commonwealth assistance for regional development 321
12.3 State and local approaches to regional development 325
12.4 Some issues in assessing regional development policies 343

REFERENCES 363

VOLUME 2 — APPENDICES

A Inquiry participants and regional visits
B Features of regions within the States
C Personal income and employment
D Adjustment experiences of selected regions
E Social security payments and award wage based incomes
F An examination of selected literature on workforce mobility and wage flexibility
G An empirical assessment of interstate mobility and wage flexibility
H Labour market programs used for regional adjustment
I Adjustment assistance programs
J Regional development programs

ABBREVIATIONS

ABPDP	Australian Best Practice Demonstration Program
ABS	Australian Bureau of Statistics
ACTU	Australian Council of Trade Unions
ADI	Australian Defence Industries
AITC	Australian Industry and Technology Council
ALRA	Aboriginal Land Rights Act
ALTD	Australian Land Transport Development Program
AMIC	Australian Mining Industry Council
AN	Australian National
AN LAP	Australian National Labour Adjustment Package
AOTC	Australian and Overseas Telecommunications Corporation
APM	Australian Paper Manufacturers
ASC	Australian Securities Commission
ATFIC	Assistance to Firms Implementing Change
ATOYP	Accredited Training Offer for Young People
ATSIC	Aboriginal and Torres Strait Islander Commission
AWDC	Albury-Wodonga Development Corporation
AWIRS	Australian Workplace Industrial Relations Survey
BACAS	Bundaberg Area Community Apprenticeship and Training Scheme Ltd
BBC	Building Better Cities (Program)
BCA	Business Council of Australia
BIE	Bureau of Industry Economics
BLMR	Bureau of Labour Market Research
BTCE	Bureau of Transport and Communications Economics
CBA	Cost benefit analysis
CDEP	Community Development Employment Projects
CES	Commonwealth Employment Service
CGC	Commonwealth Grants Commission
CMA	Country Mayors' Association
CSOs	Community service obligations
DBIRD	Department of Business, Industry and Regional Development
DEET	Department of Employment, Education and Training
DETAFE	Department of Employment and Technical and Further Education
DEVET	Department of Employment, Vocational Education and Training
DIR	Department of Industrial Relations

DITAC	Department of Industry, Technology and Commerce
DITARD	Department of Industry, Technology and Regional Development
DITT	Department of Industry, Trade and Technology
DPIE	Department of Primary Industries and Energy
DREE	(Canadian) Department of Regional Economic Expansion
DRIE	(Canadian) Department of Regional Industry Expansion
DSS	Department of Social Security
DURD	Department of Urban and Regional Development
DYP	Disadvantaged Young People
EAW	Enterprise Albury-Wodonga
EBP	Enterprise Bargaining Principle
EDA	Economic Development Authority
EEP	Employment Equity Program
EIA	Environmental impact assessment
EIS	Environmental Impact Statement
EPAC	Economic Planning Advisory Council
ESU	Employee Skills Upgrade
FBT	Fringe Benefits Tax
FIFO	Fly-in-fly-out operations
FTA	Formal Training Allowance
GBEs	Government Business Enterprises
GDA	General Development Agreement
GDP	Gross domestic product
GMH	General Motors Holden
GSDA	Great Southern Development Authority
GSP	Gross State product
GST	Goods and services tax
HEADP	Heavy Engineering Adjustment Development Program
HEDC	Hunter Economic Development Council
IAC	Industries Assistance Commission
IC	Industry Commission
ILO	International Labour Organisation
IRC	Industrial Relations Commission
LAPs	Labour Adjustment Programs
LDC	Long distance commuting
LEAP	Landcare and Environment Program
LEI(s)	Local Enterprise Initiative(s)
LGAs	Local Government Areas
LMPs	Labour Market Programs
LRC	Latrobe Regional Commission
MFP	Multi-Function Polis

MPIS	Major Projects Incentive Scheme
NAIRU	Non-accelerating Inflation Rate of Unemployment
NEIS	New Enterprise Incentive Scheme
NESB	Non English speaking background
NFF	National Farmers' Federation
NIES	National Industry Extension Service
NLM	Natural labour market
NRC	National Rail Corporation
NRROC	Northern Rivers Regional Organisation of Councils
NRTC	National Road Transport Corporation
NSWFA	NSW Farmers' Association
OECD	Organisation for Economic Cooperation and Development
OLG	Office of Local Government
OLMA	Office of Labour Market Adjustment
ORD	Office of Regional Development
PDC	Pilbara Development Commission
PMV	Passenger motor vehicle
PMV LAP	Passenger Motor Vehicles Labour Adjustment Package
PPM	Post-program monitoring
PSA	Prices Surveillance Authority
QFF	Queensland Farmers' Federation
QTTC	Queensland Travel and Tourism Corporation
RAN	Royal Australian Navy
RAP	Regional adjustment package
RAS	Rural Adjustment Scheme
RBDC	Regional Development Business Centre
RBDS	Regional Business Development Scheme
RDBCs	Regional development business centres
RDBs	Regional Development Boards
RDP	Regional Development Program
RDSP	Regional Development and Services Program
REA	Regional Enterprise Assistance
RED	Regional Economic Development (scheme)
REDC	Regional Economic Development Co-ordinating Committee
REDIS	Regional Enterprise Development Initiative Scheme
REDS	Regional Employment Development Scheme
ROC	Regional Organisation of Councils
RPIP	Regional Projects Investment Program
SAEDF	South Australian Economic Development Fund
SAHT	South Australian Housing Trust
SAULT	South Australian Urban Land Trust

SECV	State Electricity Commission of Victoria
SEP	Structural efficiency principle
SEPP	State environmental planning policy
SPC	Special Premiers' Conference
SPP(s)	Specific Purpose Payment(s)
TAP	Training for Aboriginals and Torres Strait Islanders Program
TASK	Training and Skills Program
TCF	Textiles, clothing and footwear
TCF LAP	Textiles, Clothing and Footwear Labour Adjustment Package
TCFU	Textiles, Clothing and Footwear Union
TDA	Tasmanian Development Authority
TDZ	Trade Development Zone
TPC	Trade Practices Commission
USN	United States Navy
VFT	Very Fast Train
WELL	Workplace Literacy
WIRA	Waterfront Industry Reform Authority
WRDC	Wangaratta Regional Development Corporation

TERMS OF REFERENCE

I, JOHN SYDNEY DAWKINS, under Section 7 of the Industry Commission Act 1989 hereby:

1. refer impediments to regional adjustment of industry to the Industry Commission for inquiry and report within fifteen months of receiving this reference;

2. specify that the Commission report on ways of facilitating the efficient movement of resources within and between regions in Australia;

3. without limiting the scope of the reference, specify that the Commission identify impediments to industry adjustment in rural and urban regions that may arise from:

   (a) the provision, quality, access and pricing of infrastructure and government services;

   (b) legislation, regulation, taxation, intergovernmental financial relations and industry assistance policies of Commonwealth, State, Territory and Local governments; and

   (c) labour market arrangements including factors affecting the mobility of people;

4. specify that the Commission is to have regard to the established economic, social and environmental objectives of governments; and

5. specify that the Commission is to take account of any recent substantive studies undertaken elsewhere.

JOHN DAWKINS

18 September 1992

OVERVIEW AND KEY FINDINGS

The regions of Australia — their people, businesses and governments — face pervasive pressures for change. These pressures, which are both domestic and international in origin, bring important opportunities as well as challenges. Adjustment to them is essential, because regions will prosper only if they maintain and improve their domestic and international competitiveness.

This inquiry considered what needs to be done to help people and businesses within regions to adjust to pressures for change, pressures which differ substantially throughout Australia. In undertaking its inquiry, the Commission visited a variety of regions in all States and the Northern Territory. It held discussions with representatives of governments, businesses, unions, regional development organisations and community groups, and it received some 170 written submissions.

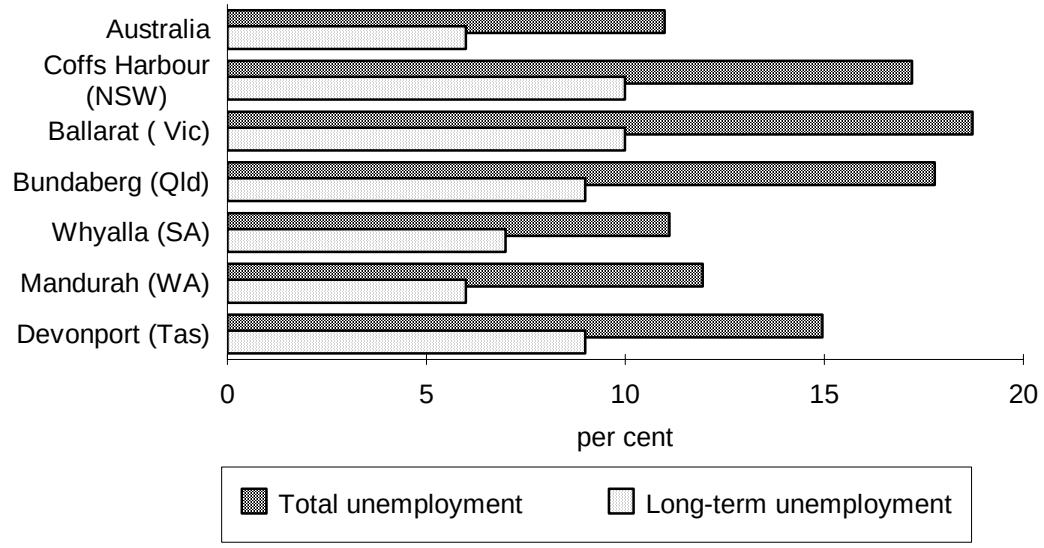
The great diversity among regions was evident throughout the inquiry. Some regions continued to grow and prosper even during the recession. Those with rapid growth and young populations have been grappling with pressures on serviced land, and on the provision of roads and schools. Other regions, particularly rural areas and smaller towns, continue to lose population and face the prospect that some of their services and facilities might no longer be viable.

The most striking feature of many regions is their high levels of unemployment, especially in the non-metropolitan regions. Of particular concern is the high incidence of long-term unemployment and the large proportion of unemployed people with limited skills who live outside the capital cities. Unemployment in recent years has brought significant regional social and economic costs.

Against this backdrop, the Commission was asked to report on impediments to regional adjustment of industry, and on ways of facilitating the efficient movement of people and businesses within and between regions. It has concluded that what is needed is a mixture of three types of action by governments:

- the removal of those impediments to regional adjustment that are under their control;
- better focussing of government programs aimed at facilitating adjustment; and
- the avoidance of measures which might create regional adjustment problems in the future.

Unemployment rates for selected population centres
(June Quarter 1993)



Source: DEET 1993f

What is 'regional adjustment'?

A 'region' can be defined in various ways, depending on whether geographic, administrative, economic or other characteristics are seen as most important. The Commission has not limited its analysis by adopting any particular definition. It has allowed regions to be defined by what participants see them as being, or what best serves the purpose of addressing particular policy issues.

Regional adjustment pressures come from many different sources, including technological change, developments in domestic and foreign markets, and the effects of government policies. Such pressures generally are felt first by businesses. How managers and workers within firms respond determines subsequent effects on the rest of the community, and ultimately on the region's economic performance.

The adjustment mechanisms available to regions are similar to those available to Australia as a whole. A region can adjust by:

- improving its 'competitiveness' (lowering costs, raising productivity and output quality);
- producing different goods and services in response to changes in demand;
- attracting employees and capital, or reducing their use; or
- some combination of such changes.

Important regional impacts can result from a firm deciding to locate in, or move out of, a particular region. Factors that influence that decision provide a useful perspective on regional adjustment and development. Survey results provided by participants show that the more significant factors include: availability of skilled labour; the cost of labour; the availability and cost of land; proximity to raw materials and markets; and infrastructure costs (particularly the cost of transport). Also important are 'quality of life' and the general amenities that a region can offer.

The Commission has not been asked to examine ways of promoting development outcomes for particular regions. This has been a focus of the Regional Development Taskforce that was established in July 1993 and was due to report just after this inquiry was completed. However, it is apparent that a region's ability to adjust to changes in its economic environment will determine its capacity to develop and grow. What inhibits that ability to adjust is the focus of this report.

Identifying impediments to adjustment

The capacity to adjust to changed conditions, for an individual firm or region, tends to be greater during periods of economic growth than in recessionary conditions such as have characterised Australia in recent years. Employees can more readily be utilised in different tasks when production is expanding: during a contraction, workers are more likely to become unemployed and to remain unemployed for longer. The fact that adjustment costs are likely to be amplified during a recession needs to be recognised as a problem in itself.

Regional adjustment is affected by some influences which are essentially facts of life. These include family ties and lifestyle preferences. However, as is evident from submissions to this inquiry, there are factors that impede regional adjustment that are the direct responsibility of governments. They include:

- aspects of the labour market, social security and taxation systems;
- problems with the provision by governments of social and economic infrastructure and services; and
- confused responsibilities of the various tiers of government, overlapping of functions, inadequate coordination and a maze of regulations which often are not sensitive to regional differences.

In identifying 'impediments' to regional industry adjustment, the Commission has been concerned largely with arrangements which are amenable to government or community action.

A central theme that emerged in the inquiry is the difficulties that uniformity in policy and in regulation can pose for regional adjustment and development. Regions differ greatly in terms of their distance from raw materials and markets, their industrial structures, the size and composition of their populations and workforces, the training and skills of their workers, their costs of living and in many other ways. Regulatory approaches that fail to allow for such differences can hold back regional communities and businesses from responding creatively to their own particular circumstances and adjustment pressures.

This highlights the important role that 'good government' can make to regional adjustment and development. Governments at all levels need to improve their performance as regional administrators, regulators and service providers, so that regional communities and businesses are better able to realise their competitive potential.

In responding to its terms of reference, the Commission's inquiry covered a wide range of adjustment issues including those to do with labour markets, land use and infrastructure, as well as the impact on regions of certain government policies and programs. In some cases, the issues raised — such as those concerning labour market arrangements and taxation — are of national importance and are being debated and reviewed in other forums. The Commission recognises the wider dimensions of these issues, but considers that an examination of their implications in a regional context brings an important additional perspective to policy deliberation.

Labour adjustment

Regional mobility, workplace flexibility and retraining are the three principal dimensions of labour market adjustment from a regional perspective.

Labour mobility

How well regions adjust to change depends, in part, on how mobile the labour force is in response to growth or decline in regional employment opportunities. The conventional wisdom is that Australians are relatively mobile. But analysis of the data shows that the vast majority of people who change their place of residence do so within, rather than between, States — indeed, most moves occur within metropolitan areas. Moreover, most who move do so principally for reasons of housing, location or lifestyle, rather than for employment. Only about 14 per cent of people who move do so primarily for employment reasons. In addition, the available data show average patterns of mobility — they don't throw much light on the mobility of workers when confronted with change, such as the closure of a workplace or the opening up of new job opportunities.

There are many good reasons why people will be reluctant to leave their 'home' region, even when job prospects are poor. These include family and social ties and the effect of firm closures on local house prices. Although these are powerful influences, they are unavoidable. On the other hand, stamp duty on conveyancing can be viewed as a tax on, and therefore an impediment to, mobility. For this reason, as in its report on urban settlement (IC 1993c), the Commission favours less emphasis on the use of stamp duties. (Section 4.3.2)

The social security system provides necessary financial assistance to unemployed people in accord with our society's notions of fairness. But it can have unintended side-effects on regional labour mobility. There is evidence that, on balance, people have been moving from relatively low to high unemployment areas. The uniformity and duration of unemployment benefits are seen as contributing to people migrating to, and remaining in, regions with lower costs of living and lifestyle advantages. This is both an understandable and indeed rational response for the individual. However, where job prospects are low in such areas, it can exacerbate regional adjustment problems. The Government is seeking to amend its administrative procedures to more effectively address this issue. (Section 4.5)

These mobility effects can be compounded by the concentration of public housing in regions with high unemployment. Its availability and low cost can make it financially disadvantageous for inhabitants to move to another location. This is not to deny the importance of direct government provision of public housing to many of the disadvantaged in our society. Rather, to the extent that public housing objectives can be met for some people through rental subsidies for use in private rental markets, their locational choices would be enhanced.

Workplace flexibility and labour costs

Only if individual workplaces within a region are competitive can the region as a whole prosper and offer expanded employment opportunities. Productivity is the key to competitiveness. The more flexible are workplaces and the better are management and work practices, the higher productivity is likely to be, and the higher the wages that can be paid.

There have been marked improvements in labour market flexibility in recent years. Key federal reforms include award restructuring and, more recently, enterprise bargaining which allows for wage rises and other terms and conditions to be negotiated between employers and unions in return for increased flexibility and productivity. Examples include provisions for spread of work hours and incorporation of penalty rates in base rates of pay. Several States have pursued more broad-ranging industrial relations reform, a common

feature of which is the option for employees to negotiate with their employers with or without union involvement.

But if gains are to be made in regional productivity and in reducing regional unemployment, the question remains as to what scope exists for further flexibility within individual workplaces.

Many participants argued that enterprise bargaining remained constrained in its application and scope, and could not achieve sufficient productivity increases in cases where conditions, underpinned by awards, were not negotiable (Section 5.3.5). For example, the National Farmers' Federation drew attention to a prohibition (with minor exceptions), that is set down in the Pastoral Industry Award, on weekend work for shearers, observing that both employers and employees have been prosecuted for working on weekends even though they had reached agreement about the work. Another example involved Metway Bank in Queensland, where an agreement on working arrangements proposed to the staff association (which represented most of the staff) was successfully opposed by the union, to which only 10 per cent of the staff belonged.

The experiences of the cooperative fruit canner, SPC Ltd, illustrate some of the inflexibilities in the current system even when business faces a crisis. Ninety-three per cent of SPC workers volunteered to forgo some award conditions, such as suspension of weekend penalty rates, in order to ensure the continued viability of the company and their jobs, but the union opposed any change to award conditions. It was only with considerable difficulty that a compromise was reached. Principally through better work practices, rather than reduced wages, labour costs per unit of output were lowered and the company returned to profitability. Workers were soon repaid the value of benefits they had forgone (see Chapter 5, Box 5.7, for the full story). It has been argued that the outcome shows that the existing award system can accommodate such crisis situations. An alternative view is that its inflexibility risked putting SPC out of business, which would have had a major impact on the Shepparton region.

Greater flexibility in work practices and conditions across regions would allow regional workplaces to agree on working conditions that fit their needs, thereby enhancing regional productivity and reducing unit labour costs. Moreover, increased scope for wages to differ between regions over time would allow regions experiencing lower growth, or adverse shocks, to maintain competitiveness and employment. It would thus facilitate regional adjustment, reduce the need for redundancies and help narrow disparities in regional unemployment and economic performance.

The Commission's empirical work shows that wages and labour mobility are much less responsive to adverse regional economic shocks in Australia than in the United States, with the resulting unemployment much more prolonged.

Additional quantitative analysis by the Commission supports the view that greater regional flexibility in unit labour costs would assist regional adjustment. (Section 5.4.3)

The Commission emphasises that it is not recommending regional wage cuts. Differences in unit labour costs among regions can derive from changes to work practices and through different rates of *increase* in wages, depending on regional productivity and growth. For much of the labour market, wages are 'sticky' downwards and reductions are unlikely. Nevertheless, for the unemployed with limited skills, of whom there are relatively high concentrations in non-metropolitan regions, lower training wages may be needed to get them on to (or back on to) the jobs 'escalator'. While jobs at the bottom of the escalator may not pay well, they give unemployed people a chance to gain an employment track record, acquire skills and pursue higher paying jobs in the future.

That being said, there is also an important role for a 'safety net', which establishes basic minimum employment standards such as minimum rates of pay and leave conditions. The assurance which a safety net provides can also be an essential element in obtaining the commitment of employees to reforms which enhance productivity.

The Commission considers that greater recognition needs to be given to the particular conditions faced by workplaces in different regions when workplace bargaining is undertaken. From a regional perspective, this is best achieved under arrangements in which:

- **general minimum employment standards provide the only constraint on workplace agreements; and**
- **employees have freedom to choose who negotiates on their behalf at the workplace. (Section 5.6)**

The Commission emphasises that its assessment should be regarded as an end-point, the transition to which could occur in a manner consistent with preserving basic protections for workers which currently are contained within the award system.

As this report was being finalised, amendments to industrial relations legislation had just been passed in the Federal Parliament. These amendments contain provisions designed to add further flexibility by extending enterprise bargaining, but from the perspective of regional workplaces questions remain as to the flexibility that might be achieved in practice.

Social security is an important 'safety net' for those who lose their jobs, allowing them to maintain a basic standard of living while seeking new

employment. However, there is evidence that, in conjunction with the tax system, such arrangements can create disincentives to accept employment — especially for relatively low skilled recipients with family entitlements. This can impact more on country regions because of their higher concentrations of job seekers with limited skills. In making these observations, the Commission is not passing any judgements on the adequacy of social security payments. There are various ways of addressing 'poverty trap' problems without reducing benefits, but the issues go beyond the scope of this inquiry.

Just prior to the completion of this report, the Commonwealth Government's Committee on Employment Opportunities released a 'green paper' for public discussion, providing a national perspective on unemployment problems. Public consultation following its release and the subsequent preparation of a policy-oriented 'white paper', provide an appropriate opportunity for the Government to reassess the interactions between the social security system, income taxation and unemployment. (Section 5.4.4)

On-costs are an important aspect of labour costs overall. The largest on-costs faced by employers are superannuation contributions and payroll tax, which are largely outside their control. One on-cost that penalises many rural employers is the requirement for them to make superannuation contributions on behalf of casual and itinerant employees. Such contributions involve significant compliance costs for employers and yet, because of fund administrative costs, often confer little benefit to employees.

The Commonwealth Government has signalled its intention to review the costs and benefits of the superannuation guarantee charge for casual and itinerant employees. The Commission recommends that this review include an assessment of the effect of the scheme on employers of such labour. (Section 5.5)

Labour retraining

Those who lose jobs, whether for structural or cyclical reasons, often require retraining. Training can be provided in formal educational and training institutions or on the job, the latter being particularly important in many country areas where institutional support is more limited.

There are provisions to pay training wages to young workers such as apprentices, but there is considerably less scope to do so for older workers who have been made redundant from previous jobs. Minimum award wages can thus reduce incentives for employers to provide skills training, by limiting their ability to pay wages that reflect the lower productivity of new employees. While award conditions that specify tasks and job classifications can stifle

initiatives associated with multi-tasking and innovative production practices, reforms in recent years have reduced many of these problems.

Greater flexibility in wages and work practices, for those individuals requiring an upgrading of skills, would provide increased potential for training and retraining by employers and thereby help redress the limited skills which are a feature of prolonged unemployment in many regions. (Section 6.3.1)

Government Labour Market Programs (LMPs) aim to improve the job matching process, to raise the productivity of labour and to maintain an effective supply of labour by retraining those who might otherwise become unemployable as a result of skills atrophy and demotivation.

Determining the success of LMPs is difficult in the absence of comprehensive monitoring, incorporating control groups, long time-frames and methodologies that account for substitution and displacement effects among employees. **The Commission found post-program monitoring of labour market programs wanting in these respects.**

There are numerous LMPs, including general training schemes, wage subsidy schemes, job placement and mobility assistance schemes. Available information suggests that wage subsidy schemes appear to have performed better than other schemes in getting people back into the workforce.

Wage subsidy schemes (like Jobstart) reduce the cost to employers of hiring additional labour, in recognition that the productivity of low-skilled or inexperienced workers would preclude them obtaining employment and training at current minimum award rates of pay. Such schemes appear to have had a reasonable success rate in providing work opportunities for the long-term unemployed, although sometimes at the cost of other workers' jobs. In its submission, the Commonwealth Department of Employment, Education and Training (DEET) confirmed that its wage subsidies scheme is not aimed at job creation, but rather at keeping unemployed people in touch with the labour market.

LMP expenditure is directed to States and regions on the basis of their shares of unemployment. Despite this de facto targeting, many argued that national program criteria were too rigid to meet the needs of some regions. On the limited evidence, the Commission has some sympathy with these views, but was not in a position to evaluate individual programs in detail. DEET is cognisant of many of the problems raised by participants.

As many smaller regions lack the capacity (and numbers of participants) to mount a large formal training effort, subsidised on-the-job training may provide greater benefits from a regional perspective.

The Commission considers that DEET should assess the suitability of the various Commonwealth labour market programs in meeting the needs of different regions, especially the capacity of smaller regions to satisfy program criteria. (Section 6.6)

Land use

Land values respond to changes in the productive potential of different sites. Such price changes play an important role in tempering pressures for the expansion or contraction of a region.

While land prices generally are not constrained directly by governments, the uses to which land can be put are controlled by zoning regulations, development approval processes and other regulations. These can have an important effect on land values and on the extent to which land uses can be changed in response to adjustment pressures, as well as affecting the 'attractiveness' of a region to investors.

The experiences of the Dynamic Lifter company, which manufactures fertiliser at a plant 20 kilometres from Tamworth, illustrate these problems. It was set up in 1984 and was allowed to operate 24 hours a day. But in 1987 the area surrounding the plant was rezoned for hobby farms. The company's recent expansion proposals have met with objections and the plant now must operate under more restrictive conditions, at some cost to its performance (see Section 7.2.1).

Defining appropriate zoning standards is a complex matter, requiring a balance between the rights of existing land owners, third parties and developers. Zoning regulations need to pursue the seemingly contradictory goals of providing certainty to existing land users, and flexibility in land use definitions to accommodate future land use requirements. Evidence suggests that this role may be further complicated by the multiplicity of local government jurisdictions that exist within many economic regions. There have been initiatives in some regions to improve coordination among local governments, including via regional organisations of councils.

In some regions, land use and other problems associated with fragmentation of local government (including high service costs) have been addressed by amalgamations. In Geelong (Victoria), nine local councils were amalgamated in 1993, expected to yield cost savings to local ratepayers estimated at $17-23 million per annum.

The Commission sees merit in State governments, in consultation with local communities, initiating a process whereby the appropriateness of existing local government jurisdictions can be publicly evaluated. (Section 12.4.5)

The need to seek development approvals from a range of different State and local authorities also can impede adjustment through new investment. One avenue for reducing transaction costs is the establishment of a 'one-stop shop'. This is occurring in many places, but could be put into effect more widely in regions throughout Australia. The Commission considers that the use of regional development organisations in the development approvals process further enhances efficiency.

Uncertainty inhibits the productive, longer-term investment needed for regional development. Where regulatory requirements or property rights are not clear, investment will go elsewhere. One issue of particular importance to some regions is site clean-up regulations. State governments should provide a regulatory framework which explicitly sets out responsibilities and requirements for site remediation.

Environmental taxes and regulations, often promulgated in response to problems in major urban areas, frequently are applied nation-wide or State-wide, without allowance for different regional conditions. This can be a regionally costly way of achieving nation-wide environmental goals.

The Commission considers that, where practicable, environmental regulations should take into account the circumstances of different regions. (Section 7.3.4)

Regulation and taxation of services

Artificially high transport costs, resulting from inappropriate transport regulations and revenue-raising taxation on transport industries, are a burden on regional development. Although progress in reforming road transport charging and regulation is under way, evidence suggests that scope exists for further improvement which would benefit many regions.

The Commission supports the view that intermediate goods used in the production process — such as fuel used for road transport purposes — should not be subject to taxation purely for the purpose of raising general revenue. (Section 8.2.1)

Rail transport, too, has undergone substantial reform in recent times, with the benefits of reform flowing to those users previously cross-subsidising uneconomic services and routes. For those communities where rail transport is

uneconomic and unlikely to be continued, the efficiency of other modes of transport may be critical to their adjustment and development prospects. Deregulation of inter-State aviation has brought substantial benefits to all States, but regulation of aviation persists *within* some States (notably Tasmania and New South Wales).

While some participants acknowledged the gains from reform thus far, coastal shipping regulation was regarded as a significant impediment to adjustment in many parts of the country. Aside from the direct benefits that lower coastal shipping costs would provide to many regions, they also would put indirect pressure on other modes of transport to improve their service quality and to lower costs. Concerns raised about the safety and environmental consequences of reform are best met through regulatory or other measures devised for those purposes.

The Commission considers that increased exposure of coastal shipping to international competition would bring benefits to many regions. Restrictions on competition should not be used as a means of regulating safety or environmental standards — such objectives should be addressed directly. (Section 8.2.3)

Fringe benefits tax

Companies in remote regions stated that provision of certain benefits to employees was necessary to attract workers or merely to help achieve parity with services enjoyed by taxpayers in more populous locations. On that basis, it was argued that such benefits should be exempt from fringe benefits tax (FBT). Eligible remote activities do receive large, albeit arbitrarily set, concessions on FBT liability. Moreover, zone rebates for income tax payers provide some offset to the extra costs of living and working in remote regions, but their real value has declined over time.

The Commission does not consider that government should, or could, compensate people for inherent cost disadvantages of remote regions. Compensation should be confined to those disadvantages relating to Commonwealth funded or supported services which are unavailable or more difficult to access (such as higher education).

In principle, zone rebates would seem the most effective, transparent and equitable way to compensate those living in remote areas, with employers providing benefits paying the full rate of FBT. However, any such change could have a significant budgetary impact and high transitional costs.

The Commission recommends that the Commonwealth Government undertake an assessment of the administrative and financial implications of replacing FBT concessions with income tax zone rebates designed to

compensate residents of remote regions for lack of government services. (Section 8.5.1)

A common misconception is that FBT has led to the demise of the traditional mining town, because many companies increasingly use fly-in fly-out operations (FIFO) that are exempt from it. Evidence suggests that the mining town has been overtaken by many developments, of which the impact of FBT has been relatively minor. The Commission understands the desire of remote communities to share in the benefits of resource developments in their regions. However, any policy change that discouraged FIFO operations from capital cities would be likely to hinder some developments in remote regions. (Section 8.5.2)

Infrastructure

The standard and price of a region's 'infrastructure' facilities and services — such as water and sewerage, ports, roads, railways, electricity, hospitals and schools — can affect the location decisions of people and firms. The provision of infrastructure services, moreover, creates jobs and so directly affects the viability of a region.

Many regions suggested that infrastructure should be provided to hold or attract population and promote growth. In particular, participants suggested that more weight be placed on the 'nation building' characteristics that many large, long-term infrastructure projects can have. The Alice Springs-Darwin rail link is often cited in this regard. While public infrastructure investment can promote growth, it must be based on informed decisions about demand, scale, timing and funding of projects. Such decision-making should take into account demonstrable social benefits that might be ignored under strictly commercial criteria.

Mistakes can be expensive and may be borne by taxpayers and users, and by those in other regions, over extended periods. The Ord River scheme is an outstanding example. If demand is over-estimated, existing and future users may have to pay higher charges than otherwise, thereby deterring activity. If demand is underestimated, users will have to make do with inadequate facilities.

Public infrastructure investments — whether in urban or country areas — should proceed only after comprehensive cost-benefit analysis. For major projects, there should be a requirement that such analyses be published to ensure greater transparency in the decision-making process. (Section 9.3.2)

Where infrastructure provision and delivery costs vary between locations, that should be reflected in different prices, rather than masked by uniform prices. Cross-subsidies inherent in uniform charging disadvantage lower cost locations,

potentially impeding their development. For example, uniform electricity pricing throughout Victoria prevents the Latrobe Valley from exploiting a competitive advantage to attract energy-intensive industries.

Regions will be disadvantaged if infrastructure providers do not operate at minimum cost and set prices accordingly. This would best be ensured by competitive disciplines. However, where competition is not feasible (for example, in water supply) appropriately designed regulatory approaches can help, as can performance monitoring and greater public accountability of government business enterprises.

Existing government structures can, in part, allow for appropriate regional infrastructure coordination. However, there is a question as to how the Commonwealth should coordinate its regional infrastructure decisions with those of other governments.

There is scope to improve the coordination and integration of infrastructure provision between the Commonwealth and other levels of government. The Commission considers that the Commonwealth's Office of Regional Development is well placed to examine how this might best be achieved. (Section 9.3.3)

Many regions in Australia claim to have excess capacity in infrastructure. Where capacity is unlikely to be adequately utilised at existing prices, there is a case for lowering prices in line with the reduced value of the assets.

The Commission recommends that where there is unplanned excess capacity, the valuation of infrastructure assets should be reviewed and services priced to reflect the lower valuation. Where two-part tariffs are in place, a policy that seeks to reduce access charges in order to attract new consumers would be preferred. (Section 9.4.1)

There may be cases where depopulation of a region causes social infrastructure services to become unsustainable — for example, numbers might fall below thresholds necessary to maintain a school at reasonable cost. Apart from the problems that this can cause to existing users, closure of services may cause the region to fall below the 'critical mass' necessary for longer-term viability.

The Commission recommends that where closures or downgrading of social infrastructure facilities within regions are being contemplated by State governments, the local community should be given the option of contributing directly to maintain the facilities. (Section 9.4.2)

Intergovernmental financial relations

The terms of reference for this inquiry draw specific attention to Australia's intergovernmental financial relationships. Their outstanding feature is the magnitude of the grants made by the Commonwealth to the principal 'regional' sphere of government — the States and Territories — which are the main providers to people and regions of economic and social infrastructure services. Local governments also receive significant grants from the Commonwealth and the States in support of their provision of local infrastructure and services.

Compared with other mature federations, there is a marked imbalance between the taxing capacities and spending responsibilities of different levels of government in Australia. The Commonwealth collects three-quarters of all tax revenues, yet the State and local governments are responsible for half of all government direct expenditures. This 'vertical fiscal imbalance' is redressed by large Commonwealth grants, amounting to over 40 per cent of State and Territory total revenues. Not surprisingly, the size, determination and composition of these grants featured heavily in submissions to the inquiry, especially from State governments.

The States' exceptionally high dependence on Commonwealth transfers to fund their activities blurs the accountability of governments, and undermines fiscal responsibility. It is inimical to sound public sector management, which is a pre-requisite for making Australia and its regions attractive places for business investment. Moreover, the States raise their revenues from often narrow-based and distorting taxes. The report of a Working Party of Commonwealth and State Treasury officials in 1991 supported the view that an increase in the States' responsibility for raising the revenues that they spend would improve accountability, responsibility and efficiency in public sector decision-making. The Working Party indicated that this could be achieved while maintaining a centralised assessment and collection system for major national tax bases.

In the past, the main objection to increasing the States' revenue-raising capacity was that Commonwealth fiscal policy would cease to be an effective tool of macro-economic management. However, the 1993 Premiers' Conference significantly advanced the development of a coordinated approach to fiscal policy, through the preparation of a joint National Fiscal Outlook. That report suggested consideration be given to a range of issues, including expansion of the States' revenue bases.

The Commission recommends that the Commonwealth initiate a program of assessing options aimed at transferring additional revenue-raising capacity to the States (with commensurate reductions in Commonwealth taxes and grants to the States). (Section 10.2.2)

The distribution of general revenue grants between States and Territories according to the principle of *fiscal equalisation* allocates more Commonwealth funds (per capita) to the less populous States than to New South Wales and Victoria. Equalisation payments are intended to give recipient States and Territories the capacity to provide similar levels of public services as the donor States without having to impose higher tax burdens on their residents. Among the factors which influence the assessments are regional characteristics of States, such as the dispersion and socio-demographic composition of their populations, and the cost differences between the States of supplying services to remote communities. Submissions to the inquiry debated whether fiscal capacity equalisation leads to inefficient locational choices by people between States and between regions within them, and affects national economic efficiency.

Its review of the issues, and the lack of conclusive empirical evidence about efficiency costs of fiscal equalisation, led the Commission to the view that, at this time, a case for radical reform of fiscal equalisation has not been established.

Any efficiency costs flowing from the process of fiscal equalisation are likely to be associated with expenditure on public sector programs that involve particularly high spending (per unit) compared with other States and Territories.

The Commission acknowledges that the Commonwealth Grants Commission is continuing to examine those expenditure categories having relatively high unit cost disabilities in particular States and, in order to enhance the transparency of the fiscal equalisation process, suggests that this analysis be given more prominence in its reports. (Section 10.5.3)

Adjustment assistance

Even if impediments to the regional adjustment of industry were removed, there still would be a case for some government assistance to 'oil the wheels' of the adjustment process. Such assistance is best targeted at the retraining and relocation needs of workers.

There is a wide range of government programs intended to facilitate adjustments by workers and firms. Such government spending may amount to around $2 billion per year. The bulk of it is on labour market schemes which apply nationally. Assessments of the effectiveness of these schemes currently are carried out by the agencies that administer them. The Commission found that there is considerable scope for improving the monitoring and coordination of these schemes.

Given the proliferation of labour market schemes and the substantial expenditure involved, the Commission recommends that there be an independent public review of their role and effectiveness. (Section 11.4.3)

While most adjustment schemes are not regionally specific, they clearly have regional impacts. Of concern to the Commission was the lack of data on the regional incidence of most adjustment assistance programs. Even for the major labour market adjustment programs, agencies do not collect information required to assess their effectiveness on a regional basis. Information of this nature will become increasingly important for informed decision-making, especially given the Commonwealth's renewed interest in regional adjustment and development.

The Commission considers that it is essential that DEET and the Office of Labour Market Adjustment regularly publish information, on an appropriate and consistent basis, on the regional incidence of expenditure for all their labour adjustment assistance programs. (Section 11.4.2)

The Commission also considered the case for tailoring adjustment assistance packages to the particular needs of regions. While most adjustment schemes are not regionally specific, they all direct assistance to regions. Since the underlying sources of adjustment failure often are not regionally specific, even if their regional manifestations differ, there is much to be said for maintaining this general approach to adjustment assistance.

Circumstances in which a region-specific approach would seem warranted include where an adjustment shock is large relative to the size of the regional economy and where there is advance knowledge of major adjustment requirements — an example is the withdrawal of US defence personnel from Exmouth in Western Australia. However, a region-specific approach to assisting the adjustment process can present greater management and monitoring difficulties than general measures. It also requires coordination with other programs.

Regional development policies

Regional adjustment can involve reductions in activities in some regions but, understandably, the overwhelming desire of all regional communities is that it should lead to regional growth. To this end, governments have established administrative and other mechanisms that focus on regional development and have implemented a range of programs involving financial and other assistance to attract regional investment.

Traditionally, such measures have been available to non-metropolitan regions generally, in line with concerns to decentralise activity away from the big cities. However, there has been an increasing tendency to provide more selective assistance, particularly for 'problem regions'. The dilemma for governments is that, if assistance does not improve the underlying competitiveness of the region, they may face pressures to provide assistance on a permanent basis.

Competition among the States to attract development projects is to be expected, and can yield important national benefits. But it must be based on underlying competitive advantage and 'good government' (efficiency in administration, regulation and service provision). Ad hoc subsidy deals (such as selective tax exemptions) negotiated with particular companies, carry the danger of bidding wars, which can result in 'negative-sum' outcomes for the nation as a whole.

The Commission considers that, where governments seek to sustain population in particular regions, there are advantages in approaches designed to make the regions concerned more attractive to capital generally — such as by improving regional infrastructure, labour force skills and administrative efficiency — rather than sponsoring individual firms to locate there. (Section 12.4.2)

While Commonwealth influence on regional development generally has been incidental, its involvement was more direct during the early 1970s and has been rising again. State governments raised some concerns about the lack of effectiveness of some Commonwealth programs, and their lack of coordination with those provided by the States. State involvement in regional development is of long standing, but also has increased recently. Regional development organisations, local councils and organisations of councils also are becoming more active in regional policy issues. In order to maximise the benefit to the nation of this increased concern about regional development, it is important that there be greater coordination among all levels of government.

The Commission recommends that Commonwealth programs directed at regional development be developed and implemented in consultation with the States, which also could have greater responsibility for their delivery. (Section 12.4.4)

Tackling the fundamentals

Policies which serve to improve the productivity and underlying cost structure of regional economies are the most likely way of achieving 'win-win' outcomes, locally and for the economy as a whole. This requires the active involvement of all levels of government in reforming labour markets, deregulating transport,

improving infrastructure provision, minimising 'red tape' and, where appropriate, changing local government jurisdictions. Self-help initiatives — involving regional organisations and local enterprise initiatives — can also play a vital role and increasingly are being adopted.

During its visits around the country, the Commission was struck by the commitment of regional communities and businesses in facing up to the challenges that confront them. It also saw many examples where initiative was hampered by regulatory and other impediments. The proposals in this report would facilitate regional adjustment and help regions to realise their potential.

1 THE INQUIRY

1.1 Background to the inquiry

Adjustment by industry occurs continuously, in response to changes in government policies and in market conditions, at home and abroad. The speed and efficiency with which firms adjust to these changes has an important bearing on economic performance and employment opportunities in the regions in which they are located, and in the Australian economy as a whole

In recent years, reforms in government policy directed at making the economy more flexible, productive and internationally competitive, have added to the pressures on some firms to adjust, while at the same time improving the competitive position of others. The pressures for change have not been regionally uniform in their effects: adjustment difficulties within some regions, compounded by the generalised effects of prolonged recession, have become manifest in high levels of unemployment.

There is growing concern that cyclical recovery may not, in itself, bring about sufficient reductions in unemployment, especially in some of the worst affected regions. Increasingly, attention is being directed to the underlying 'microeconomic' constraints on economic growth and employment creation.

Against this backdrop, the Commission has been asked to report on impediments to regional industry adjustment, and ways of facilitating the efficient movement of resources within and between regions of Australia.

This inquiry and report are separate from, but intended as complementary to, the work of the Regional Development Taskforce established in July 1993 by the Minister for Industry, Technology and Regional Development. That Taskforce was asked 'to identify how the regions can best contribute to national economic growth including attracting greater private sector investment' (Griffiths 1993).

1.2 Terms of reference

The terms of reference for this inquiry are set out at the front of this report. Their scope is wide, requiring that the Commission report on impediments to industry adjustment in rural and urban regions that may arise from:

- the provision, quality, access and pricing of infrastructure and government services;

- legislation, regulation, taxation, intergovernmental financial relations and industry assistance policies of Commonwealth, State, Territory and local governments; and
- labour market arrangements, including factors affecting the mobility of people.

The Commission must also have regard to the general policy guidelines set out in the *Industry Commission Act 1989*, which direct the Commission to adopt a broad perspective, taking into account the interests of the wider community. The Commission accordingly has been concerned with ways of facilitating regional adjustment which benefit Australia as a whole, as well as the regions concerned.

1.3 Some key concepts

Three concepts are central to this inquiry — regions, adjustment and impediments.

What is a 'region'?

The term 'region' means different things to different people. Regions can be defined variously by: geography, economic interaction, institutional or governmental jurisdictions, or by social or cultural characteristics.

Some participants in this inquiry have taken a very broad view. Indeed, the Northern Territory Government takes an international perspective and sees the Territory as part of the Asian region (Sub. 87).[1] The (Commonwealth) Office of Northern Development naturally focussed on the large region for which it is responsible — all land north of the 26th parallel (Sub. 26). The South Australian Government argued that the whole State could be regarded as a region:

> Within the national context, the South Australian economy is a regional economy. In terms of its distance from major cities, its population size and concentration, and spread and level of economic activity it is comparable with parts of major eastern States rather than those States themselves. This inquiry can therefore most usefully regard South Australia as one region. Within this regional economy, however, there are 10 'intrastate' regions (plus two pending), each with its own regional development board and facing their own unique challenges. (Sub. 88, p. 1)

[1] Every written submission to the inquiry was given a submission number — they are listed at Appendix A. This form of abbreviation is used throughout the report to refer to particular submissions. Those received after the publication of the draft report are flagged by a 'D'.

The Northern Region Commission (representing six municipalities in the north of Melbourne) emphasised that urban areas cannot be treated as homogeneous. It said that Melbourne has five distinct regions based on the composition of industry (manufacturing, service, etc) (Subs. 90 and 132D).

For many, 'regional Australia' relates to areas outside the capital cities or major towns and is taken as synonymous with 'rural Australia'. For others, a region can be a geographic entity encompassing both urban and rural areas — for example, 'Far North Queensland'. Yet others are concerned about regional centres, like Geelong and Wollongong, which are in economic interaction with large cities in close proximity.

Government agencies adopt a variety of regional classifications that best suit their purposes. The Australian Bureau of Statistics may compile data for States, for Statistical Divisions (65 in Australia), for Statistical sub-Divisions (197) and for Statistical Local Areas (1355), the choice determined by the sample sizes necessary to obtain reliable statistics. The Commonwealth Office of Local Government uses a system of 75 nodal regions, of which 69 are constructed around urban centres of population of more than 10 000 in 1981 while the other six regions have smaller populations: each of some 900 local government areas is allocated to one, and only one, of the 75 regions (EPAC 1989). The Commonwealth Department of Employment, Education and Training (DEET) has developed a classification of 216 'natural labour markets', within which people live and look for work (DEET 1993b): one example is the region around Albury in New South Wales, stretching from Holbrook in the north, to Corowa in the west, and to Beechworth in the south.

At a government level, regions effectively are defined by the boundaries of State and local government responsibility, or by public sector agencies' administrative arrangements. For some purposes, however, interstate cooperative arrangements or agreements exist which can include administrative arrangements applied to areas crossing State boundaries (eg the Murray-Darling Basin Commission). Moreover, within States, there have been established Voluntary Regional Organisations of Councils and Regional Planning and/or Economic Development organisations which cover multiple local jurisdictions.

Historical development of Australia, influenced by its size, as well as differences in natural resources and patterns of economic development, has created distinct social, administrative and political cultures within and between regions of Australia. The importance of Aboriginal and/or Torres Strait Islander communities in many remote regions creates a further source of difference, not only in social and cultural aspects, but also in the nature of economic development. The Northern Australia Research Unit of the Australian National University — referring, in particular, to its studies of Central Australia and the

Kimberley Region — emphasised these aspects (Sub. 97D). In this connection, it also might be noted that under the Aboriginal and Torres Strait Islander Commission legislation, as amended in 1993, there are 36 regional councils to represent Aboriginal peoples' interests in the disbursement of Commonwealth funds and for regional planning purposes.

In keeping with the terms of reference, which refer to impediments to adjustment in both rural and urban areas, the Commission has not attempted to constrain the reference by adopting a particular view of what constitutes a region. It has allowed regions to be defined by what participants see them as being, or what best serves the purpose of addressing particular policy issues.

Adjustment and change

'Adjustment' to change continuously confronts all regions and the people who live and work in them. In some cases, it might involve resources and people moving from one region to another. In other cases, all the adjustment may occur *within* a region through changes in the composition of economic activity. A common feature of all adjustment is that there is some reallocation of the uses or location of workers, capital and land.

In this inquiry, the Commission has taken as given the various pressures for change, whether they result from cyclical or secular events, from government policy changes or from any other cause. In particular, the Commission recognises the importance of the current programs of microeconomic reform (including gradual reductions in import barriers) designed to improve Australia's economic growth and long-term prosperity. The Commission's concern in this inquiry has been with ways of facilitating regional *adjustment* to maximise the benefits from these policy reforms, as well as from other sources of change.

The terms of reference do not require the Commission to examine ways of positively promoting the long-term development of particular regions (the primary focus of the Regional Development Taskforce). However, it is apparent that a region's ability to adjust or adapt to changes in its economic environment will determine its capacity to develop and grow. And it is regional growth which is the main concern of many participants in the inquiry. In recognition of that, the final chapter looks at some pro-active approaches to promoting regional development, and issues that arise in assessing their role.

Impediments

Regional adjustment can be inhibited by influences, such as family and community ties, which are a fact of life. In identifying impediments to regional industry adjustment, the Commission largely has been concerned with factors

which are amenable to government action. Many of them are unintended side-effects of existing policies or practices directed at other objectives. In some cases, they involve issues of national importance that are being debated and reviewed in other forums: this includes the industrial relations system, social security and taxation policy. The Commission recognises the wider dimensions to these policies, but sees its examination of their implications in a regional context as bringing an additional perspective to policy deliberation.

1.4 The inquiry process

In preparing this report, the Commission has used information from a variety of sources.

The Commission released an issues paper in November 1992 (IC 1992e) inviting written submissions on matters raised by the terms of reference. Some 96 submissions were received, primarily from local government bodies and regional organisations. Submissions also were received from all State governments (except one), from the Northern Territory Government, and from numerous Commonwealth Government Departments.

The Commission gathered further first-hand information on regional adjustment experiences, development issues and related problems, during extensive visits to regional areas in all States and the Northern Territory. During these visits, it held informal discussions with representatives from governments, private sector businesses, unions, regional development organisations and community groups. These discussions served as an alternative to the more formal, and generally city-based, initial public hearings which the Commission usually conducts.

A draft report was released on 20 September 1993. It attracted considerable media attention, partly because of the intense debate at that time about proposed reforms to Australia's industrial relations arrangements. Reactions to the draft report were conditioned, in part, by some inaccurate reporting of its contents.

Copies of the draft report were distributed widely. Responses were invited and public hearings were held during October and November 1993, in Darwin, Perth, Adelaide, Gladstone, Ballarat, Launceston, Tamworth and Canberra.

More than 70 submissions were received in response to the draft report, including from the Australian Council of Trade Unions and some of its affiliates, the Commonwealth Department of Industrial Relations, the Commonwealth Grants Commission, State governments and the Northern Territory Government. The Commission has carefully considered its arguments in the light of participants' comments. In a number of areas it has modified its findings and recommendations from those in the draft report.

The information and views provided in submissions were of considerable assistance to the Commission, and it is grateful to all who took part in the inquiry. Those who made submissions, or with whom the Commission held discussions, are listed in Appendix A.

The Commission also has drawn on a wide range of reports, and statistical material, on regions in Australia and on regional adjustment issues (see References), and it has taken into account a number of concurrent studies into regional adjustment. They include, for example, a study (by Kinhill Engineers Pty Ltd) for the New South Wales Country Mayors' Association on the adequacy of government resources provided to non-metropolitan areas, and a report on trends, policies and issues relevant to regional development prepared by the Standing Committee on State Development of the Legislative Council of the Parliament of New South Wales.

Just prior to this report being completed, the Commonwealth Government released a Green Paper, 'Restoring Full Employment'. Despite its relevance to this inquiry, the Commission did not have the opportunity to consider the paper in any detail. The report of the Regional Development Taskforce was scheduled for release in the week following completion of the Commission's report, as was an issues paper for the Australian Urban and Regional Development review, initiated in September 1993 by the Department of Housing, Local Government and Community Services.

This final report was completed by 18 December 1993, as required by the Commission's terms of reference.

1.5 Structure of the report

The next chapter of this report provides an overview of regional economic change in Australia, using mainly State data but also drawing on what sub-State regional information was available.

In Chapter 3, the different pressures for regional change are described, together with a variety of adjustment mechanisms which affect the way labour, capital and land are used. The role of government is emphasised.

The Commission analyses some labour market issues bearing on regional adjustment in Chapters 4, 5 and 6, including: key aspects of labour mobility; whether scope for greater variation in work practices and other influences on unit labour costs would assist regions cope with pressures for change; and the effectiveness of government labour market programs, including retraining initiatives and wage subsidy schemes.

A range of government policies and regulations that increase the cost or difficulty of relocating activities is discussed in Chapter 7. These impediments include land use restrictions and the costs of approval processes for new projects. In Chapter 8 the importance to regions of the availability and price of transport, telecommunications and financial services is covered, as is the impact on remote regions of the fringe benefits tax.

Adjustment issues associated with the provision and pricing of infrastructure and government services are examined in Chapter 9. It covers the importance of efficient provision and pricing to improved resource use within and between regions; the responsiveness of infrastructure and government service providers to community and industry needs in growing regions; and the problems created for the efficient provision and pricing of infrastructure in regions experiencing economic decline and population outflows.

In Chapter 10, the Commission examines the impact of the current system of intergovernmental financial relations on regional growth and prosperity. The focus is on whether the allocation of tax powers and the process of redistribution of Commonwealth tax revenue among the States encourages or retards the efficient distribution of economic activity across regions.

In Chapter 11, the Commission looks at adjustment assistance programs — both those designed to encourage people or firms to adjust to change and those intended to help ameliorate hardship created by change — and asks how appropriate they are to different regions.

Finally, regional development policies are briefly reviewed in Chapter 12 and some issues are raised about their effects on regions and the economy more generally.

Volume 2 of the report contains supporting appendices.

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2 REGIONAL ECONOMIC CHANGE IN AUSTRALIA

There is considerable diversity between States and between regions in industry composition, employment growth and population growth. Change confronts all regions continuously. Its effects have been more acute in recent years when the impact of economic recession has been superimposed on longer-term structural changes.

2.1 Introduction

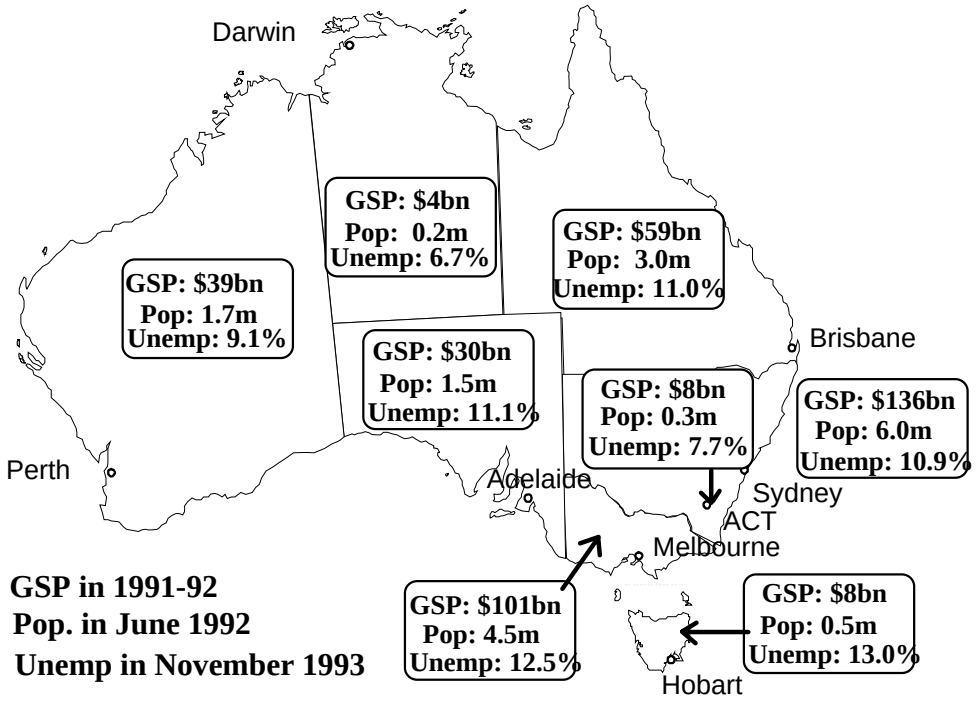
Pressures for structural change, created both by changing market requirements and by policy reforms, have coincided with a severe recession in Australia in recent years. The effects on people have been substantial, and they have been different depending both on the source of people's employment and on where they live. Some regions, especially those with broadly based economies and those enjoying high prices for their products, have weathered the recession far better than others. In contrast, some regional economies have contracted.

There is considerable variation around Australia in personal incomes. At the time of the last population census they varied from an average of over $26 000 in the booming mining area of the Pilbara to half this level in some areas of South Australia. There is even wider variation in unemployment rates, although it should be said at the outset that a low unemployment rate does not necessarily indicate a thriving region.

In 1991–92, Australia's Gross Domestic Product (GDP) totalled $386 billion. New South Wales and Victoria were the leading contributors to this output, producing more than 60 per cent of the total. Their shares have fallen a little in the past decade, reflecting the strengthening of the economies of Western Australia and Queensland, both of which have benefited greatly from the exploitation of mineral and energy resources and, in Queensland's case, from the expansion of tourism. The values of production and levels of population and unemployment for the individual States are shown in Figure 2.1.

The economic characteristics of the various States and Territories are reflected in the levels of income attained by their residents. Such differences reflect a range of factors including the level of employment and the nature of the production in each region. This chapter examines some of those factors and the ways they have changed in recent years.

Figure 2.1: **Gross State Product (GSP), population and unemployment**



Shares of States and Territories in Australia's GDP, 1981– 82 and 1991– 92 (per cent)

	1981–82	**1991–92**
New South Wales	36.0	34.8
Victoria	27.3	26.0
Queensland	15.0	15.5
South Australia	7.5	7.7
Western Australia	8.9	10.4
Tasmania	2.4	2.2
Northern Territory	1.0	1.1
Australian Capital Territory	1.9	2.3

Sources: ABS 1993g, 1993i and 1993l

Table 2.1: **Ranges of personal income and unemployment rates**

Region	*Range of average personal incomes in 1991 — **highest first**, lowest second*	*Range of unemployment rates in June 1993 — **highest first**, lowest second*
New South Wales	**$20,399 Sydney** $14,197 Mid-North Coast.	**21.2 per cent Walgett** 4.2 per cent Cooma-Monaro.
Victoria	**$18,881 Melbourne** $14,471 Wimmera.	**22.1 per cent Maryborough** 4.7 per cent Bright.
Queensland	**$20,563 North West Statistical Div** $13,864 Wide Bay - Burnett region.	**26 per cent Burke** 3.1 per cent in McKinley.
South Australia	**$17,244 Adelaide** $13,244 Yorke and Lower North area.	**18.1 Coober Pedy** 2.5 per cent in Tatiara.
Western Australia	**$26,425 Pilbara** $15,150 Lower Great Southern area.	**12 per cent Mandurah** 1.6 per cent in Sandstone.
Tasmania	**$17,194 Hobart** $14,482 Southern region.	**20 per cent Fingal** 4.3 per cent on King Island.
Northern Territory	$21,313	**16.1 per cent Tennant Creek** 3 per cent in Alice Springs.
Australian Capital Territory	$23,295	6.7 per cent.

Source: For income data (which are for Statistical Divisions) see Appendix Table C.1. The unemployment data (which are for Natural Labour Markets) come from DEET 1993f

There is a lack of comparable data at the sub-State regional level in Australia. Much of the content in this chapter is accordingly focused on the State level. In Appendices B, C and D there is further material examining differences between smaller regions. Appendix D, in particular, examines the experiences of a number of special regions around the nation.

2.2 Output and incomes around Australia

2.2.1. Output

Even at the State level, there are noticeable differences in the types of activity undertaken around Australia. Western Australia and the Northern Territory, for example, are noteworthy for their dependence on mining. As a consequence,

their economies are likely to be sensitive to fluctuations in world markets for minerals. Manufacturing is especially important in Victoria, South Australia and Tasmania — see Table 2.2. These States, in consequence, are sensitive to changes in assistance to manufacturing. New South Wales and the Australian Capital Territory stand out as the areas most heavily involved in services. Activities such as *finance, property and business services*, and many areas of government, are concentrated in the State capitals.

Table 2.2: **Sectoral shares in Gross State Product, 1991-92** (per cent)

Sector	*NSW*	*Vic*	*Qld*	*SA*	*WA*	*Tas*	*NT*	*ACT*	*Aust*
Agriculture, forestry, fishing etc	2.4	3.1	4.3	4.5	4.0	5.5	3.7	0.1	3.2
Mining	2.1	3.9	6.6	2.8	16.2	2.1	20.8	0.1	4.9
Manufacturing	14.8	18.2	11.6	18.2	11.3	16.0	4.6	2.2	14.7
Electricity, gas and water	3.7	4.3	3.6	2.7	3.3	5.2	2.7	1.8	3.7
Construction	7.0	6.3	8.6	6.9	8.1	7.4	9.4	7.3	7.2
Services	70.0	64.2	65.3	64.8	57.1	63.8	58.7	88.4	66.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: ABS 1993i

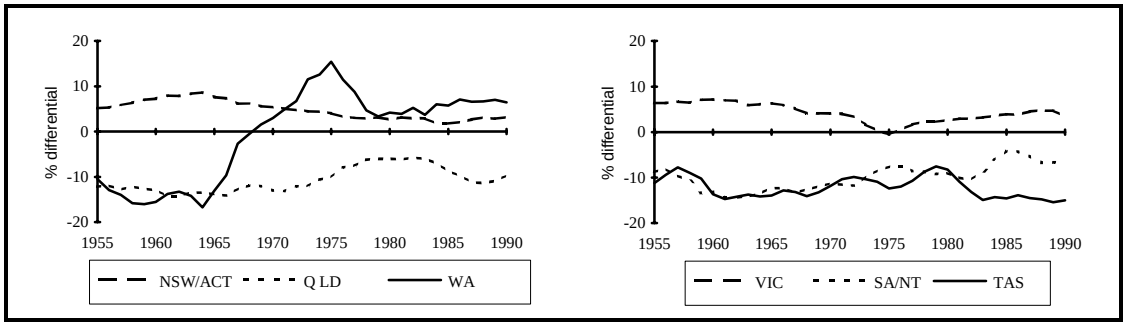
At the State level of aggregation, rural industries play a relatively small role — only in Tasmania, where forestry and fishing are important, do they account for more than 5 per cent of GSP. However, for many non-metropolitan regions, agriculture is the dominant activity.

There have been marked differences in levels of *output per head*. Harris and Harris (1991) found that since the 1950s, New South Wales and Victoria (except in one year) had real GSP per head above the national mean for all years; while Queensland, South Australia and Tasmania had real GSP per head below the national mean for all years. In Western Australia, GSP per head was below the national mean until 1967-68 and above the national mean in subsequent years, reflecting a surge in mining activity and output.

Figure 2.2 illustrates these variations over the last 35 years and indicates growth rates relative to the Australian average. States with upward trends (Western Australia, Queensland and South Australia/Northern Territory) grew more strongly than the national average during those periods, and those with downward trends grew by less than the average.

The faster growth of South Australia/Northern Territory in the early 1980s is probably associated with mining developments in the Northern Territory. In Queensland, while GSP grew at a rate well above the Australian average, so too did population, with the result that the growth of GSP per head was just above the Australian average. In Tasmania the converse happened.

Figure 2.2: **Differences from the national average GSP per head 1955-90, by State[a]**



a Using three year moving averages centred on the middle year.
Note: NSW data includes the ACT and SA data includes the NT.
Source: Harris and Harris 1991

For the decade to 1991–92, New South Wales, Victoria and Tasmania all grew more slowly than the nation as a whole. The two Territories and Western Australia had considerably higher growth rates (see the first chart in Figure 2.3.)

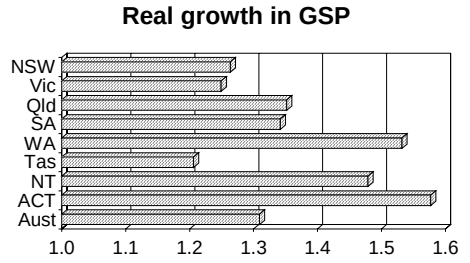
Agriculture, forestry, fishing and hunting have grown slowly in most States, with important consequences for growth of income in many non-urban regions. Mining, on the other hand, has expanded quickly, especially in South Australia (from a very low base) and Western Australia. But in many of the centres visited by the Commission there was concern that the development associated with new mining ventures might not be sustained in the longer term. In Tasmania, mining is contracting.

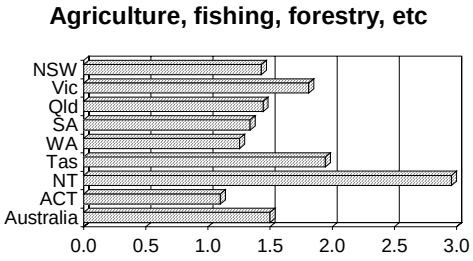
Manufacturing has grown slowly (except in the Northern Territory), at rates below those of the State economies as a whole.

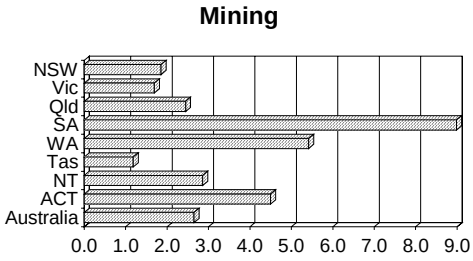
Probably the most striking change in the national composition of industries is in services. From just about 48 per cent of GDP in the early 1960s, services have grown to be 66 per cent of GDP. In part, this reflects a greater specialisation in other sectors as they contract for services previously performed in-house. In addition, there has been expansion in tourism, and social and community services are now much more prominent. (The provision of services is discussed in Chapter 8.)

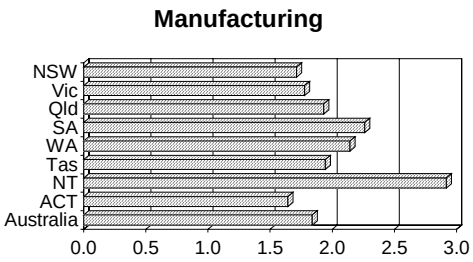
Figure 2.3: **Ratio of output in 1991–92 to that in 1981–82**

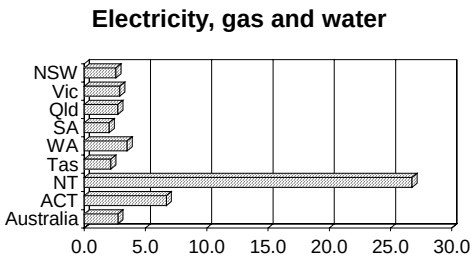
The chart on the right shows real growth. The other charts are in current value terms so the bar lengths represent *nominal* growth in output. Comparison of the bar lengths provides a guide to the differing experiences of the various States and Territories.

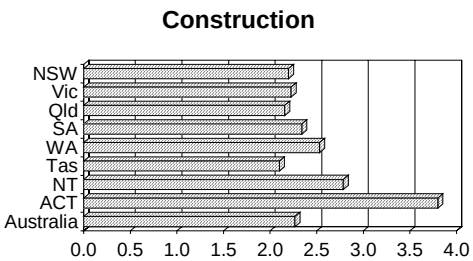


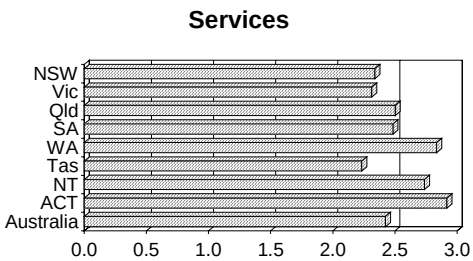












Note: Some growth experiences (such as Electricity, gas and water in the Northern Territory) reflect a very low initial base vis-a vis other States.

Source: ABS 1993i and 1993h

The services sector has been the major source of growth for Australia as a whole (see Table 2.3). Only in the Northern Territory and Western Australia (where mining has been of great importance in development) has its contribution been much below 70 per cent of the total. Agriculture, forestry and

fishing have made only a very small contribution and in real terms their share has shrunk. Manufacturing industry's contribution to growth was highest in South Australia, Victoria and Tasmania.

Table 2.3: **Contributions to growth, by industry sector, 1981–82 to 1991–92** (per cent)

Sector	*NSW*	*Vic*	*Qld*	*SA*	*WA*	*Tas*	*NT*	*ACT*	*Aust.*
Agriculture, forestry, fishing etc	1.2	2.4	2.2	1.9	1.2	4.8	3.9	0.0	1.8
Mining	1.7	2.8	6.5	4.1	20.4	0.6	21.3	0.1	5.2
Manufacturing	10.8	14.0	9.3	17.0	9.3	14.0	4.8	1.3	11.4
Electricity, gas and water	3.9	4.9	3.8	2.3	3.6	5.1	4.2	2.3	4.0
Construction	6.7	6.1	7.7	6.6	7.6	7.0	9.5	8.2	6.9
Services	75.7	69.8	70.5	68.1	57.8	68.4	56.5	87.9	70.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: The figures are derived from estimates of growth for each industry sector, weighted by the share of that sector in the individual State's total production. Thus, for example, in the last decade, manufacturing accounted for 11.6 per cent of Queensland's production, but only 9.3 per cent of growth. Note that the data have not been deflated so should be used only for comparison of relative contributions to growth.
Source: ABS 1993i

2.2.2 Incomes and the cost of living

Variations between the States in the levels of income per head differ somewhat from those observed between levels of output per head. One reason for this is that profits and royalties (from mining especially) do not necessarily increase the personal income of the residents of the States or Territory where the mining is carried out. Average levels of household income in each of the States are compared with the Australian average in Table 2.4.

With regard to fluctuations in per capita incomes, Maxwell and Hite concluded that:

> income movements ... over our 35 year period of analysis have been quite variable. They obviously reflect differences in regional business cycles which are related to differences in industry structures and size between the States but it is difficult to isolate any longer term movements towards greater relative affluence or decline ...

> ... apparently cyclical movements in income inequality may well be consistent with a corresponding long-wave business cycle phenomenon (Maxwell and Hite 1993, pp. 13, 17).

Table 2.4: **Per capita household incomes as a percentage of the national mean, selected years from 1953–54 to 1989–90**

	1953–54	*1959–60*	*1965–66*	*1966–67*	*1974–75*	*1989–90*
NSW	101.7	102.2	101.6	102.6	103.0	105.8
Vic	106.2	107.4	107.9	106.3	100.3	104.2
Qld	91.1	91.3	90.9	90.9	93.7	87.9
SA	98.3	93.5	92.8	91.7	98.7	92.7
WA	94.5	86.5	94.7	94.6	98.5	92.2
Tas	84.7	88.1	87.9	87.6	87.8	86.5

Source: Maxwell and Hite 1993, p. 12

The study suggests that although there are differences between the States in household incomes per head, these are long-standing and appear not to be widening. Another recent study of differences between Australia's States and Territories concluded that income differences are much less marked in Australia than between the regions of Canada (Courchene 1993).

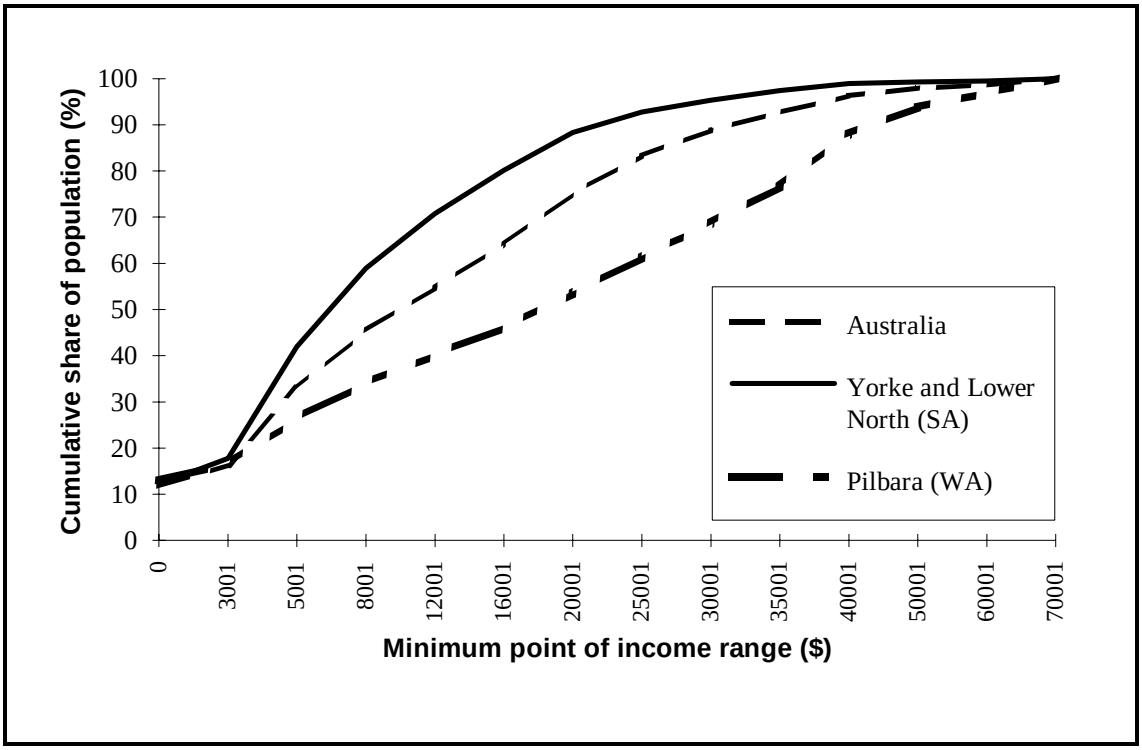
There are much more marked *regional* differences in personal income in Australia. Appendix C (Table C.1) provides estimates of average individual incomes in different regions in 1986 and 1991, derived from the population censuses of those years. It reveals the regions with lowest income to be in South Australia, along the northern coast of New South Wales and around Bundaberg in Queensland. At the other end of the scale are Canberra, Darwin and the Pilbara region of Western Australia, with average incomes per head 80 to 90 per cent higher than in the lowest regions. The State capitals were generally within a few percentage points of the Australian average.

Examples of contrast in income structures are the Yorke area of South Australia and the Pilbara of Western Australia which are compared with the Australian national picture in Figure 2.4. In the Yorke area, there is a much higher proportion of the population on low incomes than is average throughout Australia. The Pilbara presents exactly the opposite picture, with many high income earners.

As a general observation, there was not a great deal of movement in the income rankings of regions between the two censuses. Only six of the 62 regions shown in Appendix C moved in rank by more than ten places.

Differences in the cost of living in different regions around Australia are not well documented. Clearly, there are many costs associated with isolation, especially as the cost of transport is built into so many goods and services. For

Figure 2.4: **Cumulative income shares for Australia and two selected Statistical Divisions, 1991**



Source: ABS 1993d

the capital cities, there is some information to be gained from the consumer price index. Over the past ten years this has risen a little faster in Adelaide, and a little slower in Darwin, than the weighted average for the capital cities.

Food prices changed fairly consistently around the capitals but for each of the other seven categories of goods covered by the index there were wide variations. For example, over the ten years ended September 1993, the weighted average index for *health & personal care* rose by 44.1 index points. For Adelaide the increase was 56.7 points and for Sydney 36.3 points. The *clothing* index rose by 29.2 points in Darwin, but 45.3 points in Perth.

House prices provide one direct measure of different living costs. In August/September 1993, the median house price in Sydney was $188 000 — the highest by far of all the capital cities, 30 per cent more than the Melbourne median price and 80 per cent more than in Perth. Within States there also were

wide differences. For example, in Newcastle the median price was only two-thirds of that in Sydney. In Queensland, median house prices in tourist destinations such as Cairns and Noosa were well above those in Brisbane. But prices in other Queensland cities such as Townsville, Gladstone, Rockhampton and Bundaberg are significantly lower than in the State capital.

Table 2.5: **Median house prices and rents in selected cities, August-September 1993**

City	*Median*		*City*	*Median*	
	House price $'000	*Rent $*		*House price $'000*	*Rent $*
Sydney	188	200	Townsville	119	175
Canberra	159.5	180	Mackay - City	118	155
Gold Coast	149	200	Townsville - City	118	
Darwin	147.5		Adelaide	112	145
Sunshine Coast - Noosa	147		Brisbane - Redcliffe	109	
Melbourne	145	145	Hervey Bay	108	140
Brisbane - City	143	160	Toowoomba	107	155
Cairns - Mulgrave Shire	142		Perth	105	140
Cairns - City	139	200	Hobart	105	140
Brisbane - Redland Shire	136		Brisbane - Caboolture	103	
Alice Springs	131		Gladstone	100	145
Brisbane	125	155	Rockhampton	100	155
Sunshine Coast - Maroochy	125	165	Brisbane - Ipswich City	90	
Mackay - Pioneer Shire	122		Bundaberg	88	135
Brisbane - Pine Rivers Shire	121		Maryborough	83	
Newcastle	120	160	Launceston	78.5	140

Note: Rent shown is for a three bedroom house.

Source: Real Institute of Australia Ltd 1993 and The Real Estate Institute of Queensland Ltd 1993.

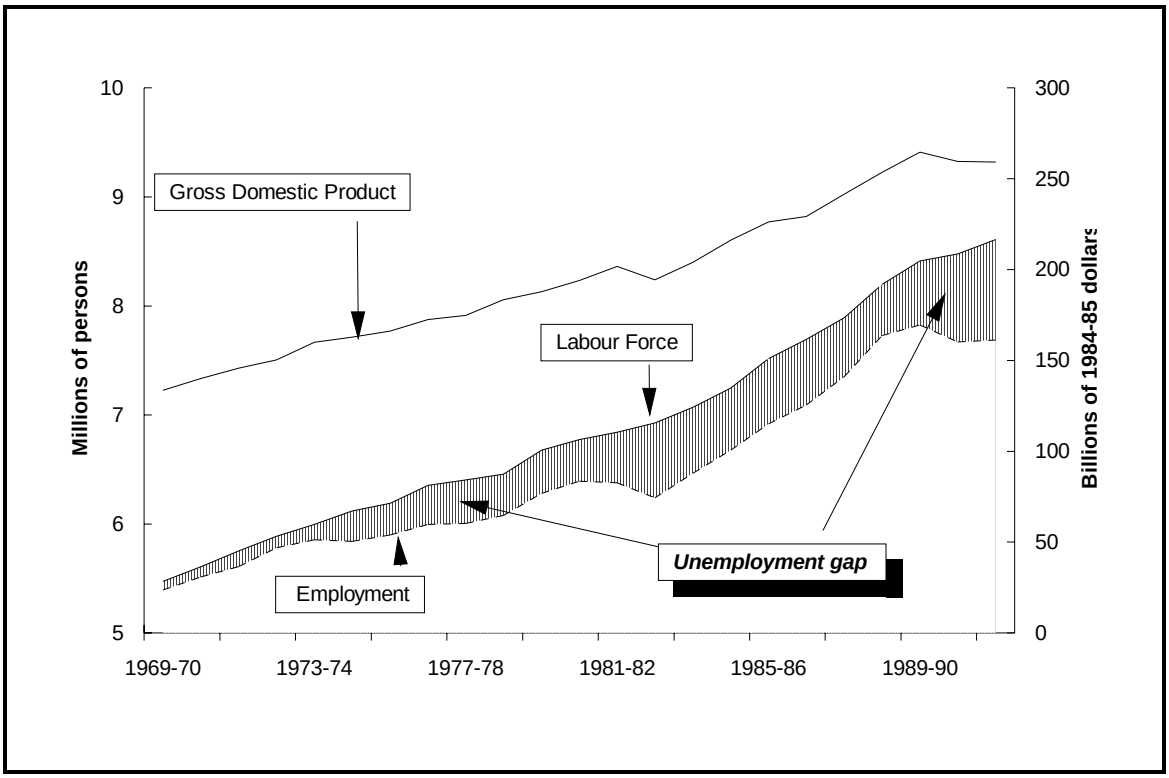
Appendix C provides other indicators of cost of living differences around Australia.

2.3 The labour force and employment

Throughout the 1970s and 1980s the labour force grew steadily (see Figure 2.5), albeit accompanied by a fall in employment in the recessions of the early 1980s and 1990s. These recessions have, as shown in the figure, created a substantial and sustained unemployment gap. The figure highlights that unemployment has

peaked during recessions and fallen during recovery periods, but not to the levels of previous booms.

Figure 2.5: **Real GDP, labour force and employment, 1970–92**



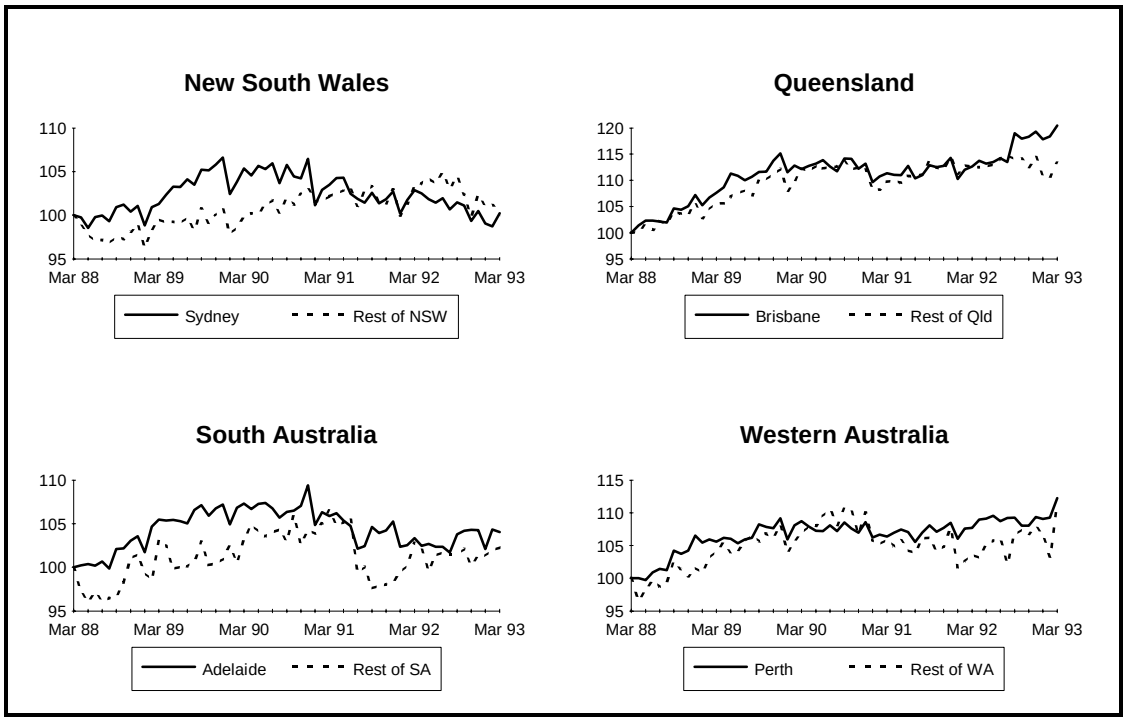
Source: IC 1992d

Developments in employment growth (and decline) have differed between and within some States, as illustrated in Figure 2.6. In New South Wales and South Australia the pattern of employment in country areas and smaller cities has often been very different to that of the capital cities. (Tables in Appendix B show more detail for individual regions.)

For the nation as a whole, employment rose by 1.4 million during the past decade — see Table 2.6. With the exception of the construction sector, the whole of this increase was in the various service sectors, especially community services and recreation, personal and other services. The major public utilities — electricity, gas and water, post and telecommunications, and public transport — saw large falls in employment, especially in New South Wales and Victoria. While most of this change would have been in the capital cities, the Commission found during its visits that programs to improve the efficiency of

these enterprises often have significant local effects. For example, there are many country towns affected by the loss of railway facilities.

Figure 2.6: **Employment: selected capital cities compared with the rest of their States** (index: March 1988 = 100)



Source: ABS 1993l

The agriculture, forestry, fishing etc; mining; electricity, gas and water; and manufacturing sectors all experienced reduced employment over the past decade. In the agricultural sector, employment increased by 4 per cent in the five years to 1988 but fell a similar amount in the subsequent five years. Manufacturing employment rose by 6 per cent in the first half of the decade but that was more than offset by a 10 per cent fall during the past five years; Queensland was the only State where manufacturing employment increased. Employment in the electricity, gas and water sector has declined steadily since 1983. Details of employment changes are provided in Appendices B and C.

The growth of employment in the past decade has been unevenly spread among the States and Territories and over time. In gross terms the most significant rise was in Queensland; Queensland, Western Australia and the Australian Capital Territory all had growth rates well above the national average — see the last two lines of Table 2.6. Three-quarters of the expansion occurred from 1983 to 1988.

In the years 1988 to 1993, Victoria had no employment growth and in Tasmania employment fell. These changes are shown in more detail in Appendix C.

Table 2.6: **Employment changes, August 1983–August 1993** ('000s)[a]

Sector	*NSW*	*Vic*	*Qld*	*SA*	*WA*	*Tas*	*NT*	*ACT*	*Aust*
Agriculture, forestry,	4.6	-2.3	-6.1	4.6	-4.3	2	0.3	1.0	-0.2
Mining	1.9	-2.6	-2.4	-0.6	6.6	-0.7	-3.9	-0.1	-1.8
Manufacturing	-24	-50.6	29.7	-11.8	10.2	-2.2	0.5	1.0	-47.1
Electricity, gas and water	-15.3	-10.7	-5.4	-2.7	-2.4	-3	-0.7	0.1	-40.2
Construction	67	16.5	43.4	8.8	31.3	2	-1	3.3	171.3
Services	370.1	305.4	321.1	105.5	170.6	24.3	19.3	45.3	1361.7
Total	404.3	255.7	380.3	103.8	212	22.4	14.5	50.6	1443.7
Increase (per cent)	**18.9**	**15.3**	**38.8**	**19.3**	**36.9**	**13.6**	**24.3**	**46.9**	**23.1**

a The end periods chosen are both times of relatively low employment. In August 1983 employment was close to the bottom after falling over the previous year. In August 1993 employment was low compared with its most recent peak in mid-1990.
Source: ABS 1993l

2.3.1 Unemployment, underemployment and discouraged workers

In June 1993, Australia had a labour force of 8.7 million (in seasonally adjusted terms) of whom 966 400 (or 11.1 per cent) were looking for work. Unemployment rates in the various States in 1993 are compared in Figure 2.7. Here the two Territories stand out, with unemployment levels very much below the Australian average. In contrast, Tasmania had relatively high unemployment, as has been the case for many years. Victoria has experienced a large surge in unemployment since 1990, suggesting major adjustment in that State.

In many regional centres visited by the Commission, it was told that official unemployment estimates for the regions did not accurately reflect the local adjustment problem. A common view was that people often were forced to take jobs for which they were over-qualified. It also was claimed that in some regions, job prospects were so poor that people opted out of the labour force.

There is some empirical support for these views. The Australian Bureau of Statistics (ABS) reports that in May 1991 there were around 7.7 million employed persons aged 15 and over. Of these, about 7.3 million were fully employed and over 457 000 reported that they were underemployed. The vast

majority of the underemployed were part-time workers who indicated that they would prefer to work more hours (ABS 1993k, p. 66).

Figure 2.7: **Rates of unemployed, by State, at June 1993**

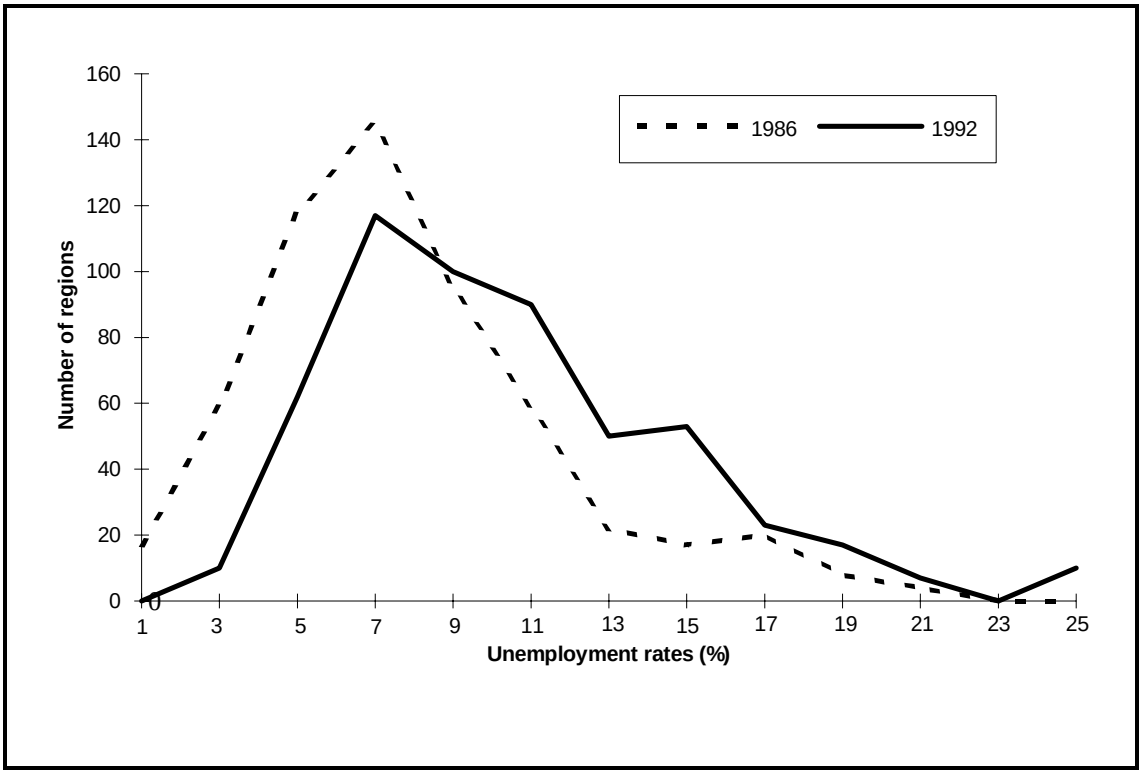
Note: The figure uses trend estimates of seasonally adjusted data. With this technique estimates for the latest months are subject to revision as additional observations become available. After three months such new observations have a negligible impact. The data used is from the November 1993 edition of the ABS publication.
Source: ABS 1993l

A closer look at what is happening in the 'regions' reveals persistent differential rates of unemployment (Figure 2.8). The figure indicates a long tail of regions with unemployment levels above the national average.

The Commission examined the dispersion of regional unemployment rates across 60 small area labour markets for 1984 and 1992 (DEET 1993d). The selected years were both low points in the business cycle and were times of very high unemployment. The analysis indicates that the range of unemployment rates increased over the period as did the average rate (from 9.1 per cent to 10.6 per cent) and the median rate of unemployment (from 8.8 per cent to 10.6 per cent). However, a statistical measure of dispersion in unemployment rates across the 60 regions fell slightly over the period. Referring to Figure 2.8, this means that the distribution shifted to the right, but dispersion of unemployment levels around the regional average declined somewhat.[1]

[1] The coefficient of variation (CV) measures regional dispersion in unemployment relative to the regional average unemployment rate. The Commission's results show that the CV fell from 30 to 27 per cent over the period 1984 to 1992 (and from 34 to 27 per cent over the period shown in Figure 2.8). Another study (Andrews and Karmel 1993), using a data set similar to that used in Figure 2.8, came to the opposite conclusion — that there had been increasing dispersion of unemployment rates among Australian regions. However,

Figure 2.8: **Distribution of unemployment rates by region, 1986 and 1992**



Source: Dawkins 1992

A similar exercise was also undertaken for 1987, a boom period. As expected, the average and median rates of unemployment across regions were lower — but the dispersion, as measured, was higher. The lower dispersion in regional unemployment in the recession relative to the boom is not unexpected and has similarities to the recent narrowing in long-term unemployment rates between city and country regions, described in Chapter 6.

The pronounced dispersion across regions shown in Figure 2.8 raises questions. Adjustment problems are usually associated with regions having high unemployment rates. However, if people have moved out of a region because of poor job prospects, the unemployment rate may be low, while the region continues to suffer adjustment problems. For example, the Isisford Shire Council submitted that:

> ... the recent 'One Nation Statement' released millions of dollars to areas with high unemployment when a more detailed look would have revealed that people who are

this could be accounted for by their use of the standard deviation, which is a scale dependent measure.

> unemployed do not stay in small Western Queensland towns such as Isisford, they move to the coastal strip. Hence Isisford has no unemployment and the unemployed from this area contribute to the woes of the coastal cities and the population drift continues. (Sub. 6, p. 1)

Some light is thrown on this observation by recent work by the Department of Employment, Education and Training (DEET) in identifying 'Natural Labour Markets' (NLMs) for Australia and then examining the characteristics of those markets (DEET 1993b).[2] One result has been the ability to rank NLMs according to levels of unemployment and the duration of unemployment. Some of these results are summarised in Table 2.7.

Table 2.7: **Unemployment in selected Natural Labour Markets, June quarter 1992**

Highest unemployment rates		*Highest long-term unemployed*		*Lowest unemployment rates*	
NLM	(%)	NLM	(%)[a]	NLM	(%)
Broome (WA)	24.2	Coober Pedy (SA)	67.1	Burke (Qld)	2.3
Diamantina (Qld)	24.2	Roxby Downs (SA)	50.0	Yilgarn (WA)	3.1
Tennant Creek (NT)	22.8	Walgett (NSW)	47.4	King Island (Tas)	3.1
Maryborough (Vic)	22.4	Yalgoo (WA)	47.1	Coonalpyn Downs (SA)	3.5
Walgett (NSW)	21.2	Fingal (Tas)	44.0	Taroom (Qld)	3.6
Boulia (Qld)	20.7	Central Yorke (SA)	42.9	Lake Grace (WA)	3.6
Coober Pedy (SA)	20.3	Tasman (Tas)	42.9	Balonne Qld)	3.7
Fingal (Tas)	20.1	Barcoo (Qld)	42.4	Ashburton (WA)	3.7
Murchison (WA)	18.0	Oatlands (Tas)	42.1	McKinlay (Qld)	3.9
Mandurah (WA)	17.9	Whyalla (SA)	40.3	Kimba (SA)	3.9

a That is, the number of people unemployed for 52 weeks or more expressed as a percentage of the total number unemployed. Long term unemployment is discussed in Section 6.2.
Source: DEET 1993b.

In part, the results serve as a warning against using unemployment data alone as an indicator of adjustment problems. Several of the NLMs shown in the first two columns have a high proportion of Aborigines — for example, they account for 43 per cent of the population in the Kimberley region, which includes Broome. That implies a complex set of issues, quite different from the adjustment problems of many other regions of Australia. Special employment support schemes for Aboriginal communities (described in Appendix H) are one way in which these have been addressed.

[2] DEET defined 216 Natural Labour Markets on the basis of geographic considerations such as the size and location of towns and cities and the quality of road and rail links. Boundaries are determined by Local Government Areas and Statistical Local Areas so the data for these areas can be aggregated to provide labour market estimates for NLMs.

In contrast, some regions with low unemployment rates also have adjustment problems. During its visits, the Commission was told by residents of King Island and Lake Grace of severe difficulties in their regions: residents have departed because there is little chance of work.

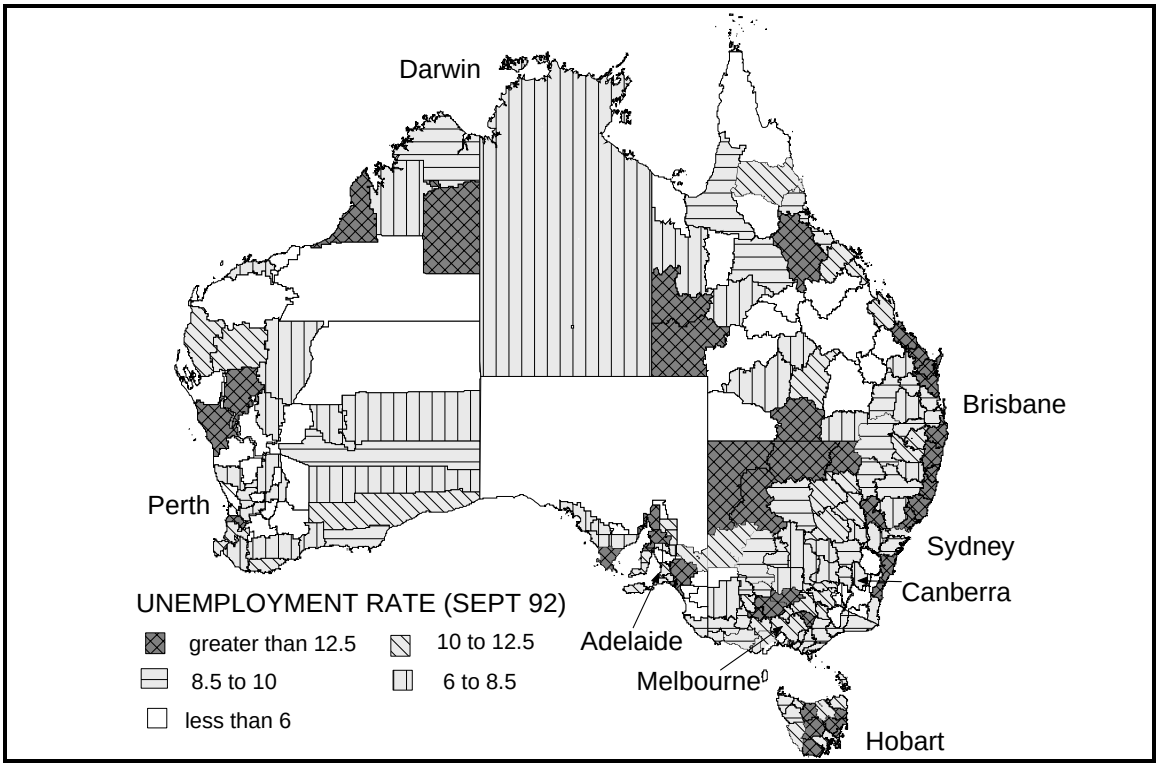
The Isisford Shire Council, quoted above, falls in DEET's Barcoo NLM. It has one of the nation's highest long-term unemployment rates (see column two above). However, its total unemployment rate in the June quarter 1992 was only 4.4 per cent, placing it number 200 (out of 216) in DEET's ranking of regions from highest to lowest unemployment rate.

Unemployment rates in September 1992 over the whole of Australia are shown in Figure 2.9. Ignoring the largely uninhabited areas in the centre of the continent, it can be seen that the NLMs with higher unemployment are in the capital cities and clustered along the eastern coast.

Chapters 4 to 6 note that variations in regional unemployment can be partly attributed to labour market institutional arrangements. DEET, for example, noted that adjustment at the national and regional levels is a dynamic process and that more flexible labour markets would allow regions to adapt to changing circumstances. DEET added that:

> If adjustment processes were ideal, then we would expect only short lived fluctuations in regional unemployment rates. (Sub. 71, p. iii)

Figure 2.9: **Unemployment rates, by Natural Labour Markets**



Source: DEET 1993b

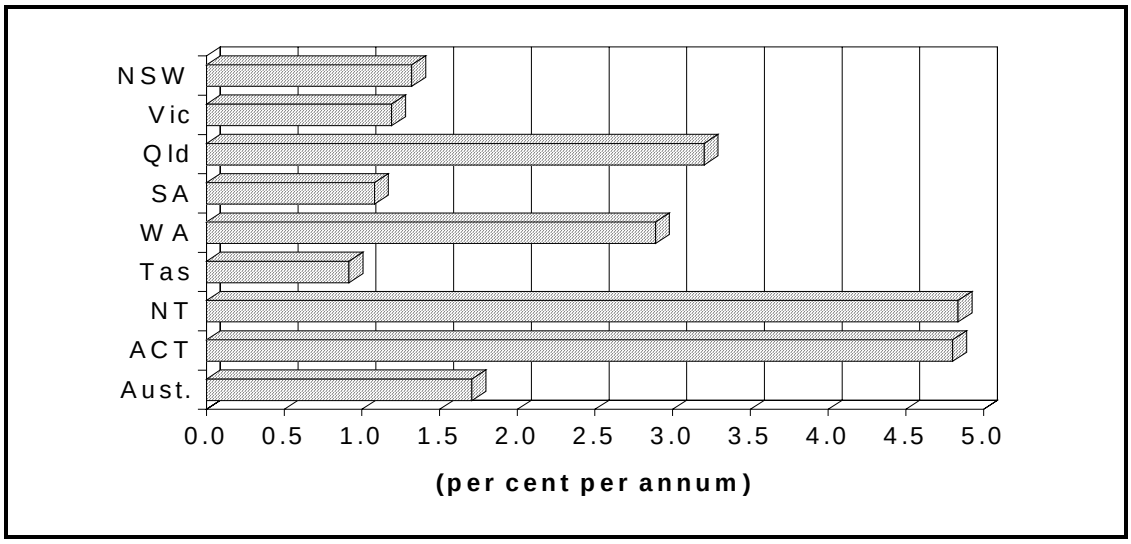
2.4 Population changes

2.4.1 Growth of population

Over the last two decades, Australia's population has grown by an average of 1.7 per cent each year. Growth has now slowed to well below 1.5 per cent a year. The 20-year growth rates varied considerably from less than one per cent in Tasmania to nearly 5 per cent in the Northern Territory and the Australian Capital Territory (see Figure 2.10).

There are marked regional differences in the composition of the population. The Northern Territory, in particular, has a much younger population than the rest of Australia. For individual regions, the age structure is likely to be determined by work opportunities, the climate and availability of support services. In many agricultural regions, the Commission was told that the lack of educational and job opportunities led young people to the capital cities and other major centres. The age structure of country towns is often very different now to that a few decades ago. The changing age structure of one region was highlighted in the submission from the Cowra Shire Council (Sub. 80). The Council said that in the last few years this area has developed a number of strong new industries to replace declining activities, but is now facing the possibility of population falling from 11 700 to 10 200 over the period 1991 to 2016. A major aspect of this is a projected fall in the share of population of child-bearing age (24 to 39 years) from 47 per cent in 1986 to around 34 per cent in 2016.

Figure 2.10: **Population growth 1972 to 1992**



Source: ABS 1993f

2.4.2 Internal migration

Over the years Australian governments have introduced many schemes designed to encourage settlement in new areas and outside the capital cities. Soldier settlement schemes, irrigation projects, growth centres, and new land farms in Western Australia, have all been promoted at various times. Movement to the towns and cities, from rural areas in particular, can be attributed to labour-shedding technologies, falling incomes and (according to many of those with whom the Commission met) reduced access to services such as education and health. Of the 242 municipalities (out of 849) in Australia where population fell between 1986 and 1991, 87 per cent were in country areas.

Mobility within Australia has recently been the subject of two major studies, based on population census data, by Flood et al (1991) and Salt (1992). Flood found that gross population movements tended to be determined by the prevailing economic conditions, whereas net migration tended to be dominated by people moving in response to lifestyle changes.

Salt (1992) looked in more detail at the geography of the movements in non-metropolitan Australia, essentially at the level of Local Government Areas. The study highlighted the process of *net migration loss* from remote regions and many inland townships in the wheat/sheep zones, particularly in the Central West and Murrumbidgee in New South Wales, the Wimmera in Victoria, the Eyre Peninsula in South Australia and the wheatbelt in Western Australia.

For eastern Australia, he found that migrants from rural and remote regions are more inclined to migrate to other such regions than to capital cities, whereas in Western Australia, South Australia and the Northern Territory, migrants are more likely to go to the capital cities.

Some inland centres such as Mildura, Dubbo, Tamworth, Wodonga and Bendigo have grown and there was a remarkable *net migration* to the eastern coastal strip stretching from Eden, south of Sydney, to the Sunshine Coast, north of Brisbane. People moving to these areas included a disproportionate number in the retirement or near-retirement age groups.

The mobility of labour is discussed in some detail in Chapter 4. More general information on regional developments within each State and in the Northern Territory is provided in Appendices B and C.

3 THE PROCESS OF REGIONAL INDUSTRY ADJUSTMENT

'Adjustment' to change continuously confronts all regions and the people who live and work in them. In some cases, it might involve resources and people moving from one region to another. In other cases, all the adjustment may occur within a region through changes in the composition of economic activity. A common feature of all adjustment is that there is some reallocation of the uses or location of workers, capital and land.

Adjustment is an important part of the process of economic growth. Government plays a crucial role in determining whether or not a region has an environment that is favourable to growth.

Adjustment responses can be impaired by regulations, taxes and other institutional arrangements.

3.1 Introduction

The previous chapter reveals significant changes among and within the regions of Australia. These changes are the result of diverse adjustment pressures of both national and international origin. Some are related to government actions; others are responses to more fundamental economic, demographic and social forces which are beyond the capacity of governments to control.

Australia is not alone in experiencing such pressures — they are global in their incidence and impact. As capital flows and trade in goods and services become more and more globally based, regions will prosper only if they maintain and improve their international competitiveness. Indeed, continuing regional change is inevitable if a country's economic, social and environmental aspirations are to be met. In essence, no adjustment means no development.

Available evidence suggests that some regions are coping better than others. In particular, there is concern that unemployment, while high nationally in recent years, is becoming persistent in some regions. Disparities in economic performance among regions appear to have increased. These developments confirm that pressures for change — whether cyclical or structural — generally are not uniform in their regional effects. Recent developments also point to differences in adjustment capacities among regions.

This chapter describes the sources of regional adjustment pressures and the ways in which regions can respond, as a basis for identifying impediments to regional industry adjustment.

3.2 Pressures for regional adjustment

Much of the discussion about adjustment problems has been concerned with adjustment to changes in government policy, notably reduced import protection and reforms to government business enterprises. But the pressures for adjustment have many origins. They can be structural or cyclical in nature, and they can occur suddenly (as a 'shock') or more gradually and imperceptibly. While their influence is pervasive, their effects vary considerably from one region to another.

It is convenient to think of the pressures for regional adjustment as occurring on the demand and supply sides of markets, although in some cases they will involve a combination of both.

3.2.1 Demand-side pressures

All regions are affected by changes in demand for the goods and services they have to offer. Such changes can reflect shifts in spending *patterns* and changes in the *level* of demand generally.

Spending patterns change over time in response to changes in tastes and income levels. For example, the demand for food is not very responsive to rising income levels in affluent societies. This has contributed to declining terms of trade for agricultural exports. The Department of Primary Industries and Energy (DPIE) has observed that:

> Declining terms of trade over several decades have been the major factor in the population and economic decline of many inland [agricultural] regions. (Sub 79, p. 2)

In contrast, the demand for many services is highly responsive to increases in income levels. This is reflected in the expansion of that sector within Australia (see Chapter 2). Tourism, in particular, has grown rapidly, largely through increased demand from foreigners (equivalent to increased exports). This has been a major source of adjustment pressure — and benefit — to many parts of Australia, particularly the north-east coastal region (see Box 3.2 and Appendix D on Cairns).

Regions dependent on export income are greatly affected by the economic performance of their main overseas markets. The effects can be direct, as in the case of reduced demand for Australian wheat and wool in the former USSR.

But they can also be indirect. For example, a downturn in the US economy which reduces demand for construction materials and cars, reduces Japan's exports of these items and, consequently, impacts on Japanese demand for Australian iron ore and coal.

Access to overseas markets is determined not only by their (latent) domestic demand, but also by trade barriers and subsidies. Dairying regions within Australia, for example, were adversely affected by the United Kingdom's entry into the European Community in 1973. More recently, demand for Australian beef has increased with relaxation of quotas in Korea and Taiwan, but has been reduced through displacement by subsidised US and EC exports. Similarly, US 'fair trade' laws have impacted on Australian exports of steel.

A given region can experience shifts in demand because of changes in supply from other sources — within Australia as well as overseas. This, in turn, can reflect changes in the competitiveness of other regions or countries, or the 'discovery' of additional resources.

- During its visit to King Island, the Commission was told that the local scheelite mine had been forced out of business, despite substantial productivity gains and cost reductions in recent years, by China's entry to world markets (see Box 3.1 and Appendix D).
- In 1984, the export of live sheep through the port at Albany in Western Australia ceased as trade was centralised through the lower cost Fremantle port (see Appendix D).

Box 3.1: **Adjustment pressures on King Island**

King Island is located off the north-west coast of Tasmania. The island traditionally had two main population centres, Currie and Grassy. All activity at Grassy was based on the operation of a scheelite mine owned by North Broken Hill Peko Limited. In response to adverse international market conditions of the 1980s, mine management and employees worked to decrease costs and increase productivity at the Grassy operation. However, the entry of China onto world markets greatly increased competitive pressures and in 1990 the mine on King Island closed.

The closure of the mine caused substantial disruption to the small community. Nearly all miners found jobs off the island, resulting in a sudden and significant drop in population. Following the loss of a major industry and the decline in population, there were fears that provision of services, both government and private, would be reduced.

In the last year, a major tourist development has commenced at Grassy, incorporating much of the infrastructure from the former mining town, including accommodation (see Appendix D).

Further, the ability to compete against overseas producers is influenced by changes in industry assistance policies at home and abroad. Reductions in manufacturing protection will see some firms go out of business, impacting on their local communities. For example, phased reductions in assistance to the textile, clothing and footwear (TCF) sector from the very high levels in the mid-1980s are impinging on a number of country towns in Victoria, including Wangaratta (see Appendix D).

Shifts in demand for particular products are more difficult for regions to cope with when the economy is in recession and demand is stagnant generally. As the Department of Employment, Education and Training (DEET) noted:

> In a buoyant economy, adjustment is relatively easy since industries are more likely to undertake investment, initiate technological change and to train workers. ... At present, however, adjustment is taking place in an environment of low investment and demand, while the workforce is suffering high levels of unemployment. (Sub. 71, p. 21)

3.2.2 Supply-side pressures

Often occurring simultaneously with demand pressures — and sometimes in response to them — are changes in the conditions of supply within regions. These may be localised changes, or changes which reflect developments in the economy (and its regulation) more generally. Supply-side pressures have an important bearing on the competitiveness and productivity of regions, and thus their ability to attract and retain capital and skilled labour.

Natural resources may be discovered in a region (Bass Strait oil fields off Gippsland), and resources on which a region's development has depended may become exhausted (Broken Hill, Mt Morgan). In between these events, there will be changes over time in the accessibility of the resource and its costs of extraction.

Important Australian resources 'discovered' by the international community in the past decade are our scenic and climatic attractions. But the translation of this into expanded tourism demand has required transport and accommodation infrastructure. A good example is the airport extensions at Cairns (Box 3.2 and Appendix D).

Transport and communication costs are important determinants of regional performance. These costs have decreased over time — dramatically, in the case of communications — as a result of technological and infrastructure improvements. Many country towns have had a second lease of life as people have used them as commuter bases for larger metropolitan centres. This has happened around the capital cities (for example the town of Camden outside Sydney) and also in small towns around regional centres such as Dubbo and

Bendigo. At the same time, advances in communications technology have increased the potential for information-based enterprises to locate outside the major business centres. The Australian Securities Commission's Information Processing Centre at Traralgon and the State Data Centre in Ballarat are two examples.

Box 3.2: **Cairns — coping with expansion**

The natural characteristics of Cairns have made it an increasingly popular tourist destination for both domestic and international travellers. The very rapid growth associated with the expansion of the tourist industry occurred in the 1980s. In the 1950s, the contribution of the tourist industry to the Far North Queensland economy was not significant enough to be measured. By 1990-91, it is estimated that the contribution of tourism to regional production was approximately 30 per cent.

The rapid increase in the growth of tourism has largely come from the international tourist sector. This growth has been facilitated by the opening of an international airport (controlled by the Cairns Port Authority) in 1984 and the subsequent expansion of this airport in 1988. From 1988 to 1992, the number of international passenger arrivals and departures in Cairns trebled, reaching around 750 000 per year. The number of domestic passenger arrivals and departures in Cairns is also increasing and in 1992 was approximately 1.2 million.

Despite the massive advantages to the region, including increased employment, the growth in the tourist sector in Cairns has raised a number of issues for the city. These include:

- the pressures on housing and urban services associated with an increasing population;
- an increase in unemployment (as job seekers are attracted to an area of rapid growth);
- increasing environmental problems; and
- concerns about the level of foreign investment and ownership in the region.

Source: Cairns Port Authority 1993, Submission 81

In some cases, previously subsidised services — such as rail or aviation — have been discontinued or put on a cost-recovery basis. This has impacted adversely on some regions. But has, at the same time, benefited others through lower costs from the elimination of cross-subsidies and increased competition.

Technological change, in making existing production methods uneconomic, may harm some regions, but provide important opportunities for others. For example, in winter, some vegetable produce for southern markets was grown in greenhouses around Sydney and Adelaide. But with improved packaging and transportation over long distances, the competitiveness of northern regions, such as Rockhampton, has improved.

Population and labour force changes are also an important pressure for adjustment. Where regions lose population, some local services may become uneconomic and industries may lose their local skills base. However, other regions have had substantial increases in labour force and population through migration. For some (eg Gladstone) this has helped fuel their expansion, while in others it has simply led to rising levels of unemployment and welfare dependency. In both circumstances, it places pressure on community services and infrastructure.

Other labour force pressures for adjustment within regions include the increasing participation of women in the workforce; changes in the level and composition of skills resulting from education, training and migration; and the impact of social security and other programs on the availability and cost of labour.

Wage increases may occur as a result of rises in local productivity or they may be imposed through nationally determined awards — the consequences for regional competitiveness can be quite different.

Changes in industry protection, which as noted previously can have an adverse effect on the demand for some regions' producers, can at the same time yield supply-side benefits to other firms and regions. Import protection raises input costs and taxes exporters, who can't 'pass it on'. Consequently, reduced manufacturing protection has particular benefits for farming and mining activities and the regions in which they take place.

3.2.3 Structural versus cyclical changes

The adjustment problems of many regions in recent years have resulted from a coincidence of longer term changes in demand and supply being compounded by policy-related structural changes. Moreover, both have been overshadowed by the effects of recession, nationally and on world markets. In any region such changes occur simultaneously, making it difficult to disentangle their separate effects.

A number of aggregate assessments of the causes of observed changes in the economy in recent years have found that cyclical factors have predominated (see Box 3.3). However such assessments abstract from the differential incidence of adjustment pressures among regions. For example,

- tariff reforms will clearly have played a more important role in those areas that are more reliant on tariff-dependent industries (such as Dandenong, Geelong, Elizabeth and the 'textile towns' in country Victoria); and

- falling world commodity prices will have been more important in rural areas — in the case of wool, the underlying adjustment pressures being compounded by attempts to hold prices at previous market levels.

In its submission, DEET argued that the ability of a region to adjust to structural change will depend on the diversity of the region's economy, the characteristics of its population, its endowments of other natural resources and its location.

Box 3.3: **Some evidence on the effects of cyclical and structural change**

A number of recent studies have attempted to separate the effects on the economy of different pressures for change. Generally, they have concluded that cyclical changes in the economy — that is changes in the demand for and the conditions of supply of a product — have had a substantially larger impact than policy-related structural change.

Access Economics (EPAC 1992a) studied factors such as tight monetary policy, the level of investment, household demand and changes in international trade, and concluded that microeconomic reform has not been the main cause of the increase in unemployment in recent years. Other work has concluded that policy-related structural change accounts for from one sixth (RBA 1992) to one tenth (EPAC 1992b) of the increase in unemployment.

The Department of Industry, Technology and Commerce (DITAC 1992) looked specifically at the textiles, clothing and footwear industry and concluded that:

> ... it is the recession rather than any reduction in protection that is the main cause of reduced employment in the TCF sector.

A more recent study by Dixon and McDonald (1993) looked at the effects on employment of structural change. In this study changes in international trade had the largest impact while the effect of reduced levels of protection was found to be small.

Just as the sources of adjustment pressure will differ among regions and over time, the adjustments that occur also will differ. In all cases, however, the efficiency with which adjustment takes place will be an important influence on outcomes for regions in the longer term.

3.3 Adjustment mechanisms

The adjustment pressures described above initially have their main impact on businesses. How managers and workers within firms adjust to them will determine the subsequent effects on households and those involved in other businesses in the region, as well as government service providers and community groups.

Thus, while the concept of 'regional *industry* adjustment' (as in the formal title of this inquiry) is clearly central to the process, it also can be misleading. Industry is only one of the groups that must adjust and it cannot do so in isolation from the adjustment of other groups and institutions. The aggregate of all this change often is referred to as 'regional adjustment', and that term has been adopted throughout this report.

In principle, the adjustment mechanisms available to regions within a country are essentially the same as for the country itself. A region can adjust by:

- improving 'competitiveness' (lowering costs, raising productivity and output quality);
- producing different goods in response to changes in demand;
- attracting or shedding employees and capital; or
- some combination of such changes.

The main differences are that there typically is much greater labour mobility between regions than between countries, and regions do not have an exchange rate mechanism (as do countries) to facilitate relative price changes. They also cannot control the supply of money or the rate of inflation within their boundaries — although regional governments can affect price and cost levels through changes in taxes and charges.

3.3.1 Labour adjustment

The availability, cost and productivity of labour is critical to the performance of most enterprises. There are a number of adjustment possibilities open to workers and the firms employing them (see Table 3.1).

A worker who is laid off can adjust by acquiring new skills, possibly through government labour market programs, or seeking alternative work (even if at lower pay). If no local employment can be obtained, the choice is between remaining unemployed in the region, and moving to a different region. That choice will be influenced, among other things, by: perceptions about the extent to which paid employment would yield higher living standards, different costs of living (especially housing) between regions and, importantly during times of widespread unemployment, whether a job is expected to be obtained in the other region.

Migration can occur for other than economic reasons — family ties, seeking a more appealing lifestyle etc. Migration also is a response to, and helps satisfy, both reduced demand in declining regions and the need for more labour in expanding regions.

Table 3.1: **Regional adjustment mechanisms**

	Labour	*Capital/Industry*	*Land*
Location and application of resources	Migration Change in employment	Relocate capital/industry Move capital to a different industry or use it to produce a different output, or change quality and marketing Develop new products Change extent of social infrastructure	Relocate activities
Scale of inputs	Hire or shed labour Replace full-time employees with part-time and contractors	Widen or narrow the capital base, including the infrastructure base	Use more or less land
Productivity	Retrain Change work practices	Use more productive capital	Rezone
Prices	Increase or reduce wages Vary non-wage remuneration and conditions of employment	Negotiate changes in input and/or output prices	Market values will adjust Offer cheap land or impose price premiums via land taxes etc.

But there are other adjustment processes available to workers that may avoid the need to relocate or even to be laid off. An industry's competitive difficulties can be overcome if unit labour costs are reduced and that can be achieved by increasing productivity, by changing work practices and conditions of employment, and by varying wage and non-wage remuneration.

Some regions have managed to avoid industry closures and resultant migration by a combination of these measures; a well-publicised example being SPC Limited (formerly the Shepparton Preserving Company). When faced with the possible financial failure of the company, SPC workers agreed to less favourable conditions of employment in order to reduce unit labour costs and enhance the company's competitiveness. The strategy was so successful that SPC was subsequently able to reimburse workers for remuneration forgone (see Chapter 5, Box 5.7).

The adjustment mechanisms bearing on unit labour costs do not only apply to adverse pressures. Expanding regions need to attract labour with relevant skills. Relative wage increases can be an important device for signalling the need for additional workers and encouraging migration. In practice, there appears to have been more scope for upward flexibility in remuneration (mainly through over-award payments) to meet the needs of expanding regions in Australia than downward flexibility to meet the needs of contracting regions. However, even in the absence of institutional barriers, there are reasons why wage changes would not 'clear' labour markets (balance 'demand' with 'supply') in the same way that price changes clear commodity markets. These issues are discussed in Chapter 5.

3.3.2 Capital adjustment

The second principal factor of production through which adjustment can occur is capital. In its financial (liquid) form, capital is highly mobile, both regionally and among different uses. Capital movements are driven by expected relative rates of return, not only within Australia, but around the world. This is illustrated by the increasing levels of offshore investments by Australian companies such as BHP.

In its physical form, a region's capital stock is less mobile. But only part of the physical capital employed by industry is truly 'sunk' and specific to an enterprise or region. Factory buildings typically can be used by companies engaged in different activities and machinery can be used in different industries, or can be relocated to where its productivity is higher. Two examples from the Commission's regional visits were:

- the development of the land and buildings of a former meatworks as the Mayfair Park Industrial Estate in Bendigo. At present there are between 40 and 45 enterprises operating on the estate. Activities undertaken include: paper recycling, food and clothing production, panel beating and a laundry service.
- APM in Traralgon had an obsolete paper making machine, weighing many tonnes, which was sold to China, the Chinese taking it apart bit by bit and reassembling it back home.

An important component of a region's capital stock is its economic and social infrastructure, which generally is provided by government. Much of this is relatively immobile both in its use and location. Examples include roads and in-ground services such as water reticulation, drainage and sewerage. However,

some of it may have alternative uses, could be used in alternative locations (buildings, items of plant and equipment) or may occupy land which has alternative uses (under utilised inner city schools are often located on sites that would be valuable for residential or commercial purposes).

3.3.3 Adjustment in land use

Land values reflect changes in the productive potential of different sites, and in that sense, adjustment occurs continuously among regions and over time. Such price movements play an important role in tempering other pressures for the expansion or contraction of a region. Low prices in a depressed area can serve to attract new businesses and labour; rising prices in a growing area will ensure that only those with high value added will locate there, and encourage some to leave.

While land prices generally are not constrained directly by governments, the uses to which land can be put are controlled by zoning regulations, development approval processes and other regulations. These can have an important effect on land values and on the extent to which land uses can change to reflect changes in demand and other adjustment pressures, as well as affecting the 'attractiveness' of a region to outside investors. These factors are addressed in Chapter 7.

3.3.4 Moving to a different location

Another adjustment mechanism with substantial regional consequences is the relocation of a firm. The factors which determine where firms choose to locate are important for regions wishing to attract new firms, and particularly so for non-metropolitan regions which often rely on a few key firms or industries.

A survey titled *Should I stay or should I go revisited* was jointly undertaken by the Chamber of Manufactures of New South Wales and the State Bank of New South Wales in 1993 (Chamber of Manufactures of New South Wales, Sub. 131D). It questioned manufacturing firms about the influences which were, or would be, important if relocating offshore, interstate, intrastate or within the local area.

It found:

- labour costs were a significant factor in a firm's decision to relocate either offshore (20 per cent of respondents identified it as the most significant factor) or interstate (14.6 per cent);
- infrastructure costs were identified as a major influence, being ranked as either the second or third most important influence in any relocation decision; and
- a general lack of interest in moving to non-metropolitan New South Wales, with less than 2 per cent of firms indicating they had moved or were considering moving to a non-metropolitan location in New South Wales.

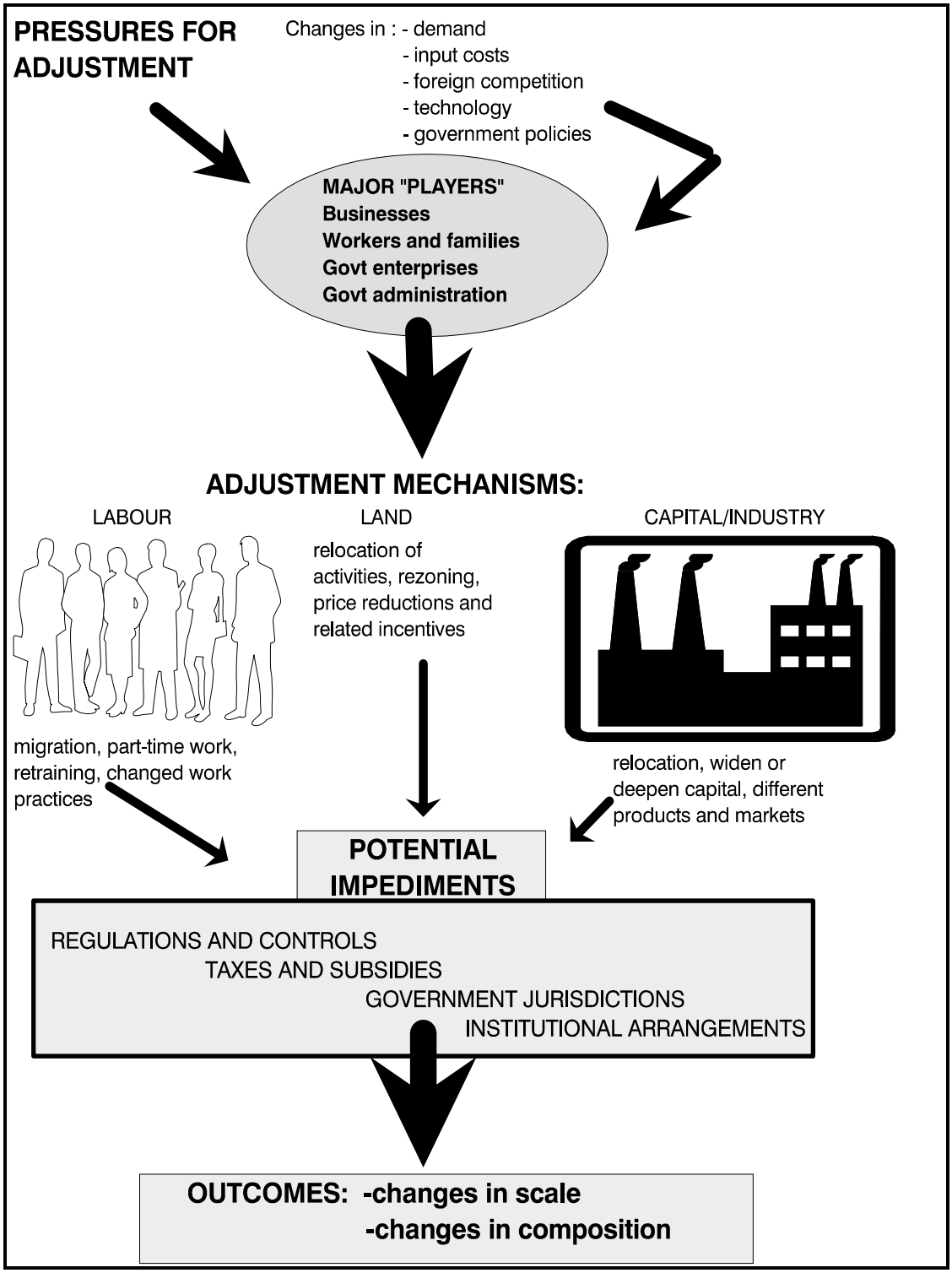
A second study related to location choice was undertaken by the Syme Business School of Monash University, titled *Regenerating regional employment: An understanding of site choice in business relocation decisions*. The survey reported on those factors which respondents identified as important in influencing site choice. These were:

- stable industrial relations (identified by 71 per cent of respondents);
- competitive gas, water, energy and rate costs (69 per cent);
- developed road transport network (67 per cent);
- right image for our business (61 per cent);
- local authorities committed to business development (59 per cent);
- access to low cost land (57 per cent);
- skilled labour supply (57 per cent);
- competitive labour costs (56 per cent); and
- access to low cost finance (52 per cent).

3.3.5 Adjustment in practice

Figure 3.1 illustrates the cycle of response from pressures for adjustment to the adjustment mechanisms just outlined, the effectiveness of which will depend in part on the nature and strength of any 'impediments' (see Section 3.5).

Figure 3.1: **Regional adjustment**



Within any firm, adjustment typically will occur simultaneously on all fronts with each of labour, land and capital having important roles. Box 3.4 provides one example, drawn from the Commission's visit to Tasmania.

Box 3.4: **Adjustment within a firm: Tioxide Australia**

Tioxide Australia Pty. Ltd. has a plant on the north west coastline of Tasmania, 10 kilometres east of Burnie. It manufactures pigments used in paint and plastics.

The firm is experiencing adjustment pressures associated with changing market conditions. There has been slow growth in domestic demand and increased domestic competition. Both the domestic and international market are oversupplied and the price of pigment has decreased by more than 30 per cent in all markets.

In response to these adjustment pressures, Tioxide implemented a number of changes to improve productivity; for instance new technology was introduced to increase the capacity of the plant. On the labour front, the workforce was reduced from 450 in mid-1990 to 208 in 1993, the practice of a 'rostered day off' each fortnight was stopped and the number of unions was reduced from nine to four, thus reducing demarcation disputes. Productivity has increased greatly and the workplace culture has been transformed.

Re-building and re-location are further options available to the firm. In the 1940s, when the present site near Burnie was selected, it provided advantages for Tioxide which no longer exist. For example, transport costs across Bass Strait are now a major expense, and there are environmental disadvantages for the firm in its present location. Other locations offer the firm potential to achieve reduced costs and improved competitiveness, while maintaining environmental standards. For example, Whyalla in South Australia has a large amount of inexpensive land and a skilled labour force.

Tioxide has received assistance from the Tasmanian Government, through the Tasmanian Development Authority, to implement productivity improving changes. In 1991-92, the Tasmanian Development Authority provided Tioxide with a $1.1 million grant to protect employment and assist in reducing firm costs. Tioxide is one of approximately 70 organisations to be operating with a Ministerial exemption from environmental regulations (all such exemptions lapse in mid-1994).

In turn, Tioxide has contributed to the local community. When Tioxide retrenched workers for the first time in 1990, it engaged a consultant to analyse the impact of the retrenchments on the community. The outcome was the establishment of a foundation, which is involved in three local community enterprise centres.

Source: Industry Visit 1993, TDA 1992

3.4 Regional adjustment and development

The adjustment mechanisms just described are an important part of the process of economic growth, which requires shifts of capital and workers from lower to

higher productivity uses. Such changes occur continuously within the economy and are reflected in its varying industrial composition, described in the previous chapter. In a recent report, the Economic Planning and Advisory Council was critical of the pace of adjustment in Australia:

> Australia's economic structure until recently has been relatively sclerotic for a significant part of the postwar period, not adjusting quickly to the ongoing changes in economic climate. This has been a contributing factor to a worse performance in terms of productivity growth than most other developed nations. This in turn has resulted in Australia's standard of living falling behind in world rankings. (EPAC 1993, p v)

While adjustment within industries is necessary to realise Australia's growth potential, the outcomes within different regions will vary. As for the economy generally, regions will see some activities expand while others contract. The net outcome of these changes could be higher or lower aggregate levels of employment, income or population. For example, the northern metropolitan area of Melbourne — encompassing Broadmeadows, Bulla, Coburg, Gisborne, Northcote and Preston — has experienced significant decline in its manufacturing industries. These industries have traditionally provided employment for a large proportion of the region's workforce. However, the region is well located to develop industries associated with transport, freight and warehousing, given its access to Tullamarine airport, the Hume, Western and Calder Freeways, and the Melbourne–Sydney rail link (Northern Region Commission, Sub. 132D).

The aggregate outcomes will also depend on how a 'region' is defined. Vipond (1984) notes that adjustment within major cities is likely to be less difficult than in small towns and rural regions. In capital cities, it may involve little spatial movement of resources because the size and diversity of activities allows labour and capital to shift from declining industries to those within the region that are growing. Non-metropolitan regions with less diversified economic bases are more likely to adjust via the movement of resources — by growth or decline. However, it can be the case that separate regions develop within a single metropolitan area and thus the movement of resources between metropolitan regions can face impediments similar to those encountered in moving between non-metropolitan regions.

It is clear that the most vulnerable regions tend to be those based on one or two companies, or a single 'core' activity, especially if they are dependent on the maintenance of government assistance or a particular regulatory environment. For example, some of the small TCF-based towns in Victoria, such as Maryborough and Wangaratta, or some forestry towns, such as Eden and Nimmitabel.

The Latrobe Valley is another example of a vulnerable region, relying on the 'core' activities of the State Electricity Commission of Victoria (SECV) and Australian Paper Manufacturers (APM). In the late 1980s both organisations began restructuring their organisations, resulting in significant job losses. Consequently, the Latrobe Valley is experiencing high rates of unemployment, particularly youth unemployment, out-migration of skilled workers and falling house prices. Future employment prospects in the region are uncertain. The involvement of the State government in the region has included providing a grant of $4.6 million to help secure the location of the Australian Securities Commission's Information Processing Centre in Traralgon, where it employs 300 full time workers (See Appendix D).

In its submission, DEET described research it has been conducting to identify 'problem regions' based on the nature and concentration of industry structure (see Box 3.5). The top ranked 'problem regions' are based on projections of growth rates and thus may exclude some regions that have already undergone structural change associated with changes in government assistance. Indeed, many of the regions tagged as being 'in danger' do not have particularly high unemployment rates at present. DEET suggest that adjustment may be in its infancy in such regions.

Box 3.5: **DEET analysis of 'problem regions'**

DEET has attempted to identify regions, defined in terms of Natural Labour Markets, with characteristics suggesting the likelihood of long-term problems or difficulties in adjusting to change. The critical variables used by DEET are *core concentration* and *problem concentration.*

Core industries are considered to be manufacturing, agricultural or mining industries which drive a regional economy. Other industries within a region are perceived as being dependent on core industries. Consequently, regions with low *core concentration* may run into difficulties if their core industries were to suffer significant decline.

Problem concentrations result when a region's employment is concentrated in those industries identified by DEET as likely to lose employment over the next decade.

To identify problem concentrations, DEET projected annual changes in output and employment over the period 1990 to 2001, for 112 industry sectors (DEET 1991 pp. 13–18 and 114–17). Employment is projected to rise in service industries where productivity growth will be lowest and fall in most manufacturing and some agricultural industries. There are also likely to be employment reductions in the electricity, gas and water industries.

By combining core concentration and problem concentration measures, DEET has indicated those Natural Labour Markets with more than 2000 in the workforce, that risk having low

Continued next page

Box 3.5 continued

growth over the years 1990 to 2001. DEET's top twenty at-risk regions/towns are:

1. Morwell (Vic)
2. Zeehan (Tas)
3. Strahan (Tas)
4. Renmark (SA)
5. Port Augusta (SA)
6. Hinchinbrook (Qld)
7. Warragul (Vic)
8. Angaston (SA)
9. Clare (SA)
10. Gladstone (Qld)
11. Greater Lithgow (NSW)
12. Kerang (Vic)
13. Kingaroy (Qld)
14. Wycheproof (Vic)
15. Tumbarumba (NSW)
16. Gayndah (Qld)
17. Griffith (NSW)
18. Central Yorke (SA)
19. Singleton (NSW)
20. Seymour (Vic)

Source: Sub. 71

While the decline of a region can present economic and social problems, it can also yield benefits. By releasing labour and capital, the decline of one region may enable another region to realise its growth potential. For example, the growth in Cairns has benefited from an influx of workers from the hinterland (see Appendix D).

Regional decline may also be a precondition for the subsequent recovery and expansion of the region itself, by freeing up resources and, through falling asset values and other costs, attracting new or different kinds of investment. The DPIE provided a vivid description of one case of regional revival involving changes in activity:

> In the Margaret River area [in Western Australia], land once used for dairy farming has been converted to beef and sheep production or other small holder use and there has been a growing recognition of the suitability of the land for grape growing. In addition, the beauty of the south west forests has attracted tourists and new residents. The mouth of the Margaret River has become a national mecca for the surfing impassionata. The population has grown with new, small vignerons, alternative life stylers and craft workers snowballing into the area. New industries, including the tourist industry, have developed and the almost total dependence on dairying and timber has disappeared. (Sub. 79, p. 10)

While adjustment is necessary for regions to realise their potential, it cannot guarantee sustained economic growth at a regional level — which is what most regions want.

The determinants of growth are no easier to identify in a regional than a national context. There is no neat 'location theory' that is capable of explaining the precise geographic distribution of economic activities.

Nevertheless, it has long been recognised that proximity to markets and raw materials (or other inputs) — and thus the costs of transport and communications — has an important influence on the comparative development

of different locations. This remains the case despite the significant advances in technology and consequent cost reductions noted previously, and is confirmed by a number of Australian studies. For example, Carter (1983) notes:

> Recent regional labour market studies in Shepparton-Mooroopra, Bendigo and Portland have consistently identified (major) problems to be transport/time cost to both suppliers and markets, and communication costs.

These concerns are also reflected in the responses to a survey of firms' location decisions, undertaken by the Chamber of Manufactures of New South Wales in 1989, and cited in its initial submission (Sub. 67). When asked about why they had chosen their present location, the factors identified as most significant were: the availability and cost of land; distance to markets; and sources of raw materials.

It follows that anything which serves to raise transport and communication costs will tend to penalise regions which are more remote than others. Inefficiencies in rail transport, and protection of coastal shipping, were instances mentioned by a number of participants. As noted in Chapter 8, reforms in such areas can bring important benefits.

Nevertheless, location-based cost differences remain a fact of regional economic life. The development of regions away from the main population centres will thus require the existence of offsetting benefits to make up for the cost disadvantages associated with the 'tyranny of distance'. The more remote the region, the more difficult this becomes.

In Australia, the availability of natural resources (mineral, agricultural and environmental) has provided the impetus for the location and development of many inland towns and regions. But such advantages on their own need not secure a region's future. In a world that is increasingly open to international movements of goods and capital, regions must compete internationally and many other parts of the world also have abundant natural resources. In any case, the resources on which regional prosperity has been based may eventually run out. Continuing viability of such regions will then depend on what else they have to offer (international) investors.

What this means is that the economic fortunes of a region, given any inherent 'distance costs', will depend ultimately on the ability of its enterprises and government administrations to raise the region's productivity and/or lower its other costs, to make it competitive and profitable to investors and so able to offer sufficient employment to its workforce. There is a trade-off here. Relatively low productivity would need to be offset by lower returns to those factors that are regionally 'fixed' — such as land, some physical capital (including public infrastructure) and less skilled labour.

3.4.1 Government and regional performance

The means of enhancing a region's productivity and competitiveness — and hence its attractiveness to investors — essentially comprise the mechanisms of adjustment described earlier. They involve changes in the price, quality and use of labour, capital and land, and improvements in the effectiveness with which these factors are managed within firms.

Kasper (1993) notes that the role of government — which he describes as another 'immobile factor of production' — is critical in this respect:

> Good government can raise the productivity of the other inputs and make certain locations attractive. Bad government — a hostile government or a confusing, complex set of regulations; high taxes; and poor public infrastructures — can lower productivity and induce the flight of mobile production factors.

He attributes Gladstone's successful development in large part to 'good government' (see Box 3.6).

Box 3.6: The fall and rise of Gladstone

The City of Gladstone, on the central Queensland coast, was settled in the 1850s and developed as a service centre for the surrounding area. The principal industry of the town was Swifts meatworks, which at peak times employed over one third of the Gladstone workforce. During the 1950s, this business began to decline, population growth slowed, and in 1963 the meatworks closed. In response to these factors, entrepreneurs in the local community became active in promoting the city and encouraging development. The development which has occurred in Gladstone includes: construction of the QAL alumina refinery (to process bauxite mined at Weipa) and a railway line linking the central Queensland coal fields to Gladstone in the 1960s; the construction of QEC power station in 1971; and more recently, the construction of a natural gas pipeline to Gladstone in 1991.

Gladstone in the 1990s is an example of regional success due to the growth of resource based industries. They include an alumina refinery, an aluminium smelter and chemical plants. Initially, Gladstone's natural advantages of a harbour, proximity to natural resources (particularly coal) and the availability of land suitable for development, made it an attractive location for industry. More recently, its favourable business environment has attracted industry. That favourable environment is attributable to:

- a workforce distinguished by a willingness to adopt flexible work practices, use of enterprise agreements, high rates of pay and high productivity;

Continued next page

Box 3.6 continued

- the pro-industry attitude of government, both State and local;
- local community acceptance and promotion of heavy industry and
- infrastructure including a power station, a gas pipeline, water supply, transportation (roads, rail and shipping through ports) and social infrastructure.

In a thirty year period, the city of Gladstone has moved from an agriculturally based service centre into what Kasper (1992) concludes is 'probably amongst the top 6 to 8 locations in the world for such (capital intensive resource processing) industries'. This transformation is due in part to the combination of natural advantages and a determined effort by local and State governments to create a favourable business environment.

Source: Kasper W. (1992)

Research undertaken by the University of New South Wales Public Sector Research Centre highlights the relative advantages of city versus country locations for a range of business costs — see Table 3.2.

Table 3.2: **Relative locational advantages**

Location factor	*Advantage to metropolitan areas*	*Advantage to non-metropolitan areas*	*Importance in cost structure/turnover*
Labour:	-	-	large
- average wage costs	-	small	-
- aggregate availability	large	-	-
- unemployment rates	-	small	-
- qualifications	small	-	-
Land	-	large	moderate
Capital	small	-	large
Energy	small	-	variable
Water	moderate	-	moderate
Business and financial services	large	-	small
Transport	large	-	variable
Communications	large	-	moderate
Government taxes and charges	-	small	small
Local government rates	-	large	moderate
Revenue/risk	moderate	-	large

Source: Public Sector Research Centre 1991, p.32

It is apparent from the table that government plays an important role in influencing the 'attractiveness' of regions:

- the availability of labour with relevant skills is influenced by government measures that impact on mobility and training (see Chapters 4 and 6 of this report);
- the wages cost position of non-metropolitan regions is influenced by centralised wage fixing arrangements (see Chapter 5);
- governments affect land use through zoning procedures and (re)development approvals processes (see Chapter 7);
- transport and communications are also affected by government authorities and through competition policy in general (see Chapter 8); and
- energy and water are influenced by government utilities that affect planning, location and pricing for infrastructure (see Chapter 9).

The extent to which governments influence nearly every location factor highlights the need for them to perform efficiently.

3.5 Efficient adjustment

The Commission has been asked to 'report on ways of facilitating the *efficient* movement of resources within and between regions of Australia'.

From an economic perspective, efficiency is about maximising community well being from available resources. In an adjustment context, there are two aspects to consider: (i) the process of moving resources from A to B (activities or locations), and (ii) the desirability of resources being in B rather than A.

On the first aspect, efficiency requires that the process of reallocation within or between regions occurs in such a way as to minimise transitional losses in output and income. It is about how quickly and effectively the mechanisms of adjustment operate.

The second aspect of efficiency in adjustment is about achieving an allocation of resources among activities and regions which maximises national welfare. The rapid re-employment of resources may not be efficient in this sense if they are absorbed by relatively unproductive activities or locations. The allocation of resources among production activities or industries is influenced by the whole range of taxes, subsidies and regulations in place at any one time, many of which are very indirect in their regional impacts and are beyond the capacity of this inquiry to address. But the *spatial* dimension to resource allocation is directly relevant. It involves consideration of whether resources are being attracted to or held in regions where their contribution to national welfare is lower than it might have been elsewhere. This requires an examination of

policies and other influences which primarily serve to distort choices among regions, rather than among different production activities (recognising that industry policies are not regionally neutral in their effects).

It is one thing to describe in general terms what efficient adjustment means, but quite another to determine the extent of inefficiency in practice.

Most people would accept that persistently high levels of unemployment in some regions — especially if diverging from the national average — is evidence of a malfunctioning adjustment process. Typically, persistently high regional unemployment reflects the failure of the regional economy to generate enough jobs to employ those who live there, and the unwillingness or inability of the unemployed to leave the region (the Latrobe Valley is one example, Whyalla is another). However, observed patterns of unemployment can have many different causes, and need to be considered in conjunction with migration levels.

- In parts of Queensland, unemployment is above the national average despite rapid job growth, because of migration to the region (eg Cairns).
- In other regions, unemployment is very low because there is little job growth and people have left (eg Isisford Shire).

In other words, high unemployment can in some cases reflect rapid adjustment, whereas low unemployment may be due to the failure of adjustment mechanisms that could have prevented the out-migration of labour.

It follows that government actions to promote efficient adjustment are best directed at removing impediments to the operation of the various adjustment mechanisms, as implied by the terms of reference. Such impediments include government measures and institutional arrangements which impact directly on regional markets for labour, capital and land, or which operate more broadly in favouring some locations over others. Chapters 4 - 10 are concerned with identifying impediments in these areas.

On its own, however, a strategy of removing impediments to adjustment — even if fully achievable — may not guarantee efficient outcomes, because of 'market failures' or policy-related distortions. In other words, the perceived costs and benefits of different adjustment options to individuals may not reflect those which apply to society at large. Circumstances where this can arise include where there are deficiencies in available information or where individual action imposes (unrecognised) costs or benefits on others. Adjustment processes can also give rise to social problems which may need to be addressed, especially where transitional unemployment is protracted. And in some cases there may be inequities resulting from the gains and losses associated with structural change, which call for additional measures. These matters are considered in Chapters 11 and 12.

4 REGIONAL MOBILITY OF LABOUR

The movement of people between regions is one means by which they can adjust to changing employment opportunities. Some people are more mobile than others, depending on social ties, family commitments and other natural influences. But mobility can also be inhibited as an unintended consequence of government programs, regulations and taxes.

4.1 Introduction

Occupational mobility can involve the movement of people from one job to another, without necessarily changing location. This chapter, however, is concerned with *geographic* mobility, entailing the physical relocation of people to where jobs are available. Where the composition of growing and declining activities results in the skills available in a region differing from those in demand, or where the total demand for labour within a region falls or expands, geographic mobility can be an important adjustment mechanism.

From the perspective of efficient regional industry adjustment, the important questions for this inquiry are as follows. How much geographic mobility occurs now in response to the economic fortunes of different regions? What limits or impedes geographic mobility? What are the regional adjustment implications of limitations on geographic mobility? This chapter provides background on the first two questions. The third question is taken up in the following chapter and in Appendix G.

If labour mobility is *artificially* impeded, the likely outcomes are a mismatch of skills available and demanded in a particular region; greater disparities in regional unemployment rates than would otherwise occur; increasing prospects that some people will become long-term unemployed; and an overall slowing down of adjustment and development.

From an individual region's viewpoint, however, labour mobility may be seen as undesirable. For example, the relocation and re-employment of redundant miners from the scheelite mine on King Island to the rest of Tasmania and elsewhere was not seen as successful adjustment by those remaining on the island (see Appendix D). Similarly, the South Australian Government, which is concerned that those departing the State are leaving behind a per capita debt of $5000, argued that:

> ... successful and desirable structural change will need to be managed and have regard to the costs of the transition process. These costs will be maximised and efficiency diminished by policy which assumes that removal of impediments to maximum mobility of people and resources will necessarily and of itself provide the best outcome. (Sub. 88, p. 3)

Limitations on the movement of individuals can arise from many factors. As Dr Samuel Johnson remarked to his friend Boswell more than two centuries ago:

> Mankind have a strong attachment to the habitations to which they have been accustomed.

Family ties can hold people within a region even in the face of significant economic incentives to act otherwise. The increase in female participation in the workforce, reflected in the increased proportion of two income households, may further constrain the location choices of such households. Other lifestyle choices that reduce mobility include an affinity with an area owing to its climatic and scenic attributes. The recreational amenities prevalent in many cities also can reduce the incentives for people to move to regions that are less well endowed.

The Albury-Wodonga Development Corporation noted a variety of impediments to labour mobility that would not be regarded as being policy-induced:

- age and marital status. Young, single people are more prepared to move to other locations for employment – older, more committed, people with children, less so;
- employment status of spouse. A further consideration often is that both partners have jobs. A shift elsewhere may mean that a second income is not available;
- commitments – particularly house mortgages, and children in secondary education. It may not be possible for a family to shift for these reasons – and it may be that a job may be available in a capital city or other location where housing is significantly dearer. Thus a family would face a higher mortgage situation;
- preferred lifestyle. Many people have strong views about where they want to live for a variety of social reasons – availability of services, climate, physical environment, community involvement, nearness to friends and/or extended family. These factors often weigh more than financial influences and unless Government introduces regulation or legislation to force individuals to move to suitable employment, will reduce mobility markedly. (Sub. 39, p. 11)

In other words, many of the things which limit the mobility of labour are facts of life. This chapter is concerned primarily with impediments to labour mobility that arise, either directly or incidentally, from the actions of governments.

4.2 The mobility of the Australian population

Conventional wisdom has it that Australians are highly mobile, and the data usually produced in support of this claim seem to broadly confirm this (see

Table 4.1 below). However, mobility data usually are based on periodic snapshots which measure migration that is happening for all reasons and across all regions. The more relevant question for this inquiry is: how much additional geographic labour mobility occurs as a consequence of changes in the economic fortunes, or prospects, of particular regions? This is a more difficult question to answer, and it is one on which existing statistical collections and analyses are able to throw only limited light. Information provided by participants as well as case studies by the Bureau of Industry Economics (BIE) reported in this chapter, provide some insights about employment moves in response to regional shocks. Other work, reported in Appendix G, also has grappled with this question. Results for Australia compared with the United States are presented in the next chapter. They suggest that there is much less interstate mobility of labour in Australia than in the USA in response to economic shocks.

A widely recognised feature of migration in Australia involves population drift from southern and eastern regions (particularly Victoria and southern New South Wales) to the 'sun-belt' regions of Queensland and Western Australia. The data presented in Table 4.1 demonstrate that large numbers of people move. In all States, more than 40 per cent of people counted on census night had lived somewhere else five years previously. For Queensland, Western Australia and the two Territories, over 50 per cent had done so. However, residential mobility data reveal little about people's mobility for employment reasons.

Table 4.1: **Residence 5 years ago compared with 1991** (per cent)

	NSW	*Vic*	*Qld*	*SA*	*WA*	*Tas*	*NT*	*ACT*
Same address 5 years ago	56.3	58.4	48.1	58.6	48.6	57.4	46.4	49.5
Different address 5 years ago:								
- same statistical local area	13.2	9.7	8.8	10.2	12.6	14.3	6.1	2.3
- different statistical local area	21.4	23.6	34.9	25.1	28.4	23.2	36.3	39.2
Other[a]	9.1	8.3	8.1	6.0	10.5	5.1	11.3	9.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

a Includes overseas and 'not stated'.

Source: ABS 1993b. Census of Population and Housing.

Table 4.2 indicates that most moves tend to be *within* a State. Indeed, examination of the raw data further indicate that most moves were *within* metropolitan areas, where a change in labour market status is less likely to occur. According to the Department of Employment, Education and Training, of the 1.7 million people who changed location within a State in the year to May 1987, some 979 000 stayed within the same metropolitan area (Sub. 71).

For *intrastate* movements, which comprise about 90 per cent of all movements, survey information contained in Table 4.2 indicates that the combination of locational (environment, climate, close to friends) and life cycle factors (marital status, children, retirement) were the motivation for approximately 30 per cent of movements. It also is notable that housing was far more influential in the decision to move (32 per cent) than employment (11 per cent).

Table 4.2**: Persons who changed residence, year ended May 1987**[a]

Reason for moving	*Moved Intrastate*	*Moved Intrastate*	*Moved Interstate*	*Moved Interstate*
	('000)	(%)	('000)	(%)
Financial	111.9	6.5	5.0	2.6
Employment	182.0	10.6	86.4	44.7
Location[b]	295.1	17.2	45.2	23.4
Housing	551.6	32.1	6.0	3.1
Marital status change	159.3	9.3	10.2	5.3
Retirement, health	34.8	2.0	10.3	5.3
Other[c]	380.9	22.1	27.9	14.4
Total[d]	**1719.7**	**100.0**	**193.1**	**100.0**

a Persons aged 15 years and above. b Better area, closer to family/friends, closer to work/school etc. c Includes moved out from home to be independent, had to move out/forced move, move due to circumstances beyond the mover's control, the principal reasons being the sale by the landlord of a rental property, a lease not renewed, resumption or demolition of properties and natural calamities. d Original data do not include entries with a high standard error. Hence, row and column totals may not equal the sum of relevant entries.
Source: Sub. 71, p. 29 – derived from ABS, 1987.

For *interstate* movements, lifestyle (locational and life cycle) factors feature to about the same degree as for intrastate movements. Employment considerations, however, drive nearly 45 per cent of relocations to a different geographic labour market. Employment concerns influence significantly about 14 per cent of the combined interstate and intrastate movement. Similar findings have been made by Bell (1992) and Flood et al. (1991).

Flood attempted to determine what led people to move from one region to another. He found that the determinants of gross and net migration are different.

> Gross migration tends ... to be determined by prevailing economic conditions, with people moving following buoyant times, and it is dominated by younger people without ties, often seeking employment. ...
>
> Net migration, however, tends to be dominated by those not employed ... particularly those over 30, and by children [moving] from places of low unemployment to places of higher unemployment. ... The (smaller) net movements of the 15-30 group and of the

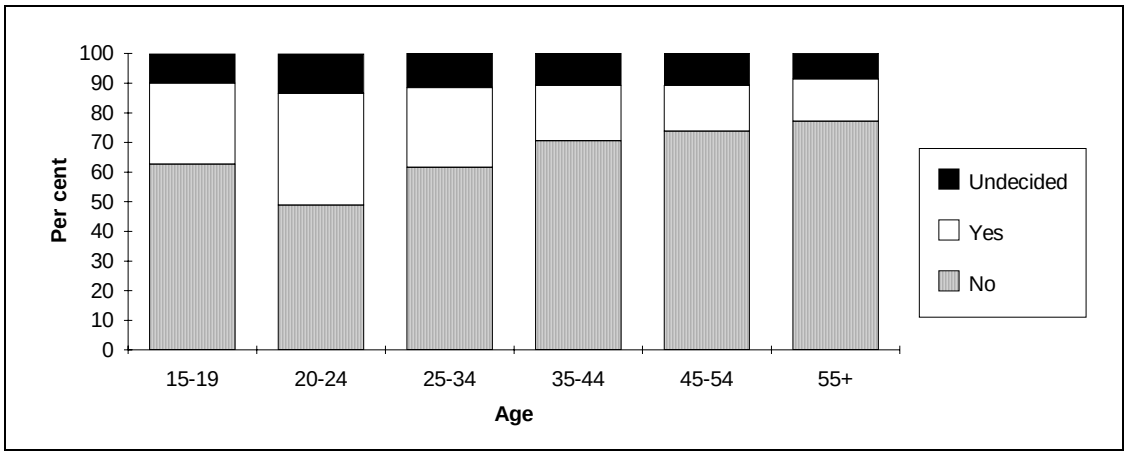
> employed are still towards the capital cities, seeking better employment and consumption opportunities, and often in the opposite direction to the movements of those not in the labour force and of the unemployed. (Flood et al 1991, Executive Summary)

Figures 4.1 and 4.2 (also based on Flood et al.) indicate, for unemployed persons, lower mobility to find work interstate compared with intrastate. The higher mobility of young people probably arises from lesser family or housing commitments.

DEET reports that, based on the ABS data on internal migration and analysis of census data by the Bureau of Labour Market Research (1987) and Flood et al (1991), a number of conclusions can be drawn, including:

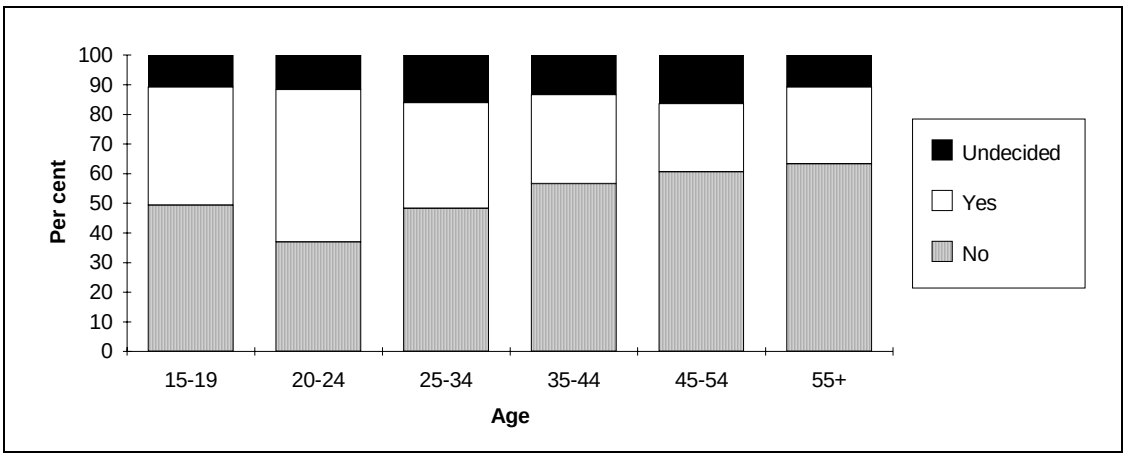
- males are more likely to move, particularly interstate, than females;
- single persons or persons who are terminating and/or commencing relationships are more likely to move than couples;
- an increasing number of people on fixed incomes, such as recipients of welfare benefits, are relocating away from metropolitan areas;
- the probability of moving increases during early working life to about age 25 or 30: it then declines rapidly until near retirement age; and
- those with higher education levels and incomes are more likely to move.

Figure 4.1: **Willingness of unemployed persons to move interstate to take up suitable work**



Source: Derived from Flood et al. p. C6.

Figure 4.2: **Willingness of unemployed persons to move within State to take up suitable work**



Source: Derived from Flood et al. p. C6.

DEET noted that these findings suggest that:

> ... regions with a high proportion of families, middle aged or lower skilled workers may be susceptible to high unemployment during periods of structural adjustment. Indeed, economic decline may act to raise the concentration of these groups in regional populations as the young and better skilled move elsewhere to obtain employment. (Sub. 71, p. 28)

Their findings of reticence to relocate in order to find work are consistent with an earlier survey by the BIE, which collated six individual case studies on regional adjustment (Table 4.3).

The BIE found that, of the displaced persons who left the surveyed regions, around half moved to nearby non-metropolitan regions, about 32 per cent relocated in nearby metropolitan regions and around 18 per cent elsewhere.

> In the Wodonga and Newcastle studies, very few of those displaced were prepared to relocate even if their employment position would thereby be improved. In the Newcastle study, 70.5 per cent of those who resigned, and 82.1 per cent of those who were retrenched, indicated that they would not be prepared to move from the Hunter region to obtain employment. In the Wodonga study, approximately 80 per cent of those displaced who were unemployed at the time of the study, would not contemplate moving elsewhere in Australia to improve their employment condition. (BIE 1985, p. 104)

Table 4.3: **Case studies of regional adjustment**

Region	*Adjustment shock*	*Persons displaced*	*Proportion that left region*
			(%)
Tenterfield, NSW	Closure of two meatworks at Tenterfield and Wallangarra in June 1981	478[a]	21.1
Wodonga, Vic	Retrenchments by an electronics producer between August 1977 and August 1978	112	23.6
Stawell, Vic	Retrenchments from a timber processing industry in August 1978	73	31.5[b]
Portland, Vic	Closure of meatworks in October 1981 and end of construction phase of aluminium development	687	14.0[c]
Newcastle, NSW	Retrenchment from the shipbuilding industry between September 1976 and January 1977	332 resigned	10.2[d]
		198 retrenched	6.8[e]
Albany, WA	Closure of whaling station in November 1978	96	26.1

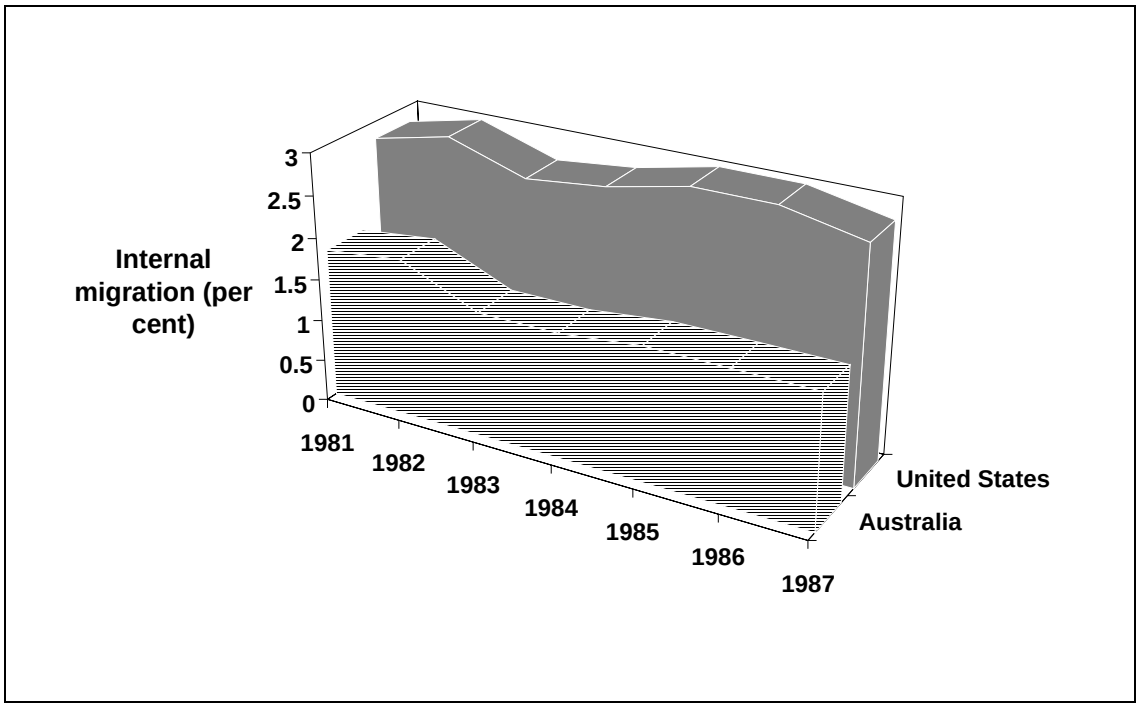
a In total, 550 persons were displaced following the closure of the two meatworks. However, the BIE study only included those displaced who were residents of Tenterfield. b Includes five persons who could not be contacted at their last known address. c Proportion of persons surveyed who stated that they intended to leave the region. The number of persons who had left the region approximately nine months after the survey, was less than 5 per cent of those displaced. d Persons who resigned. e Persons who were retrenched.
Source: BIE 1985.

These case studies are somewhat dated now, but the trends they suggest found support from the Commission's regional visits. In the Latrobe Valley, Whyalla, Newcastle and other places it was observed that many people who lose their jobs remain in the region, even if that decision is associated with prolonged unemployment. Several companies visited by the Commission in country regions had recently undergone major internal restructuring involving a relocation of activity. When Australian Defence Industries Ltd closed its Maribyrnong plant in Melbourne and moved to Bendigo, only five out of 500 staff relocated. This was attributed in part to differences in house prices in regional Victoria compared to the metropolitan area and the risk that, at some time in the future, staff may wish to relocate back to Melbourne where there are more job opportunities. Rocklea Spinning noted that when it closed a mill in Newcastle it offered all employees a job in the firm's Bendigo mill. In this case, none accepted, possibly because of a generous redundancy package. In another case, the State Data Centre was relocated from Melbourne to Ballarat under the State Government's decentralisation policy — 10 per cent of the existing staff relocated.

The official data, the BIE studies and information gleaned during the Commission's regional visits suggest that in Australia workers (especially the less skilled) are not particularly mobile across geographic labour markets, at least not for employment reasons alone.

A comparison with the United States provides a useful perspective on mobility. Internal migration rates in the United States and Australia are shown in Figure 4.3. The United States was chosen because it has labour market arrangements which appear to provide more incentive for migration (see Chapter 5 and Appendix G). The data suggest that Australians are less mobile.

Figure 4.3: **Internal migration in the United States and Australia: persons who moved interstate** (percentages of total population)



Source: OECD 1990, p. 85.

The Department of Industrial Relations (Sub. 148D), with some justification questioned such a comparison, owing to differences in the size of regions. The OECD notes:

> ... gross migration flows depend upon the size of the administrative regions considered. Sub-division of countries into a larger number of regions will increase the gross flows recorded and aggregations among regions will reduce the flows. Differences in the size of regions ... used in different countries therefore make cross-country comparisons of inter-regional migration rates uncertain. Such limitations are however less important when attention is focussed on changes in those flows over time. (OECD 1990, p. 86)

DIR argued that:

> Considering that most labour mobility in both countries is *intra*-state rather than interstate, it may be better not to place too much reliance upon interstate mobility rates. According to Long (1991), 'the most precise and best measure for assessing geographic mobility within a nation so that it is comparable across nations is the residential mobility rate'. (Sub. 148D, p. 28)

The residential mobility rates data provided by DIR, which are a useful measure of mobility *per se*, indicate little difference between the United States and Australia. But, as noted earlier, from the perspective of efficient regional adjustment, such data are inappropriate since they include, for example, lifestyle moves within the same local area (as discussed with respect to Table 4.1). While far from ideal, interstate mobility data are more likely to reflect employment-related mobility. This is so because, as shown in Table 4.2, employment motivations drive nearly half of all movements to interstate locations compared with just over one-tenth of intrastate movements (refer also to Appendix G).

The data presented in this section concentrate on factors that influence people to change their location. However, for this inquiry an important consideration is what *impedes* people from moving in response to adjustment pressures. The following sections assess factors that potentially impede the geographic mobility of labour.

4.3 Housing

Housing issues loom large as an influence on geographic mobility. The very strong inclination of Australians for owner-occupation (amongst the highest rate of all OECD countries) is telling in a number of respects:

- house values can collapse as a result of a regional shock, reducing the financial capacity of residents to acquire comparable housing elsewhere;
- housing is a major influence on 'consumption wages' — that is, disposable income taking into account variability in living and housing/rental costs across regions; and
- housing transactions costs are significant and include government imposts and fees that may be determined in a less than competitive environment.

4.3.1 Divergent asset values

Households attempting to relocate to a region with greater employment opportunities may find that the funds from selling the family-home will not cover the cost of a similar dwelling in the expanding region. This asset price

differential can impede out-migration of households from declining regions. For example, the South West Development Authority (Western Australia) said:

> ... the ability of people to leave the area is significantly affected by an ability to sell, or otherwise make arrangements for the family home. The Collie housing market has been significantly depressed since restructuring in the coal industry. (Sub. 29, p. 10)

Divergent asset prices also can improve prospects for mobility — for example, selling a house in the high priced Sydney market and taking up a job (or migrating for lifestyle reasons) in a lower cost region.

From a regional adjustment perspective, the movement of excess labour from regions subject to contractionary pressures to areas with greater job prospects may be constrained by home ownership, particularly where house prices have collapsed. In the BIE case studies (Table 4.3), lower mobility rates were found amongst home owners. Table 4.4 bears this out for Tenterfield.

Table 4.4: **Willingness to leave the Tenterfield region by housing situation**

Housing situation	*Prepared to move*	*Would consider moving*	*Would not consider moving*	*Persons in sample*
	(%)	(%)	(%)	
Own home				
- paid off	23	29	48	48
- paying off	17	37	47	30
Renting or boarding	48	31	21	29

Source: BIE 1985

In common with owner-occupiers, renter households may also be discouraged from moving where they face increased accommodation expenses — this is particularly true of those residing in public housing (refer Section 4.5). As with owner-occupier housing prices, it is reasonable to assume that regions with strong employment growth may be subject to tighter, and therefore more costly, rental accommodation.

Nevertheless, to some degree, relative house prices mirror relative income levels. Thus a person moving to a region where earnings are higher should be able to absorb some of the housing cost disadvantage. Of course, as wage relativities across regions are not large in Australia, significant decreases in consumption wages are still likely.

In any event, attempts to compensate people for divergences in asset values through government assistance would serve to push up house prices in larger cities and encourage people to move to where they could maximise their returns from housing transactions rather than maximising their (and the nation's) employment opportunities.

It should be recognised, on the other hand, that regions suffering from on-going contractionary adjustment pressures may be in a position to offer cheap land, buildings and houses (see Chapter 12). This could have a positive influence on the location decisions *of firms*.

The divergence of asset prices across regions arises from normal market processes. It would be inappropriate for governments to compensate for the discrepancy between the sale and purchase costs of housing.

4.3.2 Transaction costs

A breakdown of the transaction costs in buying and selling a home are[1]: agents fees (32 per cent); stamp duty (29 per cent); conveyancing fees (7.5 per cent); bank charges (7.5 per cent); and legal fees (6.5 per cent). The remaining 18 per cent comprises mortgage insurance, mortgagor fees, home insurance, disbursement costs and survey inspection fees (PSA 1992, p. 2).

While these costs are significant, they would not normally be seen as impediments to mobility, unless they were clearly set in a non-competitive environment or bore little relationship to the service provided. In this regard, the larger fees require closer scrutiny.

Stamp duty on conveyancing

Stamp duty on conveyancing is a tax on the transfer of ownership of property. It is levied on the purchase price, mortgage sum insured or the annual rent, and is paid by the purchaser. As a revenue raising measure, stamp duty bears little relationship to the actual cost of title transfers and can be viewed as a tax on the mobility of households (IC 1993c).

Stamp duties are collected by State and Territory governments and represent the largest property-based source of revenue for these governments. The rates levied by all governments are progressive, but vary across States. Table 4.5 illustrates the impact of stamp duty in the various States and Territories on a house purchased for $150 000 in 1991.

[1] Based on a $150 000 house in Sydney financed by a $100 000 loan.

Table 4.5: **Stamp duty payable on a house purchased for $150 000**

State	*Duty payable*	*Proportion of purchase price*
	($)	(%)
New South Wales	3 740	2.5
Victoria	5 200	3.5
Queensland	3 975	2.6
South Australia	4 830	3.2
Western Australia	3 525	2.3
Tasmania	2 250	1.5
Northern Territory	4 800	3.2
Australian Capital Territory	3 765	2.5

Source: IC 1993c

A range of exemptions apply in most States. In New South Wales, first home purchasers can defer stamp duty and in South Australia they are exempt if the purchase price does not exceed $80 000. First home buyers in the Northern Territory are fully exempt. Queensland provides concessional rates for acquisition of a principal place of residence. Western Australia and Tasmania provide concessions for first home purchases at less than a threshold value. The Western Australian Government's concession for first home buyers has a locational dimension that:

> ... accounts to a degree for the price differential between properties located north and south of the 26th parallel. Under the scheme a $500 rebate is available to purchasers of residential properties valued at less than $85 000 in the south of the State, but $127 000 in the north of the State. (Sub. 69, p. 16)

Overall, these exemptions can only partly ameliorate the effect of stamp duty in discouraging mobility. As an additional cost incurred through the process of relocation, stamp duties on conveyancing are an impediment to the mobility of owner-occupiers — around 70 per cent of Australian households (Wood 1990).

In its recent report into *Taxation and Financial Policy Impacts on Urban Settlement* (IC 1993c), the Commission favoured less emphasis on the use of stamp duties, with the revenue implications addressed possibly through the use of a broadly based tax on land. **Adoption of the course of action proposed in that report would also enhance regional industry adjustment by removing a tax on labour mobility.**

Always relevant to questions of State taxes is the broader issue of the limited revenue raising base available to the States. These Commonwealth-State financial matters are canvassed in Chapter 10.

Real estate agents' fees

While home owners can avoid real estate agents' fees by selling their own home, in practice about 97 per cent of properties are sold through agents. These fees make up between a third and a half of the total transactions costs incurred in buying and selling a house (based on Sydney transactions costs in 1992). Table 4.6 illustrates fees on median priced houses in the State capital cities. The Prices Surveillance Authority (PSA) recently reported on real estate agents' fees relating to residential property transactions (PSA 1992).

Statutory maximum fee regulation applies in Victoria, Queensland and Western Australia and maximum fees are set by real estate institutes in South Australia and the Australian Capital Territory. In 1992, fees were deregulated in Tasmania and the Northern Territory. New South Wales removed its fee regulation in May 1993.

Table 4.6: **Real estate agents' commission on median house prices**

City	*Median price*	*Real estate agents' commission*	*Proportion of purchase price*
	($'000)	($)	(%)
Sydney	180 400	4 708	2.6
Melbourne	137 100	3 402	2.5
Brisbane	118 400	3 410	2.9
Perth	96 000	3 750	3.9
Adelaide	108 700	4 618	4.2
Hobart	91 600	2 836	3.1
Canberra	145 000	5 365	3.7

Source: IC 1993c

The PSA felt that the regulated fees should be abandoned, but only if accompanied by measures to increase competition within the industry (Box 4.1).

The PSA found that State licensing regulations were a significant factor leading to weak competition between agents. For example:

- in Victoria, agents are not allowed to approach vendors who already have an agent acting for them;
- in NSW, a company that provided vendors with information to assist them to sell their own home was prosecuted by the Real Estate Services Council for unlicensed trading;

Box 4.1: **The Prices Surveillance Authority inquiry into real estate agents' fees**

The PSA found evidence of limited discounting by real estate agents, indicating that maximum scales have effectively become *the* scale for agents to charge. The Authority also found that agents' ability to charge separately and additionally for advertising and certain other expenses means that the maximum scale effectively operates as a minimum scale.

> On the evidence before it the Authority cannot conclude that there is significant price competition among agents. The basis for determination of real estate agents fees is not competition between agents. (PSA 1992, p. viii)

The Authority was sceptical about whether deregulation of agents' fees would, of itself, deliver benefits given the industry's history of price-fixing in Australia and overseas, and the lack of search behaviour by consumers. It noted that deregulation had preceded price increases in some other countries. The PSA raised a number of factors to account for this apparently uncompetitive behaviour:

- price has relatively little influence on demand for the service;
- discounting would reduce each firm's revenue because there would be little increase in demand for services. Thus, there no strong incentive to compete on price;
- vendors often believe that fees are set by government and therefore are reasonable;
- fees tend to be uniform so shopping around may appear pointless;
- the amount of commission is small relative to the price of a home;
- owing to the infrequency of real estate transactions in the lives of most people, consumers find it difficult to judge price and quality of agents' services;
- licensing regulations which restrict entry into the industry; and
- broadly drafted prohibitions on unlicensed trading insulate real estate agents from competition from substitute services and the lack of these services may be a factor in explaining why so few people choose to sell their own home.

The PSA supported fee deregulation, subject to licensing reforms to improve competition and measures to improve consumer information. It recommended a single national licensing scheme:

> The main feature of the PSA's proposed licensing reforms was lower compulsory education and experience requirements consistent with the principle that regulation should not exceed a level necessary to protect consumers from the potential risks arising from dishonest or incompetent agents. (Sub. 155D p. 3)

Recommended measures to improve consumer knowledge included a compulsory requirement on agents to provide written information to vendors specifying: that fees are negotiable; the amount of the fee in dollar and percentage terms; the details of the services to be provided and the availability of an independent body to review complaints. Another initiative involves the widespread dissemination of independently prepared information regarding the option of vendor self-selling; agents' functions and responsibilities and the negotiation of fees.

Source: PSA 1992 and Sub 155D

- in NSW, a solicitor who wanted to operate an integrated legal/real estate agency service was refused a real estate licence, because he had not satisfied the necessary educational and experience requirements; and
- the requirement in some States that licensees reside in the State of operation prevents interstate operation (Sub. 155D).

Further evidence submitted by the PSA was that real estate agents' fees have risen following deregulation in Tasmania and New Zealand. While this does not constitute prima facie evidence of anti-competitive practices, since agents may be providing a higher level of service, the PSA said that:

> ... in combination with other evidence such as scale inefficiencies, licensing restrictions and weak consumer search behaviour, evidence of fee increases following deregulation supports the conclusion that competition is weak. (Sub. 155D p. 3)

In its final report, the PSA supported minimum compulsory licensing standards (see Box 4.1). It argued that licence requirements for education and experience are excessive and tended to restrict entry and weaken competition.

The evidence provided by the PSA indicates that the current licensing regulations have lessened competition within real estate markets. Furthermore, although the use of real estate agents' services are not compulsory, the evidence indicates that broadly drafted prohibitions on unlicensed trading have discouraged innovation and the provision of alternative selling services, thereby discouraging self-selling. The removal of excessive licensing restrictions is likely to reduce compliance costs and improve competition.

Legal conveyancing

Conveyancing costs are relatively small — around $1 328 for a $100 000 residential property in the south-western suburbs of Sydney (TPC 1992). However, consumers in some parts of Australia pay more than double the price of conveyancing in other parts of the country. Much of this variation is attributable to anti-competitive regulation. In most Australian States, solicitors have been the only providers of conveyancing services for a fee. Non-lawyers are not licensed to supply conveyancing services in Victoria, Queensland, Tasmania and the Australian Capital Territory (TPC 1992).

The Trade Practices Commission (TPC) is to assess the rationales for government regulation in conveyancing. These include: information problems; the transactions costs to consumers in selecting a service provider; and the possibility that errors may not be detected through several changes of property in which case the original error may be borne by subsequent owners. Against these concerns are the costs of limiting competition. As the TPC notes:

> ... the public benefits that may result from regulation have to be balanced against the costs of regulation which may take the form of higher costs and prices or less innovation ... It may also be that less restrictive interventions can deliver similar public benefits without unnecessarily increasing the risk of loss or restricting competition in the market. (TPC 1992, p. iii)

The TPC is expected to submit its report in December 1993.

4.4 Search and resettlement costs

Costs, in terms of time and travel, and obtaining information, may deter people from seeking employment outside their home region. Allied to these costs is a 'fear of the unknown'. For example, while jobs may be available in other locations, prospective applicants may be reticent to apply until they can obtain information about a range of factors, including housing costs, schools and the extent of cultural and recreational amenities. Moreover, the housing-related transactions costs (discussed above) may deter people from moving — irrespective of whether they are inflated through lack of competition or revenue-based taxation.

These legitimate concerns are a strong influence on labour mobility, although they are not necessarily policy-induced impediments to mobility. To this end the Government, through DEET, has a mobility assistance program for unemployed persons — expenditure was $15.1 million in 1992–93 (see Appendix I). The program aims to provide access to jobs that are not locally available. The five elements include:

Fares assistance

Fares assistance is available for travel on public transport for job seekers to attend interviews. If there is no public transport available, a petrol allowance can be given. There is no limit on the amounts provided which are discretionary. For example, should a job seeker wish to travel from Adelaide to Perth and the duration of the bus trip jeopardises employment prospects, then an airline ticket can be a made available.

Relocation assistance

Relocation assistance is available to help job seekers move to a new region to take up an offer of permanent employment where it is determined that local job seekers will not be disadvantaged. Those eligible are people unemployed for twelve months or more. Assistance includes fares and a contribution towards the expense of moving home and family.

Currently, a once-only allowance of $300 per job seeker is paid, plus $150 for each adult dependant and $100 for each child dependant. In addition, renters can receive up to $1000 for the first two months, and home owners can receive up to $5000 to cover housing transactions costs (legal fees). A further allowance of up to $5000 is available to cover removal expenses.

Post placement fares assistance

This assistance is available to those unemployed for twenty-four months or more who find permanent employment in a location that entails excessive fares or travel time. An allowance provides for up to $25 per week for 20 weeks.

Job search relocation assistance

Job search relocation assistance aims to help those unemployed for twelve months or more who are willing to move to a new area to find employment. It provides for a live-in accommodation allowance of up to $200 per week and $5 per day to meet the cost of meals for two weeks. People who find work under this provision are eligible automatically for relocation assistance.

Immediate minor assistance

This program involves a one-off payment of up to $100 for any registered unemployed person who finds a job, but is unable to take it up because they cannot meet the costs involved — for example, special equipment purchases or union dues.

The mobility assistance program thus provides a mix of both open-ended and capped assistance. For example, open-ended fares assistance allows job seekers in remote regions to travel long distances for job search — if it was capped, those in such remote regions could be disadvantaged. On the other hand, capping of accommodation allowances, removal expenses and housing transactions costs could entail greater costs for those in more remote regions moving to higher cost locations. Nevertheless, it is clear that some upper limits should be placed on these schemes for budgetary reasons and to discourage long distance moves that are made with lifestyle, rather than employment, as their dominant decision criteria.

For relocation assistance schemes to be effective, job seekers need to be aware of job prospects in other regions. Several participants (employers) thought that regional Commonwealth Employment Service (CES) offices were effective in finding jobs for unemployed people within their region. Moreover, with 676 outlets across 305 locations in Australia connected by a central computer system, the CES can also assist in finding jobs outside of a person's home region. DEET noted that:

> The CES can be an important labour market intermediary in assisting inter-regional mobility by providing advice on non-local regional prospects and opportunities by accessing a nation-wide data base ... (Sub. 71, p. ii)

4.5 Social security and mobility

Social security arrangements are an important safety net for those who become unemployed. Not only do such arrangements accord with most people's notions of fairness, they also can promote efficiency by giving recipients time to search for the most productive employment available. It appears, however, that social security arrangements sometimes can have unintended consequences. For example, a number of participants considered that social security payments reduce labour mobility. The City of Bunbury said:

> It is appreciated that mobility has been a problem experienced by some remote regions. The relatively high level of social security allowances are probably a disincentive to mobility in many instances. (Sub. 25, p. 3)

The Australian Chamber of Manufactures was more blunt, claiming:

> ... people will remain when an industry closes, and become social welfare recipients, probably being retrained for non-existent employment and no real prospect of future employment. (Sub. 63, p. 2)

Other participants in a number of country regions saw social security arrangements as a factor driving migration of unemployed people to their regions. Reports produced by the National Housing Strategy (1992) and Flood et al (1991) confirm that people on fixed incomes — such as sole parents, the unemployed and other social security recipients — are attracted to regions where living costs are lower or the lifestyle is more agreeable. Based on industry visits and submissions to this inquiry, the phenomenon appeared most prevalent in the coastal regions of northern New South Wales and southern Queensland. Figure 2.9 (see Chapter 2), derived from DEET's natural labour market mapping, shows the regional concentration of unemployment in Australia.

The Northern Rivers Regional Development Board said:

> Lifestyle, climate and affordability of housing are significant determinants for people relocating to the region, rather than the obvious need to find employment. (Sub. 47, p. 14)

DEET noted that, in regions undergoing adjustment pressures:

> ... lower prices (particularly for housing) in such areas attract people who are on fixed incomes including welfare assistance, from high cost metropolitan areas. (Sub. 71, p. 30)

Flood et al note that:

> Net moves in total are occurring from places of low unemployment to places of higher unemployment, contradicting classical employment-driven models of migration. (Flood et al, 1991, Executive Summary)

As noted previously, high unemployment regions need not have lower employment growth prospects. For example, areas of Queensland have high unemployment in tandem with relatively rapid job creation. The problem is related more to migration of unemployed persons to areas with low job prospects.

It is understandable that those on fixed, nationally uniform benefits would seek to move to areas where living costs are lower. If these places also have adequate employment prospects for the people concerned, then this need present no regional adjustment problem.

Some people have argued that if there are not enough jobs available overall (as 11 per cent national unemployment suggests) it does not matter where people reside. However, even during a national recession, unemployment levels and job prospects for particular categories of workers can differ greatly among regions.

Moreover, distorted patterns of unemployment may linger after a cyclical recovery because of the costs of moving back to a region with better job prospects. This may entail even greater efforts through labour market programs and relocation assistance to encourage people to move to areas of greater employment prospects. Pockets of high regional unemployment also make it more difficult to use labour market programs to keep unemployed people in touch with the jobs market (see Chapter 6), thereby increasing the risks of social security recipients experiencing long-term unemployment.

Regionally concentrated unemployment also can lead to social problems and reduce amenity to existing residents. As the Northern Rivers Regional Development Board said:

> The social disruption and cost to the economy of the sustained unemployment level, in particular the long term unemployed, is of real concern to the Board and the Northern Rivers Region community. (Sub. 47, p. 9)

The potential for distorted patterns of migration would be reduced if social security benefits reflected locational variations in cost of living, so that their real value was equivalent in different regions. The Department of Social Security (DSS) argued that this task would be too difficult to implement, not least because of the lack of cost-of-living data for areas other than capital cities.[2] The Commission accepts these arguments.

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[2] The Department does account for regional variations in living costs to some extent through rental subsidies (in tandem with other benefits) for people in high cost housing areas, and through remote area allowances applying to all benefits for those living in remote area taxation zones.

There are provisions in the *Social Security Act* (Sections 518 and 597) to discourage the migration of unemployed persons to regions with poor job prospects. Specifically, their benefits can be cancelled for 12 weeks. These provisions reflect the fact that the Newstart and Jobsearch allowances are meant to be temporary assistance while the recipient is pursuing work; and they aim to prevent recipients from deliberately positioning themselves so that unemployment is likely to persist. The Commonwealth Employment Service (CES, which is part of DEET) has the delegated authority to decide if the Act has been breached, and DSS effects any cancellation of benefits.

Prior to publishing its draft report, the Commission had been informed that this policy was applied in only a small number of cases, in part because job prospects were poor in most regions. DEET subsequently notified the Commission that these provisions are being enforced (Sub. 123D, p. 10). DEET outlined the formal process whereby a CES client is informed of whether any penalties would apply in moving to another region. Factors taken into account include the unemployment rates in both regions, whether the client has legitimate reasons for wanting to move, and job and training opportunities. A similar assessment is made of those who register as unemployed with the CES after having moved from another region (Sub. 123D, p.10).

DEET advised, however, that the relevant provisions are subject to review. This was prompted by a Federal Court decision which has the effect that:

> ... the legislation as it now stands applies only to clients receiving benefits at the time of moving to a new area. The intent was that the legislation apply to all persons who reduced their employment prospects by moving to a new location without sufficient reason. (Sub. 123D, p. 10)

The current review includes consideration of options, including legislative amendments to more effectively discourage a drift of the unemployed to regions with relatively poor job prospects.

4.5.1 Public housing

The provision of public housing also can have incidental effects on the mobility of workers, in part because of the sizeable public housing stock in many places. Participants raised this with the Commission in its regional visits, especially in non-metropolitan South Australia and Victoria. The Chamber of Commerce and Industry - Whyalla said:

> Public housing has been as high as 70 per cent in Whyalla. This may have reduced a little in the last few years. However, because there has been a drop in the number of fulltime jobs, many public houses have been vacated by working families and the replacements have been the socially disadvantaged groups (unmarried mothers,

> deserted wives, unemployed and aboriginal families from all over the State). (Sub. 77, p. 2)

In the case of Whyalla, the high utilisation of public housing has created an acute shortage of accommodation, so that it faces both high unemployment and high accommodation costs. The latter is seen as a disincentive to in-migration of labour.

High concentrations and ready availability of public housing in non-metropolitan regions also have the effect of placing people, who typically are dependent on social security, in locations far removed from job opportunities in major metropolitan areas.

In all States and Territories, waiting lists for public housing are lengthy. Thus, those who reside in public housing may be unwilling to shift locations to seek employment if they are required to rejoin public housing waiting lists (this is an additional disincentive to the lower assistance available, as discussed above). Indeed, the high concentration of social security recipients in public housing in Whyalla is a manifestation of waiting lists in Adelaide. The Commission was told that public housing tenants generally can be accommodated in country areas long before a house becomes available in the larger cities.

The impact on mobility between States is even more pronounced. In some cases, people who had access to public housing in their home State may not even be eligible to join the waiting list in a new State until they meet some time-based qualification period. The qualifying criteria, and the extent of public housing stock varies between States, further adding to uncertainty.

The extent of assistance available also can affect mobility of people between regions. Low income families in public housing receive assistance estimated at about $3450 per annum, on average (IC 1993, p. 9). Should a public housing tenant move to another region to take up a job, private housing rental would be the most likely option because public housing tenancies are not transferable. However, the maximum rent assistance available (for a typical family) would be $1945 per annum. Thus, there are strong financial disincentives for public housing tenants contemplating moving to another region to obtain employment.

To the extent that public housing objectives can be met for some people through rental subsidies for use in private rental markets, their locational choices would be enhanced. However, public housing involves many complex issues other than those relating to regional adjustment. Direct government provision of public housing plays an important role for many of the disadvantaged in our society. The Commission's report on Public Housing, completed in November 1993, includes some proposals that would alleviate mobility restrictions. For example, public housing applicants wishing to

transfer from one State's waiting list to another could have their waiting time credited to the new list. The Commission also has proposed new arrangements to bring into better alignment the assistance given to people in private rental compared with those in public housing.

4.6 Social infrastructure

Social infrastructure such as educational institutions and hospitals influence the location decisions of workers and their families and industry. Unlike the situation with private recreational facilities (for example, restaurants, clubs and movie theatres), governments typically provide and determine the location of social infrastructure.

Some regions are adversely affected by their lack of education facilities. This can disadvantage a region in a number of ways. Younger people who wish to continue their studies are often obliged to leave country regions and once they have completed their studies remain in the larger job markets. The Riverland Development Corporation said:

> Forced mobility of tertiary students, i.e. university and **all** trade training creates a brain-drain from the region. (Sub. 52, p. 1)

The Commission was told that the opening of the university in Darwin had a pronounced effect in retaining people in the region. Many regions sought a university, school or TAFE as a means to hold and attract population.

Apart from encouraging out-migration, a lack of social infrastructure is likely to inhibit in-migration. For example, Minproc chemicals in Gladstone was one of a number of firms that outlined the difficulties in attracting top management personnel to non-metropolitan areas. Employees with families who move to regions with limited social infrastructure often return to metropolitan job markets once their children have reached tertiary education, to avoid splitting up family units and the cost of boarding children out of the region.

Related to the issue of infrastructure is the provision of the service itself. Variations across States in educational curricula and school terms may also impede mobility.

While the provision of social infrastructure (such as schools, tertiary institutions and hospitals) is within the control of government, there is no compelling case for across-the-board mitigation action — for example, it would be inappropriate to build a university in every region. However, social infrastructure often is provided on the basis of threshold levels and catchments, rather than economic criteria such as user pays. Thus, there may be some scope to place institutions with some regional criteria in mind — for example, university campuses located

in key regional catchments. But, building social infrastructure purely to hold or attract population is unlikely to yield efficient outcomes.

The provision and pricing of regional infrastructure is discussed in Chapter 9.

4.7 Occupational licensing restrictions

Prior to 1 March 1993, people wishing to practice in a variety of professions, occupations and trades had to satisfy specific licensing and registration requirements in each State and Territory. Legislation usually empowered a governing authority to determine registration requirements and, in many cases, this included educational requirements (EPAC 1991). For example, State medical and dental boards were responsible for specifying the requirements for registration which had to be met before a person could legally practice in these professions.

The mobility of workers affected by these regulations may have been impeded if their skills were not fully recognised in all States and Territories. In other words, occupational registration restrictions may have effectively forced professionals and other workers to remain in jurisdictions which registered their skills. The Labour Ministers' Council has pursued reform in this area since November 1989, when Ministers agreed to conduct a review of occupational licensing which was regarded as an important aspect of award restructuring and labour market flexibility (Department of Industrial Relations, Sub. 148D).

At the May 1992 Heads of Government meeting, the *Mutual Recognition Agreement* was signed. States and Territories agreed to refer power to the Commonwealth so it could enact national mutual recognition legislation which would be binding on all registration bodies in all participating State and Territory jurisdictions (DEET, Sub. 123D).

The Commonwealth legislation came into force on 1 March 1993. This provides that any person registered to carry out an occupation in one State or Territory must be accepted for registration in that occupation in any other State or Territory.

These developments were endorsed by a number of participants to this inquiry. For example, the New South Wales Government stated that:

> Mutual recognition will enhance labour mobility with the removal of artificial barriers linked to registration and licensing laws. As a result, we will be able to make better use of our labour force skills ... Taken in conjunction with the development of national competency standards, it should help Australia move closer to a national market in skilled occupations. As such it is one important part of the broad range of measures

> which the Commonwealth, States and Territories are concerned to improve national economic and structural efficiency. (Sub. 75, p. 13)

The Commission understands that Western Australia is the only jurisdiction which is still to enact the legislation.

Problems may also exist where occupations are registered in some jurisdictions but not in others. These are referred to as 'partially registered occupations'. In this case, workers from jurisdictions without occupational registration are not recognised in jurisdictions in which registration is required.

At the May 1992 meeting of Heads of Government, it was agreed that a review of these occupations should be conducted, and that the registration of these occupations should be removed unless there was overwhelming evidence that registration is required, in which case that occupation should be registered in all jurisdictions (DEET, Sub. 123D and DIR, Sub. 148D). A review was undertaken by the Vocational Education, Employment and Training Committee Working Party on Mutual Recognition. A key guideline for the review was that self-regulation should not pose a risk to public health and safety (Sub. 148D). This review was completed in May 1993 and the Commission understands that Heads of Government are considering its recommendations.

DIR endorsed these recommendations, submitting that:

> The Department considers that implementation of the recommendations, by facilitating a national approach to the rationalisation of these occupational registration arrangements, will assist labour market flexibility. (Sub. 148D, p. 101)

4.8 Portability of entitlements

Portability of entitlements relates to the ability to carry over accumulated benefits from one workplace to another. An example is the limited transferability of long service, recreation and sick leave entitlements in the private sector, although some entitlements may be paid out in cash to transferees.

Of particular concern has been the limited portability of superannuation entitlements. While the current regulatory framework does not inhibit portability of superannuation entitlements, superannuation funds have their own design features that may, in some cases, discourage labour mobility. These design features include eligibility conditions and vesting rules.

Many funds require the employee to work with the employer-sponsor for a minimum period before being eligible for membership, or for employer contributions. The purpose of these conditions may be to contain the administrative costs or to encourage staff to remain with the employer.

Vesting refers to the process whereby workers become entitled to contributions made on their behalf by an employer. The vesting scale, referring to the rate at which employer contributions vest to the worker, is dependent on the length of the membership period. Funds which have long vesting scales require employees to remain with the employer for a long period before they are eligible for the full employer-financed benefits. Clearly, this could constrain mobility. The Insurance and Superannuation Commission (ISC) said:

> ... there are no regulatory barriers preventing portability of superannuation entitlements. However, there are structural factors in the superannuation industry which may influence the mobility of labour, such as eligibility rules for fund membership, vesting scales and differences in benefit designs. These factors, and the extent to which they may inhibit the mobility of labour, are more salient for single employer defined-benefit schemes, many of which are operated by large corporate employers, than for industry or multi-employer funds that are of the defined contribution or accumulation type. (Sub. 96, p. 6)

However, the introduction of the Superannuation Guarantee Charge (SGC), which came into effect from 1 July 1992, will significantly improve portability. The SGC legislation prescribes a phased-in minimum level of employer superannuation support for the majority of employees, reaching nine per cent of an employee's earnings by the year 2002–2003. The benefits required under the SGC must vest immediately in the employee and be preserved to age 55. This feature means that only the portion of employer contributions which exceed the SGC prescribed minimum will be subject to discretionary vesting scales. To this extent, the ISC submitted that:

> ... therefore, the SGC arrangements will progressively ameliorate the effects of long vesting scales and eligibility requirements on the mobility of labour. (Sub. 99D, p. 2)

Although there is no formal reciprocal agreement on portability of leave entitlements between the Commonwealth and State governments, the Australian Public Service (APS) does recognise sick leave and long service leave entitlements from other government agencies, including local governments and government authorities. The Council of Australian Governments recently formed a working group to investigate impediments to mobility in the public sector, such as leave entitlements.

In the private sector, long service leave generally is not portable between employers. Although there is provision for pro rata payment of long service leave on termination in all jurisdictions, this entitlement is subject to what, usually, is a long minimum period of service (which varies among the States from 5 to 10 years) thereby limiting its portability. In all jurisdictions, long service leave is portable where an employee transfers between 'related companies' as defined under the Corporations Law (Sub. 99D).

Entitlement to sick leave is generally conferred by State and Federal awards and in some States minimum entitlements are prescribed by legislation. Most awards in the private sector do not provide for portability of sick leave. However, DIR stated that a few awards do provide for the 'cashing in' of unused sick leave entitlements.

Recreation leave entitlements generally are not portable. DIR noted that no mechanism exists to recognise service for recreation leave purposes in the public sector. However, since recreation leave generally is paid out on termination of employment, this is unlikely to significantly affect labour mobility.

4.9 Summing up

There are many factors influencing the mobility of labour. Some simply reflect the way that people choose to live. Some, like differential house prices across regions, arise from normal market processes. Others can be viewed as side-effects of policies with much broader agendas. For example, social security arrangements can facilitate both too little and too much mobility in terms of matching unemployed people with job opportunities — an incidental impact of policies associated with the community consensus that those who are unemployed should be able to maintain a basic standard of living. Other impediments to mobility include:

- the use of stamp duty on conveyances as a State revenue raising measure;
- the constraints on competition within real estate markets identified by the PSA;
- the monopoly rights conferred upon lawyers in many States to undertake conveyancing;
- disincentives to the mobility of public housing tenants compared with other low-income households that are provided with housing assistance in the form of a rental subsidy;
- occupational licensing restrictions that restrict people from undertaking employment in different States; and
- limitations on the portability of entitlements and superannuation.

5 REGIONAL WORKPLACE FLEXIBILITY AND LABOUR COSTS

The maintenance of jobs in regions having difficulties, and the prospects for new jobs in areas of high unemployment, are improved where firms perceive benefits from lower unit labour costs, especially where achieved through more productive work and management practices. The award restructuring process and enterprise bargaining have increased flexibility. However, award-based arrangements still constrain workplaces in different regions from establishing conditions and wages in keeping with their individual circumstances. Increased wage flexibility would enhance regional job prospects, particularly for the lower skilled unemployed who are over-represented outside capital cities.

5.1 Introduction

The objective for Australia, both nationally and within regions, is the achievement of high productivity accompanied by high wages and expanding employment opportunities. Arrangements that limit flexibility within regional workplaces, inevitably also limit productivity growth, employment prospects in the regions and regional adjustment in general. This inquiry, which is one of many forums in which labour market flexibility is being addressed, examines labour market institutions from a regional perspective — an important perspective that has received little attention previously.

Firms establish and remain in particular regions for many reasons, including labour availability and costs (Box 5.1). The challenge for regions experiencing adjustment pressures is to become more competitive, so as to retain and attract capital, encourage growth of existing firms, and thus maintain and create jobs and incomes.

Improvements in *unit labour costs* — that is, the labour cost per unit of output — are an important mechanism for firms within regions experiencing adjustment difficulties to become more competitive. The major determinants of unit labour costs are:

- work practices, which affect labour productivity;
- wages, which include award and overaward rates of pay and overtime; and
- labour on-costs, such as payroll tax, workers' compensation insurance and employer superannuation contributions.

Box 5.1: **The importance of labour costs**

Firms' location decisions are based on considerations such as the cost of land, proximity to markets, sources of raw materials, transport infrastructure, family considerations, environmental regulations, decentralisation incentives and labour related issues. In most surveys, labour considerations are cited as very important in terms of firms' costs (see Section 3.3.4 and Table 3.2), but labour cost as a factor influencing location decisions, unlike its availability, is not always cited as a major influence. This is hardly surprising given that, with a few exceptions, uniform award minima apply irrespective of location, so that the only regional variations possible are upward from the minimum base.

A recent survey by the Chamber of Manufactures of New South Wales and the State Bank of New South Wales (Survey of Manufacturing Conditions and Future Prospects) specifically addressed labour costs issues. The Chamber reports that:

> ... the percentage of respondents who had moved or were considering a move and nominated labour costs as a factor influencing that decision were as follows:
>
> - 77 per cent moving or considering moving offshore;
> - 22 per cent moving or considering a move to another State;
> - 13 per cent moving or considering a move within non-metropolitan NSW; and
> - 8 per cent of firms moving or considering a move to another local area.

The results show that labour costs play a large role with respect to firms moving offshore. For moves within Australia, where the scope for differing wage components of labour costs are generally limited to overaward payments, its importance declines according to whether the intended relocation is to another wage setting jurisdiction (interstate versus intrastate and local).

Source: (Sub. 131D, p. 10)

Important changes have been occurring in industrial relations, at both Federal and State levels, which are a significant advance over previous arrangements. The Australian Council of Trade Unions (ACTU) and the Commonwealth Department of Industrial Relations (DIR) stated, in relation to recent Federal reforms, that the institutional environment is now flexible enough to meet the differing needs of regions. For example, DIR said:

> There is significant evidence that the existing system, by providing for enterprise agreements which supplement awards, allows workplaces to effectively address workplace specific issues. ... Workplaces in regional locations demonstrate the same capacity for change as those reached in metropolitan workplaces. (Sub. 148D, p. 26)

However, despite recent changes, many participants in this inquiry and firms visited by the Commission around Australia continue to raise concerns about the lack of regional flexibility in labour markets. For example, the Fleurieu Regional Development Corporation suggested that:

> The present system of fixing wages and working conditions in Australia has imposed severe constraints on business in regional areas ... It is facile to think that a centrally based tribunal can fix appropriate wages and working conditions in industries across

> Australia regardless of conditions which exist from one region to another. (Sub. 86, p.3)

This perceived inability of regions to fully tailor remuneration and working arrangements to their specific environments is said to have implications for regional industry adjustment. For example, the Queensland Confederation of Industry said:

> Unless the labour market is freed up, regional centres will not be able to capture the competitive benefits they enjoy which are lower than for capital cities. This advantage is being squandered. (Sub. 166D, p. 3)

Others have argued that regional unemployment — which is particularly high for those who possess redundant or limited skills — is a factor calling for increased regional flexibility. Many observers argue that, where minimum wages are set at a level that exceed workers' contributions to productivity, employment opportunities are reduced. For example, the Commonwealth Treasury has pointed out that:

> Further increases in the flexibility of relative wages in response to relative productivity levels would provide some incentive for increased employment for particular groups of workers. This is particularly important at present, with employment performance differing so markedly across Australia. In such circumstances, excessive *uniform* wage rises run the risk of raising the wages of some workers above their contribution to production, and hence reduce employment demand. (Treasury 1993, p. 42, emphasis added)

Such observations are relevant for most regions, where the data show that unemployment is high amongst those most likely to commence employment on a specified minimum wage.

An important consideration for this report is to assess the potential for varying unit labour costs regionally under current arrangements and to evaluate the benefits that might flow from greater regional flexibility.

This chapter examines the impact of labour market arrangements on regional flexibility with respect to the components of unit labour costs. Section 5.2 looks at the broader economic, social and historical aspects of industrial relations. Section 5.3 examines the scope for work practices to meet the needs of regions; Section 5.4 examines wage flexibility and assesses the regional implications, including employment prospects, of a more decentralised system of wage-setting; and Section 5.5 examines labour on-costs. Section 5.6 addresses current directions in reform from the perspective of regional adjustment.

5.2 Australia's industrial relations framework

Under the Constitution, the Commonwealth cannot legislate with respect to industrial relations or the determination of wages and conditions other than for

its own employees and workers in its Territories. It can, however, enact legislation to establish industrial tribunals for conciliation and arbitration with respect to disputes of an *interstate* nature. Local disputes in different States can create an interstate dispute, in which case the Federal tribunal may deal with industrial issues in different enterprises or localities separately. Where an award is made, however, a further interstate dispute is not required to deal with matters related to that award.

Other constitutional powers also provide the basis for legislation on industrial relations matters. For example, the corporations power supports secondary boycott laws and the High Court has indicated that the external affairs power may be used to implement international treaty obligations.[1]

Under the Federal jurisdiction, only the direct parties to an award are bound by it (other than in the Federal Territories). This differs from State systems where awards can be extended to all employees in the relevant occupation. State Parliaments have no general limits on their power to deal with industrial relations. While only about 40 per cent of workers belong to a trade union (30 per cent in the case of private sector employees), some 80 per cent of the workforce were covered by State or Federal awards in 1990 (see Table 5.1).

Table 5.1: **Award coverage rates, May 1990**

		Covered by awards, determinations and collective agreements			
	Employees	*Federal*	*State*	*Total*[a]	*Not covered*
	('000)	*(%)*	*(%)*	*(%)*	*(%)*
Australia	5 652	32	47	80	20
Private	3 957	27	42	72	28
Public	1 695	41	56	98	2

a Includes unregistered agreements or unknown awards, determinations or collective agreements.
Source: ABS 1991b.

5.2.1 Evolution of the Federal institutional setting

Ongoing reform of Commonwealth and State industrial relations frameworks has increased the scope for firms within regions to institute more productive work practices. This has been an inevitable consequence of the exposure of

[1] The corporations and external affairs powers support the Commonwealth's industrial relations package introduced into Parliament in October 1993. The former power supports arrangements to formalise enterprise agreements for incorporated businesses despite the non-existence of an interstate dispute.

Australian industry to the international marketplace. Indeed, the early history of wage setting reveals that it was inextricably tied to border protection measures.

The Assistant Secretary of the United Trades and Labour Council of South Australia tendered a supplementary paper to the Commission at the public hearings (White 1993) which highlights the interaction of wage setting and protection in the past.

> The award system originated from the operation of the Excise Tariff Act of 1906. This Act laid down a schedule of imported machinery and the tariff to be imposed on them. It also contained a provision that an Australian manufacturer of any item on the schedule would have to pay the same tariff as an equivalent imported item. An employer could, however, obtain exemption from such payment if he obtained a declaration from the President of the new Commonwealth Court of Conciliation and Arbitration to the effect that the manufacturer was paying 'fair and reasonable wages'. (p. 4)

White further notes that, as the Tariff Act did not provide guidelines on what constituted a 'fair and reasonable' wage, the Arbitration Court, in the 1907 'Harvester Case', obtained evidence from a butcher, a landlord's agent, and nine labourers' wives on the cost of rent and food. From this case, the concept of a basic living wage was born. Indeed, in a later judgment (The 'Broken Hill Case' of 1909), Judge Higgins refined the concept of a basic wage, noting that:

> Unless great multitudes of people are to be irretrievably injured in themselves and in their families, unless society is to be perpetually in industrial unrest, it is necessary to keep this living wage as a thing sacrosanct, beyond the reach of bargaining. (cited in White 1993, p. 5)

The link between wages and protection was never more apparent than when the Brigden Committee of 1929 found that the total manufacturing wages bill was offset by customs duties (Brigden et al 1929, p. 191–2). High protection was an accepted policy until the 1970s. Since then, tariff reductions have been ongoing and this has impacted on wage setting institutions requiring a closer relationship between wages and productivity.

Belchamber (1992) reports that in the early phases of Australia's arbitration system, the Judges of the Court visited workplaces around the country. They set minimum rates of pay according to their list of job classifications. From this base, a system developed in which:

> Australia in the 1980s had an industrial relations infrastructure appropriate for the 1930s. (p. 13)

The system, encompassing a multiplicity of awards each with a range of classifications specifying rates of pay, was rigid and complicated:

> ... over the years the Metal Industry Award — a linchpin in the system, taken implicitly as benchmark for most other awards — accumulated some 350 separate classifications,

> with wage rates often differing by a few cents. By the late 1960s it fostered demarcation of work, rigidities and inflexibility in work organisation. (p. 12)

The major changes leading to a more flexible system can be traced to 1983, when the Commonwealth Government and the trade union movement entered into the first of a succession of Accord Agreements. Initially, the Accord process helped achieve a degree of wage restraint, especially in 1986 when indexation was discounted in recognition of the inflationary effect of a decline in the exchange rate. However, after 1986 there was increasing recognition that a wage fixing system indexed to consumer prices was poorly equipped to deal with an increasingly competitive economic environment. In particular, Australia's productivity growth was not sufficient to enable it to compete internationally; workplace and management practices were seen as too inflexible and confrontationist.

The two-tier wage increases

In March 1987, the Conciliation and Arbitration Commission introduced two-tier wage increases. The first tier provided for a general wage increase based on cost-of-living. Under the second tier, wage increases were available to an enterprise or industry in return for measures to improve productivity. The two-tiered system lasted one wage round. There was a perceived need by all parties for greater emphasis on award structures and work organisation.

Award restructuring

The Structural Efficiency Principles (SEP), the vehicle for award restructuring, was introduced by the (renamed) Australian Industrial Relations Commission (IRC) in 1988. Measures considered under SEP included: skill-related career paths; impediments to multi-skilling; relativities between workers; work patterns; and fixed minimum rates for award classifications (Sub. 148D).

In February 1989, an IRC review of award restructuring concluded that progress, while considerable in some areas, was minimal in the majority (IRC 1989b). In the August 1989 National Wage Case, the IRC determined that measures for negotiation under the SEP included penalty rates; overtime; working hours, leave arrangements and part-time and casual employment; sick leave provisions; and work practices. It also determined the minimum classification rate for metal and building industry tradespersons. This established the benchmarks against which minimum classification rates and supplementary payments for other classifications throughout awards could be set (Sub. 148D). To establish the new rates, the IRC allowed for wage increases, termed minimum rate adjustments. These were not provided where award rates were assessed as being too high. DIR said the need for fixed minimum rates and relativities arose because of:

> ... different award rates of pay for employees performing the same work, as well as inequitable relationships among various classifications of employees. Such inequities result in discontent and feelings of injustice among workers, often leading to industrial disputes, unwarranted flow on settlements and leapfrogging. (Sub. 148D, p. 58)

The IRC, acknowledging that awards could be less prescriptive, agreed to measures to increase flexibility. *Enterprise flexibility clauses* enable workplaces to alter award conditions. If approved, they lead to an award variation and operate as a schedule to the award. *Facilitative provisions* are included within individual award clauses allowing a single workforce to vary provisions in the specific clause (see Section 5.3.1).

Despite these reforms, DIR noted that:

> By 1990 there was broad agreement amongst all major parties that the pace of change had to accelerate. ... The focus of the wages system needed to be on the implementation of changes negotiated at the enterprise level. (Sub. 148D, p. 59)

During the 1991 National Wage Case, the IRC was informed by all the parties that a move to enterprise bargaining was appropriate. This essentially involved a continuation of the SEP, but with the focus on workplaces rather than at the award level. The Confederation of Australian Industry said:

> The employment relationship takes place at the workplace, it does not take place at the award level... The two restructuring systems (1987 and 1989) ... did not focus sufficiently on workplace change. (IRC, 1991a, p. 23)

The ACTU said that the 'benefits will come more fully as a result of enterprise change'. The Commonwealth Government put a similar position. In rejecting enterprise bargaining on that occasion, the IRC stated:

> The enterprise bargaining proposals challenge a long established principle of wage fixation in Australia, namely that the benefits of increased productivity should be distributed on a national, rather than industry or an enterprise, basis. (IRC, 1991a, p. 40)

Enterprise bargaining

In the lead up to the October 1991 National Wage Case decision, the IRC again reviewed enterprise bargaining.

> ... the parties and interveners once more press us to move to a more devolved system. There is little prospect, it would seem, that further postponement will lead to more fully developed proposals or to the resolution of points of disagreement. (IRC, 1991b, p. 3)

Thus, in October 1991, the IRC introduced the Enterprise Bargaining Principle (EBP) allowing for wage rises to be negotiated between unions and employees in return for efficiency measures to increase productivity at the workplace.

Legislative changes in 1992 created new provisions for certified agreements to accelerate workplace bargaining. Under the amendments, workplace agreements were not required to meet a public interest test in order to be

certified by the IRC. Rather, they had to meet the following criteria: no disadvantage to employees; inclusion of dispute settling provisions; consultation by unions with their members; and specification of their duration (Sub 148D). However, the IRC can refuse to certify an agreement applying more widely than a single business if it considers it contrary to the public interest.

The IRC again revised its wage fixing principles in October 1993. The revised principles continued to focus on enterprise bargaining underpinned by awards with a safety net adjustment to protect low paid workers. The EBP was replaced by the Enterprise Awards Principle which provides for arbitration of disputes about enterprise bargaining.

On 28 October 1993, the Commonwealth introduced into Parliament further amendments to industrial relations legislation (outlined in Section 5.6). At the time this report was finalised, the legislation had passed both houses of Parliament and was awaiting Royal Assent. An important aspect of the legislation is the extension of enterprise bargaining to non-union workplaces, albeit with a role for unions to challenge ratification of such bargains before the IRC. Enterprise bargaining had not, hitherto, been formally available to such workplaces.

However, some industry sectors are yet to avail themselves of the flexibility that is currently available (for example, meat processing) and the reforms have not been extended to the coal industry, a major employer with a significant non-metropolitan regional presence (see Box 5.2).

Box 5.2: **Labour market arrangements affecting the coal industry**

The coal industry in Australia is subject to a unique industrial relations system. Industry members in New South Wales, Queensland and Tasmania are subject to the *Coal Industry Act (1946)*, which imposes restrictive arrangements. According to the New South Wales Coal Association, employers are only entitled to employ new workers from a union supplied list of retrenched workers and retrenchments are strictly on the basis of seniority. The Coal Industry Tribunal has the ability to shield such practices from anti-discrimination legislation. Coal industry unions have opposed the opening of new efficient mines, fearing they could displace employment at established mines. The long term consequences of such arrangements are reduced competitiveness and jobs. The current system is a disincentive to regional investment.

With industrial relations reform underway elsewhere in the economy, the coal industry is seeking to participate in a less prescriptive regime. The New South Wales Coal Association said:

> ... we would be happy to join the *mainstream* under the revised Industrial Relations Act, 1988. We seek a recommendation by the Commission that special industrial relations arrangements be eliminated and the coal industry be absorbed immediately into the mainstream industrial relations system. (Sub. 161D, p. 5)

The Commission notes that in August 1993 the Minister for Industrial Relations released a discussion paper on the future of industrial relations in the coal industry. Consultation is continuing.

Source: New South Wales Coal Association, Sub. 161D.

5.2.2 Changes within State jurisdictions

Changes also have been introduced (or proposed) in most State industrial relations systems. Several have pursued more broad ranging and rapid reform than has occurred under the Federal system. A snapshot of the States' systems is provided below.

- Queensland has maintained its tribunal and award system, and has allowed enterprise bargaining agreements, but primarily between employers and unions[2]. There has been little focus on incorporating conditions specific to a particular region in awards: although district parities for defined regions are provided, these are (small) 'add-on' allowances which have not increased since 1950. The Queensland Government said:

  > Traditionally, awards have been established to provide consistent base conditions for particular occupational groups in an industry. There has been little focus on incorporating conditions specific to a particular region. (Sub. 92, p. 14)
  >
  > The award making system in Queensland is more flexible than that enshrined in the Federal jurisdiction. (Sub. 92, p. 16)

- New South Wales has retained its tribunal and awards system but has provided for enterprise agreements negotiated between employers and unions, or by employee committees, or by direct vote of employees. The New South Wales Government said:

  > Under the NSW system of enterprise agreements, there is ample opportunity for greater flexibility at the workplace and regional level, resulting in appropriate differences in costs, productivity and wage rates and conditions. There does not appear to be the same flexibility in the federal jurisdiction... (Sub. 75, p. 11)
  >
  > The legislation has encouraged a greater focus in the determination of wages and working conditions. This enterprise focus can take account of regionally important and distinctive characteristics which are crucial for regional competitiveness and development. (Sub. 145D, p. 2)

- The Tasmanian Government has legislation similar to that of New South Wales. It enables employees to negotiate directly with their employers to reach an enterprise agreement based on the particular circumstances of the business and its workforce (Sub. 159D). The Tasmanian Government submitted that:

[2] Queensland has three types of enterprise agreements. The first is similar to the Commonwealth's certified agreements. The second approach is via an Industrial Agreement which also requires union involvement. The third type of agreement, under s.10(1) of Queensland's Industrial Relations Act 1990, allows agreements to be struck without union involvement.

> This legislation introduces freedom of choice into Tasmanian workplaces and opens the way for more employers and employees to reach 'enterprise agreements' on wages and conditions. It has also replaced an out-dated system of regulation and dispute resolution with one of mutual agreement, which will lead to a more productive use of resources. (Sub. 159D, p. 2)

- Victoria has abolished the awards system and replaced it with individual employment contracts or collective bargaining agreements. This legislation applies to the 60 per cent of the Victorian workforce previously covered by State awards: the rest fall under Federal awards (Sub. 89). The Commonwealth subsequently has facilitated the transfer of workers from State to Federal awards. The Victorian Government stated that:

> It is common for awards to regulate an industry on a national basis. The inflexibilities this imposes are exaggerated by trade unions viewing the award as a base. Consequently, any enterprise-based adjustments to prevailing award conditions are add-ons to that base. That arrangement places obvious constraints on enterprise flexibility and regional adjustment. (Sub. 134D, p. 1)

- Western Australia is proposing a system whereby it will retain the tribunal and award system, but also provide an 'opt-out' stream which will allow for individual or collective workplace agreements to be negotiated. The Minister for Productivity and Labour Relations in the Government of Western Australia submitted that:

> The proposed legislation will establish an alternative system. It does not do so by abolishing the old. Employers and employees will be able to chose the system they prefer.
>
> The focus of the new system will be on the workplace and the development of a workplace culture in which employees can take an active and responsible role in directly setting their own work conditions. It is intended to give parties far greater freedom to negotiate employment arrangements which best suit their needs, be it pay, working hours, or other conditions. It is aimed at providing new and greater opportunities for initiative, flexibility, co-operation and positive human relations within the workplace. (Sub. 143D, p. 1)

- The industrial relations platform of the newly elected South Australian Government is also a two-stream system. The choices will be continuation of awards, or an enterprise agreement stream that allows employees to negotiate with employers using union representatives, private agents or a committee of employees. Existing agreements may be converted into awards or enterprise agreements.

In those cases where a non-award-based stream is available or where the award system has been abolished, a 'safety net' has been established comprising a common minimum wage and other selected conditions. For example, the Western Australian minimum standards provide for a minimum rate of pay,

leave (including annual, sick, bereavement and parental), and payment for public holidays not required to be worked. Employees also must be advised of any action by employers that involves a significant change to the workplace.

State systems provide more scope for regional variation between and within States than does the Federal system. A brief summary of the major features of industrial relations systems in Australia is provided in Table 5.2.

Table 5.2: **Summary of industrial relations systems**

Jurisdiction	*Awards based enterprise bargaining*	*Freedom of association*[a]	*Safety net*[b] *and grievance mechanism*
Federal	yes	no: proposals to allow enterprise bargaining for non-union workplaces	legislated safety net to cover workers outside the federal system[c]
New South Wales	yes	yes	yes
Victoria	no: employment contract system	yes	yes
Queensland	yes	yes[d]	yes
Western Australia	yes: also an opt-out stream	yes	yes
South Australia	yes: also an opt-out stream[c]	yes	yes
Tasmania	yes	yes	yes

a Freedom of association refers to the right of employees to chose who negotiates with employers on their behalf — unions, employee committees, consultants or individuals.

b Refers to safety net for bargaining outside of the award system.

c Proposed.

d Limited freedom of association (see above text).

5.3 Flexibility in work practices across regions

Firm's unit labour costs are profoundly influenced by labour productivity. While productivity also is influenced by skill levels, technology, the mix of capital and labour inputs and management practices, firms visited by the Commission confirmed the importance of work practices and employment conditions to productivity.

The progress made in increasing the flexibility available to firms to tailor work practices to their needs, thereby enhancing productivity, has been significant. DIR said that:

> The modernised award system now provides firms, including regional firms, with considerable scope for flexibility, although ... it is fair to say that the majority of firms are not yet taking full advantage of the opportunities available. (Sub. 148D, p. iv)

The ACTU remarked that:

> Prior to award restructuring there was a multiplicity of arbitrated minimum rates of pay for like classifications across State and Commonwealth jurisdictions ... When completed [award restructuring] will have totally overhauled and simplified the award system as a whole in respect of its role of establishing minimum rates of pay. (Sub 144D, p. 12)

The Commission visited some firms that had achieved significant productivity gains through enterprise bargaining. Moreover, schemes such as profit sharing, provision of shares to employees, and workers having board representation are further initiatives reflecting a changing workplace culture. The Chamber of Manufactures of New South Wales said:

> ... recent bargaining at an enterprise level has provided some flexibility in the present wage system for firms relocating to non-metropolitan regions. In particular, the larger firms with employees over 100 persons have been able to secure agreements with their individual workforce before they located in a region. Some of these agreements have provided flexibility in wages, hours and conditions of work, health and safety issues and minimisation of demarcation disputes. (Sub. 67, p. 12)

The current arrangements appear, in principle, to provide sufficient flexibility (see Section 5.3.1) to meet several of the concerns raised by participants such as demarcation across occupations that impede multi-skilling, and entrenched working hours and shift conditions. However, many participants still see labour market arrangements as a constraint on the capacity of regions to improve their competitiveness. A widely shared view was that enterprise bargaining remains constrained in application and scope. For example, the New South Wales Farmers' Association (NSWFA) said:

> True enterprise bargaining will allow more flexible working arrangements between employers and employees and would serve to remove the institutional impediments to labour flexibility in work practices and conditions across regions and work places. Regional workplaces need to agree on working conditions that fit their needs. (Sub. 129D, p. 1)

This may indicate that agents are not availing themselves of the flexibility available under the current system, as DIR notes. It also could indicate that institutional reform, although pronounced in recent years, has failed to catch up to, or keep pace with, a changing and more internationally exposed economic environment.

A number of participants argued that, in its current form, enterprise bargaining could not achieve significant productivity increases, especially where conditions underpinned by awards were not negotiable. It was suggested that the available flexibility provisions were constrained by the immutability of certain award conditions. For example, the Tasmanian Government stated:

> Under the present Federal enterprise bargaining format the award is the minimum condition of employment. This inhibits changes to the type of remuneration that can be paid. It is important that an interpretation of the general minimum employment standard is not interpreted in such a manner as to continue to frustrate flexibility in compiling remuneration packages. For example, if the standard states a minimum wage to be paid, and this is defined in dollars, then the standard should be set to allow this minimum to be reduced if certain benefits such as accommodation are supplied. (Sub. 159D, p. 3)

5.3.1 Flexibility within the award system

Under the Federal system, facilitative provisions and enterprise flexibility clauses allow firms to pursue increased flexibility through the award system.

Facilitative provisions

Facilitative provisions are included within individual award clauses and allow a single workforce to vary provisions in the specific clause. DIR examined flexibility clauses in the largest 50 awards, of which 46 contained facilitative provisions, although they noted that the largest fifty awards may not be a representative sample especially from a regional perspective (Sub. 148D).

Provisions affecting individual workers centred on one-off variations to working arrangements, for example, changes to the day an employee is rostered off. Other provisions, affecting the workplace as a whole, typically related to the spread of hours, shiftwork, other hours arrangements and arrangements for the payment of wages. In these cases, the agreement of the majority of employees and/or union was required. Facilitative provisions must, however, preserve the intent of the award. As DIR notes:

> Facilitative provisions have been inserted into award clauses covering such issues as hours of work, annual leave, meal breaks and sick leave ... changes resulting from facilitative provisions do not have be approved by the AIRC; *since any changes must remain consistent with the scope of the award provision, no variation to the award is needed*. (Sub. 148D, p. 59, *emphasis added*)

Enterprise flexibility clauses

Unlike facilitative provisions, enterprise flexibility clauses enable workplaces covered by multi-employer awards to alter award conditions. Some stipulate that all agreements must be ratified by, or registered with, the IRC, while for others only agreements involving award variation need go before the IRC. According to DIR, of the approximately 1300 active multi-employer awards, around 70 per cent contain an enterprise flexibility clause.

DIR noted that flexibility clauses are not widely used. It suggested that this could be due to facilitative provisions and enterprise bargaining reducing the

need for employers to seek award variations. But some have argued that employers may find the need to seek ratification before the IRC, and the consequent union involvement, to be a disincentive and costly. Moreover, employers in regional areas may perceive little possibility of unions agreeing to changes in 'bedrock' conditions.

5.3.2 Flexibility arrangements through enterprise bargaining

DIR reports that over 1300 Federal agreements have been formalised since October 1991.[3] A Treasury estimate indicates the extent of this coverage:

> By the end of June 1993, 35 per cent of employees on Federal awards, or 11 per cent of all wage and salary earners were covered by enterprise agreements ratified in the Federal jurisdiction. (Treasury 1993, p. 41)

DIR's analysis of agreements indicates that:

- around 65 per cent contain measures to improve functional flexibility (addressing problems of demarcations);
- staffing restrictions can be addressed by allowing management staff to undertake production tasks in emergencies;
- 60 per cent of agreements have introduced changes to hours of work, length of shifts and seasonal variations in work hours; and
- almost 40 per cent addressed penalty rate provisions, including the incorporation of penalties into loaded base hourly rates (see for example, Box 5.3).

The Employment Studies Centre of the University of Newcastle was commissioned by DIR to examine enterprise bargaining in six workplaces in the Hunter region. It found that:

> The Hunter Region case studies are evidence that Australia's workplaces are moving in a positive direction, but that, except in a few admirable, 'leading edge' examples, the transformation of our workplace culture is still some way off. (Sub. 98D, p. 142)

Consistent with the view that market pressures are driving reform, it added:

> The factors identified in our investigation have had their most important source not so much in the wage principles themselves as in the powerful and immediate economic pressure upon workplaces to improve their efficiency and competitiveness. (Sub. 98D, p. 131)

[3] The range of agreements addressing workplace productivity is provided in DIR's publication *Workplace Bargaining — The First 1000 Agreements*.

The 'no disadvantage' test

In principle, the 'no disadvantage' test provides an avenue for enterprise agreements to meet the short-term adjustment needs of regions by allowing conditions of employment under a relevant award to be reduced. However, the scope to do so is heavily constrained. DIR submitted that:

> ... this provision is not intended to operate in a way to reduce well established and accepted standards which apply across the community such as maternity leave, standard hours of work, parental leave, minimum rates of pay, termination, change and redundancy provisions and superannuation. It is important that such safe standards be maintained so that certain of the Government's social policies, which are given effect through the wages system, are effectively maintained. (Sub 148D, p. 24)

Nevertheless, at the public hearings DIR said:

> ... you will see from a close reading of the Act that there can be reductions in conditions of employment provided that, having regard to the overall package, the [IRC] is satisfied that the reduction is in the public interest. (Transcript. p. 788)

Application of the 'no disadvantage' test in this way would, for example, ameliorate the concerns of regions adversely affected by a seasonal downturn in demand for their products by allowing firms to maintain employment. However, such flexibility through the 'no disadvantage' test is yet to occur in practice. DIR submitted a scenario in which such an interpretation might arise:

> .... it may be that if an enterprise was confronting the drastic alternative of having to liquidate itself, that that might be seen to be in the public interest, that some agreement ... might apply for a period that sees the company through the particular danger period. (Transcript, p. 789)

In its draft report, the Commission said that enterprise agreements essentially constituted add-ons to awards. DIR said that the use of agreements *to be read in conjunction with awards* allows parties to make only the changes they perceive necessary, while preserving other award conditions. However, since there has not been an application of the 'no disadvantage' test that has established a significant variation to an award to date, the extent to which enterprise agreements can be more than add-ons to awards remains unclear.

5.3.3 Flexibility and small business — a more regional focus

As much of the evidence submitted by DIR on flexibility clauses, facilitative provisions and enterprise bargaining is based on larger awards, there is a question about the benefits of these measures to smaller firms. This is especially relevant to the regional focus of this report, given the higher proportion of small businesses in many regions. To address this aspect, DIR submitted its interpretation of the results of two studies: the Australian

Workplace Industrial Relations Survey (AWIRS) which surveyed workplaces with five or more employees in 1989-90; and a mail survey of 953 small businesses employing 50 or fewer people conducted by Professor Isaac for DIR and the Australian Chamber of Commerce and Industry.

The AWIRS survey found that 36 per cent of private sector workplaces (between 5 and 19 employees) were unable to make desired efficiency changes, with only 3 per cent indicating awards or unions as the main reason. In the Isaac survey, 38 per cent of workplaces were unable to implement workplace change. When these firms were asked why, 27 per cent cited award restrictions and 12 per cent mentioned union resistance.

In respect of wages, in the Isaac survey, 79 per cent of award-covered firms made overaward payments to at least some employees. In AWIRS, 79 per cent of private sector workplaces, with between 5-19 employees, made over-award payments. The corresponding figure for workplaces with 50 or more employees was 74 per cent. This would seem to indicate that minimum wages are binding for at least 20 per cent of firms covered by the surveys.[4]

In the Isaac survey, just over 60 per cent of firms expressed satisfaction with their current award or agreement arrangements. In the AWIRS survey, managers at 66 per cent of private sector workplaces (between 20 and 49 employees) said there was no need for changes to awards covering their employees. The equivalent figure for workplaces with over 50 employees was lower at 48 per cent — that is, less than half were satisfied with their current situation.

Plowman has suggested that the AWIRS survey was biased toward larger firms that are better able to cope with the complexities of the awards based system.

> The sampling was deliberately biased to provide for a greater number of larger workplaces. The rationale for this bias is that since 'most of Australia's workforce is employed by a relatively small number of large workplaces, this ensured the survey covered the workplaces that employ the majority of the workforce'. As a result no workplaces employing fewer than five employees were surveyed and the 5-19 employee workplaces were practically excluded from much analysis (for example they feature in only 28 of the 110 non-technical appendix tables).
>
> Though one can understand the AWIRS line of reasoning, the sampling employed would not appear to be totally consistent with the all-encompassing definition of 'industrial relations' adopted. It is also likely to bias the results in favour of organisational complexity. (Plowman 1991, p. 438)

[4] As the Isaac survey merely indicates the proportion of firms that paid over the award *to at least some employees,* it is likely that, in terms of employees, the binding nature of minimum wages may be higher.

The Chamber of Manufactures of New South Wales submitted an appraisal of the results of a survey it conducted in June 1993 on enterprise agreements under both Federal and State legislation. The responses covered 502 firms or 33 per cent of manufacturing employment in the State. The results indicated that around 60 per cent of manufacturers from non-metropolitan regions were negotiating or considering an enterprise agreement.

As noted above, the New South Wales system allows for direct enterprise bargaining between employers and employees. This was apparent from the survey, where over half of the non-metropolitan manufacturers were involved in enterprise negotiations without the involvement of unions. The Chamber said:

> The most common method of employee representation, nominated by 44 per cent of firms, was individual negotiations; or via a workplace committee, nominated by 33 per cent of firms ... Union representation in the agreements were only 19 per cent of responses. (Sub. 131D, p. 11)

Some 40 per cent of non-metropolitan manufacturers did not engage in enterprise bargaining because they found the existing arrangements satisfactory. Union involvement or attention was seen as the second reason for not proceeding with enterprise agreements, being nominated by 30 per cent of respondents. The ability to negotiate directly with employees is clearly important to firms and may help to explain the lack of interest in enterprise flexibility clauses in Federal awards.

The survey further found that the propensity of firms to be involved in enterprise agreements increased with their size:

> Only 4 per cent of small firms (0-20 employees) had established an enterprise agreement and 70 per cent of firms in this size category were not considering an agreement. (Sub. 131, p. 11)

One interpretation of the lack of interest in enterprise bargaining by small firms is that they are satisfied with the current arrangements. However, there are several other interpretations. For example, small firms may lack the resources and/or management expertise required to engage in enterprise bargaining and perceive themselves to be too small to seek a variation to an award. Small firms also may prefer to be somewhat anonymous in industrial relations issues — if they were breaching awards, enterprise agreements would attract union attention.

5.3.4 Flexible work practices and the regional 'culture'

A number of regional development organisations told the Commission that good labour relations were a strong selling point for non-metropolitan regions. Several observed that firms looking to establish in their region would cite this as a reason for relocation. Relative harmony in labour relations was said to offset

the disability of a lack of skilled workers faced by some regions. It is also common for prospective firms to demand a single union site in country locations. These points are linked, as the following comment from the Albury-Wodonga Development Corporation indicates:

> ... most country based manufacturers and business already take advantage of a close 'community attitude' for the success of their business and genuine effectiveness. Only those companies with a higher union influence have found difficulties in establishing a sound rapport with their employees. (Sub. 39, p. 10)

Reasons advanced for the perception that non-metropolitan workforces are more cooperative include: a closer affinity to the fortunes of the firm (and the region) on the part of the labour force; lower levels of union involvement; and fewer alternative employment options. The former Maryborough and District Development Committee said:

> The relatively low level, even near absence, of industrial disputation in this region compared with the metropolitan area reflects a significant difference in work practices between these locations. (Sub. 35, p. 2)

The importance of the local industrial relations climate was also noted by the Pilbara Development Commission:

> Despite less adversarial attitudes and practices in recent times, the reputation of the industrial relations culture in the Pilbara has adversely affected competitiveness and led to a reluctance for further economic development. (Sub. 65, p. 12)

Kasper (1992) reported the benefits of good management and labour relations in Gladstone:

> Gladstone management efficiency is rated a cut above Australian standards. It achieves higher productivity, also because labour cooperates flexibly and has long accepted enterprise bargains which are conducive to rising productivity. (p. 321)

In some cases, regional industrial harmony may result from 'wage following'. Industrial campaigns are often waged in Sydney and Melbourne, allowing other locations to enjoy the flow-on effects without the need for industrial action. This has been raised as an explanation for South Australia's good strike record relative to the eastern States. It also implies that decentralised bargaining might increase the likelihood for more disputation within regions. However, as noted above, the lack of alternative employment sources, weaker union influence and the importance of some large firms to a region's health suggest that non-metropolitan regions have innate characteristics conducive to greater industrial harmony.

During discussions with firms, local boards and other regional groups the Commission was told that:

- award conditions tend not to be so binding in regions some distance from capital cities. For example, regions in northern Australia were said to have

achieved flexibility through less than rigid adherence to award conditions, made possible through a lower union presence;

- small businesses are more likely to breach award conditions, sometimes inadvertently: rural regions tend to have a higher proportion of small business (including farms) than metropolitan areas; and
- industrial disputation is less prevalent in many non-metropolitan areas than in capital cities and some industrial areas.

The United Trades and Labour Council of South Australia confirmed that country employers do breach awards, either inadvertently or deliberately. It added that:

> ... when we do find out about it then we have got the right under industrial law to argue for [recovery of] underpayment of wages. (Transcript, p. 161)

At the public hearings, the National Farmers' Federation (NFF) indicated that it would be difficult to quantify the extent of award breaches in regional areas.

> ... if the employers and the employees are agreeable to the conditions they are working under, then ... they would probably keep it to themselves ... (Transcript, p. 638)

The Fleurieu Regional Development Board said that while there are situations where award conditions are breached, the sanctions under industrial law would ensure that it was not widespread (Transcript, p. 123). Indeed, larger firms argued that they would not risk breaching awards owing to union awareness of their activities.

This nexus between flexibility and compliance is interesting in the light of some recent work by Shann (1993) who reported that:

> Union membership (40 per cent on average) is higher among men (43 per cent) than women (35 per cent), among large employers (72 per cent) than small employers (20 per cent), in public employment (67 per cent) than private (31 per cent), in manufacturing (46 per cent) than retail/finance (25 per cent), among full-timers (45 per cent) than part-timers (25 per cent) and among permanents (46 per cent) than casuals (17 per cent). As it happens, the growth in terms of jobs over the medium-term have been for women, small employers, the private sector, services, casuals and among part-timers, which are all areas of low unionisation. (p. 7)

These data are also indicative of employment growth occurring most rapidly in areas where awards are less likely to be binding. The regional attributes noted above, suggest that awards may be less rigidly adhered to by some firms in non-metropolitan regions. However, it is not possible to determine the significance of this in practice.

5.3.5 Assessment of regional flexibility in work practices

The devices introduced into awards and enterprise bargaining have ameliorated problems such as demarcation disputes and provided flexibility with respect to the spread of working hours, time-off in lieu of overtime, timing of breaks, payment systems and leave arrangements. Many firms and workers have gained from this recent flexibility, as reflected in productivity improvements. Some agreements under Federal awards are noted in Box 5.3.

Box 5.3: **Flexibility in 'Regional Agreements'**

Incitec Ltd (Cairns and Mackay)

Incitec Ltd (Cairns) has a 12 month agreement operating at its Cairns site that introduced measures providing for a 38 hour week with hours worked between 6 am and 6 pm Monday to Friday inclusive. The hours worked will be determined with a majority of employees in each section of the plant. There is to be 'greater flexibility in varying meal breaks, without penalty to meet immediate plant needs' and a prohibition on any form of demarcation. At Incitec's Mackay plant, the agreement provides for a more flexible working pattern 'that maximises working time in the peak demand season with a corresponding reduction of working time in the off season'. (see DIR, Sub. 148D, p. 80)

Southern Aluminium

At the public hearings in Launceston, the Federation of Industrial Manufacturing and Engineering Employees discussed an enterprise agreement with Southern Aluminium (an exporter of magnesium wheels). The deal, struck under the Federal system, established a single union concept to overcome demarcation barriers.

> If the actual function doesn't require a specific licence to do so, then any individual that's competent and trained to perform that task safely is allowed to perform it. (Transcript, p. 458)

The Offshore Island Resort Agreement

This agreement was negotiated between the Australian Workers Union and several resorts off the Queensland coast. It provides an 18 per cent loaded hourly wage rate in return for more flexible rostering arrangements and the abolition of penalty rates. The previous base rate, weekend, public holiday and shift penalty rates were averaged to determine a loaded hourly base rate. The advantages of this agreement include:

- higher quality of service, especially outside normal hours;
- lower administrative costs due to a simpler payroll system; and
- more equitable pay arrangements.

Local arrangements can be reached to further enhance workplace flexibility through the negotiation of the span of hours worked, timing of roster breaks and the introduction of flextime. Australian Resorts, for example, have implemented a productivity enhancement approach to improve the skills and attitudes of staff through skills development, training and international benchmarking (Department of Tourism and DIR 1992).

However, these improvements have come off a base of considerable inflexibility accumulated over many years and it is apparent from the views of participants (including most State governments) that there is scope for yet greater flexibility. For each case provided on greater flexibility, there are counter-examples of inflexibility in work practices.

In many regional areas the Commission heard that advantages, such as a cooperative labour force and good employer-employee relations, were negated by award conditions. A number of participants considered that awards were too 'city based' and rigid. For example, the Albury-Wodonga Development Corporation said:

> Awards (Federal, NSW and Victorian) continually take the 'lowest common denominator' view which tends to ignore individual circumstances or regional considerations. This results in issues that may be relevant to cities, being forced onto country areas, eg. Melbourne Cup Day. (Sub. 39, p.10)

The NSWFA raised similar concerns:

> How working conditions can be set in Melbourne for circumstances in Menindee or Mendooran is beyond comprehension in today's modern world where we insist, as the 'clever country', that flexibility, innovativeness and adaptability have to be the hallmarks of the future Australian economy. (Sub. 59, p. 2)

A common complaint was that, even when employers and employees within a regional enterprise have a common interest in varying conditions, such changes can be blocked by unions concerned about the erosion of national standards. For example, in the Metway Bank (Queensland) case, the bank wanted to make an agreement with the staff association — but this was successfully opposed by the Finance Sector Union, despite the fact that the staff association represented most of the bank's employees, whereas the union had only 10 per cent coverage.

The NFF provided an example where award conditions were not negotiable. It raised the prohibition on weekend work for shearing employees (except for sheep affected by wet weather) under the Pastoral Industry Award[5].

> ... if employees and employers — for whatever reason — agree without duress or undue influence to work on the weekends, they are both subject to prosecutions, and there are a number of examples where the union has prosecuted both employer and employee for working on a weekend. (Transcript p. 636)

At the public hearings, the Commission asked whether this problem had been examined as part of the award restructuring process.

> ... we have made applications to change and improve the award and it does meet with resistance from the union who believe that the industry should be regulated. ... as part

[5] Refer Pastoral Industry Award, Clause 20 - Hours of work of shearing employees (shearers and crutchers).

> of the structural efficiency principle, there were a number of clauses inserted into the award relating to facilitative structures, consultative mechanisms and a number of other factors - no extra claims provisions and the like... but the reality is they are just paragraphs on a piece of paper. ... They're not flexible enough. You can't put a clause into an award saying, 'This award is now flexible'... (Transcript p. 637)

In its submission, the NFF added that there have been many cases, where the Australian Workers Union has taken action, resulting in fines on both employers and employees who have worked on weekends, even though only around 5 per cent of all shearing staff are members of that union (Sub. 164D). The NFF also noted another example of work practice inflexibility under the same award relating to the practice of 'crutching' sheep. It explained that there are significant regional variations (with their own regional names) in this practice (Box 5.4).

Box 5.4: **The cost of a 'Dubbo dab'**

In its submission to the inquiry, the NFF said:

One of the work inflexibilities within the award relates to crutching. Crutching is the task performed which entails shearing inside the rear legs and surrounding area of a sheep. This is done on a regular basis to prevent contamination or deterioration of the wool.

In practice shearers in different regions have modified this task and do not do a 'full crutch', but rather a crutch that does not take as much time and that entails a less number of blows. The award does not appropriately address this modification, in that it specifies a rate for payment of the full crutch. Therefore while farmers and shearers do agree to a variety of rates for varieties of crutches it exposes them to prosecution. The union view is that most of the work of crutching is in removing sheep from the pen and therefore does not warrant a variation in the rate of pay. However, when a machine was invented which allows sheep to be presented for crutching automatically (removing the need to manually pull the sheep from the pen, increasing the number of sheep crutched per man per day by, in some cases as much as five or ten fold) the AWU argues that such workers should be paid the full award rate for crutching.

Source: Sub. 166D, p. 11

The NSWFA and the Victorian Government also alerted the Commission to problems with award inflexibility in the meat industry, which has a significant regional presence. (The Commission is currently conducting an inquiry into Meat Processing.)

The meat industry in Australia is covered by a number of Federal and State awards. The main award is the (200 page) Federal Meat Industry Award. Clause 10B of that award deals with award modernisation. Among other things, it specifies that:

> The parties to this award: ...
>
> (c) Agree that the Structural Efficiency Principle will not be applied in a negative cost cutting manner.

The Australasian Meat Industry Employees Union submitted to the Commission's inquiry into Meat Processing that it supported the maintenance of existing standards but was only prepared to negotiate enterprise bargains on matters over and above the minimum base (IC 1993f, p. 151).

The Victorian Government argued that the greater flexibility under its employment contract system had overcome some of these problems. It stated that:

> An example of increased flexibility and productivity is the meatworks operator, Wodonga Meats Pty Ltd. After reaching a collective agreement, the company lifted its productivity by 40 per cent. Prior to the reaching of the agreement, 82 working days were lost due to strike action. The workers at the plant have now formed their own in-house employees association which employs experts to represent them in negotiations. The Australasian Meat Industry Employees Union no longer has a presence on site. (Sub. 167D, Attachment 3)

The NFF encapsulated the problem with constraints on flexibility under the Federal system — the reluctance of unions to concede on national standards regardless of regional needs. Referring to the meat industry, it said:

> In order to escape legitimately from the rigid award system to an 'enterprise bargain' employers must notify and obtain consent from the relevant union(s) either in the workplace or within constitutional entitlement to cover the workplace. Understandably, the union is disinclined to consent to employment arrangements which erode award conditions fought for by the union over decades, or which provide more advantageous terms to particular works. Hence 'enterprise bargains' in the current federal legislative framework are likely only to arise if they provide higher wages and better conditions, as defined by the existing union hierarchy, than the appropriate award. (Sub. 164D, Appendix 6, p. 23)

The Commission was told of similar cases in other industries on its regional visits, but most firms chose not to detail them in individual submissions, allowing their views on such matters to be represented by umbrella organisations such as employer associations or regional boards.

These cases highlight that sole representative rights of unions to negotiate with employers can reduce the potential for flexibility from enterprise bargaining. Indeed, under the current Federal arrangements, a deal between management and workers in a workplace with no union membership would need to be negotiated with the union that *would have* covered the employees. This is a major impediment given that the majority of private sector workplaces are non-unionised. The extension of enterprise bargaining to non-union workplaces is a feature of the Commonwealth Government's recent legislative amendments (see Section 5.6).

Nationally organised unions understandably aim to preserve national standards, but this can conflict with regional diversity. Arrangements that allow regional employers and workers to negotiate directly the terms and conditions that are suited to their own, perhaps unique, workplaces are the most likely to deliver the required regional perspective.

Of course, this logic applies equally to managers of firms. The Commission was also told that enterprise bargaining in country regions was sometimes frustrated by poor management practices or by intransigent stances by firms' metropolitan-based head offices. Indeed, enterprise bargaining is a two-sided process and if *either* employers or unions are unwilling to enter into the spirit of negotiation, gains from the most flexible of systems will be limited.[6]

In terms of an overall assessment of the capacity of the current industrial relations systems to provide workplaces with sufficient flexibility to meet local circumstances, the key issue is how the potential to provide regional flexibility in work practices compares with the flexibility that is delivered in practice.

The facilitative provisions within an award provide discretion in how a particular condition is met. As noted in Section 5.3.1, the nature of the clause in which the facilitative provision has been inserted is effectively not negotiable. At the public hearings, DIR stated that:

> Facilitative provisions ... allow the parties some discretion as to how they actually implement, in their particular organisation, the kernel or core of a particular employment condition prescribed in the relevant award ... (Transcript, p. 786)

Thus, while facilitative provisions can provide some flexibility, this is within the constraint of the award. As DIR added:

> If it's a 38 hour week it would be an arrangement that would need to still on average reflect 38 hours per week. (Transcript, p. 786)

If facilitative provisions must keep the nature of the award condition intact, then enterprise flexibility clauses become the main possibility for award variation. However, the evidence from DIR is that they are little used.

Enterprise bargaining has allowed for an increase in functional flexibility (reduced demarcations) and changes to penalty rates and pay provisions. Importantly, it has also facilitated closer communication between management and employees.

However, under Federal agreements, employees' terms and conditions must be covered by an award which is the benchmark for the 'no disadvantage' test — that is, agreements must not disadvantage employees in relation to their overall terms and conditions. Thus, flexibility is essentially confined to the potential

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[6] The Commission is scheduled to conduct an inquiry into 'Strategies for Improving Australian Business Management' in 1994-95.

for doing those things specified in an award a different way. If the award condition itself is not appropriate to the needs of a firm or region, any change will be subject to an interpretation of the 'no disadvantage' test that provides for a reduction in conditions.

There is no precedent for an interpretation of the 'no disadvantage' test in this way. Indeed, the New South Wales Government argued that:

> The current Commonwealth provision for certified agreements largely equates with over-award bargaining because of the need for compliance with the 'no disadvantage' test. Such a system greatly limits the opportunity for regional enterprises to shape wages and conditions in light of their own regional experiences and characteristics. This is obviously detrimental to regional competitiveness ... (Sub. 145D, p. 2)

The Business Council of Australia (BCA) stated that:

> The 'no disadvantage' provisions relating to the certification of enterprise agreements ... are generally seen as a continuing requirement to preserve, in all enterprise agreements, the existing award wage rates and provisions (which are predominantly oriented to capital city situations). This means that regional reflection of cost-of-living variations is unlikely to be permissible.
>
> While it may be argued that the wording of the Act leaves some scope for the Commission to determine that a specific enterprise agreement containing lower wage rates does not, 'considered as a whole', disadvantage employees in a particular case, the current attitude of the trade union movement to the interpretation of the provision makes it scarcely credible that an enterprise agreement would be negotiated with a union on such terms. (BCA 1993, p. 19)

The lack of involvement in enterprise bargaining by small (and hence, regional business) was also noted. The Queensland Confederation of Industry pointed to:

> The inability of small business to participate in enterprise bargaining, i.e. the no disadvantage test in order to structure wage rates, penalties and employment conditions to regional requirements and standards impacts on their efficiency and doesn't allow for productivity improvements. (Sub. 166D, p. 3)

In sum, the view consistently put to the Commission in its regional visits was that enterprise bargaining needed to be more decentralised. As some participants noted, enterprise bargaining arrangements are of limited use to regions suffering adjustment pressures when minimum conditions often are not negotiable.

Recent changes to the award system have increased flexibility in work practices by allowing award conditions to be met in different ways. However, maintaining the substance of award conditions means that enterprise bargaining remains essentially an add-on process.

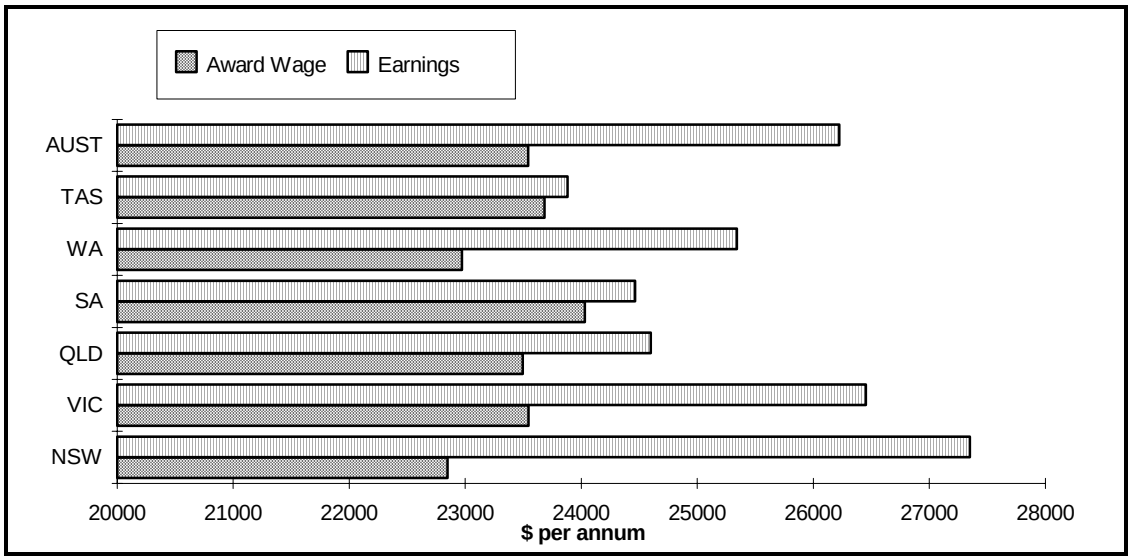
5.4 Wage flexibility and regional adjustment

Thus far, the chapter has examined the potential for work practices attuned to the needs of particular firms and regions to boost productivity which in turn can reduce unit labour costs. This part of the chapter looks at the role for wage flexibility to allow regions to offer competitive unit labour costs. It examines the available data (which are not particularly helpful in terms of their regional dimension); the rationales for minimum award wages; and participant's views on the capacity of current arrangements to meet the needs of regions. It further looks at labour market operation (Section 5.4.1) and the regional effects of a more decentralised wages system (Section 5.4.2 and 5.4.3).

How much variation occurs now?

There is some variation across States in award rates of pay and total earnings per employee (see Figure 5.1). However, the data include different industrial bases, occupations and skill levels. As the data for earnings include not only overaward pay but also overtime, it is not possible to ascertain the influence of awards from the figure. Therefore, it is difficult to draw any firm conclusions about the degree of regional wage dispersion among States.

Figure 5.1: **Award wages and earnings per employee by State, 1991**



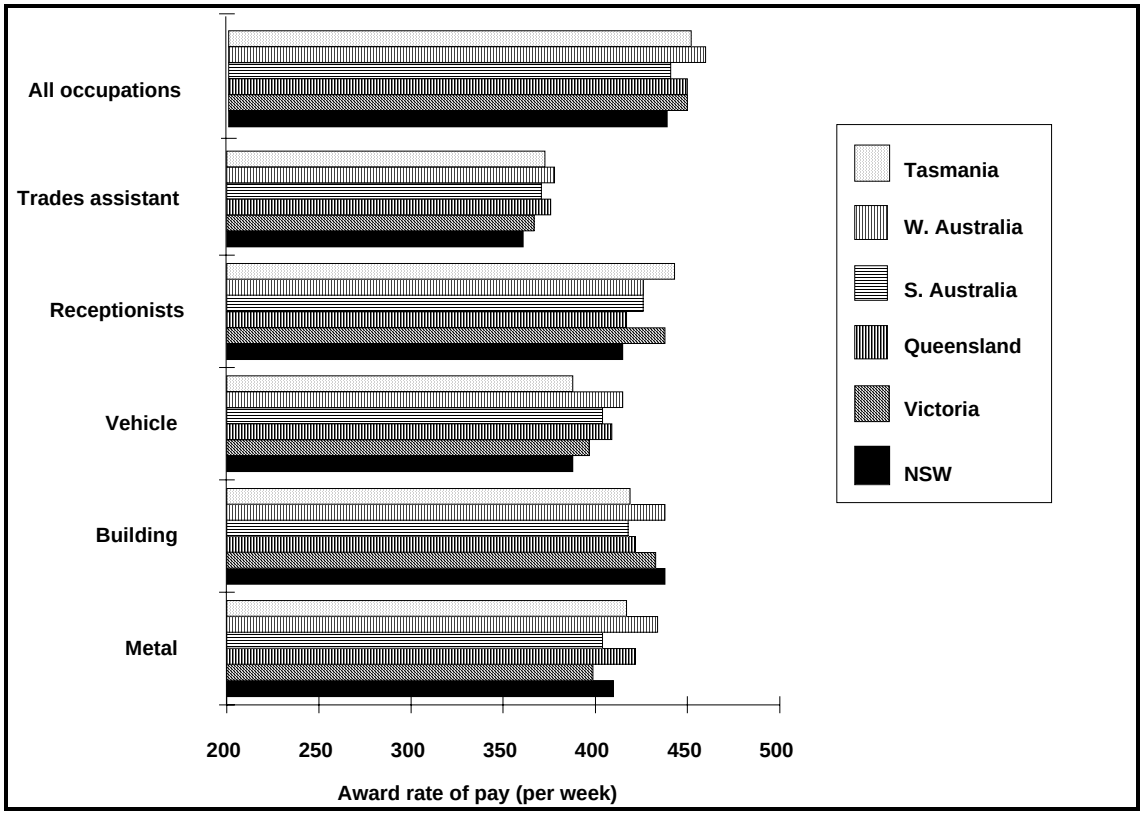
Source: ABS 1993k.

The figure indicates that the difference in average earnings between the highest and lowest States was around $3500 (or 12 per cent), and for award rates was only $1200 (or 4 per cent). In an aggregate sense, earnings per worker were highest in New South Wales yet it had the lowest award rates. South Australia and Tasmania recorded the highest award rates of pay but the lowest earnings. Indeed, the narrow gap between award wages and earnings suggests that more of the award minima are likely to be binding in those States.

The Federation of Industrial Manufacturing and Engineering Employees suggested that specific enterprise awards, paying above State standards, loom large in Tasmania thereby explaining the high award wage rate shown for that State (Transcript, p. 463).

Figure 5.2 nets out some compositional effects. It provides data on the average weekly award wage of adult employees by various *occupational groups* in each State — an occupational group may be covered by several awards. However, the data incorporate workers covered by both Federal and State awards and the range of classifications within each award.

Figure 5.2: **Weekly award rates of pay of full time adult employees (May 1992)**



Source: ABS 1993k

Within and across States, Federal award conditions are typically uniform across regions. For example, the minimum award wage for, say, a person covered by the Metal Industry Award is the same whether they work in Tasmania or Victoria, Sydney or Dubbo.

The ACTU provided evidence that some awards had explicitly acknowledged regional differences (Sub 144D). For example, in 1988 under the Metal Industry Award, the minimum weekly award wage for the highest level (wage group G1) was: New South Wales, $424.50; Victoria, $422.50; Queensland, $422.80; South Australia, $421.60; and Tasmania (within 16 km the GPO Launceston), $422.80 and elsewhere in Tasmania, $424.20.

Thus, the maximum difference between States, at the G1 level, was less than $3 per week. The restructured Metal Industry Award is a simpler document that does not provide for different rates by State. In effect, as the regional variations were insignificant they made the award unnecessarily complex. The ACTU noted that when the differentials were first established, regional variations in the cost of living reflected the lower mobility at that time. It suggested that, over time, the aggregate movement in the consumer price index for States has not diverged greatly from the average for Australia (Transcript, p. 692).

Rationales for the minimum award wage structure

Australia's wage fixing arrangements encompass both paid-rate awards that prescribe the maximum and minimum rates to be paid (largely in the public sector) and minimum rate awards, which specify legal minima. In the latter case, upward flexibility of wages is not constrained, but binding minimum wages limit downward wage flexibility.

Minimum award wages and conditions may be seen as reflecting a desire to prevent exploitation of workers and to ensure access to a certain standard of living. However, as there are over 5000 awards with different minimum wages and conditions applying across a range of crafts and occupations, this interpretation would appear to imply that different occupations deserve different minimum acceptable living standards. In reality, the system has been based on the more subjective notion of 'comparative wage justice' across occupations.

The ACTU stated that the notion that different occupations deserve different minima is 'fictitious and entirely foreign to the award restructuring debate' (Sub. 144D). It added, however, that:

> ... the minimum rates in the award system does constitute Australia's own structure of statutory minimum award rates, and it is a safety net. (Transcript, p. 689)

The ACTU explained that:

> The award system is about equity and industrial fairness, and is premised on resolution of disputes (Sub. 144D, p. 12)
>
> ... there are good and cogent reasons for consistency in minimum award rates for like classifications but these reasons are nowhere identified nor addressed in the [Commission's] draft report. Such considerations are discussed in the 1989 National Wage Case decisions. (Sub. 144D, p. 14)

In its 1989 review, the IRC said that:

> ... there exist in Federal awards widespread examples of the prescription of different rates of pay for employees performing the same work.
>
> Employers have introduced and will continue to introduce wage relativities both as between employees employed under the same award and employees covered by other awards in a particular establishment. These relativities can vary from workplace to workplace and may bear no resemblance to the relativities set in the award or awards concerned.
>
> In turn, this has inevitably caused feelings of injustice leading to industrial disruption, unwarranted 'flow-on' settlements and leap-frogging ... (IRC 1989b, p. 6-7)

DIR also noted that the absence of consistent minimum rates can cause resentment and leapfrogging (Sub. 148D). However, the 1989 National Wage Case occurred before the IRC endorsed enterprise bargaining which, by relating productivity to wages, sits uncomfortably with notions of consistency and uniformity. Workplace productivity can vary across firms, implying different rates for workers in different firms performing similar tasks.

Leapfrogging is a phenomenon sparked by changing awards in a way that alters historical relativities between awards. The greater the reliance on enterprise bargaining to establish remuneration the less likely it is that leapfrogging would constitute a problem.

Another argument advanced for a minimum award and tribunal structure is that it is acceptable to the union movement and that its abolition would jeopardise further reform. DIR said at the public hearings it was:

> ... not aware of any acknowledgment by the trade union movement that any of the mooted alternative arrangements regarding minimum entitlements or minimum employment standards are acceptable to the trade union movement, or indeed to any major individual trade union. (Transcript, p. 792)
>
> ... it would always be important to have regard to the considered view expressed by the representative trade union movement ... under the Accord there has been remarkable consistency and adherence to the approaches that have been agreed between the government add the ACTU. (Transcript, p. 793)

Microeconomic reform and competition policy in other markets in Australia make continuing reform of labour markets inevitable and union participation in this process would seem unavoidable. Moreover, while there is little doubt that

the Accord process has assisted the transition to increased flexibility in labour arrangements, the international evidence has not established that arbitration systems are particularly effective relative to alternative approaches (see for example, Creigh 1986, Dawkins et al 1993 and Hilmer 1989).

The influence of minimum awards on regions

Minimum rate awards are exactly that — there is scope to achieve flexibility by paying more. The Commission heard that firms in some regions often pay in excess of award wages. For example, the Northern Territory Confederation of Industry and Commerce said that high wages in the Territory reflect the fact that over-award payments are made in order to attract and hold employees in the remote region. Similarly, BHP Steel (Long Products Division) told the Commission that the weekly over-award payment for all workers was $61 for Whyalla and $100 for Port Kembla.

The Gladstone City Council submitted that:

> Over-award payments and conditions are not unusual in the Gladstone region and there is shift work and overtime which increases the weekly wage of employees in these industries. Statistics show that per capita income in Gladstone is about 20 per cent higher than other parts of Queensland. (Sub. 41, p. 3)

Clearly, the ability, or the need, to pay over-award wages will vary among regions. In general, it would appear that it is successful regions or ones with severe locational disadvantages that do so.

Many participants claimed that they were placed at a disadvantage by the award system. The New South Wales Government made the following observation:

> At best, some awards set only minimum wage rates and conditions, allowing firms to increase rewards through overaward payments. This, however, has meant that what are in some circumstances inappropriate award conditions have provided the base upon which regional factors have had to be added. (Sub. 75, p. 11)

Indeed, not all firms are doing as well as those in the Gladstone region. For some firms in some regions, award rates of pay prevent them from offering more competitive unit labour costs relative to other regions. During the 1989 National Wage Case, the IRC considered survey data tendered by the Confederation of Australian Industry and the Metal Trades Industry Association which indicated that many workers either received no over-award payments or were paid relatively small over-awards. The IRC stated that:

> We do not intend to analyse those surveys in this decision. Suffice to say that, while they might be open to criticism for their methodology, we acknowledge that the results are consistent with a broad view that there are a substantial number of workers who receive very little or no overaward payments. (IRC, 1989a, p. 12)

This is also consistent with the AWIRS and Isaac survey data (see Section 5.3.3). Where minimum wages are binding on firms in those regions most in need of boosting their competitiveness, this will limit their capacity to achieve relatively lower unit labour costs.

Many participants stated that there was scope for wages to better reflect regional needs. The New South Wales Government said:

> Apart from ... enterprise agreements, in NSW ... there is no specific mechanism whereby more flexibility in wage setting and work practices is possible in one region than in another. The only differences in flexibility which occur are those which exist between award systems in different States. (Sub. 75, p. 11)

The BCA, in its submission to the Regional Development Taskforce, stated that:

> The genuine freeing of the labour market would also help regional centres to capture the competitive benefits for those aspects of the costs of living which are lower than for capital cities. Major components of the costs of day-to-day living which are usually significantly lower in regional centres than in capital cities include the cost of housing, the time and cost of travelling to and from work, and the costs and amenity of lower pollution levels.
>
> The case for investment in regional centres would be greatly enhanced if wage rates in those regional centres reflected the lower living costs, which is conceptually possible without disadvantaging the employees concerned relative to their counterparts in the capital cities. Unfortunately the current industrial relations system does not, in general, allow this logic to be carried through, even by using enterprise agreements. (BCA 1993, p. 19)

The Sunshine Coast Economic Development Board recommended that the Government:

> ... facilitate the further deregulation of the national labour market by accepting and encouraging the development of regional labour wage rates. These would be designed to protect basic living standards but to allow a measure of trade-off against regional lifestyle and locational advantages ... (Sub. 8, p. 2)

Other participants noted that lower costs in regional areas, should be reflected in lower wages relative to higher-cost centres. The Central Goldfields Regional Development Board Incorporated said:

> ... rural regions are impeded in adjusting to economic change by the inflexibilities of the award system which prevent these regions from taking advantage of their lower costs of living to offer industry lower wage and salary costs than applying metropolitan areas to offset the higher transport, communication, fuel and service costs generally associated with rural regional locations. (Sub. 126D, p. 1)

And, a report prepared by a working party of Commonwealth and State Treasury officials noted that, in the public sector, it would be desirable for:

> ... increased flexibility and focus on workplace bargaining and moving away from national benchmark salaries so that wage arrangements in the public sector of a particular State reflect better the economic and financial circumstances of that State. (National Fiscal Outlook 1993)

Constraints on wage flexibility may increase reliance on other means to manipulate labour costs. Wage-like adjustments enable flexibility in an employer's wages bill through changes to recruitment, hours worked and promotion rates. In tight labour markets, employers can allow advancement to be more rapid — analogous to a pay increase. Adjustment can also be achieved through lowering hiring standards at the prevailing wage rate and concurrently increasing training expenditures.

In weak labour markets, advancement can be slowed (thus, restraining unit labour costs) and firms can increase hiring standards at prevailing wage rates thereby allowing access to more skilled workers. In this sense, wage-like adjustments do allow some de facto wage flexibility.

While such devices permit some control over unit labour costs, from a regional perspective their application is more limited than wage adjustments because they are less relevant for smaller enterprises and low skilled occupations. Very small enterprises do not have the job progression ladder that would allow them to vary standards according to the supply of labour and employers of workers in low skilled occupations would have little use for wage-like adjustments.

In sum, the award system allows successful regions to pay over-award wages to attract and retain labour. While this can serve to lower wages in a relative sense in other regions, where award wages are binding there is little scope for regions facing difficulties to better position themselves to ride out a regional shock and to improve their competitiveness.

5.4.1 The complexity of labour markets

Few would accept the simple view that wage changes can eliminate regional unemployment ('clear' labour markets). In substantial parts of the labour market, responses to wage movements tend to be 'sticky' — that is, nominal wages tend not to fall even in periods of high unemployment. Theoretical developments that seek to explain the behaviour of labour markets are discussed in Box 5.5.

Withers (1986) suggested that:

> ...'sticky wages' should be recognised as inherent (ie endogenous) to labour markets and not merely the product of external (ie exogenous) institutional factors, such as legal minimum wages ... In fact it seems relative wages are determined by forces more fundamental than national wage fixing institutions, and these forces are not those of simple competitive markets ... supply and demand have a role, but only in a manner far removed from auction-style competitive market theory ... Phrases such as implicit contracts, internal labour markets, interdependent utilities and the like begin to capture some of the processes and forces at work but these analyses are still in a primitive state. (p. 247)

Haley (1990) states:

> It should be noted that while choice theoretic foundations for sticky nominal wages and Keynesian involuntary unemployment continue to elude economists, it has been shown that there are compelling reasons based on individual optimising behaviour for wages to display much less flexibility than would be observed in Walrasian auction markets. (p. 147)

And, the ACTU said:

> The proposition that, in the absence of 'rigidities', the price adjustment mechanism clears all markets, is a cornerstone of neo-classical economics, rooted in marginal productivity theory. But the fact is, notwithstanding innumerable studies, across decades and across countries, using all manner of sophisticated econometric analysis, seeking to identify the allocative role of relative wages in labour market adjustment processes, the results have been desultory. Of fundamental theoretical importance, this function has proven elusive, ephemeral, and the evidence inconclusive in empirical studies looking for it. (Sub. 148D, p. 17)

The Commission agrees that labour markets generally do not display the textbook characteristics of many commodity markets and that the special characteristics of workers — for example, their skills, much of which can only be acquired through on-the-job learning — mean that a market clearing role for wages can be overstated. It would likewise be an overstatement to suggest that wages play no allocative role in labour markets.

Most employers visited by the Commission confirmed that they would be loathe to cut wages in other than the most critical circumstances. They said that wage cutting is avoided because firms lose their training investment and the goodwill of their workforce. Once goodwill is lost, workers can impose costs on firms through lower productivity and increased turnover.

Box 5.5: **Complexity of labour markets: the literature**

A simple 'auction market' view of labour markets is difficult to reconcile with unemployment that is apparently involuntary, often persistent, and varies over the business cycle. Keynes' explanation was that nominal wages were sticky downwards, so that the labour market would fail to clear when aggregate demand was low. A number of alternative theories have since been put forward to explain unemployment and/or wage stickiness. Some try to explain the observed behaviour of unemployment as being voluntary and therefore consistent with wage flexibility, while others suggest alternative explanations for wage rigidity as the root cause of unemployment that is involuntary. None of the theories conflicts with the idea that wage reductions, *if* they occur, can help to alleviate unemployment.

Job search theories (eg Stigler 1962, Alchian 1970, McCall 1970, Phelps et al. 1970, Lucas and Rapping 1969, Lucas and Prescott 1974, Lilien 1982, McCallum 1989) suggest that unemployment need not indicate labour market inefficiency. Workers will need to undertake (costly) search to acquire information about job opportunities. Job search will be carried out to the point where the expected marginal return (either in terms of a better wage or the chance of finding a job at an expected or reservation wage) equates to marginal costs (either in terms of explicit search costs or the foregone earnings from not taking an earlier offer). Therefore, some people will be voluntarily, or, at worst, frictionally unemployed during job search. More recent variants in what is known as the real business cycle literature, have attributed the cyclical behaviour of unemployment to the cyclical nature of structural shifts in the economy and the search behaviour these generate.

This general class of model, in which unemployment is seen to be to be voluntary or frictional, has proved difficult to reconcile with the facts. For example, most models in this class imply that quits, vacancies or labour mobility should rise at the same time that unemployment rises, but the empirical evidence suggests that they fall in a recession. The job search models also tend either to predict labour supply elasticities that are too large given an empirically plausible variation in wages, or to predict wage variations that are too large, given plausible labour supply elasticities. At best, these theories explain the so-called natural rate of unemployment. Kniesner and Goldsmith (1987) and Katz (1988) review the evidence on job search theories more fully.

Long term contract theories attempt to explain the stickiness in wages by the presence of contracts of various sorts. The contracts may be explicit, as in union contracts (eg Hall and Lilien 1979, Oswald 1985, Hendricks and Kahn 1991) or implicit. Implicit contracts may arise to share the rents from workers acquiring firm-specific human capital (eg Williamson, Wachter and Harris 1975), to minimise the costs associated with high turnover (eg Okun 1975, 1981) or to provide insurance to risk-averse workers against the possibility of wage fluctuations (eg Baily 1974, Gordon 1974, Azariadis 1975).

Explicit and implicit contract theories that rely on turnover costs or firm-specific human capital provide insight into the way that the rents so created might be shared between workers and firms, while the insurance contract theories provide insight as to how risk may be shared. They imply that wages might not reflect marginal productivities. However, the rent-sharing models do not explain why starting wages should display short-term rigidity in the face of unemployed workers, while the risk-sharing models do not explain why firms would lay off workers. Haley (1990) reviews long term contract theories more fully.

Continued next page

Box 5.5 continued

Efficiency wage theories explain why firms may prefer to lay off workers rather than reduce wages. They are based on the idea that labour productivity (net of training and turnover costs) might depend on the wage paid, so that firms may be reluctant to cut wages because this may lower productivity more than it lowers the wage bill. In developing countries, the dependence of productivity on wages may be because of the impact of lower wages on nutrition (eg Leibenstein 1957). In developed countries, the dependence may arise because lower wages reduce the opportunity cost of shirking (eg Shapiro and Stiglitz 1984), raise quit rates and increase turnover costs (eg Stiglitz 1985), attract a less productive pool of applicants who have fewer alternatives (eg Stiglitz 1975, Weiss 1980), or violate notions of fairness and induce poor morale (eg Akerlof and Yellen 1987).

The efficiency wage theories focusing on monitoring, turnover and selection issues can explain dual labour markets, since such issues may be more important in some sectors than in others. These theories also explain observed wage differentials for apparently identical workers across industries, while fairness considerations explain the observed similarity in inter-industry differentials across occupations. Some versions of the efficiency wage hypothesis are consistent with involuntary unemployment, in the sense that firms pay wage premiums above the level at which unemployed workers would be willing to work. However, the efficiency wage models do not explain why wage premiums would be preferred to performance bonds or other employment arrangements to solve moral hazard and adverse selection problems. In the absence of wage premiums, these models cannot explain involuntary unemployment. Katz (1988) and Haley (1990) review the evidence on efficiency wage theories more fully.

Insider-outsider theories explain why unemployed workers may be unwilling or unable to bid down wages to the point where they can find a job. Some variants point to the greater bargaining power that existing workers (insiders) have over unemployed workers (outsiders), a power that may arise because turnover is costly to the firm (eg Solow 1985, Lindbeck and Snower 1986) or because insiders are prepared to harass new entrants (Lindbeck and Snower 1988). Insiders are then able to bid wages above the level required for outsiders to be willing to work, but the firm has no incentive to replace the insiders. This version also provides insight into the role of unions in exercising the bargaining power of the insiders and possibly amplifying turnover costs. Another variant, similar enough to be put in the same class, points to the limited ability of the long-term unemployed to exert significant downward wage pressure, because their skills depreciate, they become discouraged and search less intensively, or because they are perceived as being less desirable workers (eg Layard and Nickell 1986).

Both variants are able to explain persistence (or hysteresis) in unemployment. The first variant is also consistent with observed wage differentials across industries. These models provide one of the more complete explanations of observed labour market behaviour. Katz (1988) and Haley (1990) review the evidence on insider-outsider theories more fully.

Appendix F reviews literature submitted by the ACTU on the functioning of labour markets. Appendix G examines more closely the extent to which wage rigidity and unemployment persistence have been a feature of regional adjustment in Australia.

Employers added that because wage cuts could create a backlash from unions and employees, it was better to attempt to deal with labour costs through retrenchments and improvements in work practices. Payment of redundancy packages was preferred by some participants because it was quarantined, did not cause resentment among remaining workers and facilitated a more productive workforce 'culture' (by encouraging the exit of older workers who are less able to adjust to a changing workplace environment). However, an increased capacity for regional workplaces to more closely match wages to productivity could help to reduce reliance on redundancy provisions as a response to regional shocks.

A distinction is made in the literature between 'internal' and 'external' labour markets. (Other terms used in the literature include the primary and secondary labour markets or the core and peripheral labour markets.) Norris (1989) explains:

> Within internal labour markets the allocation of jobs and the determination of wages for various workers is undertaken by some set of administrative rules. The internal labour market is insulated from the 'external' market where economic variables, perhaps operating in the way described by the theory of competition, determine the wage and the allocation of labour. (p. 69)

That a greater market clearing role for wages is likely to arise in external labour markets was acknowledged by the trade union movement. For example, the ACTU observed that:

> Award minima are more likely to be binding in external than internal labour markets; and within external labour markets are more likely to be binding with respect to lowly skilled work than highly skilled. (Sub. 144D, p. 18)

On balance, it is unlikely that deregulation of regional labour markets would lead to widespread wage cutting in internal labour markets. However, if minimum wages are binding, some wage reductions and job creation is more likely to occur in external labour markets.

The external labour market and the role of safety nets

In the external (or peripheral) labour market, wages are not as constrained by the internal factors discussed above. Workers in the external labour market include casual employees, out-workers, some sub-contractors and some currently working on piece rates (eg farm hands). The periphery is also said to have a higher proportion of female workers. Businesses subject to large fluctuations in demand may require a significant peripheral workforce. Industries linked with the periphery include agriculture, wholesale and retail trades, community services, recreational and personal, and other services.

In reality, there is unlikely to be a fine demarcation between internal and external labour markets. For example, Dawkins et al (1993) note:

> Some large firms have a core and a periphery within the enterprise. Large retailers, for example, employ a small core of full-time staff and a large periphery of part-time, casual workers. (p. 83)

But the key feature of this labour market segment is that it is characterised by workers in lower skilled occupations and is notable for low unionisation. Employers are less likely to need to enter into longer-term relationships with employees. Consequently there is greater scope for a market-clearing role for wages. This has indeed been demonstrated where minimum wages have been removed.

The ACTU stated that:

> ... the Victorian and New Zealand evidence shows that some existing firms have sought to win at their workers' expense by cutting wages. (Sub. 144D, p. 18)

The removal of minimum awards could lead to wage reductions and job creation in parts of the peripheral labour market. While it may appear inequitable to let wages fall for those who are already on relatively modest incomes, it is also important to recognise that binding minimum wages reduce regional employment prospects. This issue is taken up in Section 5.4.2.

Some recent studies provide empirical support for the role of wages in the external labour market. The Australian Mines and Metals Association (AMMA, 1992) and Harbridge and Moulder (1993) provide some insights into the New Zealand experience with deregulation. As in Australia, the New Zealand system initially featured a compulsory arbitration system. It had been subject to major reforms from the 1960s, culminating in the *Employment Contracts Act 1991* which, among other things, abolished the concept of an award (Boxall 1991). The impact of the new system on wages is discussed in Box 5.6; the experience so far has been that only a small proportion of wage changes have involved reductions (most involved increases).

Box 5.6: **The New Zealand experience**

The following table is based on an analysis of 260 of 322 contracts (covering 60 400 employees) lodged with the Secretary of Labour as at 1 April 1992.

Wage rates compared with existing awards: New Zealand

	Percentage of contracts	*Employees covered*
Reduction	4	1 456
0-1.9 per cent increase	35	31 939
2-4 per cent increase	53	25 299
Over 4 per cent increase	2	193
Unable to be identified	6	1 540

Source: Australian Mines and Metals Association (AMMA) 1992, p. 67

The ACTU disputed the validity of the AMMA data (presented above) noting that:

> ... contracts entered into are not required to be lodged with anyone and the statistical basis for that 4 per cent number [percentage of contracts with wages below the award] ... refers to the contracts that have actually come to the attention of the New Zealand department, so it is a self select survey (Transcript, p. 702)

The ACTU said that a more appropriate source was Harbridge and Moulder (1993) which is based on 471 contracts (182 supplied by employers; 263 supplied by unions and 26 supplied by both union and employer sources). Harbridge's analysis indicates that, comparing the new employment contracts with the printed rate for the same position in the preceding Arbitration Commission registered settlement, reveals that in terms of raw wage increments:

- 9 per cent involved a wage decrease;
- 40 per cent involved no change;
- 30 per cent involved wage increases ranging from less than 1 per cent to 5.9 per cent;
- 19 per cent involved wage increases from 6 per cent to 20 per cent; and
- 1 per cent involved wage increase of over 20 per cent. (Harbridge 1993, Table 8).

Harbridge and Moulder (1993) conclude that:

> Many of the predictions of the likely effects of the [New Zealand] Employment Contracts Act were based on the concept of the dual labour market — a primary labour market which would do well under the Employment Contracts Act and a secondary labour market in which the lowly skilled and lowly paid would be worse off. The early data presented in this paper suggest that those predictions may be correct ... (p. 81)

The concerns expressed by the ACTU and the evidence from New Zealand confirm that minimum wages are binding for workers in some low skilled

occupations. This can be checked further against data on wage dispersion — it would be expected that minimum wages would compress wage differentials across occupations, thereby reducing the dispersion of earnings. Indeed, Gregory and Daly (1992) found for Australia that:

> All the results ... support the commonly expressed view that Australian labour market institutions, relative to those of the US, have been a force for reducing the dispersion of relative earnings and increasing relative earnings for those employed full-time at the bottom of the earnings distribution. (p. 98)

Dawkins (1993) suggests that:

> Deregulation would lead to a relative decline in the pay of many workers in the periphery. Many such workers are not unionised and work in small enterprises and we imagine that in many cases unilateral wage setting will occur. The explicit casual premium will obviously disappear and whether an implicit one emerges (that is casual workers will be paid more per hour than permanent ones) will depend on the supply and demand for such workers. (Dawkins et al. p. 84)

The ACTU said:

> ... workers employed in low skill jobs are prime candidates for discrimination in labour markets world wide. (Sub. 144D, p. 11)

Workers in peripheral labour markets have less bargaining power and may therefore require some protection. Consequently, 'safety net' provisions can play an important role in a more deregulated labour market. As DIR has observed, the existence of a safety net may also be needed to gain workers' support for more decentralised bargaining (Sub. 171D). Nevertheless, there are questions about how prescriptive and detailed it needs to be. Complex safety net structures that seek to incorporate matters beyond basic minimum standards, tend to favour those who have jobs at the expense of employment opportunities for those seeking (re)entry into the workforce.

Equity concerns should not be confined only to those on low wages who are, at least, working. There are nearly one million unemployed people in Australia. Equity also should be about the 'outsiders' and not just the more fortunate 'insiders'.

The problem, therefore, is to devise safety net arrangements that do not price too many people out of a job. It would seem preferable to set a minimum wage low enough to allow the unemployed to get on the 'jobs escalator' (see Section 5.4.2), providing them with the necessary start for progression to higher paying and more skilled jobs in the future.

Prescriptive employment conditions also can deter job creation. For example, high dismissal costs can make employers reluctant to hire and this is likely to impact most adversely on those seeking work in low skill occupations. As Shann (1993) has noted:

> Increased redundancy pay or making sacking more difficult would seem likely to encourage working the existing workforce longer hours, rather than encouraging employment of new people. (p. 7)

5.4.2 Regional effects of a decentralised system

From a regional perspective, more flexible wage setting arrangements could potentially benefit regions by:

- allowing the unemployed (especially those with lower skills) in regions greater access to a job, thereby providing potential to acquire skills and to move up the 'escalator' into higher paying employment;
- preserving the viability of firms and employment in times of crises; and
- promoting longer-term wage divergence across regions to encourage the creation and expansion of home grown businesses and the growth in 'imported' investment.

Each of these possibilities is discussed in turn.

Regional unemployment and the 'jobs escalator'

As noted above, the Commission sees a role for a safety net incorporating a minimum wage. However, there is a danger that efforts to protect workers on low wages can have an adverse effect on employment. While DIR expressed reservations about the commitment of employers and the union movement to reform if the award safety net were reduced, it conceded that:

> ... lower relative wages may lead to increased employment opportunities for particular groups of workers ... (Sub. 148D p. v)

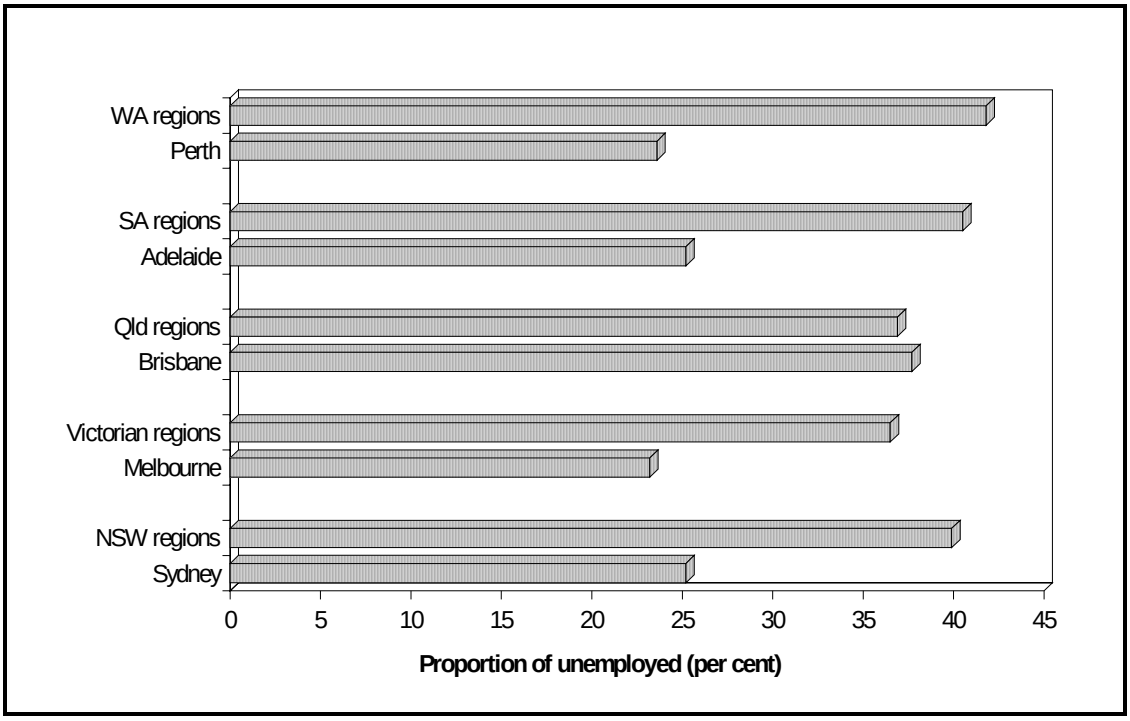
The highest rates of unemployment are found amongst the least skilled (Table 5.3). During its regional visits, the Commission heard that many unemployed people in country areas formerly were employed in low skilled occupations. This is confirmed by Figure 5.3 which demonstrates that, with the exception of Queensland, concentrations of low skilled unemployed people are significantly higher in country locations than metropolitan regions.

Table 5.3: **Unemployed persons: last full-time job, May 1993**

Occupation group	*Number unemployed*	*Unemployment rate*[a]
	('000s)	*(%)*
Managers and administrators	22.9	2.5
Professionals	26.8	2.5
Para-professionals	16.9	3.6
Clerks	47.8	3.6
Salespersons and personal service workers	65.7	5.1
Tradespersons	97.5	7.8
Plant and machine operators and drivers	44.4	7.6
Labourers and related workers	143.0	11.1

a The number of unemployed persons expressed as a percentage of the labour force in the same group.
Source: ABS 1993m

Figure 5.3: **Low skilled unemployed[a] by capital city and balance of State, May 1993**



a Unemployed persons by statistical region by former occupation. Includes those who had worked full time for two weeks or more in the last two years. Includes trades assistants and factory hands, agricultural labourers and related workers, cleaners, construction and mining labourers; and miscellaneous labourers and related workers.
Source: Commission estimates based on ABS data.

Combining these data with the theory, as well as the views of participants and the New Zealand experience, suggests that:

- wages for those employed in lower skill occupations would, in the absence of minimum wages, not exhibit as much 'stickiness' as is evident in the internal labour market;
- minimum wages are binding for significant numbers of workers in low skilled occupations;
- aggregate unemployment is correlated directly to skill levels — the lower the skill level, the higher the proportion of unemployment; and
- the proportion of low skilled unemployed in the total pool of unemployment is very high in non-metropolitan regions.

These factors indicate that, with the opportunity of offering lower wages in the periphery, the employment prospects of unemployed people with low skills would be improved. Dawkins et al (1993) identify the sources of job growth as coming from the high responsiveness of the demand for labour, particularly amongst the young, that would lead to increases in employment following a given wage decrease. They also identify a longer run tendency to substitute labour for capital and a further expansion in employment as a result of reductions in firms' costs (leading to growth in consumer demand).

This would have the greatest impact in the (non-metropolitan) regions. While new jobs created from increased wage flexibility may not be the best paying, they would provide an opportunity to move into employment. Once in a job, training can provide opportunities for career advancement. Indeed, setting minimum remuneration levels without due regard to an employee's productivity has resulted in low levels of on-the-job training in Australia relative to other countries (see Chapter 6).

While the idea that wage reductions can create employment in low skilled areas is resisted by many, the Commission notes that some labour market programs are aimed at achieving exactly that. The Jobstart scheme (see Chapter 6) provides a short-term wage subsidy which cuts the costs to employers of hiring additional labour in recognition that program participants would have little prospect of employment and training at the current minimum award rates of pay. Similarly, the Jobskills program provides paid on-the-job work experience in the public sector with wages set at a level that reflects the lower productivity of trainees.

The nexus between minimum wage laws and employment prospects was recognised in the 1993–94 Commonwealth Budget:

> ... Australia's unemployment experience in recent decades is not unique. Aggregate OECD unemployment has also trended upwards, although this development has masked some significant variation among individual OECD countries. The rise in unemployment has been more evident, for example, in the European Community economies, and less so in the US and Japan. According to OECD research, the key factors explaining this variation are different labour market characteristics and institutions in the countries concerned. In particular, varying degrees of real wage flexibility have been identified as being important in explaining different unemployment outcomes across countries. The more flexible are real wages the more quickly unemployment has tended to fall following a recession, and the less has been the tendency of unemployment to trend upwards over time. The OECD concluded that real wages were more flexible in the US, Japan and some (non-EC) European countries, and comparatively unresponsive in the EC, with Australia falling between these two groups. (Commonwealth of Australia, 1993a)

Greater wage flexibility, while enabling more people to get on the jobs escalator, is not a panacea for Australia's severe regional unemployment problems. But, it is one measure that, in conjunction with labour market programs, and increased economic growth, could be particularly helpful to regions.

Crisis negotiating and new firms

Where a firm has an important regional presence, it is likely that its workforce will be willing to bear some of the cost of keeping it viable. There is likely to be more community awareness of the trade-offs between wage claims and local employment in smaller regions than in large cities.

This is especially relevant to 'crisis' situations, when it becomes apparent that the ability to cut costs and raise productivity will be decisive in determining whether a firm stays in business. In the SPC Ltd case (see Box 5.7), crisis measures turned the company's financial position around, with a large productivity boost subsequently enabling workers to be reimbursed for income forgone.

Flak (1992) reports:

> Relative labour cost flexibility implies the adjustment of wages to the earning power of individual firms. Flexible wage behaviour in this sense may reduce the speed of adjustment of factors from declining sectors to expanding sectors ... But, if the creation of jobs in the expanding sector is insufficient to absorb those losing jobs in the declining sector, then this type of relative wage flexibility would reduce unemployment.
>
> The current recession has seen some clear examples where wages can be adjusted according to the earning power of individual firms (eg SPC, anecdotal evidence of

award violation in small firms). Overall, however, these cases would appear to be the exception rather than the norm. (p. 13)

Box 5.7: **Labour adjustment within SPC Limited**

SPC, a co-operative fruit canner, was established in 1917 and had been reasonably profitable. By 1990, it was the largest canner in Australia with sales roughly equal to the combined sales of its rivals Letona and Ardmona. During the 1980s, SPC had average profits with low retained earnings. It expanded into some capital draining ventures such as: marketing agreements with Letona and Berrivale to facilitate orderly marketing; the purchase of a $6.8 million fresh asparagus operation; and the attempted establishment of a $4 million paste plant.

In May 1990, shareholders voted out the Board. The new board immediately engaged a firm of independent financial consultants to review SPC's financial position – it forecast a loss of $10 million for 1990 with the above ventures contributing about $7.8 million to that loss. SPC sold the asparagus operation, terminated the arrangements relating to the paste plant, terminated the agreement with Letona and renegotiated its agreement with Berrivale.

SPC called for voluntary retrenchments (22 white collar and 66 volunteers from other areas) and a further 16 left through attrition. The Board and Managing Director took a pay-cut. This action saved about $5 million in annual wages and on-costs. SPC found that the culture changed quickly as many of those taking redundancies were not productive. Productivity increased markedly due to labour shedding and improved work practices.

After the asset sales and voluntary redundancies, SPC expected a loss in 1991 of around $1.6 million. The company's three bankers indicated their doubts about whether they could continue funding during 1991 – advanced funding is crucial to SPC operations and precedes the cash flow from sales. Savings of about $2.5 million were targeted to ensure a return to profitability. SPC had a close look at the 58 awards and site-agreements and all over-award conditions.

An advisory committee comprising representatives of all unions, management and staff was established which came up with three options: an across-the-board 11.6 per cent pay cut; cessation of all over-award payments; and a package of cost-cutting measures. The package put to the workforce comprised 11 points as follows:

1. Remove four rostered-days-off (RDOs) for all employees during the harvest season – January to April 1991.
2. Suspend weekend penalty rates.
3. Apply the sick-leave provisions of the Metal Industry Award to seasonal employees covered by the Food Preservers Union.
4. Remove crib and meal allowance.
5. Reduce afternoon shift loading to 15 per cent.
6. Remove additional rest breaks.
7. Remove over-award payment to seasonal workers.
8. Require direct banking (electronic funds transfer) for all employees.
9. Supervisory staff to perform 'hands on work' as required.
10. Remove the holiday leave loading of 17 per cent for staff not covered by industrial awards.
11. Staff to work ten Saturdays or Sundays.

Some of the points, such as giving up rostered days off and working weekends at regular time, were proposed from the shop floor. All up, the arrangements would cost workers about 3 per cent of their nominal wages. The vote revealed 93 per cent support for the package.

The Victorian Trades Hall Council and the ACTU refused to support the agreement. SPC was called to Trades Hall on 12 December 1990 and a Working Party was set up with the unions who said the claim could not be registered with the IRC until the Working Party reported.

Continued next page

Box 5.7 continued

On 17 December the SPC Agreement went to the IRC but Mr Justice Maddern ordered SPC to conduct further discussions with unions. An SPC negotiating team went to Melbourne on 28 December to continue discussions, but according to SPC, the unions refused to talk in the presence of the SPC shop stewards.

The union view was that award conditions were sacrosanct and that only over-award conditions could be touched. SPC and its shop stewards thought this inequitable because the different unions represented at SPC received different rates of over-award pay. A compromise was put by Commissioner Donaldson on 2 January 1991 that award conditions remain intact and other savings be made by reducing over-award payments. The proposal was accepted by SPC and the unions on condition that it was ratified by SPC's employees. On 3 January the workforce ratified the agreement which entailed pay cuts of between 2.5 and 2.8 per cent for 12 months. Although the unions claimed that award conditions were not touched, SPC management subsequently claimed in the print media that workers forwent award conditions such as RDOs and worked Saturdays at normal pay.

Once the agreement was put in place the banks eased pressure on the company. By February 1991 SPC showed a first quarter profit for the first time ever. Subsequently, the Australian dollar depreciated; interest rates fell; there were crop failures in competing countries; public support for the product increased and productivity increased significantly. These factors further assisted the return to profitability. SPC was in a strong enough position financially to terminate the agreement seven months early.

Early termination of the agreement meant some workers had borne the burden whilst others had not. For example, seasonal workers had already made their contribution. So SPC paid back everything to its employees – the total amount was $952 000. By the end of 1991 the entire contribution had been paid back as a Christmas bonus and a further bonus was given to growers for depressed prices. SPC still recorded a $6.7 million profit.

SPC then began profit sharing arrangements on the basis of the greater of: 10 per cent of after tax profit of the company; or 50 per cent of productivity improvements from labour and capital. The profit share is the same for all employees from the Managing Director to factory floor. The SPC revival involved the construction of a survival package that led to a reassessment of the main unit labour costs canvassed in this chapter.

Wages: The agreement effectively involved a cut in nominal wages to employees (and management) and significant reductions in over-award conditions.

On-costs: Direct banking saved $100 000 per annum in downtime and hire of armoured cars. The agreement also removed some non-productive paid time such as additional rest breaks.

Work practices: According to SPC management, the initial redundancy packages were followed by massive productivity increases. It appears that some of those taking the packages were not only unproductive but were attempting to perpetuate the 'sheltered workshop' conditions that arose during SPC's halcyon days. The number of cartons filled per hour rose from 6.7 in 1990 to 8.8 in 1991.

SPC management stated that it saw much scope to further reduce unit costs and improve efficiency. For example, SPC remains a multiple union site. It added that the now formal process of enterprise agreements is a very time consuming process compared with the bargain struck with workers described above.

Source: Discussions with SPC management; University of Melbourne 1992; and Curtain 1992.

Unions recently agreed to important productivity enhancing measures with Heinz in an effort to stop the firm shifting operations to New Zealand. The influence of New Zealand's more flexible labour market arrangements is likely to be felt more acutely in Australia unless this country liberalises its own arrangements. Gillette, Shiseido cosmetics and Johnson and Johnson, all have recently established in New Zealand to supply the Australian market.

The difficulty, as well as the potential benefits of reducing remuneration to enhance competitiveness is illustrated by the SPC case. However, the ACTU suggested that:

> ... in fact, the SPC case demonstrates the capacity within the award system to make labour cost adjustments without violating award minima. (Sub. 144D, p. 15)

On the other hand, the Commission was told by SPC that award conditions were affected. Either way, the tortuous process required to arrive at the deal hardly could be described as a desirable model. A fundamental point is that both workers and management arrived at an initial deal, accepted by 93 per cent of workers, but the system did not allow this to be ratified.

If workers agree to reductions in award pay and conditions because such action is seen as necessary for the firm's survival, a subsequent decision which prevents them doing so in order to preserve the integrity of those award minima, could put firms at risk of going out of business.

For new firms establishing in regional areas, the issue is not so much about reducing wages as about the potential to offer lower wages than elsewhere. The ability of firms to attract labour for lower wages *in the short term* would depend on the size and composition of the local employment pool, and the behaviour and attitudes of other employers and unions.

In the longer term, declining regions should be better able to attract new firms through lower *relative* wages (see below). At present this possibility is constrained. In addition to attracting new externally sourced investment, the ability of a region to offer competitive unit labour costs would enhance prospects for home grown investment to occur or be expanded.

The latter would reduce the flight of capital to other areas — a cause of concern for many participants. Recent studies in the United States highlight the often underestimated potential for home grown investment. Hicks (reported in Richman 1993) examined manufacturing and service companies in Dallas, Texas, from the beginning of 1986 to 1989 — a period of regional recession and subsequent recovery. On the surface, Hicks found that employment was little changed over the period. However, almost 27 per cent of all private sector jobs existing at the onset of the recession had disappeared by 1989, but were replaced by new ones. Of the new jobs, over 60 per cent were created by new

businesses within the region and a further 25 per cent from small already established companies. Importantly, nearly all of the new positions were home grown. A similar scenario emerged for the Texas manufacturing economy from 1970 through to 1991. The study found that policies to attract firms from other areas were not nearly as effective as the creation of an environment conducive to the formation of new business within a region.

Allowing declining regions to offer lower unit labour costs would assist in providing such an environment in addition to helping such regions to ride out shocks.

However, the ACTU said:

> With respect to 'crisis' situations and new firms, any worthwhile path to export led growth is not paved with wage poverty. Where is the gain for Australia in facilitating establishment of low-wage ghettos in remote locations by suspending our minimum wage standard? What development model is this? (Sub. 144D, p. 19)

As noted earlier, Australia's future lies in the achievement of high productivity within regions — for it is only through high productivity that sustainably high wages can be paid. In the meantime, many regions face a problem of transition. Greater wage flexibility (underpinned by a safety net wage) could help firms maintain employment and assist lower skilled workers to get access to employment, which is the first step on the path to higher productivity and more highly paid jobs in the future.

Longer-term divergence in regional wages

Under current arrangements, minimum award wages are adjusted upwards periodically, so that they may continue to be binding for some regional firms over time. With decentralisation of wage setting, this need no longer be the case. Relative wage differentials between 'booming' and 'struggling' regions would be able to widen more than is possible at present without any decline in wage levels.

From a regional development perspective, allowing scope for a more durable divergence in relative wages among regions is significant because the investment decisions of firms are based on expected costs over longer term planning horizons. For divergence in relative wages to be sustainable and thus capable of attracting capital and providing incentives for the cultivation and maintenance of home grown investment, it is necessary that workers be somewhat immobile. This appears to be the case in Australia (see Chapter 4 and Appendix G). In addition, cost-of-living differences could mean that even highly skilled and therefore highly mobile people would remain in, or move to, a lower-wage region as long as their *real* incomes compared favourably with other regions.

As noted above, the current arrangements provide little scope for such adjustment. The Queensland Confederation of Industry said:

> The inflexibility of the present Industrial relations system coupled with the folly of comparative wage justice means that regional areas are saddled with wage rates, penalties, employment conditions and awards that are capital city based.
>
> This means wage costs that have little reference or relevance to regional needs or structures where for example, housing and land costs are substantially cheaper, transport from home to work is easier or the consumer price index may be lower or living standards are different. (Sub. 166D, p. 3)

In a similar vein, O'Connor and Gordon (1989) have stated:

> Regional labour markets reflecting high demand or skill shortages can develop wage rates above the arbitrated levels (known as overaward payments), but there is no similar situation where below-award wages are paid and, indeed, it is illegal to do so. Hence, an employer's incentive to move to a different location to save on wages is limited to the extent of over-award payments and indirect costs. ... This situation mitigates against wage costs operating as a mechanism for interregional adjustment. (p. 201).

The importance of wage divergence was also noted by the Tasmanian Government:

> Wages are one of the most significant input costs to industry. Restrained wage growth will facilitate economic recovery. Research by the Centre for Regional Economic Analysis has shown that every one percentage point by which Tasmanian wage increases are lower than national averages is worth about 1 000 jobs to the Tasmanian economy. (Government of Tasmania 1991, p. 3)

The ACTU, however, argued that :

> In the longer-term the [Commission's] draft report speculates that a durable divergence in regional wages would assist regional development.
>
> — yet Australia's regional wage divergence is of long standing (in South Australia and Tasmania for example average earnings are much lower than Melbourne and Sydney). (Sub. 144D, p. 19)

There are two points to make in response to this. First, comparing such data is not meaningful unless like can be compared with like. In this respect, the observation that average earnings are lower in South Australia and Tasmania compared to Australia's largest capital cities fails to take account of compositional factors (occupations, employment mix, skill levels, industries).

Second, at any point in time a region may be adjusting to current and past shocks. Consequently, the dispersion across regions of employment growth, population growth, participation rates and wages will reflect responses to many shocks from many sources. Therefore, it is difficult to infer from regional data at a single point in time anything about the nature of regional adjustment to a regional shock — the key issue of interest in this inquiry. What is required is

the application of techniques to examine correlation of regional variables over time (see Appendix G).

5.4.3 The effects of wage flexibility on regions: some empirics

Quantifying the extent to which declining regions could benefit from relative wage variations is difficult. The New South Wales Government put the proposition that needs to be tested:

> UK experience indicates, that over time, regions which have experienced long-term decline, such as the Midlands and the North, are now experiencing growth because prices for inputs such as land and labour have adjusted, and they are now relatively cheap locations for industry. This raises the question of whether the adjustment process can be speeded up in Australia. Within New South Wales, uniform industrial awards have prevented substantial variations in labour costs and conditions ... [and] has probably contributed to the lack of voluntary decentralisation by firms. (Sub. 75, p. 28)

Regional dispersion of unemployment

Some data on the dispersion of regional unemployment rates in the United States, Australia and the United Kingdom is provided in Table 5.4.

Table 5.4: **Indicators of regional unemployment rate differentials in Australia, the United Kingdom and the United States**

	Australia		*United Kingdom*		*United States*	
	Rate[a]	*CV*[b]	*Rate*[a]	*CV*[b]	*Rate*[a]	*CV*[b]
1984	9.0	30	10.7	24	..	..
1985	8.6	33	10.9	23	..	..
1986	8.0	34	11.1	23	7.0	22
1987	8.2	34	10.0	26		
1988	7.6	31	8.1	32	5.6	27
1989	6.2	35	6.3	40	5.3	20
1990	6.5	35	5.9	35	5.5	15
1991	9.5	26	8.1	18	...	..
1992	10.6	27	9.8	10	7.3	17
1993	..	..	10.8	8	7.1	17

a Average national unemployment rate. b CV is the coefficient of variation, which measures the dispersion in regional unemployment rates within each country.

Source: Australia, DEET small area labour markets (61 regions); United Kingdom, data supplied by the British High Commission (11 regions including Northern Ireland); and United States, data supplied by the Embassy of the United States of America (51 regions).

The data indicate that unemployment levels consistently and significantly are lower in the United States, which often is used to epitomise a decentralised labour market institutional environment.

However, comparisons of estimates of regional dispersion of unemployment (coefficient of variation), need to be treated with some caution because these estimates may be sensitive to the relative size of regions. For example, unemployment rates for 11 regions were used for the United Kingdom whereas for the United States, the dispersion estimates are based on 51 regions. For Australia, it is based on 61 sub-State regions.

These problems do not arise in assessing changes in dispersion rates over time. From the table it is apparent that the dispersion of regional unemployment for the United Kingdom has fallen dramatically. It therefore is interesting that it has experienced the most dramatic change to its labour market environment — minimum rates of pay were abolished in July 1985.

While useful, these data are indicative only. The relevant question (as noted in the previous chapter) from a regional adjustment perspective is: what happens when a regional shock occurs under conditions of differing degrees of labour market flexibility? There is little empirical work on this topic. Some, such as Groenwold (1993) and Blanchard and Katz (1992), are reported in Appendix G.

Interstate mobility and wage flexibility

The study by Blanchard and Katz (1992) analysed regional employment, unemployment, participation rates and wages in the United States to determine whether, and how quickly, these variables reverted to normal after an adverse shock to a State's employment growth. The Commission has undertaken a similar exercise for Australia (see Appendix G). Results from both are summarised briefly here (see Table 5.5).

Table 5.5: **Response to an adverse regional employment shock**

Variable	*United States*	*Australia*
Unemployment	Temporary increase (normal in 5-7 years)	Permanent increase[a]
Participation rate	Small temporary decline (normal in 5-7 years)	Long term decline
Regional wages	sharp decline (normal in 10 years)	Very weak short term decline
In-migration of firms	Very weak	Weak
Out-migration of workers	Strong	Weak

a 'Permanent' means that the effect of the shock lasts until a subsequent shock.
Source: Blanchard and Katz (1992) and Appendix G.

Blanchard and Katz found that, for the United States, a negative shock to employment growth in a State leads initially to an increase in unemployment and a small decline in labour force participation. Wages decline significantly,

relative to the national average, after the shock before returning to normal after about 10 years. Lower wages can induce in-migration of firms and the creation of jobs. But lower wages and higher unemployment also induce out-migration of labour. In the Blanchard and Katz study, most of the adjustment eventually is through out-migration of labour, primarily in response to changes in unemployment rates between regions. Thus, the region typically returns to normal after an adverse shock because workers leave the State.

The results for Australia from a replication of the Blanchard and Katz study indicate that, in response to a negative shock to State employment growth, unemployment worsens and (relative) labour market participation declines. Relative employment growth subsequently recovers somewhat, but remains below its pre-shock level. Induced out-migration of labour is much less than in the United States' case. In the longer term, almost all of the adjustment occurs through a reduction in the participation rate, and a slight recovery in employment growth, but this is insufficient to make inroads into unemployment even in the longer term.

Thus, in the United States, out-migration of labour brings the State's unemployment and wages back in line with the national average. For Australia, neither induced job creation nor out-migration of labour is strong enough to ease regional unemployment until another shock occurs.

The United States evidence suggests that greater regional wage flexibility provides little impetus for in-migration of firms. However, employment outcomes for the State depend on the relative speed at which workers leave and firms enter. As Blanchard and Katz note, unemployed and liquidity-constrained workers may not be able to wait for new firms to establish. Moreover, in the United States, unemployment benefits are discontinued after 26 weeks. Thus, workers move before new jobs have a chance to come (and wages start rising again), thereby negating the reasons for firms to come in the first place.

Weak in-migration of firms in Australia is hardly surprising, given that wage responses are limited to over-award payments. However, a decentralised wages system in Australia, which operated in tandem with the observed low labour mobility, would tend to generate relative wage differentials that were persistent and which could provide greater incentives for in-migration of firms.

Blanchard and Katz allude to this implication of labour immobility in the context of economic integration in the European Community. They challenge the view that a common currency will mean that European 'regions' will adjust competitiveness through flexibility in wages and productivity improvements (rather than exchange rates). They propose that their study shows the limits of this argument. However, they note that:

> This conclusion must be qualified to allow for the possibility that lower labour mobility in Europe than in the United States may lead to more wage flexibility on the part of workers in Europe than in the United States. (Blanchard and Katz 1992, p. 56)

This is a pertinent observation for Australia also, given the observed low level of labour mobility in response to economic shocks. Moreover, an OECD study found internal migration in the United States to be about double that of Australia and Europe (OECD 1990b) — see Chapter 4.

One reason for the high out-migration in the United States is its lower unemployment benefits. A comparison of unemployment benefits reveals that, relative to wages, benefits are larger in Australia and have been increasing, whereas they have declined in the United States (Table 5.6). Moreover, while the unemployed in Australia are guaranteed income indefinitely, the maximum duration of benefits in the United States is 26 weeks (OECD 1993).

Table 5.6: **Unemployment replacement rates** (per cent)[a]

	1972	*1981*	*1983*
United States	20	15	17
Australia	8	24	27

a Unemployment benefits as a percentage of net income of an average production worker.
Source: Klau and Mittelstadt, 1986

As noted in Chapter 4, DIR used residential mobility rates data to challenge the view that the United States has significantly higher mobility than Australia. Even though residential mobility data are not appropriate for such a comparison, little rests on this point. The key question from a regional perspective is: How mobile is labour in response to a regional shock? On that question, the empirics show that labour is much more mobile in the United States than in Australia.

State wages and unemployment in Australia

Further modelling work undertaken by the Commission (see Appendix G) tests whether State wages in Australia respond to State unemployment conditions. The results indicate that, in most States, greater regional wage variability would assist the process of regional adjustment.

The results suggest that in two states, New South Wales and Western Australia, 'insider' dynamics may be sufficiently strong to mute the effectiveness of greater wage variability in assisting with State unemployment problems. In four other States, however, there are signs that greater regional wage variability would indeed assist the process of regional adjustment. The evidence is notable

for the fact that it occurs over a period in which centralised wage bargaining characterised the Australian wage setting system. The results have been obtained, however, using a measure of wages corrected for changes in average labour productivity. They, therefore, confirm that it is the combination of wage flexibility and productivity improvements that are important in improving regional adjustment.

Assessment of empirics

The ACTU and DIR challenged the Commission's empirical work. As an attachment to its submission, the ACTU provided the Commission with a selection of articles and studies from the labour economics literature to support its view that the empirical work of the Commission, and its references to existing literature, were selective and flawed. Given the prominence attached to this aspect of the ACTU submission, the Commission has provided its own assessment of some of the more significant items in Appendix F. It shows that claims that this material undermines the Commission's assessments are not well founded.

The ACTU also engaged a consultant to review the Commission's empirical work. The consultant questioned several aspects of the methodology and techniques used and claimed inconsistencies in their application. Concluding that the empirical work was unreliable, the consultant further claimed that it contained basic errors and mixed up concepts (see Transcript, p. 723 and Sub. 144D, Appendix 1, Tag 10). These criticisms are addressed in Appendix G. Discussions with the consultant revealed that most were based either on misunderstandings about the Commission's use of empirical techniques, or theoretical distinctions of limited relevance in practice.

On balance, the Commission's empirical results provide support for its assessment that greater relative wage variability across regions in Australia would facilitate adjustment and contribute to lower disparities in regional unemployment rates. It is apparent, however, that to the extent that social security arrangements help account for the relatively low geographic labour mobility in Australia (see Chapter 4), the nexus between social security and wages also may be important in determining the scope for wage adjustments to occur within regions.

5.4.4 Social security and wage flexibility

Social security is an important 'safety net' for those who lose their jobs, allowing them to maintain a basic standard of living while unemployed. However, there is evidence that current arrangements may create disincentives to accept employment. For example, during the Commission's visits, one

Victorian footwear manufacturer believed that it could not fill a four day shift at award wages because the wage was not enough to induce an unemployed person with dependants to forgo unemployment benefits. The Cowra Shire Council said of social security that:

> ... the amounts available are seen as being high enough to discourage some people from taking a position. (Sub. 80, p. 6)

Such disincentives are unlikely to have had a significant effect (from a national perspective) during the prolonged recession of recent years when demand for jobs has vastly exceeded job opportunities. However, as the recession fades and job opportunities improve, it is crucial that there be sufficient incentives for those now dependent on social security payments to try to obtain work. The extent of those incentives will depend, in part, on differences between social security payments and award wages. Some examples are provided in Table 5.7.

Table 5.7: **Comparison of incomes based on social security with those based on employment at selected minimum award wages** ($ per annum)

	Single	*Sole parent*[a]	*Couple*	*Family*[a] *(2 children)*	*Family*[b] *(4 children)*
Social security based[c]	7446	13190	13712	18681	23834
Award wage based[c]					
- Textile award	14616	20690	16041	21009	26162
- Metal award	15312	21385	16736	21704	26857
- Transport award	16023	22097	17447	22416	27569
- Building award	16239	22313	17664	22632	27785
- Retail award	17071	23145	18496	23464	28617

a One child less than 13 years, one between 13 and 15 years.

b Two children under 13 years of age and two children between 13 and 15 years of age.

c Value of social security based benefits includes family payments but excludes any benefits from public housing or rental assistance. Value of awards based income (after tax) includes a dependent spouse rebate for couples and families, and includes basic and additional family payments for sole parents and for other families.

Source: See Appendix E for details. Awards data provided by ACTU (Sub. 144D).

The estimates include basic and additional family payments which are made to all in these income ranges, whether employed or not. They do not include rental assistance, or the value of public housing, which also affect the mobility of people (see Section 4.5.1). (Appendix E sets out the derivation of social security based incomes and award wage based incomes for different households ranging from a single person to a family of two adults and four children.)

These estimates indicate that a sole parent with dependent children can achieve substantial increases in income by obtaining full-time employment. Even on the

relatively low textile award, an increase in family income of around 60 per cent would be possible (abstracting from any additional child care costs).

For a couple, the difference between unemployment benefits and having one adult in full-time employment at the lowest award wage is $2329 per annum or $45 per week. Costs incurred, such as transport to and from the place of employment, can reduce the effective additional income. But once one adult obtains full-time work, there are strong incentives for the other adult to obtain at least some part-time employment because every dollar earned supplements household income — whereas previously it may have resulted in some loss of benefits.

For families, the difference in *absolute* dollars is the same as for a couple — $45 per week. However, as benefits increase commensurately with the number of dependants in a family, in a *relative* sense the $45 per week increase in income declines compared with an income based on social security benefits.

If comparisons are made with the top of the range of award wages in Table 5.7, a couple or a family would be $90 per week better off in employment than if reliant solely on unemployment benefits.

While the range of awards shown is at the low end of employee remuneration, it typifies the income likely to be earned by a person previously unemployed. Indeed, for the whole population, nearly 10 per cent of full-time adult employees have total earnings within the range covered in Table 5.7 (ABS 1993o).

However, these illustrative examples are subject to many qualifications, including:

- the estimates do not represent the total incomes of those on unemployment benefits or those in employment on low wages — most will qualify for rent assistance in either private or public housing (see Appendix E, Table E.1);
- those dependent on social security benefits may earn some income without benefits being reduced (see Appendix E);
- the spouse of the fully-employed person may obtain employment;
- some of those in full-time employment will receive over-award payments and/or overtime payments;
- the IRC recently has announced an $8 per week increase for those on low wages: it has not been included in these estimates.

The low-skilled

The greatest impact of social security on work incentives occurs for people with low levels of skill and thus lower expected incomes from employment. There is a close relationship between low skills and unemployment (see Table 5.3). It was noted above that a high proportion of unemployed people outside metropolitan areas are relatively low skilled. The OECD (1993) stated that:

> ... a combination of generous unemployment benefits systems and the loss of skills during unemployment may help explain some international differences in persistent unemployment. Reflecting the erosion of (already low) skills, job opportunities available to the long term unemployed will provide relatively low wages, which may not give adequate incentives to seek work if unemployment benefits are unduly high. This will in turn lead to further losses in skills. (p. 105)

Social security payments can weaken employment incentives for groups that already are the most susceptible to long-term unemployment, an important consideration given the regional concentrations of lower skilled unemployed. It follows that they also limit the scope for differential regional wages by placing a floor under wages. Forsyth (1993) notes:

> It would be possible for unemployment to be reduced if wages for unskilled workers fell sufficiently. But wages could eventually fall to levels comparable to unemployment benefits, and the incentive to work would be reduced or eliminated. (p. 1)

The fact that, for some households, the after-tax returns from paid employment are not much higher than from social security benefits, could limit the potential for job creation through wage adjustments, particularly in the less skilled categories where there is the most potential for creating employment. In making these observations, the Commission is not making any judgements about the adequacy of social security payments.[7]

Part-time and seasonal workers

Another important aspect of the social security system is that it contains some disincentives to keeping in touch with the labour market through part-time work — an important issue, given the problem of long-term unemployment (see Chapter 6). Benefits reduce with increases in income, and the effective marginal tax rates — the amount lost in income tax and reduced benefits if an extra dollar of income is earned — can be very high. This affects family

[7] The Brotherhood of St Laurance submitted that many social security payments are below the 'Henderson Poverty Line'. While all measures of poverty must be used cautiously, the 'Henderson poverty line' estimate for a family (with two adults and two children) published by the Institute of Applied Economic and Social Research (IAESR) is $371.49 per week or $19 317 per annum. On the Commission's estimates, such a family solely dependent on social security payments including maximum rental assistance is $19 963 per annum — see Appendix E, Table E.1.

allowance payments, rent subsidies, the Medicare levy and income tax (see Cox 1991 and EPAC 1988). The combination of tax and means-tested benefits sometimes can lead to effective marginal tax rates which exceed 100 per cent. The disincentive effects of high effective marginal tax rates on recipients of social security benefits are sometimes referred to as 'poverty traps'.

> Consider a taxable pension which is income tested at a rate of 50 cents in the dollar. If an extra dollar is earned, the pension is reduced by 50 cents. Total taxable income has gone up by 50 cents of which 25 per cent (ie. 12.5 cents) is paid in additional tax. The total amount lost in tax and reduced benefits is 50 cents plus 12.5 cents, which equals 62.5 cents. Suppose that the person is also losing an untaxed in-kind benefit (such as a public housing subsidy) at a rate of 25 cents in the dollar. The total amount lost in tax and reduced benefits if an extra dollar is earned is now: 50 cents + 12.5 cents + 25 cents = 87.5 cents. In other words, the person is only 12.5 cents better off from earning the extra dollar. (Cox 1991, p. 177)

Measures announced in the 1993 Budget help to reduce these disincentives — there was a substantial increase to $160 per fortnight in the income which a couple may earn before their unemployment benefits are affected.

The Australian Council of Social Service told the Commission that the waiting period to re-obtain benefits, after a period of work, also provided a disincentive for people to obtain short-term work. DSS said that if a person works for less than six weeks there is no requirement to re-apply and if a person has served one waiting period in the past 13 weeks, they did not have to serve another. In the Department's view, the problem principally is one of perception on the part of recipients.

The social security system needs to be adapted further in recognition of the fact that casual part-time employment has expanded relatively rapidly and provides a principal means for those dependent on social security payments to improve their income and increase their prospects for obtaining full-time employment. The Commission understands that DSS is to publish a discussion paper on these issues shortly after this report is finalised.

Policy considerations

From a policy perspective, it is important to note that the difference between social security benefits and after-tax earnings has narrowed substantially over the past decade, as illustrated in Table 5.8.

Table 5.8: **Increases in real disposable (after tax) income, 1983-93**

	per cent increase
Social security benefits	
- couple with two children and receiving maximum rent assistance	32.6
Representative minimum award wage (equivalent to 75 per cent of AWE) plus basic and additional family payments, and some rent assistance.	21.2
Average weekly earnings (AWE) plus basic family payments	0.9

Source: Information provided by the Department of Social Security.

For the couple dependent solely on social security benefits, the basic payment increased by 13.9 per cent (in real terms) over the past decade. In addition, there were large rises in family payments (86.4 per cent in real terms) and in rent assistance (108 per cent). Together, these three elements resulted in a real increase of 32.6 per cent. That is in stark contrast to the person on average weekly earnings who achieved a real increase of less than one per cent after tax. A person earning a typical award wage, obtaining the equivalent of 75 per cent of average weekly earnings, was 21.2 per cent better off in 1993 than in 1983, mainly because of increases in additional family payments.

The Commission is again not making any judgement about the merit of these increases. It does, however, draw attention to some implications of the narrowing gap between benefits and earnings. In particular, as the economy recovers from recession, there will be less incentive for a person to obtain employment than has been the case in any previous recovery. For this reason alone, there is a compelling case for reviewing the nexus between the social security system, taxes and wages.

Many of these issues were examined by the Social Security Review (directed by Professor Bettina Cass) which was completed in 1988. Based in part on that work, significant improvements have been made in recent years to the social security system, particularly the change in emphasis away from 'unemployment benefits' to clearer obligations attached to receipt of 'Job Search Allowances'. Nevertheless, the emergence of so many long-term unemployed and the narrowing gap between social security payments and earnings, underline the need to keep these issues under continual review.

The need for greater coherence between labour market and social policies is a recurrent theme in many countries. The OECD (1993) stated:

> Labour market and social policies have often been seen as intrinsically separate issues. In many countries, the unemployment benefits system, rather than providing temporary income support to job-seekers while they re-establish themselves in the labour market, has also become a means for longer-term income support. Long, and in some cases virtually open-ended, unemployment benefits have added to the incidence of long-term unemployment in some countries. (OECD 1993, p. x)

There are a number of options to deal with poverty traps and the employment disincentive effects of social security payments without reducing the value of benefits. These include reductions in effective marginal tax rates, allowing unemployed people to earn more from part-time work, cutting income taxes or increasing the tax free threshold in order to increase the gap between paid income and social security assistance. Greater use of zone rebates (see Chapter 8) or 'regionally based income taxes' that increase the gap between returns from paid employment and social security in non-metropolitan areas are further possibilities.

The general aim should be to ensure that the safety-net objectives of the social security system are consistent with the objective of minimising the extent of unemployment, that the tax system raises adequate revenue without stifling the incentives to offer employment or to be employed. These are clearly complex issues which, while important to regional adjustment, extend beyond the terms of reference for this inquiry.

Just prior to the completion of this report, the Commonwealth Government's Committee on Employment Opportunities released a 'green paper' for public discussion, providing a national perspective on unemployment problems. Public consultation following its release and the subsequent preparation of a policy-oriented 'white paper', provide an appropriate opportunity to reassess the interactions between the social security system, income taxation and unemployment.

5.5 Labour on-costs

The major labour on-costs faced by employers include superannuation, payroll tax, and workers' compensation insurance. Other non-cash remuneration that can be viewed as on-costs are counted as earnings in many studies. These include leave (annual, long service, sick and study), public holidays, employee amenities, uniforms, low-interest finance, housing, electricity, telephone, transport, medical, union dues, club fees, allowances, and child care.

For reasons of data availability, the Commission has used ABS estimates of on-costs (see Table 5.9) that adopt the narrower definition classifying time paid for but not worked (leave and holidays) as 'earnings'. When these are netted out, on-costs as a proportion of total labour costs become more significant — using this approach, the Australian Industries Development Association estimated that labour on-costs were about 30 per cent of hourly labour costs in 1982 (AIDA 1983). Another study arrived at a similar estimate using 1987 data (IAC 1988a).

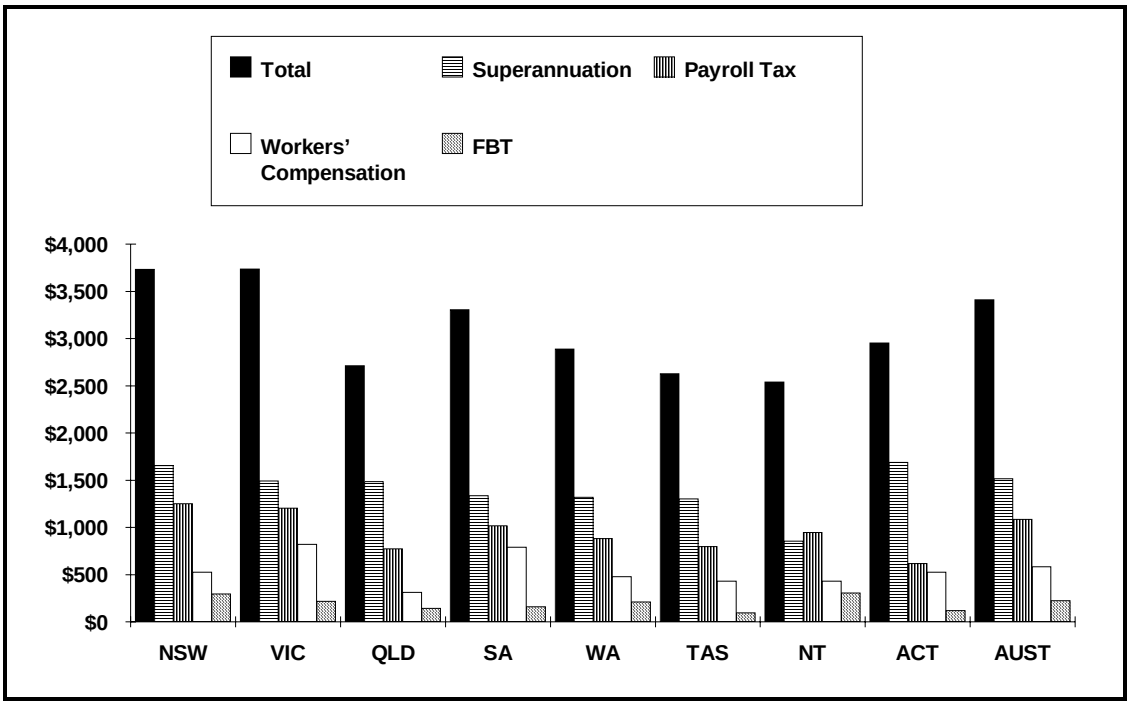
Table 5.9: **Major labour costs, all industries, 1991–92**

Labour cost	*Average cost per employee*	*Percentage of total labour cost*
	($)	*(%)*
Earnings	27 581	89.0
Superannuation	1 516	4.9
Payroll tax	1 086	3.5
Workers' compensation	586	1.9
Fringe Benefits Tax	225	0.7
Total major labour costs	30 995	100.0

Source: ABS 1993n

Using ABS data, about 11 per cent of total labour costs are in the form of non-wage factors. Figure 5.4 presents labour on-costs by State in 1991-92. These data predate the impact of the Commonwealth Government's training guarantee legislation which further increased on-costs. The *Training Guarantee (Administration) Act 1990* imposes a minimum training expenditure requirement on businesses with payrolls above $212 000.

Figure 5.4: **Annual labour on-costs per employee by State 1991–92**



Source: ABS 1993n.

Superannuation

Superannuation is the most significant on-cost faced by employers. The superannuation impost on employers has grown markedly in recent years and Commonwealth initiatives will see that trend continue. Superannuation has a strong regional dimension and was raised by several participants as a problem for employers of short-term or seasonal labour. For example, the Geraldton Mid-West Development Authority said:

> Administration of the superannuation scheme is causing problems for business, particularly those who utilise contract labour on short term projects. Often the scheme administration costs are more than the contribution resulting in employees having a superannuation debt. (Sub. 28, p. 8)

Complaints of this nature were common in agricultural regions employing casual labour. It was argued that the prevalence of 'ten dollar' schemes increased administrative overheads for employers and provided little, if any, benefit for the supposed recipients because administration costs soon eroded the fund. The Riverland Horticultural Council submitted that:

> Given the high casualisation/seasonal/itinerant nature of the horticultural industries, the net benefits of the superannuation guarantee charge to employees is minimal. It therefore represents an unnecessary cost impost ... (Sub. 70, p. 2)

In such cases employees would be better off with cash in hand than a negligible superannuation benefit after administration costs. Employers of casual labour also are adversely affected in terms of compliance and administration costs for little benefit to the supposed recipients. The Superannuation Guarantee Legislation (SGL) specifies that an employer will not be expected to provide superannuation support for employees who earn less than $450 in a month. Many casual and itinerant workers would exceed this threshold.

The Commission notes that the Government acknowledged concerns about the SGL in its response to the Fitzgerald report on national saving.

> Of particular concern is the fact that relatively small amounts of monies required to be contributed on behalf of many casual and itinerant employees could be eroded by fees and charges applied by recipient superannuation funds. The Government is at present according a very high priority to resolving this and other problems ... (Dawkins 1993b)

However, it was noted that solutions will take time to develop and implement.

The Commonwealth Government has signalled its intention to review the costs and benefits of the superannuation guarantee charge for casual and itinerant employees. The Commission recommends that this review include an assessment of the effect of the scheme on employers of such labour.

Payroll tax

Victoria, New South Wales and South Australia recorded the highest levels of payroll tax per employee. Croesus Mining argued that payroll tax was a 'barnacle' on development as it penalised employers for creating employment. The Chamber of Manufactures of New South Wales sought abolition of payroll taxes. It said:

> ... labour intensive firms ... in regional areas, were generally the worst affected by payroll tax and ... its abolition would create up to 175 000 new jobs and result in savings in unemployment benefits well in excess of $1 billion per annum. (Sub. 67, p. 13)

Some States have offered payroll tax concessions for country locations or to attract new investment. These schemes, which include tax holidays and concessional rates of taxation, are noted in Appendix J and discussed in Chapter 12. Payroll tax is an input tax on business that effectively penalises the use of labour. However, these issues are broader than this inquiry.

Workers' compensation

Victoria and South Australia stand out as having large workers' compensation costs per employee. Queensland and Tasmania recorded workers' compensation costs of about one-third of that of Victoria. Most States have declining workers' compensation costs per employee, with the exception of Victoria which has recorded strong growth since 1989.

The Victorian Government submitted that:

> The previous workers' compensation system in Victoria, Workcare, was a major cost to Victorian employers, and a major obstacle to job creation and investment in this State. It also failed to achieve its primary objective — the return to work of injured workers ... It is estimated that this failure accounted for 70 per cent of the difference between the cost of workers' compensation in New South Wales and Victoria. (Sub. 89, p. 17)

The Commission is currently undertaking a public inquiry into Workers' Compensation, due to be completed in February 1994.

Fringe benefits tax

Overall, fringe benefits tax makes up a fairly small proportion of total on-costs but this can vary by activity and location (below State level). Fringe benefits are prominent in the mining industry — a function of operations in more remote locations. This is reflected in the relatively high fringe benefit tax paid per employee recorded for the Northern Territory. (Fringe benefits taxation is discussed in detail in Chapter 8.)

Total on-costs

Taking all on-costs into account, in 1991 it was about $1026 cheaper to employ a person in Queensland than in Victoria. In other words, a firm with a hundred employees on its payroll, establishing in Queensland rather than Victoria could expect to save nearly $103 000 per year in on-costs.

In general the smaller States have lower on-costs than the larger States.

There has traditionally been limited scope for negotiating employment conditions set out in awards. This is changing to some extent, as employers have subjected aspects such as the payment of leave loadings to closer scrutiny. For example, the Victorian Government has legislated that all Victorian employees not covered by Federal awards are no longer eligible for leave loadings. As noted previously, there are advantages to regional adjustment in having employment conditions decided through workplace bargaining rather than set out in awards.

There is virtually no scope for an employer to reduce payroll tax and workers' compensation insurance, as they are prescribed by governments. However, the incidence of these measures can vary by region — workers' compensation is more onerous in some States than others. This was noted by South Australian employers visited by the Commission and is consistent with Figure 5.4.

The greatest potential area of labour on-cost savings lies with on-costs arising from the employment contract. Employers have some discretion over many of these expenditures. The SPC experience (see Box 5.7) indicates that savings in on-costs can be made under current arrangements. Similarly, enterprise agreements provide scope for firms to reduce administrative costs by simplifying payroll systems.

In general, there is scope for variations in on-costs across States but little potential for significant variation at the regional level (other than through assistance schemes such as payroll tax holidays). This reflects the fact that, of total on-costs, only a small proportion is within the control of employers.

5.6 Further reform

This chapter has examined work practices, wage setting mechanisms and labour on-costs — factors that shape real unit labour costs. While only one of many variables affecting the fortunes of individual regions, unit labour costs underpin regional competitiveness. Flexibility in the way that work is performed and in how employees are paid are preconditions for efficient regional adjustment. Labour market arrangements that limit flexibility, inevitably also limit productivity growth and regional adjustment options.

Work practices that fit the particular needs of Australia's diverse regions are critical for achieving productivity growth and it is through such productivity growth that the ultimate goal of high incomes can be attained. Flexibility in wages also can facilitate regional adjustment by allowing regions to adjust better to short-term shocks and to meet market challenges.

Moreover, wage flexibility has much to offer the unduly high numbers of unemployed people with limited skills that predominate in non-metropolitan regions. Wage flexibility can overcome the barrier imposed by minimum wages that fail to recognise the initial lower productivity of trainees and particularly those debilitated by long periods of unemployment. By allowing employers to establish wages and conditions that recognise this, wage flexibility can play a role in getting the regionally unemployed onto a 'jobs escalator'. While jobs at the bottom of the escalator may not be high paying, they give unemployed people a chance to acquire skills, gain an employment track record and an opportunity to pursue higher skilled, and higher paying, jobs.

Work practices and wages have not been fully able to reflect the diversity in growth opportunities and living costs evident across Australia's regions, especially between metropolitan and non-metropolitan areas. More recently, there has been considerable improvement in this respect, within the constraints of the awards system. The trend towards greater decentralisation has been an inevitable consequence of the internationalisation of the Australian economy. While substantial in recent years, the pace of reform appears not to have provided the flexibility required to allow regional firms to meet this challenge.

This is supported by evidence to this inquiry from the numerous firms, development boards, employer associations and other organisations visited by the Commission and from submissions and the views of participants at the public hearings.

DIR, in commenting on improvements to the system, said:

> None of this is to suggest that further reform directed at delivering increased labour market flexibility is not needed. Rather, the issue is how that ongoing reform is best achieved. (Sub. 148D, p. 36)

The Commission considers that greater recognition needs to be given to the particular conditions faced by workplaces in different regions when workplace bargaining is undertaken. From a regional perspective, this is best achieved under arrangements in which:

- **general minimum employment standards provide the only constraint on workplace agreements; and**
- **employees have freedom to choose who may negotiate on their behalf at the workplace.**

The ACTU and DIR were strongly critical of the Commission's assessment (a version of which appeared in the draft report). Both saw it as effectively recommending the elimination of the award system that has been the keystone of Australia's industrial relations system since the early years of Federation, and which provides a safety-net for low-paid workers. However, the Commission points out that its conclusion is:

- an end-point, the transition to which could occur in a manner consistent with preserving protections for workers which are currently embodied in the award system; and
- based on an analysis of what would best serve the interests of Australia's disparate regions and the problems associated with their high concentrations of unemployed people with limited or redundant skills.

While the Commission does not endorse any particular model, it points out that the experiences of different States in relation to reform of their respective industrial relations systems may be instructive. Some approaches involve building freedom of choice for employee representation in enterprise bargaining on to awards-based systems. Others propose parallel systems which preserve an award structure but also allow 'opting-out' into a bargaining stream underpinned by a common safety net. And one State has abandoned awards altogether in favour of employment contracts, together with a safety net and grievance mechanism.

The draft report's observations on labour market arrangements elicited support from a range of participants, including:

- regional organisations: for example, the City of Greater Geelong said, in relation to the Commission's assessment, that:

  > ... the industries of Geelong ... definitely support that. They made the point to the Kelty Taskforce that they see that the real future growth in jobs in Geelong is through private enterprise and there needs to be recognition of the very thing that you have said in your recommendation. (Transcript, p. 273)

- industry representatives: for example, the NFF said:

  > The most appropriate way of dealing with the flexibility of the labour market is to allow employers and employees to fairly negotiate the wages and conditions that benefit all parties at the enterprise. The present enterprise arrangements do not allow this to occur. ... The Commission rightly identifies an appropriate alternative to the present system ... (Sub. 164D, p. 16)

- State governments: which also stated that they were proceeding in a direction similar to that espoused in the draft report. For example, the Tasmanian Government said:

> The comments made by the Commission in relation to the need for institutional impediments to greater flexibility in work practices and conditions to be removed are strongly supported. The [Tasmanian] legislation is aimed at promoting enterprise agreements for the same reasons given by the Commission's draft report. (Sub. 159D, p. 2)

In important respects, the Commission's assessment is consistent with the model of industrial relations described by the Prime Minister in April 1993 as that which the Government was working towards. The Prime Minister said:

> It is a model which places primary emphasis on bargaining at the workplace level within a framework of minimum standards provided by arbitral tribunals.
>
> It is a model under which compulsory arbitrated awards and arbitrated wage increases would be there only as a safety net.
>
> This safety net would not be intended to prescribe the actual conditions of work of most employees, but only to catch those unable to make workplace agreements with employers.
>
> Over time the safety net would inevitably become simpler. We could have fewer awards, with fewer clauses.
>
> ... there are lots of employees who ... don't have a union to represent them. We need to make the system more flexible to our present and future needs ...
>
> We would continue to have an Accord with the trade union movement, guaranteeing the safety net of the award system...
>
> We need to find a way of extending the coverage of agreements from being add-ons to awards, as they sometimes are today, to being full substitutes for awards. (Keating 1993)

Key features of the model that are in accord with the end-point envisaged by the Commission, include:

- a simpler safety net with 'fewer awards with fewer clauses' that does not 'prescribe the actual conditions of work of most employees';
- greater flexibility through increased participation of the non-union sector in enterprise bargaining; and
- agreements that would not be 'add-ons to awards' but rather would become 'full substitutes for awards'.

In its draft report, the Commission said that the model described by the Prime Minister had much to commend it from a regional perspective, but that it appeared that the Government subsequently had modified its position. In responding to the draft report, DIR was emphatic that this was not the case:

> ... it should be pointed out that the amendments to the industrial relations system legislation introduced into the Parliament on 28 October 1993 show that the Government has not modified its position from that described by the Prime Minister.

> The Industry Commission has presented no grounds, indeed has no grounds, for making such a comment. (Sub. 148D, p. 23)

At the time this report was finalised, the legislation referred to by DIR had passed through both houses of Parliament and was awaiting Royal Assent. A major feature of the legislation is the extension of enterprise bargaining to the non-union sector and the creation of a safety net to extend beyond the Federal jurisdiction (as outlined in Box 5.8).

Box 5.8: **Enterprise bargaining — legislative changes 1993**

Under the changes, there are to be two forms of enterprise bargaining agreements — *certified agreements*, and *enterprise flexibility agreements*.

Certified agreements provide for enterprise bargaining between unions and employees. On their expiry, they will continue to apply indefinitely as awards. Enterprise flexibility agreements will provide access to enterprise bargaining for the non-union sector for enterprises subject to Federal award coverage. However, relevant unions can put their views before ratification of the agreement is considered by the IRC.

The 'no disadvantage' test applying to certified agreements will also apply to flexibility agreements. In addition, the IRC may refuse an enterprise flexibility agreement on public interest grounds. DIR noted the non-negotiability of certain 'bedrock' conditions. It said that the legislation:

> ... is intended to protect well established and accepted standards which apply across the community, including maternity leave, hours of work, parental leave, minimum rates of pay, termination change and redundancy provisions and superannuation. (Sub. 148D, p 11)

Both types of agreements must not disadvantage employees in relation to their terms and conditions of employment considered as a whole. DIR notes:

> In order to have access to these agreements, employees' terms and conditions of employment must be covered by an award. The award and any relevant legislation act as the benchmark for the no disadvantage test. (Sub. 148D, p. 54)

An element of the package is the maintenance of the award safety net — the IRC will ensure that awards are kept up to date. Employees who do not have access to Federal awards are to be covered by certain International Labour Organisation (ILO) minimum entitlements. These include: a minimum wage (Convention 131); equal pay for equal value (Convention 100); fair treatment in termination, including protection against unfair dismissal and rights to redundancy pay (Convention 158); and unpaid parental leave (Convention 156).

The IRC will be expressly required to take account of ILO Convention 156 — Workers with Family Responsibilities — in the performance of its functions.

DIR noted of the legislative amendments that:

> A number of elements of the reform package relate directly to concerns raised by the Industry Commission in its draft report. In particular, the reform package is designed to enhance the flexibility of the industrial relations system through a greater enterprise focus and by providing access to the formal system for the non-union sector.
>
> The enterprise flexibility provisions, because they are designed to widen access to formal enterprise bargaining, are in line with Industry Commission recommendations. However, in other respects, notably in its concern to balance increased flexibility with a strong regard for fairness, the Government's legislative reforms take a different direction to the Industry Commission's approach. In particular, the principles on which the reforms are based reject the highly deregulationist approach apparently embraced by the Industry Commission; for example, the draft report proposes that there be 'no restrictions on the terms and conditions covered by enterprise agreements (other than general minimum standards)'. (Sub. 148D, p. 10)

It should be emphasised that the Commission is also motivated by concern for fairness. As noted, its approach is underpinned by a safety net relating to general minimum employment standards. The Commission is especially concerned about fairness to those who currently do not have a job.

The reforms contain provisions which are designed to add further flexibility by extending enterprise bargaining, but participants raised questions from the perspective of regional workplaces as to the flexibility that can be achieved in practice. There are three areas of particular relevance to regional adjustment.

Workplace representation

By providing scope for non-union workplaces to engage in enterprise bargaining, the new legislation can potentially enhance regional flexibility. However, unions will be allowed to scrutinise and oppose (but not veto), agreements in the IRC. Under the certified agreement stream, unions will remain the sole bargaining agent for employees and will still be able to exercise veto powers regardless of any agreement negotiated directly between employers and employees. An award variation to meet the particular circumstances of a firm, or region, is unlikely to arise if it is perceived by the relevant union as undermining interests that extend beyond an individual workplace.

In the Commission's view, employees should be free to elect unions (of any size)[8], staff associations or individuals to negotiate with employers on their behalf, so as to provide regional workplaces with a choice about how they can most effectively advance their interests. This is already a feature of State systems.

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[8] In line with ILO Conventions, the existing minimum size legislation for unions is to be repealed and replaced by a requirement that there be a minimum of 100 members who are employees. According to ABS data, around 96 per cent of all enterprises have less than 100 employees.

Enterprise focus

While there has been increased scope for enterprise bargaining, the reality is that such deals have until now been largely based around awards with core conditions that are often oblivious to the needs of individual workplaces. Even under the new enterprise flexibility stream for non-union workplaces, access will be available only to those covered by a Federal award, which then acts as the benchmark for negotiation. As DIR noted:

> The 'no disadvantage' test currently applying to certified agreements will also apply to enterprise flexibility agreements. Recognising that non-unionised employees require further protection, the IRC may refuse on public interest grounds to approve an enterprise flexibility agreement because of exceptional circumstances. (Sub. 148D, p. 10)
>
> Both certified agreements and enterprise flexibility agreements must not disadvantage employees in relation to their terms and conditions of employment considered as a whole. (Sub. 148D, p. 54)

An issue arises as to whether an award made at the national or State level on an occupation basis can continue to be consistent with true bargaining between employers and employees in individual enterprises. Successful enterprise bargains will reflect conditions which parties have agreed are most appropriate for their workplace and these may need to differ from general award conditions. That awards are to be 'kept up to date' may further detract from the potential for regional variation if updating is dominated by 'national' considerations, especially those relevant to major metropolitan areas.

Safety nets

It is the Commission's view that, to minimise adjustment problems, a 'safety net' should be common across workers in different industries and establish basic minimum acceptable employment standards such as minimum rates of pay and leave conditions. Moreover, a safety net can be important in gaining the commitment of workers to productivity-improving reforms.

The scope for safety net arrangements to impede regional adjustment and development would be lessened if the wage component were differentiated by region (or at least by States), according to differing costs of living and other local circumstances, rather than by occupation.

Under the legislated amendments, a number of minimum conditions, based on ILO conventions, will extend beyond the Federal jurisdiction. Depending on how they are interpreted, they could reduce the opportunity for regional variations in minimum wages and conditions available outside of the Federal system, potentially reducing the scope for regional adjustment.

6 LABOUR RETRAINING

Unemployment in many regions contains a high and rising proportion of long-term unemployed. Many of these people have relatively limited skill levels, especially in non-metropolitan regions. The Commonwealth has a range of labour market programs to enhance and renew skills, both within formal training institutions and on the job. The regional focus and effects of such schemes warrant greater attention. More flexible labour market arrangements would complement training programs by increasing the scope for trainees (of all ages) to obtain more durable employment.

6.1 Introduction

Unemployment can arise from structural changes as well as from cyclical declines in aggregate demand. In the former case, there will be permanent shifts in the pattern of skills needed by industry, requiring those who lose their jobs to acquire new skills. But even when the skills of the unemployed are not redundant, training can be important to ensure that workers maintain their skills and motivation, as well as to assist them to find more reliable or productive alternative employment.

Retraining can be provided within formal training institutions, or 'on-the-job'. It can be funded by government, by individual workers or by employers — or by some combination of the three.

This chapter begins by looking at the broad regional dimension of long-term unemployment at which most labour market programs are directed. The rationales for government retraining measures then are noted and labour market programs are examined. Importantly for this inquiry, the question of how well these national programs meet the different needs of individual regions is addressed.

6.2 Long-term unemployment

The highest rates of unemployment are found amongst the least skilled (Chapter 5). From a regional perspective, the skills profile of the unemployed in city and non-metropolitan locations has implications for the type of retraining offered and the regional infrastructure required to deliver it (see Section 6.6).

On its visits, the Commission heard that many unemployed people in country areas have low skill levels. This is confirmed in Chapter 5 (Figure 5.3) which suggests that higher proportions of unemployed people with lower skill levels are found in non-metropolitan regions in most States.

Where people have limited or redundant skills, the prognosis for re-employment can be poor, especially when unemployment is high. Of concern is the increase in the long-term unemployed — defined in official statistics as those out of work for one year or more. There were nearly 340 000 long-term unemployed in August 1993 (ABS 1993p). Some commentators believe that the number of long-term unemployed could reach 500 000 in the mid-1990s (Chapman, Junanker, Kapuscinski 1992).

In absolute terms, the age group with the highest number of long-term unemployed is those aged 20 to 24 (Table 6.1). Older age groups, however, have higher shares of long-term unemployment as a proportion of total unemployment and, on average, remain unemployed longer.

Table 6.1: **Unemployment by age, August 1993**

Age	*Total unemployment*	*Long-term unemployment*[a]	
	('000)	('000)	Ratio[b]
15-19	153	26	17
20-24	188	68	36
25-29	127	41	32
30-34	102	38	37
35-39	100	33	33
40-44	71	31	44
45-49	66	34	52
50-54	46	24	52
55-59	42	24	57
60-64	29	17	59

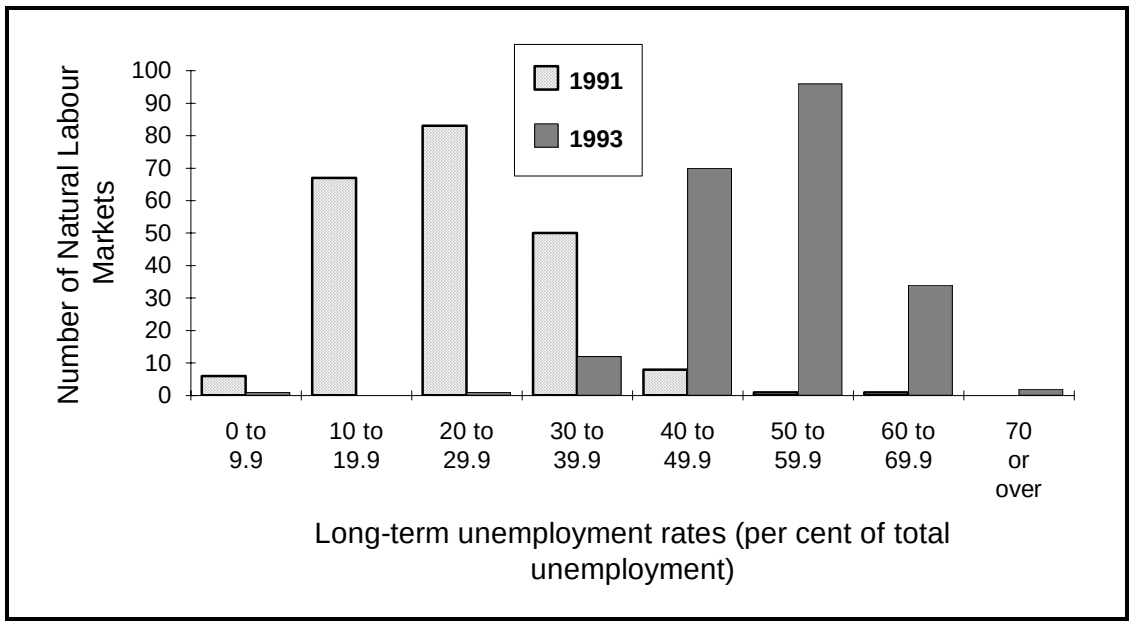
a All persons unemployed for 52 weeks and over

b Proportion of long-term unemployed for that age group

Source: ABS 1993p and unpublished data.

The distribution of long-term unemployment rates across the 216 Natural Labour Markets (NLMs) identified by the Department of Employment, Education and Training (DEET) is presented in Figure 6.1 (see DEET 1993b and 1993f). The figure shows that long-term unemployment has significantly increased over the 1991-1993 period. The average long-term unemployment rate across all NLMs was 22 per cent in 1991 but, by 1993, it had increased to 50 per cent.

Figure 6.1: **Distribution of long-term unemployment among Natural Labour Markets, June quarter 1991 and 1993**



Source: DEET 1993b and 1993f.

In the June quarter 1991, the (weighted) average long-term unemployment rate for capital cities was 19.2 per cent, whereas for the non-metropolitan regions it was 25.2 per cent. However, the (weighted) average long-term unemployment rate for capital cities for the June quarter of 1993 was 49 per cent, whereas for the non-metropolitan 'regions' it was 52 per cent. With the exception of Hobart (56 per cent), all capital cities had long-term unemployment rates around or below the national average. The lowest capital city rate was for Brisbane at 42.7 per cent.

In terms of very long-term unemployment (those people unemployed for 24 months or longer), the average rate in non-metropolitan regions was 23 per cent in 1993 compared with the metropolitan rate of 20 per cent. However, these averages mask widespread regional differences. For example, some very-long term unemployment rates (VLTUs) are shown in Table 6.2. These can be compared with the rates for capital cities: Sydney, 20 per cent; Melbourne, 21 per cent; Brisbane, 16 per cent; Adelaide, 22 per cent; Perth, 18 per cent; and Hobart, 27 per cent.

From the 'snapshot data' for 1991 and 1993 it is apparent that:

- long-term unemployment had a sharp 'regional' focus at the onset of the recession; and

- as the recession continued, the duration of unemployment increased everywhere with metropolitan regions 'catching up'.

Table 6.2: **'Very long-term' unemployment rates: selected regions, June 1993**

Natural labour market	*VLTU rate*[a]	*Natural labour market*	*VLTU rate*[a]
Grafton (NSW)	28	Bundaberg (Qld)	23
Port Macquarie (NSW)	30	Rockhampton (Qld)	17
Geelong (Vic)	25	Murchison (WA)	25
Bendigo (Vic)	27	Laverton (WA)	23
Coober Pedy (SA)	44	Burnie (Tas)	31
Whyalla (SA)	32	Devonport (Tas)	28

a The proportion of unemployed people receiving benefits for more than 24 months.
Source: DEET 1993b.

It is not surprising that metropolitan regions have been closing the gap, given the persistence of nationally high unemployment and the fact that by 1991 many non-metropolitan regions already were experiencing long-term unemployment problems.

Long-term unemployment can again be expected to become much more focussed in non-metropolitan regions in the recovery period. As the recovery gets further underway, metropolitan regions, on average, can be expected to offer the long-term unemployed more opportunities by virtue of the size and diversity of their labour markets and economic bases and other agglomeration benefits of large cities. The Brotherhood of St Laurence submitted that long-term unemployment is likely to be a persistent feature of regional labour markets because they lack the dynamism of larger metropolitan labour markets (Sub. 45).

Regions with large numbers of long-term unemployed can have particular difficulty in attracting investment and tend to have more severe social problems.

> The existence of a rump of long-term unemployed, particularly where there is a degree of regional clustering, can rapidly transform into a permanent underclass, imparting problems which society may find extremely unpalatable ... (Sloan 1993, p. 1)

6.3 Role of retraining programs

Governments may become involved in training because of its 'public good' nature. As labour is occupationally mobile, the benefits of training investments may not be fully captured by employers (especially where general rather than firm specific), causing reticence on the part of firms to train employees so that, from a social perspective, under-investment in training can result.

A government role in training also may be required to offset policy-related disincentives to training including: minimum wages which reduce the scope for firms to pay trainees lower 'training wages'; and a social security system that, for some households, provides ongoing assistance close to the returns from working (see Section 5.4.4). A European perspective on the need for government training schemes is given in Box 6.1.

In a broad sense, labour market retraining programs attempt to increase the efficiency of the job matching process and to raise the productivity of labour. Employers make decisions about who to employ (and train), for example they may choose between: a young new entrant, an unemployed person with some experience, or an employee who may lack some general skills. Training and wage subsidies aim to balance these choices.

Box 6.1: **Unemployment and training in the European Community**

Unemployment in the European Community now numbers about 17 million people. Member countries are coming to terms with similar problems to Australia, as this passage from The Economist shows.

> Europe's long history of shamefully high unemployment shows that its labour markets are broken, and need to be fixed. A chief cause — especially of the rising toll of long-term unemployment — is welfare benefits that are too generous for too long, and which place too few demands on recipients to find a new job. If that is to be remedied, as it should be, it is essential that governments also make greater efforts to help the jobless back to work. They must provide adequately financed training schemes and placement services. Help for those needing to move house to take up a new job makes sense. A bolder idea is to pay an employment subsidy to firms taking on workers who have been unemployed for more than, say, six months. This could be done by directing unemployment benefits to any firm willing to take on qualifying job-seekers.
>
> It matters just as much that governments avoid doing things that make unemployment worse. There is little doubt, for instance, that France's anomalously high rate of unemployment among the young is partly due to the national minimum wage — at nearly 50 per cent of average earnings, this is high by international standards and must price many young workers out of the market.

Source: The Economist, 26 June 1993, p. 17.

6.3.1 The influence of the award system on training

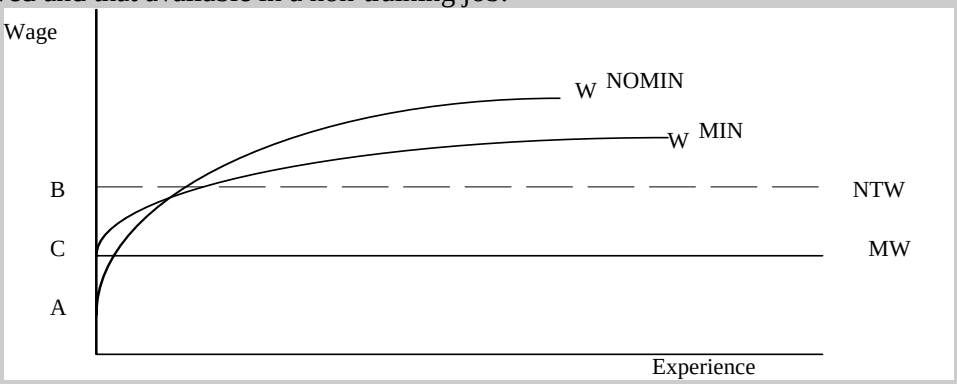
Minimum wages can reduce the ability of workers to 'invest' in training by accepting lower wages in the learning phases of their careers and reduce firm-specific training where employers are unwilling to finance a greater share of the training investment (Chapman 1993, Hashimoto 1980 and Leighton and Mincer 1980). Consequently, depending on their level, minimum wages can lead to

reduced skills acquisition and lead to higher levels of long-term unemployment at the entry level and for older workers who need to be retrained (see Table 6.1).

The 'experience-wage curve' analysis described in Box 6.2 depicts the effect of training and experience on the future earnings of workers. It highlights that a higher investment (through deferment of wages) at the beginning of a career results in higher future earnings. It further shows that binding minimum wages can reduce such investments.

Box 6.2: **The training implications of wage floors**

Labour market theory places great weight on the relationship between wages and on-the-job training. Workers can 'finance' their training by taking lower wages in the training period. The figure illustrates the investment process for workers undertaking general training. Lower wages result in a higher skill level, associated later with greater wage increases. Investment in the first period is given by AB (of W^{NOMIN}) which equates to the wage received and that available in a non-training job.



NTW = non-training wage; MW = binding minimum wage; W^{NOMIN} = workers' experience-wage profile in the absence of a minimum wage: W^{MIN} = workers' experience-wage profile with a minimum wage.

However, the introduction of a minimum legislated wage (W^{MIN}) reduces worker-financed training investments of AB at the beginning of the job to CB. Thus, starting (training) wages increase and subsequent wages decrease owing to lower skills acquisition. Binding minimum wages reduce the slope of workers' experience-wage profile.

Source: Chapman (1993).

Table 6.3 sets out wage increases associated with greater labour market experience for several countries based on analyses by Blanchflower (1989) and Wagner (1988). The data reveal that the increase in wages for Australian workers resulting from an additional year of experience is around 2.3 per cent per annum after 10 years compared to an average of around 3 per cent for the other countries. More importantly, in terms of the analysis in Box 6.2, the figures in Table 6.3 suggest that Australia has one of the lowest sloped

'experience-wage curves' of any of the countries observed.[1] This is consistent with research investigating training markets for youth in the United States, the United Kingdom and Australia (Chapman and Tan 1990; Tan and Petersen 1990; and Booth 1990).

> Two possible explanations for the flat wage profiles observed in Australia are, first, that the existence of narrowly-defined awards makes multi-skilling and identification with the firm's training needs less likely. And second, that there are binding (occupationally-based) minimum wages which orient short-term labour utilisation away from training and towards production. (Chapman 1993, p. 15)

The former explanation is discussed in the next section. Chapman (1993) reports that there is empirical evidence from the United States (Leighten and Mincer 1979) indicating the statistical importance of the latter view but observed that 'it would be wise to be circumspect on the size of the relationship'.

Table 6.3: **International comparisons of wage increases with labour market experience**[a]

Country	*At 10 years experience*	*At 20 years experience*
Australia[b]	2.27	1.36
Switzerland[b]	3.50	2.58
United States[b]	3.39	2.37
United Kingdom[b]	2.11	1.08
West Germany[b]	2.72	1.77
Austria[b]	3.35	1.70
Canada	2.61	1.20
Netherlands	3.15	1.26
Israel	2.50	1.33
Japan	3.77	2.74

a Percentage increase in wages with an additional year of general labour market experience.

b Includes males and females.

Source: Chapman 1993

In its submission, DEET said that wages for young people can be provided on the basis of a training relationship (for example, those associated with apprenticeships and junior rates).

The Department of Industrial Relations (DIR) also indicated that new initiatives are being developed to enable wages to be matched to the productive value of employees receiving training. The Australian Vocational Certificate (AVC)

1 The only country in Table 6.1 which has a lower experience-wage profile than Australia is the United Kingdom, the data for which related to the period prior to the abandonment of minimum wages in that country.

training system is a proposed integrated national system of entry level vocational education and training to be implemented in 1995. The AVC is intended to improve the skills of young people making the transition from school to work. DIR said:

> The aim of the AVC training system is to provide young people with a choice of alternative combinations of education, training and structured work placements, known as 'pathways'. These pathways are intended to be flexible, indicative rather than prescriptive, and provide a variety of options that will enable most young people to choose a pathway that suits their need.
>
> Under work-based pathways, employees will receive off-the-job training as part of their employment. Employees in work-based pathways receive wages.
>
> The Employment and Skills Formation Council's report on the AVC training system asserted that AVC trainee wages would be determined by the industrial parties, and should be based on the level of competence attained by the trainee, the amount of time spent on the job in structured training or productive work and the value of the competencies demonstrated by the trainees on the job, calculated as a proportion of the wage of a fully competent worker. (Sub 148D, p. 91)

Interim industrial relations principles for AVC pilot schemes were finalised in December 1992.

While the AVC system represents an improvement over former arrangements, its emphasis is on a transition between school and the workforce for young people. It can do little for those older unemployed with redundant skills seeking jobs who will have relatively low productivity while they 'learn the ropes'. If the classification that they might enter has a binding minimum wage, employers may be reluctant to accept, let alone train, such a person. This is particularly pertinent given that older people are highly represented among the long-term unemployed (see Table 6.1).

Administrative arrangements to deal with wages, training and competencies can help overcome wage-induced disincentives to on-the-job training. However, if the prescribed competency wages continue to represent binding minima, then the scope for significant gains in skills acquisition may be diminished.

Wage flexibility is a direct measure in comparison with administrative mechanisms. As DEET noted in relation to developments such as national training wages, competency based training, AVC and the like:

> These reforms have been achieved through a tripartite process of consensus under the centralised Industrial Relations system. These training wage arrangements take account of time spent off-the-job and, *in a general sense*, productivity levels of trainees. (Sub. 123D, p. 16, emphasis added)

The Australian Council of Trade Unions (ACTU) argued that it is the structure of wages rather than wage flexibility that is the important issue:

> ... award restructuring builds in a structure of minimum wage rates based on skills, but the further one moves up the skills structure, the less binding is the minimum wage prescribed in minimum rate awards ... the benefit is more in what it imbues to participants in the labour market in terms of attitudes and culture ... (Transcript, p. 761)

The Commission accepts the view that, at higher skill levels, minimum wages generally are not binding, but this is less likely at lower levels of skill, and it is here that wage flexibility is important.

Flexibility in work practices and award restructuring

Non-wage aspects of awards, in particular narrow job classifications, can also contribute to low levels of training. Chapman (1993, p. 10) notes that:

> Binding occupational minimum wages may not be the only reason for relatively low levels of training. The narrowness, and occupational bases, of the awards may also be contributing factors (Borland, Chapman and Rimmer, 1992). If workers are restricted to a more limited range of tasks, their training requirements will fall. To take an extreme example, if awards were to limit each worker to a single task, then each worker would need training only for that task. One constraint imposed on training by the system of job classification is, if there is a probability that any skill will be made redundant, allowing workers to train for multiple tasks acts as a form of insurance against unemployment (Grossman and Shapiro, 1982).

The impact of work practices on training incentives has been recognised for some time.[2] In 1988, the Minister for Employment, Education and Training said that:

> Where classifications require limited job training, flexibility and skill formation can be inhibited. The constraints on an employer's ability to deploy and utilise skilled labour efficiently will tend to reduce the returns to the firm from investment in skills acquisition and thus reduce the level of training investment that they are willing to undertake. (Dawkins 1988, p. 10)

Award restructuring (or award modernisation) refers to changes in awards undertaken following the introduction of the Structural Efficiency Principle in 1988 (refer Chapter 5). From a training perspective, broadbanding and multiskilling are important. An aim of award restructuring is to reduce the number of classifications within awards, implying increased skills (or flexibility in their use) for employees.

Award restructuring should help ameliorate narrow skills bases within occupations and increase functional flexibility by allowing employers to allocate

---

[2] The literature also links binding minimum wages to slower uptake of technological change by firms owing to a lack of trained labour (see Tan 1982 and Mincer 1989). A more flexible multiskilled labour force should expedite productivity enhancing technological change and associated changes in work practices.

labour in more flexible and efficient ways without running into demarcation barriers. In practice, Chapman (1993) notes:

> It is difficult to generalise about the broad directions of changes under award restructuring given the initial diversity of awards, the manner and speed of implementation at the workplace, and the degree and type of support available for complementary changes in training. However, the evidence that exists suggests: that substantial progress has been made in paper changes to awards to encourage multi-skilling and to provide career paths; that employers have been slow to adapt to these changes and have done little more than translate workers from old classifications to new ones with no further attention to task design or training; and that developments in both external and internal training are slow and uneven. (p. 20)

It would appear that the award restructuring process provides the potential for a greater emphasis on skills-based classifications linked to remuneration. In conjunction with efforts to reduce demarcation problems, this should reduce the disincentive to acquire further skills.

Greater flexibility in wages and work practices, for those individuals requiring an upgrading of skills, would provide increased potential for training and retraining by employers and thereby help redress the limited skills which are a feature of prolonged unemployment in many regions.

6.3.2 Hysteresis

Even during periods of full employment, some people will be out of work for a time when they change jobs, or there may be mismatches between the location (or skills) of job seekers and jobs on offer. As a consequence there always will be some unemployment — often termed the *full employment rate* of unemployment.[3]

Norris (1989) reports that the full employment rate of unemployment for Australia was probably less than 2 per cent in the post-war years up until 1970. There is agreement that it has since increased significantly, with a number of commentators suggesting that it may be as high as 6 or 7 per cent. Unemployment benefits have also increased dramatically since the early 1970s, making it easier to subsist outside of employment (see Table 5.6 in Chapter 5).

Norris (1989) states:

> There is agreement that the full employment rate [of unemployment] has increased at the same time as the *actual* unemployment rate. There thus arises the possibility that the full employment rate may depend on the actual rate. This is known as the *hysteresis*

[3] Also known as the *natural rate* of unemployment, *frictional* unemployment, the *equilibrium rate* of unemployment, and the *non-accelerating inflation rate* of unemployment.

> or lagging effect; the full employment rate tracks the actual rate. The effect arises in various ways. One plausible argument is that as the actual rate of unemployment rises, increasing numbers of people are unemployed for relatively long periods of time. While unemployed their work skills decay, they become less and less employable and thus the mismatch between vacancies and job seekers increases and so too does structural unemployment. Thus the full employment rate rises. (p. 185)

Layard (1987) found that, in the United Kingdom, a person out of work for under three months is ten times more likely to find a job than a person out of work for over four years. This suggests that at some point the long-term unemployed may cease to be part of the effective labour force and may therefore cease to influence wages levels. (Indeed, many observers argue that high levels of long-term unemployment effectively reduce the supply of labour and thereby apply upward pressure on wages — see Appendix G.)

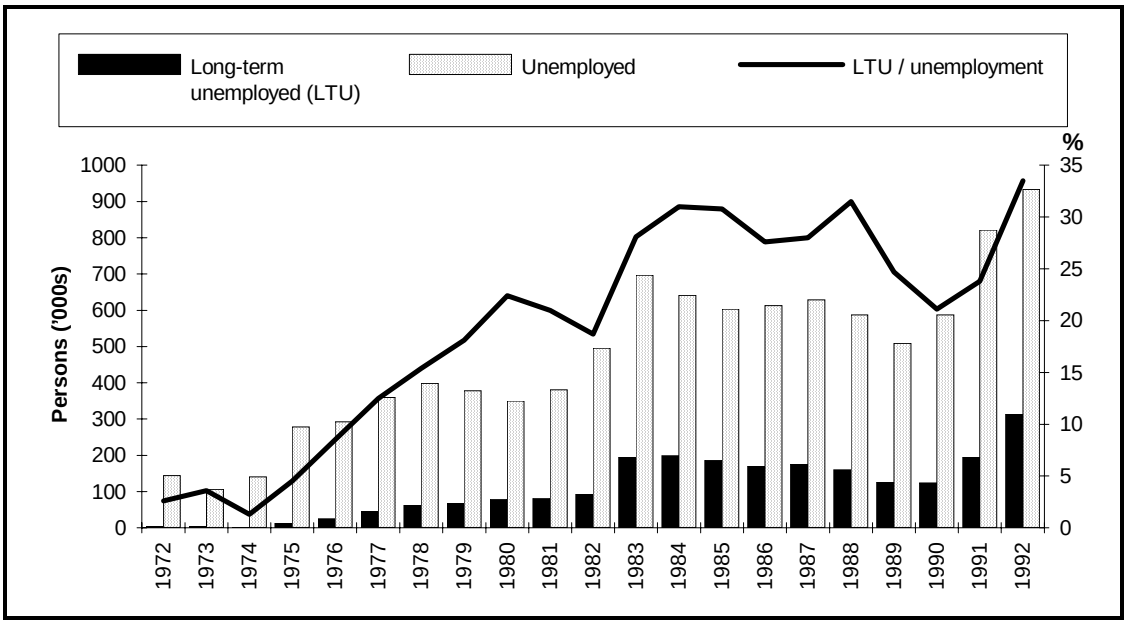
> If a high fraction of the unemployed are long-term unemployed then, for a given level of unemployment, there will be less downwards pressure on wages. (Layard 1987, p. 2)

Some economists have advocated that additional resources be devoted to improving the skills of disadvantaged groups to facilitate the job matching process. Stretton and Chapman (1990) argue that job-matching will occur more quickly if the pool of unemployed possess skills similar to the employed. A labour market characterised by a high proportion of long-term unemployed is unlikely to pass this test.

Figure 6.2 charts unemployment over the last two decades. It is apparent that the proportion of long-term unemployment has progressively increased. If employers perceive the long-term unemployed as being 'outside' the labour force, an increase in their proportion would be expected to occur during recovery periods, as employers selected the more recent unemployed. This occurred between 1978 and 1980, and over the period 1987 to 1988, where unemployment fell but the proportion of long-term unemployed increased. From a regional perspective, this suggests that areas with a high proportion of long-term unemployed may, even under a decentralised wages regime, experience weaker than anticipated downward wage pressure and job-creation.

However, the fall in unemployment from 1988 to 1990 was accompanied by a steep fall in the proportion of long-term unemployed, which seems inconsistent with evidence of bias by employers against the long-term unemployed in the recovery period. Indeed, overall the long-term unemployment rate tracks the unemployment rate, suggesting that the view that the long-term unemployed are 'outside' is not clear cut.

Figure 6.2: **Unemployment and long-term unemployment, 1972–92**



Source: ABS 1993m.

DEET attributed the fall in the proportion of long-term unemployed in 1988-90 to some of the long-term unemployed leaving the labour force (Sub. 123D). This view is supported by the ACTU which noted that the Cass review of the social security system (see Chapter 5) was reporting at that time. The ACTU suggested that measures to counter social security fraud led to a tightening of the system that could explain the fall in long-term unemployment in that period (Transcript, p. 759).

The increase in long-term unemployment since the early 1970s is a cause for concern. Consequently, one important role of Labour Market Programs (LMPs) is to assist in maintaining:

> ... the effective supply of labour by reducing the risks that long-term unemployed and various other groups of 'outsiders' in the labour market leave the labour force. This means that there will be more competition for the available jobs, which should reduce wage pressure ... the wage-setting schedule is shifted downwards, which tends to raise employment. (OECD 1993a, p. 47)

6.4 Labour market programs

According to DEET, for the first 12 months of registration, the unemployed are largely expected to pursue their own job search. However, coinciding with eligibility for most LMPs, interviews are carried out with job seekers unemployed for six months. Clients who become long-term unemployed or are otherwise disadvantaged receive more intensive assistance drawing on a range

of LMPs (Sub. 71). Expenditure on LMPs which focus on disadvantaged job seekers[4], has almost trebled over the past three years, with 1992–93 expenditures of around $1.1 billion targeting around half a million persons (see Appendix H). The largest LMPs in expenditure terms for 1992-93 include:

JOBSTART [$339 million]: pays an employer a subsidy for twenty-six weeks to take on an *additional* person. Employers must fulfil award conditions and retain the position for at least three months after the expiration of the subsidy.

JOBTRAIN [$168 million]: the Commonwealth Employment Service contracts specially designed courses, or places job seekers in existing courses designed to meet the skill requirements of the local labour market.

SkillShare [$177 million]: offers off-the-job training, employment access services and personal development through community-based organisations.

JOBSKILLS [$144 million]: provides paid on-the-job work experience and training. Placements are primarily within government and community groups.

These programs fall into two main categories:

- wage subsidies: private employers receive subsidies to partly offset the wages of program participants; and
- retraining and work experience schemes: pitched at the supply side whereas wage subsidy and job creation schemes operate on demand.[5]

A third category of LMPs is job creation schemes involving fully subsidised public sector jobs. These were used extensively in the 1970s but have become less prevalent.

These schemes do not distinguish between sources of job loss. A labour adjustment program administered by the Office of Labour Market Adjustment provides region, industry and enterprise based packages that are more directed at structural change. These are discussed in Chapter 11 and Appendix H.

The regional allocation of LMP funding by DEET emphasises 'regional equity of access'. Funds are allocated to the States by their share of long-term unemployed and, within States, to DEET Areas taking account of the area's clients, employers, training infrastructure and labour market characteristics (Sub. 71). While LMPs have not been designed for specific regions — for example, the Jobstart wage subsidy is not varied across regions — funding is correlated to the number of unemployed in particular regions.

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[4] Includes the long-term unemployed, Aboriginal and Torres Strait Islanders, people with disabilities and sole parents.

[5] The mobility assistance scheme (Section 4.4) is also a supply side measure but it is relatively insignificant in dollar terms.

LMPs do however have degrees of regional sensitivity. For example, SkillShare projects are managed by local organisations; Jobsearch uses a network of local Job Clubs; and Jobtrain aims to match training to local needs. According to DEET, non-metropolitan locations fare quite well in terms of LMP expenditures.

> ... the provision of LMP assistance varied between regions and States (particularly for long-term unemployed clients), with non-capital city areas on average having slightly more program assistance, relative to unemployed awaiting placement, than the capital cities. (Sub. 71, p. 17)

6.5 Effectiveness of labour market programs

Different LMPs affect employment opportunities to varying degrees (Table 6.4). The overall impression given by the labour market programs is one of relatively low positive outcomes for off-the-job training compared with on-the-job programs such as Jobstart (wage subsidies) and Jobskills (paid work and experience training).

Table 6.4: **Labour market program, gross outcomes in 1992[a]**

Program	*In unsubsidised jobs*	
	(Number)	*(%)*
JOBTRAIN (preparatory courses only)	2 575	17
JOBTRAIN (skills training courses)	14 787	22
JOBSTART (wage subsidies)	33 460	57
Job Clubs (job search skills)	7 644	32
Job Search Training Courses	1 794	18
Special intervention (for especially disadvantaged clients)	1 625	15
Other Employment Access programs	5 156	70
Aboriginal Employment	1 726	32
OLMA regional and industry programs	1 726	29
SkillShare community based programs	27 800	28
JOBSKILLS (work and experience training)	425	44
Other programs	3 195	54

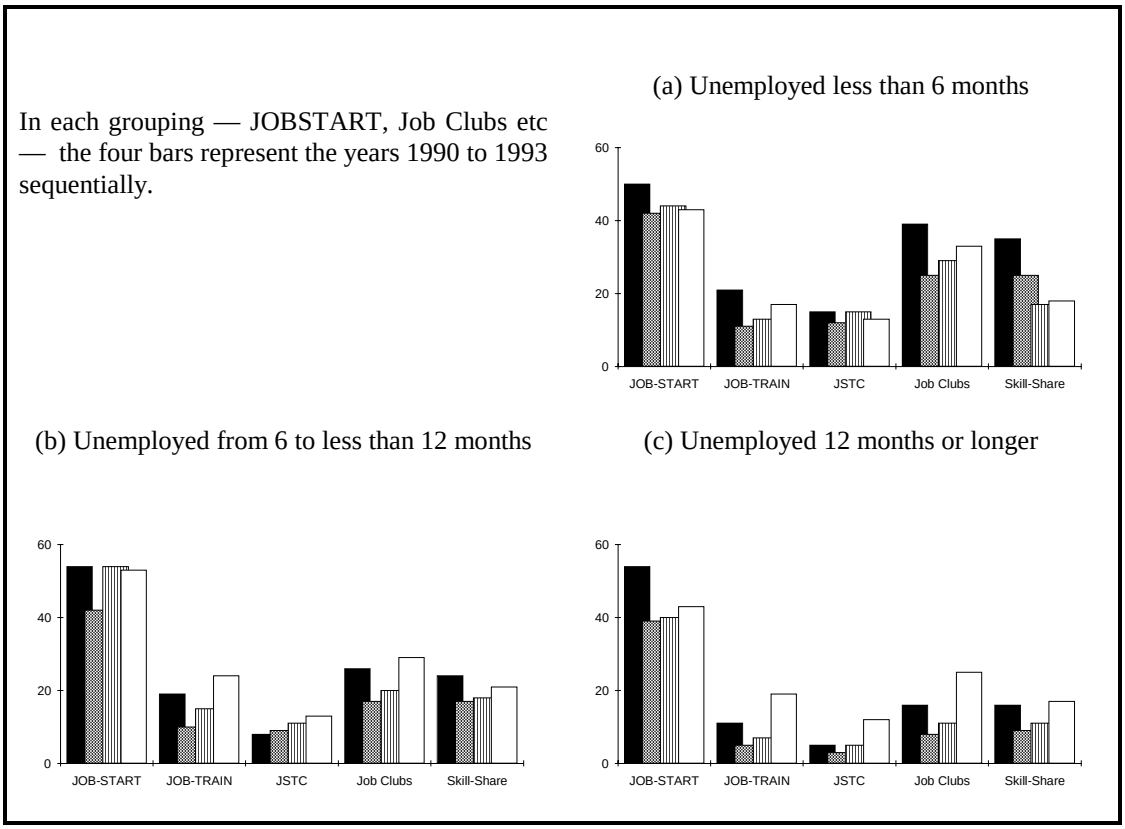
a Labour market program participants achieving unsubsidised employment three months after completion of program, as measured by DEET's post program monitoring surveys

Source: DEET, The Job Report, February 1993

It is important to note that, for a number of reasons, the measured 'positive outcomes' are biased upwards. This is because outcomes are 'gross values' that do not take into account the fact that some participants could have obtained employment without the assistance of the programs (see discussion on wage

subsidies where 'net values' have been estimated – Section 6.5.1). Nor do gross values take into account the fact that those who gain subsidised jobs may displace other workers. Furthermore, Jobstart's effectiveness may be over-estimated given certain employer compliance features built into the scheme (described later in relation to wage subsidies).

Figure 6.3: **Labour market programs, gross outcomes[a], August Quarter 1990 to 1993**



a The proportion of unsubsidised employment three months after completion of program, as measured by DEET's post program monitoring surveys

Source: Information provided by DEET

Figure 6.3 provides gross employment outcomes for some LMPs over time and according to the duration of unemployment by program participants. It contains three charts, each specifying the length of time clients have been unemployed prior to commencing a LMP and their consequent 'success' rates. It can be seen that the short-term unemployed (Figure 6.3a) have higher measured outcomes than the long-term unemployed (Figure 6.3c) except in the case of Jobstart participants. Apart from Jobstart, the figure indicates that the longer a person is

unemployed before commencing a program, the less effective will be a LMP in placing clients in employment.

In its submission responding to the draft report, DEET indicated that, compared to control groups, those people assisted through labour market programs substantially improved their chances of obtaining employment:

> Evaluation of LMPs shows that participation in a LMP increases a participant's chances of obtaining employment by around 40-50 per cent compared to those who do not receive assistance. (Sub. 123D, p. 13)

It should be noted that this is a measure of the *improvement* in outcome rather than a measure of the final outcome (the success of the programs in putting people back to work). Final outcomes are much lower because the improvement is off a low base (since the long-term unemployed generally have low prospects of finding a job).

DEET uses two monitoring devices in assessing the effectiveness of its programs. One is the survey of post program monitoring (PPM), whereby survey information is collected some three months after participants cease the program. DEET said that:

> Outcome information is collected through the Department's post-program monitoring system. Approximately 3 months after ceasing assistance ... all participants are checked to see if they are in further program assistance. (DEET 1993a, p. 8)

Three month time frames would appear to be far too short to allow for meaningful assessments, or comparisons, of program performance. Indeed, under the Jobstart scheme, employers are supposed to retain program participants for a period of three months after the expiration of the subsidy.

Sloan stated that:

> ... there are some question marks over the methodology ... A three month time horizon would also seem excessively short. (Sloan 1993, p. 7)

DEET said:

> PPM surveys have to strike a balance between timeliness, accuracy and reliability. Given the survey methodology for PPM, three months after cessation has been found to be the optimal time for measuring the post-program effects while at the same time meeting the demands of timeliness and reliability. (Sub. 123D, p. 13)

Considerations of timeliness are important and PPM surveys can be useful tools to indicate ongoing program outcomes over time, but they have a limited contribution to make to overall assessments about program performance.

The second device used by DEET to assess each program's effectiveness are program evaluations, which measure longer term outcomes. These are conducted internally by DEET every three to five years. The evaluations

provide information on outcomes some six months (and sometimes up to 12 months or more) after program intervention. Such evaluations usually include assessments of a program's net impact — that is, outcomes compared with a control group. These reports are public and outline the methodology used.

In the Commission's view, weight should be attached only to program evaluations, rather than PPM surveys, in assessing program effectiveness and making funding decisions affecting LMPs. DEET said that it was undertaking a review of the operation of labour market programs to improve their administrative efficiency (Sub. 123D). The Commission's views on the role of internal reviews are outlined in Chapter 11.

The Commission considers that three month time frames used for post program monitoring surveys are too brief to allow meaningful judgements about program effectiveness.

6.5.1 Wage subsidy schemes

To the extent that minimum wages diminish employment opportunities for people requiring training, wage subsidies can overcome this barrier by enabling firms to pay such workers a rate they perceive them to be worth. From the employer perspective, the program is a de-facto short-term wage cut. The subsidy period allows workers to develop some on-the-job skills and employers to screen their suitability for a more durable job at award wages. DEET's experience with the program has shown that the value of the wage subsidy needs to be large to elicit sufficient employer interest in the program (DEET 1990, p. 151).[6] This is because the gap between minimum wages and the employer-perceived value of an unemployed person widens as the period of unemployment increases (employers must provide more training while the risks of hiring also increase).

The post-program monitoring of Jobstart (Table 6.4) indicates that 57 per cent of participants were in unsubsidised employment *within* three months. As indicated previously, as a measurement of positive outcome, such measures overestimate program effectiveness. The measurement problems indicated in Section 6.5 for labour market programs generally are, however, particularly problematic for Jobstart. For one thing, the Jobstart program prescribes that employers must retain eligible employees at least three months after the wage subsidy terminates. This requirement could be the reason for the apparently high success rate of Jobstart compared to other programs, thereby making any outcome-based comparisons of programs questionable.

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6 See Appendix H, Table H.3 for subsidy rates.

Questions about the monitoring methodology aside, Jobstart's apparently high success rate does not take into account the possibility that participants could have found employment without assistance: that is, outcomes are generally reported as gross values (as given in Table 6.4 and Figure 6.3). One review of Jobstart that found a 55 per cent success rate after three months also found that 22 per cent of unemployed people not in Jobstart also found a job. This indicates a 33 percentage point net impact from the wage subsidy, at least after three months (Stretton and Chapman 1990).

High positive outcomes need not mean that all placements constitute *additional* jobs. Substitution can arise if employers sack people to take on subsidised employees or take a subsidy for a job that would have been created anyhow. The latter is very difficult to monitor.

Displacement not only arises within firms, but also between firms: some firms can gain a competitive advantage and larger market share from wage subsidies, which lower sales and cause job shedding in rival non-subsidised firms. Stretton and Chapman (1990) note that the greater the prevailing relative wage rigidity, the greater will be the job loss for untargeted groups.

Most studies indicate that only about 15 to 20 per cent of positions funded by wage subsidies result in permanent positions. The OECD (1993) reported that Jobstart had a 'deadweight factor' of around 70 per cent, meaning that:

> ... only 30 per cent of the participants became employed as a result of these subsidies ... the impact was only 21 per cent if the use of certain additional subsidies is excluded. (OECD 1993, p. 63)

Therefore governments may need to fund five or six placements to create an *additional* job.

Some evidence suggests that the 'least disadvantaged' fare better from wage subsidy schemes, because employers select the cream from the target group (Stretton 1984 and Rao and Jones 1986). Stretton (1984) found that those who completed a 'Special Youth Employment Training Scheme' wage subsidy placement, but were not retained, performed no better in the labour market than those who left the program early without having a job. Stretton and Chapman (1990) argue that this suggests that employers used the scheme as a screening device and that little training was conferred upon those who were not retained.

As Sloan observes, the program may still be a useful anti-hysteresis strategy:

> ... wage subsidy schemes can provide a means whereby the long term unemployed in particular can signal to employers that they are reliable and useful employees. The alternative is that employers will continue to discriminate statistically against the long term unemployed, and members of the pool cannot escape. (Sloan 1993, p. 11)

In its response to the Commission's draft report, DEET acknowledged that the aim of Jobstart was *not* to create additional jobs:

> The substitution effects inherent in wage subsidy programs are well recognised. The aim of wage subsidies is not to generate additions to employment but to enhance the employment opportunities for target groups. (Sub. 123D, p. 15)

Indeed, it is clear that long-term unemployed have poorer outcomes from LMPs — with the exception of Jobstart, which (questions of monitoring methodology aside) appears to be equally successful for long-term unemployed and short-term unemployed alike (Figure 6.3). Even if the number of jobs created only equals (appropriately measured) successful 'outcomes' less displacement and substitution effects, the long-term unemployed can benefit from Jobstart.

If long-term unemployed gain subsidised jobs that displace existing workers or take jobs that might otherwise have been offered to school leavers, then short-term unemployment rises. In effect, the scheme would have the effect of drawing from the bottom of the unemployment queue (long-term) and placing substituted or displaced persons at the top. The unemployment pool is 'churned', but importantly, those most under threat are assisted by the higher success rate programs. Training (and other supply-side measures) could aim to reskill the 'less at risk' newer entrants and maintain the 'reliability' factors, lost by long-term unemployed, that employers desire.

Although Jobstart creates few jobs, it provides work opportunities for those most at risk of becoming part of a 'permanent underclass' of unemployed.

The Queensland Government argued that given the trend towards increasing duration of unemployment:

> ... consideration should be given to shortening the lengths of unemployment necessary for clients to be eligible to receive assistance under JOBSTART and other Commonwealth labour market programs. (Sub. 92, p. 42)

While the Commission agrees that getting people into employment quickly is important, it is preferable, given limited resources, that 'more successful' programs such as Jobstart be pitched at long-term unemployed. Easing the eligibility criteria for the program could worsen the plight of long-term unemployed relative to those less at risk. Nevertheless, the increase in funding for wage subsidies provided for in the 1993 Budget should provide scope for extending the client base. Further reorientation of LMPs toward on-the-job training should also be considered.

Although wage subsidy schemes have the best measured job placement outcomes among the LMPs, the Commission considers they are still a poor substitute for greater wage flexibility which could help *create* jobs without

displacement and substitution effects and at no direct cost to taxpayers. That said, the Commission sees wage flexibility as a complement to, not a substitute for, labour market programs.

6.5.2 Training schemes

Assessing the effectiveness of supply-side training measures is complex. While unemployment is higher amongst those with lower skills, it does not automatically follow that training creates additional demand for jobs — providing training to the unemployed will not of itself lead to job creation.

About 22 per cent of Jobtrain (skills training courses) participants were in employment within three months (Table 6.4). Similar low outcomes arise for the SkillShare program involving 'off-the-job' training. While participants are more likely to find a job than those without assistance, the difference is not great (Table 6.5).

According to DEET (1993 June Job Report) the New Enterprise Incentive Scheme (NEIS), which links income support with training in business skills and loans or grants, has the highest success rate of any LMP (see Appendix H) — in this sense, NEIS is not strictly a training scheme. DEET found that 73 per cent of clients who completed the program three months earlier were in employment compared with 62 per cent of those who completed NEIS assistance 12 months earlier. The OECD (1993) said that the survival rate for businesses started under NEIS was 29 per cent after two years. DEET (Sub. 123D) noted that the OECD assessment was based on an earlier 1990 evaluation of NEIS and that the scheme had changed since that time.

Table 6.5: **Labour force status of SkillShare participants[a]**

	SkillShare	*Comparison*
Employed:		
- Full-time	17	11
- Part-time	18	12
- Unknown	1	1
- Total	**36**	**24**
Still looking for work	54	65
Not in labour force	10	11

a March 1992 labour force status of former SkillShare participants who finished their programs in August 1991, and comparison CES clients without program assistance.
Source: DEET, The Job Report, April 1993.

DEET (1993a) notes that for short courses, the content may not be a significant determinant of employment prospects. Rather, employers in the SkillShare evaluation reported that confidence and work habits gained were more important. These considerations are a legitimate concern of employers and form part of the skill/quality package of potential employees.

Many participants posed the question of 'training for what?' For example, the Wangaratta Regional Development Corporation said:

> ... many newly skilled people were left with little hope of gaining employment in industries associated with their training ... training was not often in step with local demand, or the training undertook a course merely because of DEET incentives. (Sub. 5, p. 7)

This suggests a need to link training with mobility assistance for trainees in regions with poor employment prospects in their chosen fields. DEET said that:

> ... courses that provide a lot of help with subsequent job search and where the training provider has good links with employers have better outcomes than others. (DEET 1993a)

It appears that schemes incorporating on-the-job training have higher success rates than institutionalised training. But, overall, there is little evidence either way to indicate whether or not training *creates* jobs (Stretton and Chapman 1990, Sloan 1993 and Nelson 1981).

6.5.3 Job creation schemes

Costs per placement for job creation schemes are generally higher than alternative measures, because they involve capital costs and the payment of award wages. Employment creation depends on the capital intensity of the project. The 'One Nation' statement directed about $350 million to local councils to fund construction and restoration of infrastructure (see Chapter 10). Thus, they can be targeted regionally to ease problems in particularly hard-hit locations. Job creation schemes can be effective during recessions when employers are less interested in taking on 'additional' employees even with wage subsidies.

The capital works associated with job creation schemes may also provide the community with a return from paying unemployment benefits, provided of course that they have some social or economic value.

A criticism of job creation schemes is that they do not address skills problems. McHugh et al (1992) found that LMPs which improve the quality of labour supply are likely to serve the long-term structural needs of regional labour markets better than economic or development incentives.

Nevertheless, they can provide long-term unemployed with an opportunity to establish an employment track record.

> Job creation schemes targeted at the long-term unemployed are aimed, in part, at reversing the process of skill atrophy and/or attitudinal change ... simply having a job is an essential part of rehabilitation for the long-term unemployed, given that employment

> requires *inter alia* some degree of punctuality and organisation ... (Stretton and Chapman 1990, p. 8)

6.6 Labour market programs and the needs of regions

If labour market programs were simply about assisting regions, this would suggest that public sector job creation schemes are an appropriate measure because of their clear locational impact through public works. Wage subsidy schemes also benefit regions that lack the infrastructure or the number of program participants to mount a formal training effort.

LMPs are properly aimed at people rather than locations — nevertheless, these considerations lead to a question of principal interest to this inquiry: how well do LMPs meet the needs of regions? For example, do smaller regions have the capacity — in terms of infrastructure and resources — to deliver LMPs effectively? Are there problems of coordination and duplication with other schemes? Are LMPs flexible enough to meet the needs of regions?

These issues may not arise for regional centres with diverse activity bases. For example, the Albury-Wodonga Development Corporation submitted that the:

> ... range of programs offered to the unemployed in this region generally reflect the industry profile of the area, thus providing maximum opportunity for employment. (Sub. 39, p. 11)

On the other hand, The Brotherhood of St. Laurence observed that:

> Training by itself is a more appropriate response to unemployment where a local economy is rapidly restructuring and providing new employment opportunities ... recovery and restructuring are likely to be much slower in small regional economies and thus training by itself will be limited in its effectiveness. (Sub. 45, p. 5)

Some regions said that a number of LMPs required that a person be engaged full-time with a regional board (or equivalent) simply to become familiar with, and disseminate information on, what was offered. The Western Australian Department of Employment, Vocational Education and Training (DEVET) indicated that regional structures liaising with employers may not be aware of current LMPs (Sub. 55). The Great Southern Development Authority, said that most areas are too small to have a major organisation to attract and administer resources (Sub. 72). On the other hand, the City of Warrnambool claimed that it was overly well endowed with LMPs from all levels of government:

> ... one of the problems in the area of LMPs is the duplication and lack of co-ordination ... The current situation sees a range of programs operating in the region all with their own support systems leading to enormous duplication ... The current situation is totally fragmented ... (Sub. 62, p. 3)

The Brotherhood of St. Laurence said that there was a lack of programs specifically tailored to the needs of particular regional economies (Sub 45). Other participants argued that LMPs tended to have stringent conditions attached that often meant that they did not fit the characteristics of some regions. For example, the Wangaratta Regional Development Corporation submitted that program delivery is not well attuned to regional needs.

> ... the mechanism by which [Commonwealth] programs are delivered to particular regions is flawed ... The process must be examined and improved. Inefficiencies and resource wastage occurs constantly because of program overlap, bureaucratic 'power-play', and a general lack of co-ordination ... In short, regional administrators are better placed to deliver the majority of adjustment enhancement. Amalgamated municipal councils should take on more of the financial responsibilities, and State government should be devolved into this structure. (Sub. 5, pp. 3-4)

The Western Australian Department of Employment, Vocational Training and Education (DEVET) said that DEET programs lacked the flexibility to respond to regional differences and that DEET's regional staff needed more autonomy to better integrate programs with the needs of regions (Sub. 55). A similar viewpoint was put by the South Australian Department of Employment and Technical and Further Education (DETAFE) — see Box 6.3.

Box 6.3: **The experience of the South Australian Department of Employment and Technical and Further Education**

The South Australian DETAFE submitted that the major impediments to running successful employment and training after suitable projects and sponsors have been identified include:

1. Too rigid Social Security and DEET program criteria which focus on categories of people involved in programs rather than planned outcomes for participants.
2. Relatively inflexible Social Security and DEET income support criteria which prevent people being linked into suitable training and employment opportunities until they are long term unemployed and possibly demotivated.
3. Many DEET programs have minimum number thresholds ie 10-12 participants which are far too large to match the available employment opportunities in non-metropolitan regions.
4. The lack of openness of some Commonwealth agencies about the resources they have available for these types of programs in various regions limits effective planning.

Source: Sub. 93, p. 2

However, DETAFE added that some informal flexibility can arise:

> ... it must be said that the efforts of a number of brave Commonwealth Officers who have bent or overlooked various guidelines to assist some of our most successful projects demonstrate that ... even relatively inflexible programs become resource centres rather than impediments to success. (Sub. 93, p. 2)

A common complaint related to the difficulty that smaller regions had in meeting the 'scale' criteria of DEET guidelines. Like DETAFE, the Whyalla Industrial Development Executive indicated that the requirement for a minimum number of students for the initiation of a course was not flexible enough to meet the region's needs. It added that retraining programs tended to fit TAFE modules rather than focus on the needs of industry (Sub. 12).

Related to issues of flexibility are resource constraints faced by some regions that may make it difficult to deliver LMPs. The Great Southern Development Authority, for example, said that:

> With regard to remote area delivery of LMPs, the inability of rural areas to resource the *formal training* requirement of LMPs was seen as an impediment to more effective outcomes. (Sub. 72, p. 18)

Similarly, CSR Sugar Mills Group concluded that:

> ... continual changes in technology and procedures leaves the formal training establishment in a small country town totally under capitalised in terms of modern equipment and therefore their ability to train people.
>
> ... the small number of trainees, at any one time in a region makes it uneconomical for the provider to have appropriately trained teachers under utilised in a formal training establishment. (Sub. 21, pp. 4- 5)

It suggested that arrangements could be improved if more training was provided at the employer's establishment. The Commission concurs with this view.

As many smaller regions lack the capacity (and numbers of participants) to mount a large formal training effort, subsidised on-the-job training may provide greater benefits from a regional perspective.

DEET appears to be cognisant of many of the problems that LMPs present for non-metropolitan locations. It stated that regional sensitivity is becoming a major policy emphasis, and is being promoted through greater autonomy for regional offices:

> The current structure of Area and Regional planning in DEET, together with the flexibility DEET has to move funds between many of its labour market programs, already gives regional managers considerable flexibility to spend LMP funds in ways that best meet the needs of the unemployed and takes into account regional labour market characteristics. (Sub. 71, p. 3).

Problems specific to LMPs such as the lack of infrastructure to deliver programs in some regions, or criteria that lack flexibility to meet the needs of particular regions, have been acknowledged by DEET. Indeed, its recent work on natural labour markets and ongoing work on small area labour markets has:

> ... potential for analysis of which types of LMPs are appropriate for regions ...Targeting of planning and economic development measures would benefit from analysis of the

> interaction of supply and demand within natural labour markets, rather than within the more arbitrary boundaries of smaller geographical areas of local councils or DEET regions. (DEET 1993a, p. 18)

Moreover, as noted above, regions that suffer the greatest adjustment problems — in terms of unemployment — receive greater shares of funds than regions with lower unemployment. This is appropriate given that LMPs are directed at *people* rather than regions. However, it was noted in Chapter 2 that some regions with severe adjustment problems may have low rates of unemployment owing to out-migration of population. This can be addressed through the various OLMA schemes and other adjustment and development initiatives canvassed in Chapters 11 and 12.

Indeed, adjustment and development assistance appear to provide the greatest potential for problems of coordination and administrative overlap. Several groups visited by the Commission in provincial centres were confused about the presence of DEET offices, State regional bureaucracies, regional development organisations and the possibility of a further Commonwealth presence through the new Office of Regional Development.

The Commission considers that DEET should assess the suitability of the various LMPs in meeting the needs of different regions, especially the capacity of smaller regions to satisfy program criteria.

6.7 Conclusion

This chapter has indicated that some LMPs are better suited to the needs of different regions than others. It also suggests that at a broad level, it is hard to be confident about the success of LMPs. Wage subsidy schemes are fraught with possibilities of substitution and displacement, and job creation schemes are unlikely to promote any substantial net job creation sustainable beyond the term of funding — they also may lead to substitution of non-subsidised labour by the target group. There is also little evidence that supply-side measures such as formal training schemes *create* jobs, and they must confront the difficult question of 'training for what?' Nonetheless, some programs may be useful in reducing the risk of the less advantaged unemployed from becoming part of a 'permanent underclass.'

These general observations relate to *types* of schemes. The Commission has not been able to assess in any detail the regional performance of individual LMPs owing to lack of information. The OECD, in its evaluation of LMPs in member countries, concluded that:

> Positive outcomes have been attributed to programs with relatively precise targeting, perhaps because these programs on average tend to be associated with more careful assessment of individual needs.

> ... [LMPs], if well targeted, can be effective in addressing structural unemployment. However, programs which are too broadly defined are likely to yield disappointing results. *Finally, further research is needed to identify more closely how program design can be improved*. (OECD 1993, emphasis added, p. 68)

Indeed, the Commission considers that more information is required to facilitate an understanding of the longer-term effectiveness of various programs by unemployment group; each program's cost per job placement; and the scope for further targeting or streamlining of programs.

The Commission notes that the Taskforce on Employment Opportunities has reported on a number of matters relating to labour market, education and training programs. Since that report was released just prior to the Commission's own reporting date, it has not been possible to assess its findings.

Some participants thought there were too many LMPs and that smaller regions were unable to keep track of the myriad of programs. While streamlining LMPs or reducing the number of programs may make it easier for regions with resource constraints to access or be aware of programs, this may be at some cost to efficiency. As the OECD has noted (above), broadly defined programs tend to compare unfavourably with more precisely defined programs.

The cost effectiveness of LMPs looks much better when the unemployment benefits that would have been paid to successful clients are taken into account. And this leads to an important consideration. It is a tenet of Australian society that those out of work receive some measure of income support. Given this, it would seem desirable to link that support with programs that attempt to improve job matching and that preserve motivation and track record.

In conclusion, it must be said that a number of LMPs are essentially palliative measures. One comment by DEET, in noting the benefits of LMPs for the long-term unemployed, is revealing in this respect:

> At present the majority of long-term unemployed leave DSS benefits through participation in LMPs. Few leave without help. Without LMPs our long term unemployed pool would be greater (assuming the current structure of wage fixing, income support and the like), bringing in its train greater structural and equity problems. (DEET 1993a, p. 8)

DEET's parenthetic qualification serves as a reminder of the employment impacts of wage rigidities and the interaction of social security payments discussed in Chapter 5. Movement to a more flexible wages regime, by opening up job opportunities for low skilled work, and making on-the-job training more economic for employers, could be of considerable assistance to those who are most vulnerable to long-term unemployment. By creating job opportunities at lower skill levels it would also help alleviate adjustment problems in many regions.

7 LAND USE AND DEVELOPMENT APPROVALS

Land and physical capital resources have an important role to play in the process of regional adjustment. Consequently, the involvement of governments in the regulation of these resources is seen by many participants as a significant determinant of a region's capacity to adjust. Government regulation of land use and development is warranted in many instances — the goal is to ensure that worthwhile outcomes are achieved without unnecessary costs.

However, evidence suggests that there is scope for government regulation of land use and development to be improved, with substantial cost savings (one estimate being between $350 and $450 million). Improvements designed to streamline development approvals procedures and reduce regulatory complexity, including 'one stop shops', can yield significant benefits in terms of regional adjustment and development.

Environmental and other regulations also can have significant effects. In many cases regulations are imposed in ways that do not recognise the different circumstances in different regions, thereby unnecessarily constraining adjustment.

7.1 Introduction

7.1.1 The need for regulation

Regulations are prescribed by the various tiers of Australian government to achieve a variety of goals. For example, occupational health and safety regulations are designed, in principle, to ensure that workplaces provide an acceptable level of safety for their occupants, while capital adequacy standards are in place to guarantee financial institutions have adequate financial reserves.

However, sometimes regulations or other policies can impinge, either directly or indirectly, on the ability of a region to adjust to cyclical or structural change. Regulations may simply prevent a firm from pursuing a particular activity which may have assisted with a region's adjustment, or they may make a certain form of adjustment more costly. In either situation the capability of a region to adjust over the short term, or to develop and grow over the longer term, may be jeopardised.

When examining such regulatory impediments, two important questions need to be considered. First, is the goal of the regulation justifiable or worthwhile — usually determined on the basis of whether the market deals with the situation adequately (that is, whether or not a 'market failure' exists). Second, given that the goal of the regulation is justifiable, does the regulation adequately address this goal, or are there other methods of achieving the objective which do not unnecessarily obstruct the adjustment process.

7.1.2 Impediments to adjustment of land and physical capital

As land is immobile, adjustment occurs through changes in its use. For instance, in response to a change in demand for a region's products, rural land may be rezoned and serviced to attract alternative industries or facilitate different uses. Impediments to this form of adjustment will reduce the scope for a region to alter the mix of goods and services produced.

Adjustment in a region's land resources is often closely linked with changes in the allocation or use of physical capital resources (such as a warehouse, machinery or a rail spur). These resources are obviously more mobile than land (for instance, a building can be relocated or machinery transported to another factory), although the physical characteristics of some capital resources may restrict possible alternative uses. Policy induced impediments to adjustment in the use of physical capital resources are most likely to arise when a change in land use is involved.

Both growing and declining regions may face difficulties in adjusting if applications for new land and building developments are not dealt with adequately. For example, an expanding region could encounter problems having a new factory site approved, while declining regions may confront obstacles in redeveloping an unused site.

Importantly, the need for adjustment in land and physical capital may be increased by impediments to adjustment within regional labour markets (as suggested in Chapters 4 to 6). For example, restrictions on the movement of wages in the face of change may place added pressure on the prices of land and capital assets. Consequently, the relative importance of maintaining an efficient system of regulatory controls over land and building development increases.

At its simplest level, the efficiency with which a project proceeds is dependent upon the availability of land on which it may be situated. The following section covers those regulations which can impact on the efficiency of land allocation within regions.

7.2 Land use regulations

7.2.1 Zoning

Land use zoning can be viewed as an administrative tool in the regulation of development. Zoning specifies which areas of a particular township or region can be used for certain purposes; for example, residential, commercial or industrial. Such regulations are designed to preserve the rights associated with land titles by separating incompatible land uses (like abattoirs and housing).

The trade-off between flexibility and certainty

A major issue of concern relating to zoning is that of flexibility of existing land use definitions. While designed to provide some certainty to property holders regarding the nature of development within their 'neighbourhood', zoning regulations also need to be flexible enough to respond to changes in the needs of the entire community. For example, over time the costs the community bears from restricting the amount of industrial land may exceed the benefits that result from preserving a possible industrial site as open space. Zoning practices therefore need to be flexible enough to adapt to these changes in circumstance.

The Indicative Planning Council for the housing industry commented on these concerns, stating that:

> ... the timely rezoning of land is important in ensuring that fully serviced land is available to meet demand (IPC 1992).

Zoning flexibility was identified by a number of inquiry participants as the source of specific problems. One concern related to the outward growth of residential development into previously industrial areas. For example, during a visit to Queensland the Commission was told that rapid urban expansion had encroached on the area surrounding CSR Softwoods at Caboolture, without allowance for an adequate buffer. There is concern that, in time, the new residents will lobby for the mill's closure because of its proximity.

Box 7.1 outlines a similar situation that exists near the New South Wales town of Tamworth, where rural/residential developments have, in effect, encroached on the permitted operating conditions for a fertiliser company which initially had located in the region, in part, to avoid such conflicts.

Box 7.1: **Rezoning problems for Dynamic Lifter**

The Dynamic Lifter company operates a fertiliser manufacturing plant approximately 20 kilometres from Tamworth, New South Wales. The company chose the region for its proximity to raw materials, setting up in 1984 in an area zoned for general rural purposes. The company's story was told to the Commission by its manager at the Tamworth public hearings.

Since 1984, the company has undertaken several expansions at the site, each requiring separate approval from the local council. However, the company noted new development applications were granted subject to more stringent operating conditions. For example, the company was initially allowed to operate 24 hours a day, but more recent development applications have been granted with operating hours restricted to 12 per day. In 1987, the area surrounding the plant was rezoned to accommodate hobby farms, and the surrounding population increased.

In June 1993, the local council took the Dynamic Lifter company to the Land and Environment Court to argue that more recently imposed development conditions over-rode the conditions originally granted to the company. The court upheld the council's position and the company was required to lodge a further development application with the council to replace the three previously lodged applications. The company noted that this application attracted 57 objections — mostly from hobby farm residents nearby, who argued that the odour from the fertiliser plant detracted from the value of their properties.

The council approved the company's application for an 18 hour operating licence; however, in response to the residents' objections, this decision was subject to 14 other conditions. Some changes to ensure compliance with these conditions are underway or have already been completed, and the company estimates that the total cost of fulfilling its new obligations will be in the order of $500 000.

One of the new conditions imposed by the council was for the entire plant to be enclosed to ensure that existing 'biofilters' extracted all the ammonia from the product. The company contends that the existing electricity supply is inadequate to allow the upgraded filters to be operational within the three month time frame set by the council, and it decided to install an on-site generator to make up for the power deficiency. However, further council restrictions prevent the company from using the generator due to concerns over noise levels — even if the generator conforms to the existing noise regulations under which the company operates.

Dynamic Lifter and the local council apparently are still negotiating a solution to these problems.

Source: Transcript, pp. 534-538

While residents may experience noise pollution or traffic congestion from the closeness of an industrial development, these concerns would normally have been factored into the purchase costs of their land or dwellings. Therefore, residents will already have been 'compensated' in advance for the adverse

effects of locating near an industrial site. For example, the availability of houses at a discount under aircraft flight paths could allow the purchaser spare funds to install noise insulation.

Even though this form of 'compensation' may exist, avoiding conflict would require allowances for an adequate buffer surrounding developments.

Some participants have commented on the need for adequate forward planning and recognition of future land use needs when defining zoning boundaries. For example, in Gladstone, the City Council commented on the Gladstone Industrial Land Use Study (undertaken by the Queensland Government) which involves setting aside an area of land close to the city's port in order to meet expected industrial land requirements in the future.

The Council recognised that, eventually, harbour front land would become scarce, and indeed acknowledged the desire of residents for at least part of the harbour's foreshore to remain free of industry. Thus, an area of 4 300 hectares has been designated as the site of future industrial expansion, with allowance for a corridor to the port to prevent the industrial estate from becoming landlocked (Sub. 114D, p. 2).

Defining appropriate zoning standards is a complex matter, requiring a balance between the rights of existing land users, other affected third parties and the wider issues of development. Buffer zones are a useful means of separating incompatible land uses, but zoning needs to be flexible enough to accommodate necessary structural change.

Jurisdictional zoning conflicts

The effectiveness of zoning in separating incompatible land uses may also be reduced where there are conflicts in zoning practices along the common boundaries of neighbouring local government areas (LGAs). Thus, while individual local governments may ensure that industrial and residential land uses are separated within their respective jurisdictions, problems may arise with the proximity of these types of developments to each other on the boundaries between shires. In Bundaberg, for example, the Commission was told that lack of coordination in zoning between LGAs had led to excessive encroachment of housing development onto 'good red dirt' more suited to agriculture.

The Commission encountered several other examples where numerous LGAs co-existed within a particular region — regardless of how the term 'region' is defined. In Victoria, the Ballarat region contains nine municipalities while the Geelong region previously encompassed seven LGAs and two rural shires. Absence of effective cooperation between adjoining LGAs increases the

likelihood of zoning conflicts occurring in regions with a large number of local government authorities.

Some problems arising from multiple LGAs within a region have been addressed through establishing new institutional arrangements to facilitate cooperation and coordination between the individual jurisdictions. Regional organisations of councils have been formed in a number of regions, including the Latrobe Valley (see Chapter 12). The Commission heard that local regional development organisations can also assist in the management of this cooperative approach, providing more 'regionally focused' views on issues of importance to each region. For example, the Bendigo Regional Development Board was instrumental in ensuring that the region's industrial activities were not fragmented into industrial estates in individual shires.

One solution advocated by participants is the merger of adjoining LGAs into jurisdictions that are more regionally oriented. This has occurred in South East Queensland, the Huon Valley in Tasmania, and has recently been implemented by the Victorian State Government in the Geelong region. The nine municipalities that existed previously have been replaced with a group representing the City of Greater Geelong. Aside from the benefits of enhanced coordination in land zoning and other areas of local government regulation, KPMG Management Consultants have estimated that the amalgamation and associated workforce restructuring will result in cost savings of between $17 million and $23 million per year — easily covering the estimated transitional costs of approximately $2 million (Kennett 1993).

Fragmented and overlapping jurisdictions are not conducive to effective land use planning. Better outcomes can be achieved through cooperation, coordination or amalgamation.

Ultimately, the choice between establishing mechanisms to secure coordination between LGAs, and the alternative of amalgamating them, goes beyond problems of zoning conflicts to the wider issues of 'good government' (see Chapter 12).

7.2.2 Site clean-up regulations

Several submissions referred the Commission to difficulties encountered with the remediation of sites from industrial or agricultural purposes to a condition suitable for other uses. Problems in this process could be regarded as an impediment to the efficient adjustment of land and physical capital resources to their most productive purposes.

The issue of contaminated industrial sites is often associated with images of a few dirty or hazardous industries producing toxic waste products or pollutants. However, the scale of this problem may be much more widespread. Recent estimates by the former New South Wales State Pollution Control Commission (now the Environmental Protection Authority) suggest that up to 60 000 sites across Australia may be contaminated. Approximately 7000 of these may require remediation at a combined cost of more than $2 billion (Powell 1992).

This leads to two separate questions. First, are the high costs of site decontamination a result of excessively stringent regulations? Second, who will bear the costs for the clean-up of these sites?

Regulations governing the clean up of contaminated sites vary between States, and also between various proposed uses for the site. For example, requirements for site remediation are generally most stringent where the land is to be used for either residential or open space purposes. The Commission did not receive any submissions suggesting that the regulations governing the clean-up of contaminated industrial sites were overly strict.

However, participants did identify problems surrounding the assignment of liability for site clean-up costs. While it is generally agreed that the costs of rehabilitation should be borne by the polluter, it is sometimes difficult to establish exactly who the polluter is — particularly if the contamination did not occur recently.

In response to these difficulties, individual States have adopted differing approaches to assigning liability for contaminated sites within their jurisdictions. For example, in New South Wales the responsibility lies with the occupier of the site (with consideration given to holding polluters liable where they are clearly identifiable), while in Western Australia liability for site remediation generally falls on the polluter or site-owner (ANZECC 1993). In Queensland the *Contaminated Land Act 1989* assigns an order of responsibility, with the actual polluter most liable, followed by the site owner, and the relevant local government liable as a last resort.

Some States do not have legislation specifically defining which parties are responsible for site decontamination. In these States lengthy disputes over liability may occur. For example, a disused rail yards site in Launceston is emerging as the centre of a clean-up dispute in Tasmania. Although the site was constructed by the Tasmanian State Government, it is now owned by the Commonwealth Government, with neither party wishing to assume responsibility for site remediation costs. Recently, funds from the Commonwealth's Building Better Cities program were used to conduct a study on future redevelopment options for the disused rail yards site. The

recommendations of the study are still being considered by the Tasmanian and Commonwealth Governments.

There is evidence to suggest that, even in those States with laws relating to site remediation, the existing legislation is deficient in apportioning liability and providing mechanisms for cost recovery (Powell 1992). To counteract these deficiencies, some States either have, or are contemplating, a 'last-resort' statutory fund to pay for clean up costs where legislation is unable to assign liability to a particular party (Trenorden 1992). For example, in Victoria, 'orphan sites'[1] may be remediated by a public authority on behalf of the Crown — but only in those cases where there is a significant threat to human health or the environment (ANZECC 1993).

Even where liability has been established, problems may still be encountered. For example, the Shire of Tambo in Victoria referred the Commission to a proposed development within that region which has been delayed by the failure of the State government to remove asbestos contamination from a site on Crown land, near where the proposed development would be situated. The Shire believes that:

> ... delays with the removal of the derelict factory and apparent inaction by the government over this issue led to a breakdown in negotiations between the preferred developer and the government. (Sub. 61, p. 2)

Perhaps the biggest problem surrounding the issue of site remediation is that of uncertainty. Developers need to know the likely costs of undertaking each development project, and the prospect of a significant cost add-on because of unforeseen site clean-up expenses may represent a sizeable disincentive to some forms of development. Even though the existing legislation, combined with (proposed) last resort clean-up funds, should be able to deal with the majority of disputes, problems relating to liability uncertainty may still remain.

The South Australian Government noted that the Commonwealth Government currently is working in conjunction with the States (through the Inter-Governmental Agreement on the Environment) to develop a national approach to dealing with the remediation of contaminated sites. When completed, this framework will provide a base from which individual State regulatory systems can be developed (Sub. 152D, p. 7).

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[1] Orphan sites include those sites where liability cannot be established; liable parties are unable to pay clean-up costs; liable parties no longer exist; or where the government has decided that those responsible for the pollution should not bear the costs of remediation work.

The Commission considers that deficient site clean-up regulations create additional uncertainty for investors and can impede adjustment and development within regions. State governments should provide a regulatory framework which apportions clean-up responsibility, and sets out requirements for remediation, in a manner providing certainty to investors and developers.

7.3 Development approvals processes

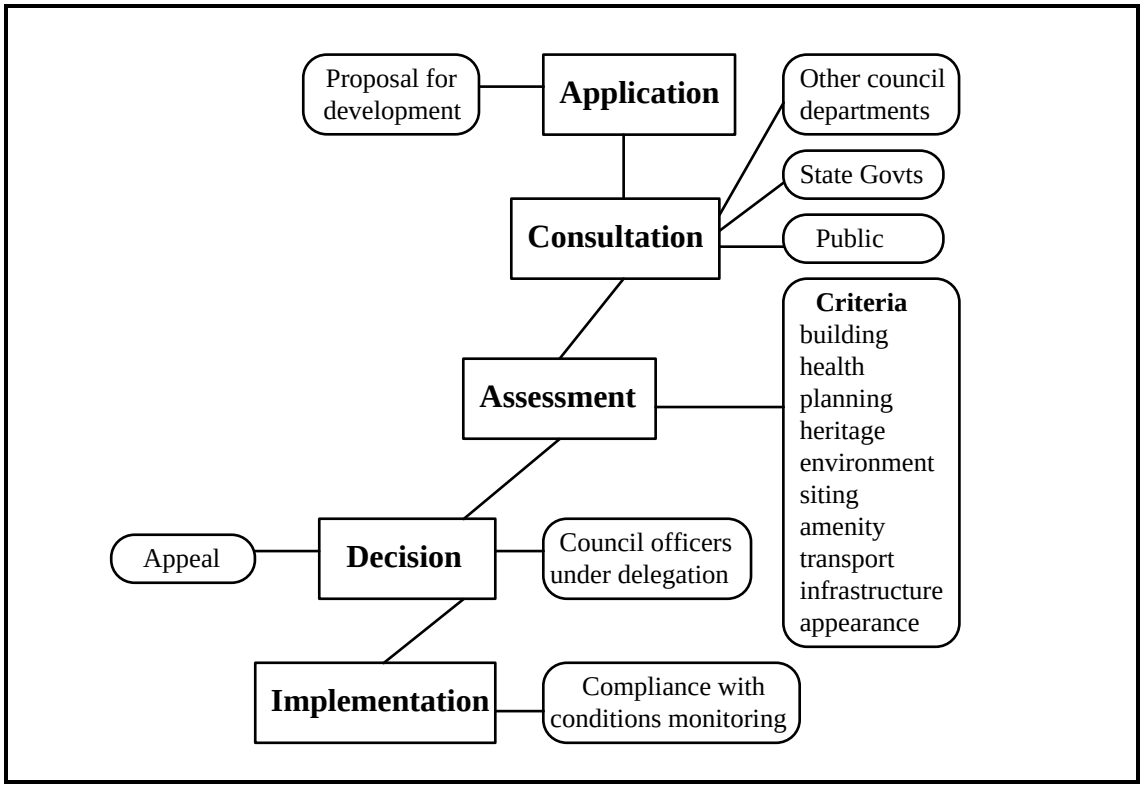
As mentioned earlier, both growing and declining regions may face difficulties in adjusting to change if proposals for (re)developments within their regions are not dealt with adequately. Such 'developments' could range from a relatively simple medium density housing complex, to large scale industrial or commercial developments providing significant employment opportunities to local residents.

Clearly, some developments will be more important to a region than others. For example, the fortunes of many regions are tied to projects such as large resource based or mining developments. By preventing such a development, or by making the development approvals process excessively costly, the effect on the region will be much more pronounced than if the development was of a smaller scale.

The responsibility for approving most developments generally rests with each region's local government (see Figure 7.1), although State governments are commonly involved in some aspects of the development approval process. In New South Wales the Minister for Planning has recently assumed sole responsibility for approving major developments which promise to deliver significant employment gains, a change which implicitly recognises the disproportionate impact some developments may have on particular regions (see Box 7.3 in Section 7.3.1). Commonwealth Government involvement may also occur where developments are particularly large or of a 'political' nature.

When assessing the adequacy of the development approvals framework, the speed with which applications are dealt with is commonly regarded as one of the most important criteria on which an assessment can be made. However, opinion on what constitutes a reasonable time frame for development approval, and hence the perception of exactly what constitutes an approval delay, varies.

Figure 7.1: **Integrated approval system operating in local government**



Source: OLG 1992

Several participants identified approval periods as excessive. For example, the South East Economic Development Board submitted that:

> The planning process that must be followed to obtain approval to proceed with some developments in the adjustment process is unacceptably time consuming and complex. (Sub. 19, p. 10)

However, evidence suggests that the planning and development approval system deals with the majority of approvals — mostly houses, flats, changes of building use, alterations, additions and small office/commercial developments — in a relatively short period of time (OLG 1990). These types of developments are generally within a set of clearly defined guidelines and approvals administered at the local level, thereby reducing scope for dispute.

Conversely, approvals for non-standard developments appear to be more time consuming. The Western Port Development Council stated:

> The establishment of new industries and enterprises is costly in terms of planning and approval procedures, and the time involved in such processes. (Sub. 27, p. 9)

In particular, delays often occur where developments contain innovative features, or fall outside existing guidelines or regulations. On this issue, the Mount Isa City Council commented that:

> ... there is a general lack of understanding and accommodation in regulations between governments to deal with or support developments which are unusual. (Sub. 38, p. 3)

These types of applications may also attract significant opposition from within the community or from the development authorities themselves (OLG 1990).

Table 7.1 outlines the median approval times for various types of developments across different council types. The longest approval times occurred with central city councils required to deal with large complex applications, urban fringe councils where applications involve changes in zoning and subdivision, and with small rural councils confronted with applications for large and unfamiliar development proposals (OLG 1990).

The latter category holds particular relevance for many regions attempting to diversify their industry structure. To do so, it may be necessary for large developments to be approved by an authority unfamiliar with such applications; with resultant delays imposing significant costs upon developers.

Table 7.1: **Median approval times (days) for development applications**

Council type	*Building*	*Planning*[a]		*Subdivision*	*Rezoning*
		No consent	*Consent*		
Metropolitan / suburban	27	17	40	63	100+
Regional cities	22	17	37	60	97
Large rural / regional shires	20	16	36	56	100
Small rural shires	23	15	47	60	105

a *no consent* refers to those developments for which planning approval is not required (although development applications may need to be lodged to ensure that the development complies with existing standards); *consent* refers to developments where planning approval is required.
Source: OLG 1990

7.3.1 Complexity of the development approvals framework

The complicated nature of the system for approving developments may also be a source of delays. Two commonly identified sources of additional complexity are the number of government departments involved in approving development

and the requirement to lodge multiple applications to receive approval for a single development project.

The involvement of numerous local and State government departments can increase both the time taken to reach a decision on the development approval, and the administrative costs incurred by the developers and the relevant authorities. Importantly, these costs may serve to partially or completely discourage land and building developments necessary for efficient regional industry adjustment.

The effects of regulatory complexity have been recognised by Australian governments. For instance, the New South Wales Government has established an inquiry into government 'red tape', with a report due in January 1994. Specifically, the inquiry is to recommend ways of removing government procedural and regulatory impediments to the creation of investment and employment opportunities.

The Commission encountered several examples of developments hindered by the involvement of a number of government and semi-government authorities in the approvals process. The NSW Chamber of Manufactures, for example, noted the large number of government and semi-government agencies involved in the development approvals process. They submitted that:

> The need to obtain approval from a number of different authorities added unnecessarily to delays and costs, particularly when firms had no checklist as to the appropriate consent authorities for their type of development application. (Sub. 67, p. 18)

The Northern Rivers Regional Development Board cited one development in their region which attracted the attention of 16 development bodies (see Box 7.2).

Additionally, the Commission encountered arguments noting that the development process is complicated by the need to lodge separate applications for each individual facet of the development proposal. The Resource Assessment Commission, in a draft report into the use of coastal zone resources, noted that:

> ... the conversion of land from rural to urban and subsequent development requires sequential approvals for rezoning, subdivision layout, subdivision engineering works, land use consent, domestic water and sewerage connections, [and] building. (RAC 1992, p. 105)

Box 7.2: **The Newrybar Minerals Project**

Located in the northern New South Wales shires of Ballina and Richmond River, the Newrybar Minerals Project was a relatively small scale, short term, project that, nevertheless, encountered substantial costs during the approvals process.

After completing an environmental impact assessment, which required approval from both Shire Councils and from the New South Wales Land and Environment Court, the developers engaged in public consultation. This included a public meeting and further negotiations with interested parties. Approval was also required from sixteen government authorities and departments, including:

- Ballina Shire Council;
- Richmond River Shire Council;
- Department of Minerals and Energy (NSW);
- State Pollution Control Commission (NSW);
- Department of Industrial Relations (NSW);
- Department of Agriculture and Fisheries (NSW);
- Soil Conservation Service (NSW);
- National Parks and Wildlife Service (NSW);
- Department of Health (NSW);
- Department of Water Resources (NSW);
- Department of Lands (NSW);
- Traffic Authority (NSW);
- Public Works Department (NSW);
- Department of Primary Industries and Energy (Commonwealth);
- Department of Main Roads (NSW); and the
- Regional Traffic Advisory Committee.

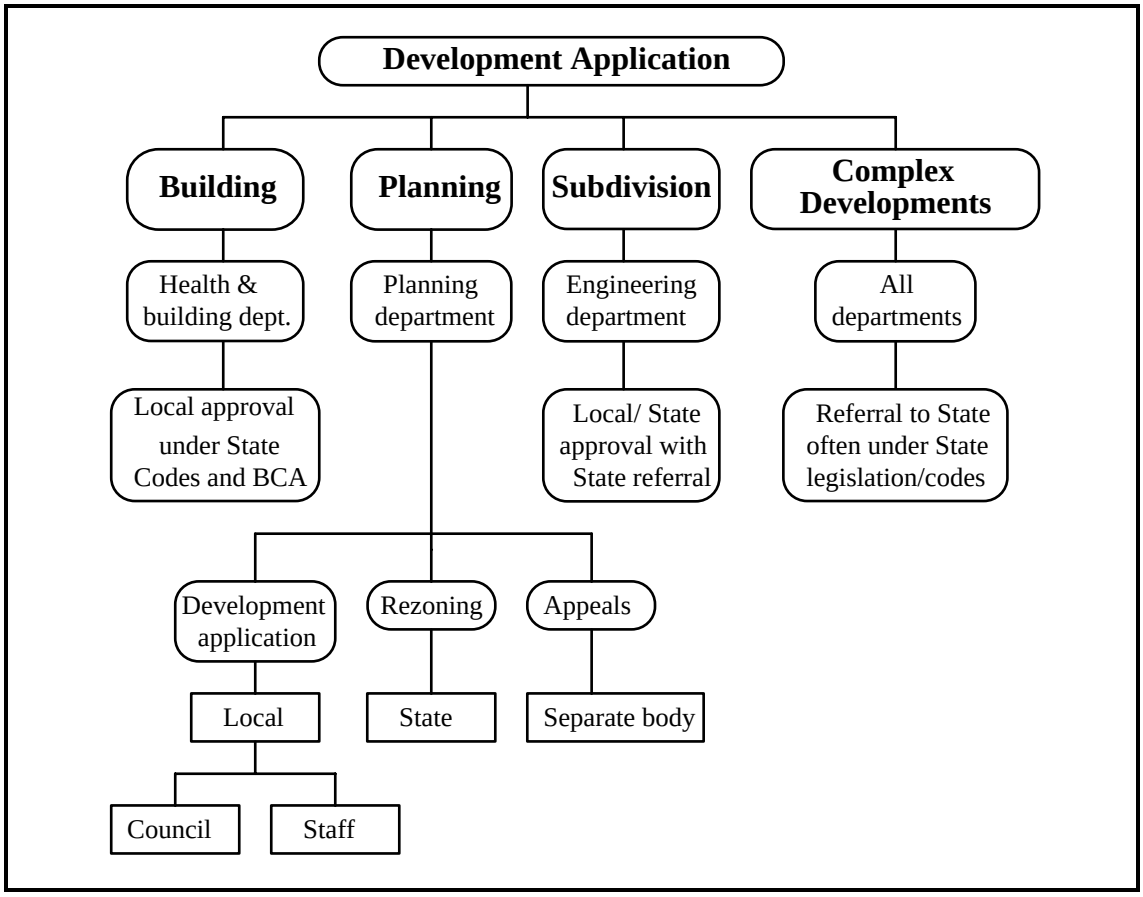
Ultimately, the construction of the Newrybar Minerals Project was delayed 12 months — a delay which entailed significant costs for the developers of the project.

Source: Northern Rivers Regional Development Board, Sub. 47, p. 29

This situation is illustrated in Figure 7.2 below. The diagram summarises the development approval responsibilities of State and local governments. It is clear that there is a strong link between the requirement for multiple development applications, and the concern of several separate authorities becoming involved in the approvals process. For example, a large development requiring both rezoning and building approval would attract the attention of State government authorities concerned with land use zoning as well as the local

government's health and building department for building approval. The developer would need to lodge an application with each of these departments individually.

Figure 7.2: **Development approval responsibilities within State and local government**



BCA Building Code of Australia.
Source: OLG 1990

One stop shops

Problems emanating from both the involvement of numerous government authorities, and the related requirements of multiple development applications, indicate the benefits to be obtained from a 'one stop shop' for development approvals. Such an authority would be empowered to deal with every facet of development applications, removing the need for costly intergovernmental or interdepartmental consultation, and eliminating the requirement for sequential applications.

This solution was noted by the South East Economic Development Board, which described an:

> ... urgent need for a 'one stop shop' within the State Government system ... (Sub. 19, p. 10)

Similarly, the Shire of Warrnambool and the Warrnambool Regional Development Board submitted that:

> A facility must be found to fast-track new developments and cut down on the bureaucratic red tape. (Sub. 62, p. 9)

Some local authorities, cognisant of problems with 'red tape', have sought ways to expedite development approvals. For example, in Queensland the *Local Government (Planning and Environment) Act 1991* allows for applications to be dealt with concurrently in circumstances where more than one approval is required. This Act also imposes time limits on local governments to ensure developments are processed without unnecessary delays.

This form of development approval is also employed by some States and the Commonwealth when dealing with particularly large-scale developments. Existing 'fast tracking' procedures effectively result in selected developments being dealt with by a single Minister or authority using the same assessment criteria that individual authorities would use (see Box 7.3).

Regional development boards may also serve as a type of 'one stop shop' in the approvals process. Several boards commented that their experience in dealing with government bureaucracy gives them an advantage over individual developers where complex applications are involved. Moreover, boards may also be given de facto approval powers in some cases. The Bendigo Regional Development Board cited an example where the responsibility of approving developments within a local industrial estate was delegated to the board on the proviso that each development satisfy an 'as-of-right' development checklist.

In Gladstone, a similar approach towards rectifying approvals difficulties is employed:

> ... in Gladstone ... two important mechanisms ... help to create a 'one stop shop'. The first one is the Gladstone Area Promotion and Development Board comprising all the development organisations in the region. The second is known as the 'Task Force' which includes industry and union representation, as well as development organisations.
>
> Whilst neither of these organisations have of themselves authority to give approvals, they are able to act as sounding boards and give commitments accordingly. They are able to correctly reflect community attitudes and thereby let potential industries know where they stand. (Sub. 114D, p. 2)

These types of arrangements have the potential to streamline the approvals process and reduce the delays encountered during development applications.

Box 7.3: **The State environmental planning policy**

Recently, the New South Wales Government gazetted the State Environmental Planning Policy (SEPP 34), which relates to major employment generating developments. Under SEPP 34, the Minister for Planning can assume sole responsibility for the approval of major industrial developments within New South Wales. Major industrial developments are defined to be those projects which would result in at least 100 post-construction full-time jobs (or 20 jobs in the case of livestock intensive operations) or have a capital investment value of $20 million or more (excluding land). Retail, commercial, residential and tourism developments are not included in this categorisation.

The policy is designed to ensure that the broad environmental, social and economic issues that go beyond local importance are taken into account. It also will provide a consistent and uniform approach to the assessment of development approvals, resulting in greater certainty and efficiency in the decision making process. Notably, local authorities still will be consulted, as will the public in general through mandatory public exhibition and retained third party appeal rights.

Developments that are assessed under SEPP 34 must still satisfy all existing regulations, including the preparation of an environmental impact assessment if appropriate. In this sense, SEPP 34 does not change the permissibility of a particular development: the goal is simply to improve the efficiency with which development applications are assessed.

SEPP 34 began operation in April 1993, and it is expected that 11 applications will be lodged under this program by the end of the year (with a further 7 in the pipeline). The New South Wales Government estimates that these applications will encompass more than $1 billion worth of investment and provide approximately 3700 jobs.

Source: Government of New South Wales (Sub. 75, attachment; Sub. 145D, p.6)

Governments at all levels are increasingly aware of the need to reform convoluted development approvals processes. Programs such as the Commonwealth Government's Local Approvals Review Program, which provides assistance to local councils in the form of education and training to improve the quality of local decision making, can significantly contribute to improving the development approvals framework. The Department of Health, Housing, Local Government and Community Services also pointed to the contribution the Australian Model Code for Residential Development (AMCORD) and its companion code (AMCORD-URBAN) provides through

enhanced flexibility in the provision of medium density and urban housing (Sub. 172D, p. 5).

Similarly, State governments are moving to improve their performance in this area. For example, the Government of New South Wales submitted that:

> Recent amendments [to the New South Wales Planning System] have created an opportunity to lodge joint applications for building and development approvals with councils. Other legislative changes now enable 'in principle' and 'staged consents'. Changes such as these create new opportunities for an integrated planning process which will eliminate duplication and unnecessary delay. (Sub. 145D, p. 6)

Likewise, the Government of South Australia commented:

> Major reform of South Australia's environmental and development approvals laws has just been completed, resulting in significant streamlining, reduced uncertainty and delay and a 'one stop shop' approach. The reforms have had the support of industry. (Sub. 152D, p. 6)

The Commission supports moves to streamline approvals processes and establish one stop shops. Additionally, the Commission considers that the use of regional development organisations in the development approvals process has the potential to further enhance efficiency.

7.3.2 Development standards

The Commission also encountered evidence that variations exist between States and regions in the regulations and standards governing development approvals. Differences between States and regions could add to the overall complexity of the development approval framework and increase the costs subsequently incurred by developers — generally in terms of approval delays.

The extent to which the additional complexity of State or region specific regulations impedes the adjustment capacity of land and physical capital resources is unclear, although such divergences in regulatory practice are recognised as a possible impediment to efficient land development. On this issue, a study by McCotter and Associates stated that:

> ... the variability in development assessment systems, practices of governments and responsibilities of relevant agents and officials may be inhibiting the mobility and effective application of resources in the land development industry (McCotter and Associates P/L 1991).

Some of these differences have previously been justified on the basis of local conditions, where geographical, environmental and climatic considerations necessitate different regulatory standards. For example, it is to be expected that building regulations in northern Australia would be designed to provide

additional structural strength needed for seasonal cyclones which do not occur in southern regions.

Nevertheless, the Office of Local Government (OLG) commented that:

> While there are obvious variations [in regulations] between different States, these variations arise more out of legislative and administrative arrangements than out of geographical considerations. (OLG 1990, p. 7)

The Commission recognises the benefits from greater uniformity in some areas, but does not consider that it should be an overriding objective. Some variation may yield beneficial experimentation between local government jurisdictions searching for more effective or suitable standards. Moreover, elected local councils should have some control over development within their regions, and therefore over subsequent impacts on industrial opportunity or residential amenity.

7.3.3 Third party appeals and public participation

The time in which a development application is either approved or rejected may also be influenced by the extent to which public participation is incorporated into the decision making process.

If the consultative process is exhaustive, or the emphasis given to a minority of participants is great, then additional costs in terms of delays or an excessive number of development rejections may result. An over-emphasis on the views of public participants could also be seen as a shift in power to those with little responsibility, accountability or qualifications for acceptable decision making.

The Shire of Tambo noted these concerns, submitting that:

> The public consultation process is, perhaps, overly extended and allows for the slightest interruption to halt the process for unduly long periods of time, thus further exacerbating the difficulties facing any encouragement of development. (Sub. 61, p. 3)

However, any effective development planning system requires a reasonable level of public consultation; without it, those affected by decisions may feel they have no say in factors influencing the quality of their lifestyle. Moreover, inadequate public consultation may result in developments proceeding even though they are contrary to the best interests of the wider community.

7.3.4 Heritage and environmental issues

Heritage and environmental issues are an increasingly important concern for the community. Even where it is difficult or impossible to ascribe a monetary value to these factors, there is no doubt that people value the amenity that they derive

from visiting areas of historic interest or environmental significance, or by simply knowing they exist. However, the costs of preserving sites must also be taken into account.

The process of Environmental Impact Assessment (EIA) is one method in which the contrast between these costs and benefits can be examined. While requirements vary somewhat between States, Territories and the Commonwealth overall, the basic process casts an obligation on the proponent of a project to provide information (at their own expense) as to the likely environmental impacts of the development (Jubb and Underhill 1990). An EIA is required to report on the objectives of the development; its justification; the consequences of the project not going ahead; a detailed description of what is proposed; the location; wastes or pollution generated; infrastructure requirements; an examination of alternative development options; the assessment of potential impacts; and the measures of environmental management (Marsh 1991).

Dealing adequately with these issues can be a lengthy process. The South East Economic Development Board, having noted that development approval periods were 'unacceptably time consuming' for some forms of development, observed that:

> The process is even worse if Heritage legislation is involved. (Sub. 19, p. 10)

While these delays may be partially attributable to the difficulty in quantifying benefits and costs associated with heritage concerns, the costs imposed upon developers and related parties are the same as if the delays were from inefficient approvals procedures. Indeed, concerns were raised that delays in the completion of EIAs may be higher in Australia than in other countries. The Whyalla Industrial Development Executive noted these costs in terms of discouraged development, stating:

> The cost of Environmental Impact Statements is a disadvantage to this country ... [as] the time it takes compared to other countries, tends to give alternate overseas sites an edge. (Sub. 12, p. 5)

However, such concerns need to be balanced by an awareness of the benefits that EIAs can produce. Several participants commented that EIAs were useful, not just in assessing the environmental effects of a proposed development, but for examining methods by which adverse environmental effects could be abated and the overall design of the project improved.

The Commission also encountered arguments that environmental regulations did not allow adequate regional flexibility or variability to account for local considerations. In particular, some participants felt that regulations designed to accommodate metropolitan circumstances were being applied in non-metropolitan regions where they were not well suited.

If environmental regulations are designed to achieve certain standards — for example, ensuring that the level of air pollution is below some acceptable limit — then uniform regulations governing emissions or activities may not be the most appropriate methods. On this issue, the Chamber of Mines and Energy of Western Australia submitted:

> The imposition of uniform standards across the nation or State ... results in the inefficient usage of environmental resources. In environmentally sensitive areas, resources will be over utilised while in less sensitive areas resources will be under utilised. Uniform environmental regulations can have an overall detrimental effect on the environment as well as reduce the benefits derived from the prudent use of environmental resources (including wealth and employment). (Sub. 121D, p. 2)

This does not imply that pollution standards in non-metropolitan regions should be in any way lax. However, regulations based on areas of high population density, that already have a considerable stock of pollution from other activities, may be inappropriate in regions with low population densities, low levels of existing pollution and favourable geographical or climatic conditions.

The Commission notes that, in some States and regions, environmental regulations have been differentiated to take account of local considerations. For example, in Victoria 13 separate water catchments are identified, each with an individual environmental protection policy (Sub. 134D, p. 7). The South Australian Government also saw a role for differentiating regulations, submitting:

> The State's environmental laws allow for measures tailored to local circumstances. (Sub. 152D, p. 6)

Western Australia, too, has moved towards differentiating regulations based on appropriate regional considerations, with air pollution regulations in Kalgoorlie tailored to account for prevailing conditions (Transcript, p. 83).

The Commission considers that, where practicable, environmental regulations should take into account the circumstances of different regions.

Some participants commented that stringent environmental regulations were sometimes the result of 'competition' among relevant State departments wanting the prestige of having the highest standards. This type of regulatory proliferation can impact adversely on the ability of a region to compete both domestically and in overseas markets. Participants at meetings held by the Commission in South Australia expressed concern that their State's endeavours to be a leader in the pursuit of environmental and social objectives was adversely affecting the competitiveness and adjustment capacity of local industries.

7.3.5 Uranium — the three mines policy

The uranium industry in Australia is subject to a number of government controls and interventions that do not apply to other mining and minerals processing activities. The most pervasive of these interventions results from the Commonwealth Government's 'three mines' policy, which limits the number of uranium mines in Australia to three. These mines are located at Ranger and Nabarlek in the Northern Territory, and at Olympic Dam in South Australia.

The Commission has previously reported on Commonwealth involvement in the uranium industry, stating that:

> The Commission's view is that Australia could reap substantial benefits from reduced government intervention in the Australian uranium industry. (IC 1991a)

It found that there were no compelling arguments to support the present three mines policy and that it should be abandoned.

In the current inquiry, the Government of the Northern Territory commented that the existing regulation of the uranium industry was impeding the growth of regional economies which would benefit significantly from the development of uranium mines on Australia's numerous deposits. For example, they estimated that the development of the Jabiluka deposit could:

> ... generate around $A120 million (1991 dollars) per annum in exports, create approximately 300 direct employment positions during the operating phase of the mine and 2 000 to 2 500 indirect employment positions in other sectors of the Territory's economy. (Sub. 87, p. 15)

The Government of the Northern Territory also drew attention to the levy of $1.30 per kilogram on yellowcake exported by the Territory's uranium industry. They remarked that this impost was not applied to the Olympic Dam mine in South Australia and, consequently, it impeded the development of the uranium industry in the Northern Territory.

7.4 Aboriginal land rights and the Mabo judgement

In June 1992, the High Court handed down a decision regarding native title for Australian Aborigines, a decision commonly referred to as the Mabo judgement. From this judgement, three main factors of significance have emerged:

- Native title is acknowledged as an inalienable title which cannot be traded like freehold title. However, to facilitate commercial dealings, legislation could allow native title to be surrendered to the relevant government in exchange for a statutory title.

- Once land has been granted freehold title, native title cannot be established.
- Native title may only be owned by a group or clan, not by individuals.

The issues are broad and complex. In the context of this inquiry, participants focussed on uncertainty presently surrounding current and future ventures such as mining exploration.

Governments have accepted the need to address these issues through legislation. Substantial differences as to the appropriate content of such legislation remained at the time this report was being finalised.

The Northern Territory Government also referred the Commission to other aspects of the role of Aboriginal land rights in the process of regional industry adjustment, especially pertinent to the Northern Territory. With virtually all of the Territory's previously vacant Crown Land now either Aboriginal freehold or under claim through the at *Land Rights (NT) Act* (ALRA), the Territory Government is concerned with the changing role of land councils from 'land acquirers' to 'land users'. They submitted:

> Under the ALRA they are required to deal through the Land Councils to achieve their goals and if this involves leases or commercial agreements with other parties then the Commonwealth Minister for Aboriginal Affairs endorsement is required. (Sub. 156D, p. 3)

The Northern Territory Government raised concerns that individual groups of Aborigines were being frustrated in their desire to negotiate arrangements for their land on their own behalf:

> Many Aboriginals in the Territory want to deal directly with Mining Companies that wish to explore on their land but are prevented by the operation of the ALRA and the requirement to deal through the Land Councils. (Sub. 156D, p. 4)

Problems that result from limited or reduced access to land for mining, exploration or other purposes can impose significant constraints on regional industry development and adjustment.

However, while the Commission acknowledges the concerns of the Northern Territory Government (and others) regarding the ALRA and access to land, it recognises that the issue of Aboriginal land rights is complex and involves more than just questions regarding access to land. Along with broader issues concerning economic development for Aboriginal communities, land rights intrinsically are tied up with, for example, the reconciliation process, and questions of Aboriginal self-determination.

7.5 Summing up

The role of land and building development is clearly important to the process of regional industry adjustment. Many participants expressed concerns that adjustment within their region is adversely affected by governmental regulation. In particular, land use zoning, environmental clean-up issues, and the general procedures of assessing and approving development applications can impact adversely on the adjustment capability of regions.

Frequently, difficulties in these areas are manifested as delays in the development approval process. While the exact causes of these delays remain open to conjecture, the costs imposed upon developing and redeveloping industries are substantial. The OLG has estimated that even if only 30 to 40 per cent of approval delays were attributable to inefficient regulations, the removal of these impediments would still lead to cost savings in the order of $350 to $450 million per annum (OLG 1990). These costs are generally attributable to:

- the opportunity cost of resources being tied up;
- interest charges on debt funded projects;
- inflation associated with construction costs;
- managerial time spent dealing with regulatory authorities; and
- the commercial disadvantages of late developments.

Additional costs from delays can serve to reduce the amount of development occurring in individual regions — constituting a significant impediment to the adjustment of land and physical capital resources within a region.

This is not to imply that these problems have not been recognised by governments. Several participants referred the Commission to progress already made (or under way) in reforming the development approvals system and improving the efficiency of the prevailing regulatory climate. For example, the joint Commonwealth-State Building Better Cities program, which aims to encourage local governments to cooperate across municipal boundaries and to consider new approaches to building standards, zoning and other related issues, has considerable potential to improve the land and building development process.

Overall, the Commission considers that improvements at all levels of government have the potential to reduce significantly the costs from development delays and inappropriate standards, thereby increasing the capacity of a region to adjust to structural or cyclical change.

8 SERVICES AND REGIONAL INDUSTRY ADJUSTMENT

The cost and availability of services are critical to the competitiveness of many firms, and affect the capacity of a region to adjust to growth or contractionary pressures. Participants placed particular emphasis on the role of transport and communications, as well as on the role of financial institutions.

The impact of fringe benefits taxation and income tax zone rebates is examined in relation to government and employer provided services, and to more general concerns over their effect on remote area development.

8.1 The influence of the services sector

The services sector comprises activities in transport, communications, the distribution of goods (wholesale and retail), banking and finance, insurance, government, health, education, recreation, entertainment and personal services. In recent years this sector has played an increasingly important role in the development of the Australian economy. Its performance is important in influencing the ability of regions to adjust to either short term fluctuations in economic activity or longer term secular trends.

The availability of services can have a substantial impact on the costs of conducting business from various locations, thereby affecting the viability of existing businesses and the locational decisions of new or 'footloose' industries. Services may also influence the locational decisions of households, and thus the pattern of labour force distribution. For example, a region with high transportation costs may have difficulty in attracting a new transport-dependent industry, while a household's decision to move to a new location may be swayed by the existence of health care facilities or a major retail shopping outlet.

Often the provision and pricing of services is closely associated with the availability and cost of the necessary infrastructure — for example, many health care services require a hospital, while the cost of transport for a region is partly related to the quality of the region's road network. Issues relating to the provision and pricing of infrastructure facilities are dealt with in Chapter 9.

Among the range of services, many participants cited transport and telecommunications as having particular importance for their region's adjustment or development prospects. These issues are canvassed in Section 8.2 and 8.3 respectively.

Access to the lending services of the financial sector is another area which can influence the process of regional industry adjustment. Section 8.4 outlines the role of financial institutions in regional industry adjustment and details the concerns of some inquiry participants regarding access to finance for non-metropolitan businesses.

The chapter concludes with an analysis of issues surrounding the Commonwealth Government's fringe benefits tax and its impacts on employer funded service provision, and regional adjustment and development. The remote nature of many regions and the prominence of resource development projects with a high reliance on remuneration through non-cash 'fringe benefits' has meant that these issues are of particular importance to many regions.

8.2 Transport services

As noted, transport emerged as a major concern for many inquiry participants, especially those in more remote regions. Indeed, the Department of Transport and Communications (DOTAC) recently commented that:

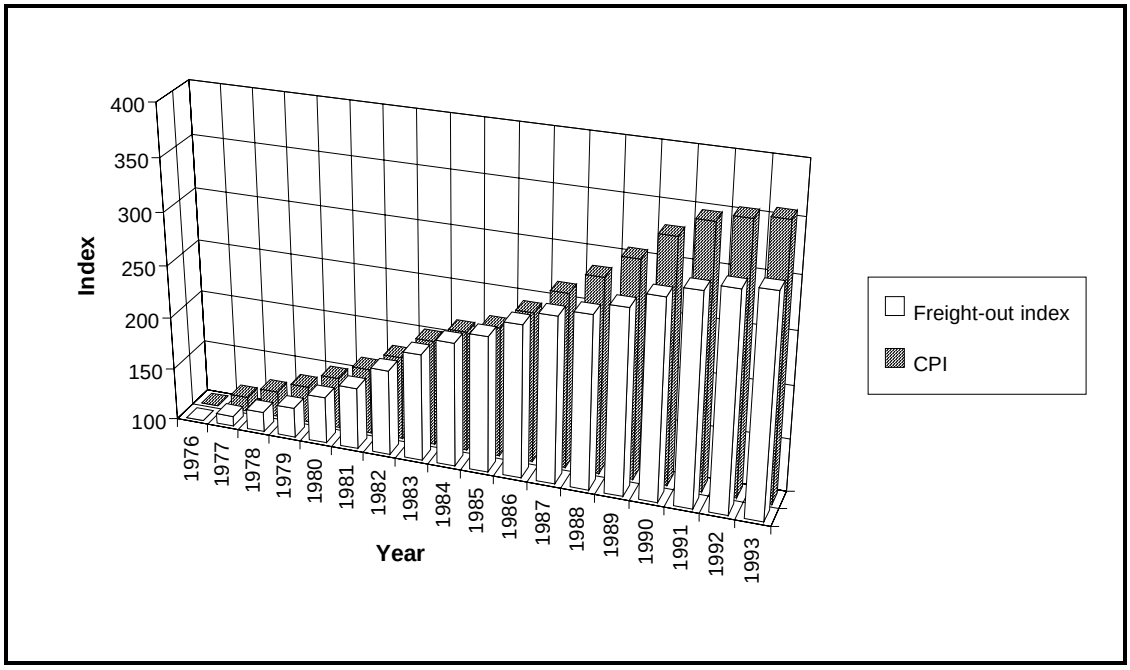
> Transport is relevant to all activities of a developed economy. It is a key link in the supply of goods and services to all members of society. (DOTAC 1993)

Clearly, the disadvantage of greater distances from suppliers or buyers (compared to many metropolitan firms) is a significant additional burden on industry in some non-metropolitan regions. Yet, costs that result merely from large distances should be regarded as a natural consequence of conducting business; no different to the costs that Australian exporting firms face in transporting products to distant overseas markets.

Moreover, anecdotal and empirical evidence suggests that, over time, the real costs of transportation services have been decreasing. This trend is illustrated in Figure 8.1. While it relates only to rail and road transport costs for Australia's agricultural sector, it demonstrates the real decline in transport costs that has occurred over recent years.

As transport costs decline, the adverse effects of greater distance from product and input markets also decline — allowing many remote regions previously handicapped by the 'tyranny of distance' to compete more easily with metropolitan areas.

Figure 8.1: **Movements in agricultural transport costs and the CPI**



Notes: This chart is illustrative only; it shows movements in the freight-out index calculated by ABARE, and changes in the CPI. The freight-out index incorporates both road and rail price changes for a basket of agricultural products. Both indices are re-weighted with 1975-76 as a base year (index value of 100).
Source: ABARE unpublished data.

Notwithstanding this relative decline in transport costs, inefficient pricing or unnecessary regulation of the transport sector can still hamper adjustment in many regions. Where transportation costs are unnecessarily high, regional industries which depend on transport for their raw materials, or for delivery of their final products to markets, will be adversely affected. More specifically, excessive transport costs may prevent the establishment of a new industry, reduce the capacity of an existing business to diversify into a transport intensive activity, and lead to a locational distribution of activities that differs from that which would otherwise prevail — possibly at some cost to efficiency and certainly at the cost of lost development opportunities for affected regions.

8.2.1 Road transport

Over recent years there has been noticeable progress in reforming road transport. For example, the establishment of the National Road Transport Commission (NRTC), charged with developing uniform road transport legislation covering registration, operational requirements and charges for heavy vehicles, is a positive step towards the reduction of anomalies and inefficiencies within the road transport sector. In May 1992, the NRTC was requested to

extend its work to include the development of uniform regulations for light vehicles.

Road transport pricing

Many participants referred the Commission to the level of taxes and charges faced by the road transport sector. Much of this attention focussed on the Commonwealth excise charges and State/Territory franchise fees levied on fuel used in road transport. Table 8.1 summarises the various fuel taxes and charges which are levied by Commonwealth, State and Territory governments.

Table 8.1: **Commonwealth petroleum excise and State fuel franchise fees** (cents per litre)

Jurisdiction	*Leaded petrol*	*Unleaded petrol*	*Diesel*
Commonwealth[a]	29.573	29.573	29.573
New South Wales[b]	7.04	7.04	7.08
Victoria	8.43	8.43	10.35
Queensland	0	0	0
South Australia[c]	9.11	9.11	10.23
Western Australia	5.67	5.67	7.45
Tasmania	6.15	6.15	6.11
Northern Territory	6.00	6.00	6.00
Australian Capital Territory	7.04	7.04	7.08

a Excise levels include the initial round of increases from the 1993-94 Budget; b New South Wales has nine franchise fee rates, with the lowest fees charged closest to the Queensland border to minimise the difference between retail prices across the State boundary; c South Australia has 3 franchise fee zones, the rate declining with the distance from Adelaide.

Notes: Rates shown are for metropolitan areas. The Commonwealth and some States offer exemptions for diesel used for off-road purposes.

Source: PSA 1993.

In relation to fuel taxation, the New South Wales Farmers' Association said:

> Australia, and in particular regional Australia, is adversely affected by increases in petroleum taxes. Fuel and transport are a relatively more significant cost for regional Australia because of the distance of many regions from metropolitan centres. (Sub. 129D, p. 2)

Likewise, the Western Australian Municipal Association remarked:

> In a State as big as Western Australia, transport and communications costs are a major impediment to regional industry adjustment. Distance and isolation carry with them a heavy burden of transport related taxation. (Sub. 25, p. 6)

Several participants also commented on recent fuel excise increases announced in the 1993 Commonwealth Budget. Participants were concerned that the adverse effects such an increase would have on remote locations and businesses were not considered in the decision to raise the Federal petroleum excise by up to 7 cents per litre (for leaded petrol).

Fuel taxation can have a disproportionate effect on remote locations and communities. Moreover, this may be exacerbated in circumstances where other government taxes and charges are levied on a base inclusive of transport-related taxation.

However, the adverse effects alone are not justification for the reduction or abolition of existing petroleum taxes and charges. In its inquiry into *Certain petroleum products — taxation measures*, the Industries Assistance Commission (IAC) identified three general objectives that could support taxation of petroleum products. These are:

- raising revenue for general purposes;
- user charging and cost recovery in respect of government provided transport infrastructure (principally roads) and providing funds for expenditure on this infrastructure; and
- pollution control and energy conservation (IAC 1986b).

It is appropriate that users of petroleum products cover associated costs such as road damage, congestion and lead pollution, in addition to meeting prescribed government aims with regard to the environment (for example, the conservation of limited petroleum resources or a reduction in atmospheric pollution from vehicle emissions). However, with respect to the revenue raising aspect, the IAC commented:

> ... in principle, revenue raising taxes should be concentrated on end consumption in preference to intermediate use. In the case of petroleum, this means that ideally all fuel used as an input to producing goods and services should be exempt from taxation. (IAC 1986b)

The Commission supports the view that intermediate goods used in the production process — such as fuel used for road transport purposes — should not be subject to taxation purely for the purpose of raising general revenue.

This raises the question of what proportion of existing fuel excises and franchise fees can be considered a charge (to cover costs relating to road use, congestion and environmental degradation), and what proportion should be considered revenue raising taxation. This issue is beyond the scope of the Commission's current inquiry, but has been examined recently by the NRTC.

The recommendations of the NRTC call for a road use charge to be set at 18 cents per litre of diesel fuel[1], combined with a uniform registration charge for each type of heavy vehicle. The uniform registration charge for each class of heavy vehicle has been based broadly on the average distance travelled and average gross mass of each vehicle class, and set at a level to ensure full cost recovery from each type of vehicle (as required by the *NRTC Act 1991*). These recommendations are set to be adopted in the Australian Capital Territory by July 1995, with an intergovernmental agreement specifying that other States pass complementary legislation by this date. Table 8.2 below outlines the estimated effect that the NRTC's pricing proposals would have on the annual registration charges of selected heavy vehicles in different States and Territories.

Table 8.2: **Average change in annual registration charges with NRTC proposals, selected combination vehicles** ($)

State / Territory	*Light 2 axle rigid truck*[b]	*Heavy 3 axle rigid truck*[c]	*3 axle rigid truck and trailer*	*6 axle articulated truck*	*8 axle B-double*[d]	*Double trailer road train*[d]
NRTC proposals[a]	**300**	**800**	**2 850**	**4 000**	**5 500**	**6 000**
New South Wales	-370	-1 050	-820	-1 870	-1 780	-3 370
Victoria	10	-450	90	1 600	2 880	na
Queensland	-180	-740	680	720	2 140	2 380
South Australia	-140	-170	1 240	1 020	2 210	2 410
Western Australia	-30	-570	200	1 120	1 830	1 770
Tasmania	60	260	1 810	2 780	na	na
Northern Territory	170	570	2 470	3 570	4 980	5 320
Australian Capital Territory	-870	-1 630	-1 340	-90	-350	na

a Values in this row refer to proposed actual registration charges after 1 July 1995.
b Light rigid 2 axle truck with gross vehicle mass of less than 12 tonnes.
c Heavy rigid 3 axle truck with gross vehicle mass of 16.5 tonnes or greater.
d Current registration charges exclude permit fees which range from nil to around $10 000 for B-doubles and nil to $1 200 for road trains.
na not applicable.
Source: NRTC 1992a, 1992b.

From Table 8.2 it is clear that the move to full cost recovery in the road transport sector will have varying impacts on individual States, Territories and regions — depending on the existing level of registration charges and the types

1 This road use charge is intended to be included within the current excise charge of 29.573 cents per litre, although there are no legislative requirements for this component of the diesel excise to be allocated to road funding.

of vehicles in operation. For example, B-double operators in New South Wales will face a reduction in vehicle registration charges when the NRTC pricing reforms are implemented, while operators of similar vehicles in the Northern Territory would face increases.

While the additional cost impost faced by the Northern Territory appears to be very large, the Bureau of Transport and Communications Economics (BTCE) estimates the NRTC recommendations will result in fairly modest changes in transport costs (see Table 8.3). Indeed, increases in heavy vehicle operating costs for most rural and remote areas would be less than 1 per cent, with other increases not more that 3 per cent (Senate Standing Committee on Transport, Communications and Infrastructure 1992).

Table 8.3: **Percentage impact of NRTC proposals on rural/remote area transport costs**

State/Territory	*Change in transport costs*[a]
	per cent
New South Wales	-1.3 to 0.0
Queensland	0.3 to 0.6
South Australia	0.2 to 0.7
Western Australia	0.7 to 1.1
Tasmania	1.4 to 2.5
Northern Territory	1.4 to 2.9

a based on representative heavy vehicle fleet from each State/Territory.
Notes: Information not provided for Victoria or the Australian Capital Territory.
Source: BTCE 1992.

While some regions, particularly in New South Wales, will benefit directly from reforms in heavy vehicle pricing practices, all regions benefit indirectly from improved road transport pricing. For example, while higher transportation costs will be immediately visible, the reforms will result in more efficient use of resources and a reduction in pressures on other sectors of the economy to cover costs not previously met by road usage charges.

Efficiency in road usage requires a close relationship between the charges applied to each user and the road damage costs that they impose. Although the NRTC pricing reforms are designed to achieve cost recovery for each *class* of heavy vehicle, it is not necessarily assured for each individual heavy vehicle. Annual charges are unable fully to reflect variations in costs that arise from differences in distances travelled and tonnages carried. The Commonwealth has accepted that the introduction of a mass-distance component to road transport pricing is essential for furthering efficiency and equity goals (IC 1992d, 1993a).

The reforms of the NRTC, nevertheless, represent a positive step towards a more efficient system of road transport pricing.

Many participants also commented in submissions and during the Commission's round of regional visits that poor quality roads increased both transport time and packaging costs for their region's exports, effectively increasing overall transport costs.[2] For example, the New South Wales Farmers' Association submitted that:

> A major impediment to regional adjustment in central New South Wales is the poor quality of the Great Western Highway between Bathurst and Sydney. The poor road quality not only adds to the increased cost of transport via increased fuel consumption and time taken but restricts the types of vehicles that are able to use this route. An example of this is that 'B-double' rigs which are efficient and reduce the frequency of travel required because of their increased pay load, are unable to travel this route. (Sub. 59, p. 7)

By improving cost recovery practices for road transport it might be expected that road funding, and therefore road conditions, would improve — providing many regions with lower cost road transport services. However, several participants expressed concern that road user charges are not reflected in expenditure on road infrastructure. For example, the Government of Victoria expressed concern that:

> ... improved cost recovery does not improve road funding given the lack of nexus between road charges, revenue and funding. (Sub. 134D, p. 3)

Similarly, the Western Australian Municipal Association submitted that:

> Despite the high taxation on road transport, only a small proportion of the taxes raised are being applied to roads. For example, in 1992-93, when Federal road allocations were at their highest as a result of the One Nation program, the amount of Commonwealth fuel excise returned to roads was only 30 per cent — for Western Australia only 22.5 per cent. (Sub. 25, p. 7)

Taxation of fuel used for 'off road' purposes also was of concern to participants. A submission by ACIL expressed concern at the impact of the increase in fuel oil excise on the operations of Nabalco, a company managing a bauxite mining and alumina refining operation at Gove in the Northern Territory. ACIL submitted that it is:

> ... anomalous that much "off road" usage of fuels — but not fuel oil — is exempted from excise or entitled to rebates. (Sub. 137D, p. i)

ACIL were concerned both about the magnitude of the increase (some 54 per cent above the previous excise), and about the effects it would have, not just on

[2] Due to the need to protect stock from damage during transit on poor quality roads, costs of packaging may increase.

the operations of Nabalco, but on the ability of Australia to compete successfully for internationally mobile capital to finance local developments:

> The impost cannot help but confirm the heightened sovereign risk of investing in mining and minerals processing in Australia. (Sub. 137D, p. i)

This lends support to the Commission's view that revenue raising taxation should not focus on petroleum (and other) products used as intermediate goods in the production process.

Issues relating to the taxation of petroleum products — including the link between excise and franchise fee revenue and road infrastructure spending — will be dealt with in more detail in the Commission's current inquiry into the Australian petroleum industry.

Regulation of road transport

In addition to reforming road transport pricing, the NRTC is also working towards a system of nationally uniform regulations for heavy road transport. Several participants referred the Commission to remaining State regulation of road transport, remarking that these regulations often increased the costs of transport services, with few obvious benefits to their region as a whole.

- Sections 188-89 of the Victorian Transport Act prohibit the carriage by road of petroleum products to the centres of Mildura, Horsham, Wodonga, Shepparton and Swan Hill. This effectively gives rail transport a monopoly on fuel haulage. Permits exempting road freight operators are available; yet they are only valid for one year and require the approval of the Roads Corporation and the Transport Minister (as well as the payment of a prescribed fee). One inquiry participant in Victoria remarked that he had applied for a permit but was turned down as the Public Transport Corporation claimed there were adequate rail facilities. The Victorian Government has announced a review will be held into these regulations.
- Tasmanian participants pointed to regulations preventing the use of B-double vehicles in their State. During a Commission visit to Huonville, participants said that additional costs attributable to this legislation effectively added around 40 cents to each carton of apples shipped.
- The New South Wales Farmers' Association pointed to inappropriate environmental regulations adding to the costs of transport for many regional areas. They commented:

  > Environmental taxes and regulations impact inequitably on non-urban regions and a recent example of this is the proposed 2 cents per litre additional excise on leaded fuel. Lead pollution of the atmosphere from car emissions is an urban problem, however non-urban dwellers are going to be discriminated against with the introduction of this measure. (Sub. 129D, p. 1)

Road transport regulations are in place to meet important objectives: for example, enhanced safety may result from prohibiting the carriage of fuel transport by road in Victoria. However, technological advances, road quality improvements and other factors may lead to existing regulations no longer achieving their original goal, or doing so at excessive cost. It is therefore important that existing transport regulations be subject to periodic review.

8.2.2 Rail

At present, Australia's railways account for approximately half the freight-tonne kilometres carried by land transport each year (DOTAC 1993). Consequently, rail services are an important freight link for many regions. Rail is also an important mode of interstate and intrastate passenger travel.

The most significant recent development was the incorporation in 1991 of the National Rail Corporation (NRC), which is charged with operating all Australian interstate freight operations on a commercial basis. This is expected to benefit many regions. For instance, the Victorian Government submitted:

> The operation of the NRC is expected to lead to lower freight prices on the major routes as efficiencies of national operation and world best work and management practices come into effect. (Sub. 89, p. 22)

While there has been substantial progress in reforming other parts of Australia's rail network — for example, Australia is now served for the first time by a standard gauge railway line which includes links to major sea ports — there is evidence to suggest that further reform is warranted. For example, DOTAC believes that:

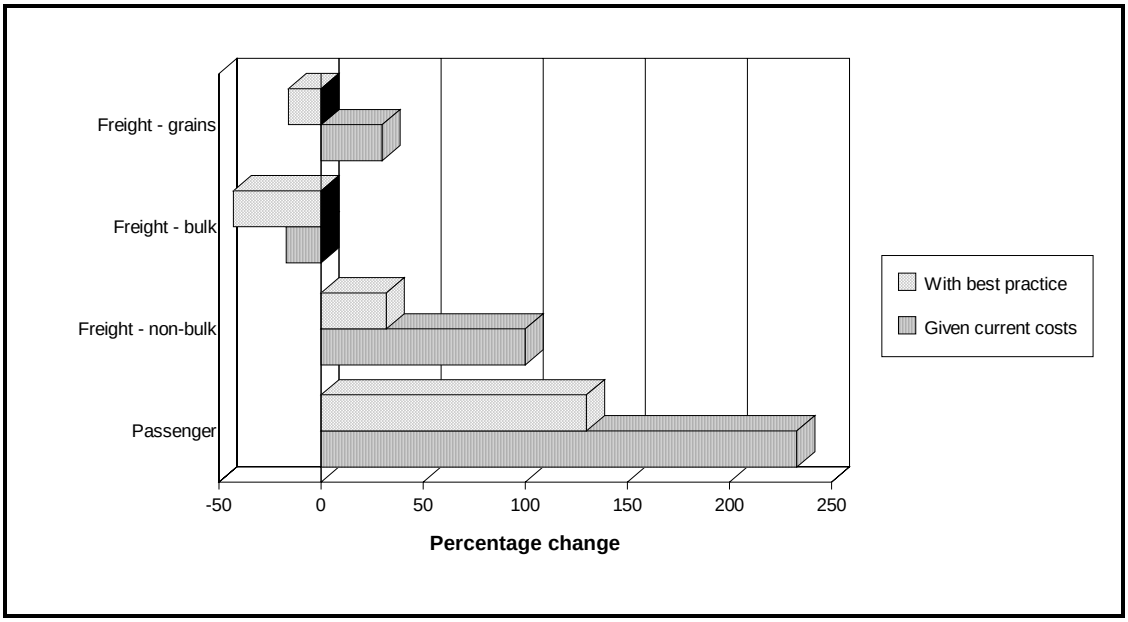
> There is ample evidence to suggest that rail may be performing some functions better suited to other modes and that many railways are inefficiently operated and priced. This is reflected in their [the railways] large financial losses. (DOTAC 1993)

These losses often represent substantial costs which must be obtained from other areas of the economy — in turn placing additional constraints on the adjustment of many regions.

Figure 8.2 below summarises the extent to which rail prices would be required to change in order to achieve full cost recovery. The figure details how rail systems in Australia have effectively exploited their monopoly carriage rights and over-charged coal and mineral freight services to cross-subsidise other services. These other services are under-priced to the extent that they require subsidisation from respective governments in addition to the cross-subsidisation from other forms of rail carriage. Importantly, the figure highlights that if best practice productivity levels are achieved, the magnitude of price increases required for non-bulk freight and passenger traffic to reach full cost recovery

would be significantly reduced. As expected, charges for bulk freight should even fall, as could charges for grain freight (BCA 1992).

Figure 8.2: **Price changes required for rail to achieve full cost recovery**



Notes: The changes depicted in the chart are first round or initial changes only. Changing the price of rail services will induce demand responses requiring further price adjustments to maintain full cost recovery.
Source: IC 1991c

Even though some regions may face increased rail freight costs from pricing reforms in the rail sector, the Commission has previously estimated that by failing to undertake this reform, Australia as a whole would forgo approximately $5 billion per year in potential efficiency gains (IC 1991c).

Railways must continue to concentrate on the types of traffic well suited to them, increasingly target investment at projects likely to yield a commercial return and further the process of exposing railway authorities to commercial pressures. For example, rail is generally acknowledged to be the most efficient mode of transport for long-distance bulk freight haulage, and for peak hour commuter transport. If Australian railways are free to concentrate on the activities in which they perform best the gains to many regions in the form of lower freight costs would be substantial.

At present, some types of freight are effectively reserved for rail transport (for example, the carriage of fuel by road in some areas of Victoria is prohibited, see Section 8.2.1). The Commission received submissions arguing that existing

monopoly carriage rights given to rail transport for some commodities should be reviewed and, where appropriate, removed. For instance, the Queensland Confederation of Industry remarked:

> ... State government policies that reserve the right of carriage of certain commodities by rail should be evaluated in order to remove inefficiencies that exist in the State railways. (Sub. 166D, p. 3)

For some regions, the process of discontinuing lines which are not commercially viable may lead to the closure of the local rail link. The Commission has previously reported that if local communities are willing to contribute an amount sufficient to make their rail link viable, then the service should be maintained (IC 1991c). Alternatively, the Department of Transport and Communications has proposed that:

> ... funding for rail services that are not commercially viable and are retained primarily on the basis of social or regional considerations should be clearly identified and funded so that their provision and costs are transparent and do not become a charge borne by other rail users. (DOTAC 1993)

The Commission supports the Department of Transport and Communications' proposals.

8.2.3 Coastal shipping

Coastal shipping in Australia accounted for approximately 44 million tonnes of cargo in 1990-91, or the equivalent of around 94 billion tonne-kilometres (DOTAC 1992). This represents about half of Australia's non-urban annual freight, and a larger slice of domestic haulage (that is, weight by distance) than that held by either road or rail transport. Many coastal regions distant from major cities rely heavily on coastal shipping and would benefit from reduced domestic sea transportation costs.

At present, Australia restricts foreign vessels from competing with Australian shipping in the area of coastal freight carriage. This policy, known as 'cabotage', is aimed at protecting Australian shipping operators and seamen from overseas competition. Under some conditions, foreign vessels may obtain single or continuing voyage permits allowing them to carry cargo between Australian domestic ports; however, these permits represent only a fraction of the tonnage transported by coastal shipping (see Box 8.1).

Box 8.1: **Government regulation of the coastal shipping industry**

Commonwealth regulation of coastal shipping relates predominantly to the interstate coastal trade, with individual States and Territories responsible for regulating coastal shipping within their jurisdictions. Interstate coastal shipping trade is not completely reserved for Australian shippers; however, there are several conditions that international shipping operators must comply with before permission to carry interstate freight is granted.

To compete in Australia's coastal shipping market, foreign shippers must obtain a licence. The conditions of the licence state that a foreign vessel must employ seamen at Australian wage rates and must not be in the receipt of foreign government subsidies. Once licensed, foreign ships must also comply with other conditions of the *Navigation Act 1912* relating, for example, to safety standards and minimum crewing and accommodation standards. The prescribed safety conditions correspond generally to international standards. In 1991-92, 86 ships operated with licences to engage in Australia's coastal shipping trade.

Unlicensed foreign vessels may be granted Single Voyage Permits (SVPs) or Continuing Voyage Permits (CVPs), provided:

- there is no licensed ship available to perform the service, or the service carried out by a licensed ship (or ships) would be inadequate to meet the needs of a port or ports; and
- the Minister for Transport and Communications is satisfied that it is in the public interest for an unlicensed ship to operate that particular service.

The guidelines for determining what is in the public interest are basically concerned with questions of contractual obligations, and whether substantial commercial disruption would occur if transit by coastal shipping were to be prevented. The cost differentials between available Australian and international vessels is not considered.

While the number of SVPs issued to foreign vessels has been increasing in recent years (from 88 in 1989-90 to 307 in 1992-93), the proportion of coastal freight tonnage accounted for by SVPs still remains small (approximately 2 per cent in 1992-93 compared to approximately 2.2 per cent in 1989-90).

CVPs are designed to accommodate coastal freight where there is a lack of suitably licensed vessels for extended periods. They are issued for a period of 6 months, although upon expiration the holder may apply for the CVP to be re-issued (permits for continuous trading will be issued for a period of no longer than 3 years). After being reintroduced in March 1990, no CVPs had been issued up to the end of 1992-93.

Source: IC 1988b, DOTAC 1990, 1992; IC 1993a.

The IAC addressed concerns regarding unnecessarily high domestic sea transportation costs in its inquiry into Coastal Shipping (IAC 1988b). The report stated:

> Inefficiencies which currently characterise the industry have developed in an environment which imposes little discipline on costs, fails to reward better performance and stifles initiative.
>
> The major factors accounting for this outcome are the effective exclusion of competition from foreign-flag vessels under the Navigation Act, combined with a number of other regulatory and institutional factors at sea and on-shore ... (IAC 1988b)

During the current inquiry, the detrimental effects of Australia's cabotage policies were noted by the Northern Territory Government:

> The current system of providing single voyage permits to foreign owned vessels, thereby restricting their operation on the coast, constitutes a major impediment to transport efficiency. It has, in effect, eliminated all coastal shipping between Darwin and the eastern seaboard and curtailed trade with the western seaboard. Transport costs to and from the Territory are higher as a result and have adverse effects on industry location in the region. Further shipping reform is essential. (Sub. 87, p. 8)

Moreover, in its submission subsequent to the Commission's draft report, the Northern Territory Government remarked:

> Cabotage policy has not ensured Northern Territory access to a regular and guaranteed coastal shipping service linking the eastern and western seaboards. There has been no eastern service since the withdrawal of ANL's 'Townsville Trader' almost ten years ago. Although there is presently a west coast service operated by Stateships of Western Australia, the future of this operation is also in doubt.
>
> The unavailability of the sea transport option has acted as a brake on industrial expansion and economic development in the Northern Territory. (Sub. 156D, p. 1)

The Department of Transport and Communications addressed the Northern Territory's situation in its submission following the Commission's draft report (Sub. 162D, pp. 3-4). The Department suggested that the lack of a coastal shipping service reflected the low levels of freight to and from Darwin and, further, questioned the impact that the absence of a coastal shipping service could have on the region's development. Whether the low level of observed coastal shipping trade is, in part, due to the restrictions imposed by the Commonwealth's cabotage policy is not clear.

Other participants also voiced concerns with the current cabotage policies, proposing that the solution rested with the removal of such anti-competitive regulations. For example, the Government of Victoria submitted:

> Discontinuation of the anti-competitive cabotage policy has merit and could assist in improving the efficiency and market potential of coastal shipping services. (Sub. 134D, p. 6)

Similarly, the Government of Tasmania commented:

> The Industry Commission should place far greater emphasis in its final report on the impediments to regional adjustment and development created by the existing policy of cabotage for coastal shipping.
>
> The Commonwealth's coastal shipping policy effectively increases the costs for all users of coastal shipping services, resulting in services that are very expensive relative to international standards. These additional costs directly impact on the ability of Tasmanian industry to be competitive in international markets. (Sub. 159D, p. 5)

However, several participants were not convinced that removing cabotage was the solution to problems in Australia's coastal shipping industry. The Northern Territory Government, for instance, subsequently qualified its statements regarding cabotage and the lack of adequate shipping services to and from Darwin with queries as to whether the complete removal of cabotage was an appropriate solution. The government acknowledged the need for further reform in the coastal shipping industry, yet raised particular concerns over the use of unsafe foreign vessels with substandard crewing conditions and poor environmental records (Sub. 156D).

The enforcement of appropriate safety or operating standards can be dealt with separately from the issues of competition policy. In fact, a recent publication, entitled *Ships of Shame*, by the House of Representatives Standing Committee on Transport, Communications and Infrastructure, contained several strategies for ensuring that foreign flag vessels operating in Australian waters comply with existing environmental standards and other appropriate regulations. For example, the Committee proposed that a comprehensive ship information database be established by the Australian Maritime Safety Authority to allow easier identification of higher risk vessels, and that all ships entering Australian ports provide proof of adequate protection and indemnity insurance (House of Representatives Standing Committee on Transport, Communications and Infrastructure 1992).

The World Bank also has recently published a major report dealing with the international shipping industry. The report predominantly was concerned with issues such as the increasing age of the world shipping fleet and the growing trend for ships to register in 'flag of convenience' nations so as to take advantage of more lenient enforcement of safety standards, and in some instances, taxation or other government incentives. However, the report also commented on the pervasiveness of government regulation of international and domestic shipping:

> Many governments maintain policies which are aimed at protecting their national fleets. This situation applies to industrialised and developing countries alike. Cargo reservations for national flag carriers are the most pervasive regulatory instrument.

> Thus national carriers are shielded against competitive pressures in the international ocean transport market. As a result, their performance is usually far below comparable indicators which are characteristic of the international carriers — and the cost of their services are higher. In the process, domestic importers and exporters receive lower quality of service and are faced with higher than necessary freight rates. All of this would not be necessary in view of the large international fleet that competes and operates without regulatory constraints. But the ill guided concern about avoidable losses in invisible trade keeps a large number of governments from accepting the fact that buying shipping services in the international market would be a most beneficial decision, and in the best interests of national trade. (World Bank 1993)

Costs of coastal shipping may also be adversely affected by inefficient domestic port operations. The Commission addressed problems with domestic port operations in its recent inquiry into Port Authority Services and Activities (IC 1993d). The report recommended that port authorities be subjected to greater competitive pressures and other reforms that would benefit many regions dependent on port activities.

It is important to note that progress in microeconomic reform of Australia's waterfront and ports has brought tangible benefits to the users of these services. For example, the Waterfront Industry Reform Authority claims that reform has led to a doubling in labour productivity, reductions in stevedoring charges by between 20 and 25 per cent, and positive changes to many other areas — all of which will work towards reducing the costs of coastal shipping transport to regions.

Reforms also have been accomplished in the coastal shipping sector itself, with average crew levels decreasing from 34 in the early 1980s to about 21 in February 1993 (IC 1993a). Plans for further crewing reductions and improvements in employment practices are contained within the Commonwealth's latest coastal shipping reform package. The PSA will continue to monitor coastal shipping rates until mid-1996 to ensure that reform benefits flow through to users.

Several inquiry participants acknowledged the progress made to date in reforming these sectors, while commenting that scope exists for further improvement. For instance, the Pilbara Development Corporation (PDC) said:

> Although reforms are underway, they are far from complete and progress is slow. (Sub. 65, p. 11)

Aside from the direct benefits that lower coastal shipping costs would provide to regions dependent on this form of transport, reductions in coastal shipping costs would place indirect pressure on other modes of transport to improve their service quality and lower costs. The PDC noted these benefits of intermodal competition, saying that:

> Eliminating the coastal shipping inefficiencies will indirectly help processing in the Pilbara by lowering the cost structure of the economy and by increasing the competitive pressures on road transport services to the region, reducing the costs of inputs. (Sub. 65, p. 11)

The Commission considers that increased exposure of coastal shipping to international competition would bring benefits to many regions. Restrictions on competition should not be used as a means of regulating safety or environmental standards — such objectives should be addressed directly.

8.2.4 Domestic air transport

In October 1990, the Commonwealth effectively ended its formal regulation of the interstate aviation market. Despite the failure of the third major domestic carrier — Compass — the benefits from interstate deregulation remain. Both Ansett and QANTAS have increased the frequency of flight schedules, the number of non-stop services, cabin services and customer services have improved, and aviation safety has been maintained (IC 1992d). Additionally, the Prices Surveillance Authority reported that in the June quarter 1993, average fares were 4.9 per cent lower than in the June quarter the previous year, and 23.3 per cent lower than they were just prior to deregulation (PSA 1993).

While the interstate aviation market has been deregulated, there remains an extensive system of regulatory controls over intrastate aviation — particularly in Tasmania, but also in New South Wales, Queensland and Western Australia. These regulations were regarded by some participants as significant impediments to adjustment and development in their region.

For example, the Municipality of King Island in Tasmania submitted that one barrier to development for King Island was the:

> Regulated intrastate air service within Tasmania in a nationally deregulated market. (Sub. 46, p. 1)

At the Commission's draft report hearings, the president of the King Island Enterprise Development Committee observed that the majority of the island's population supported deregulation of intrastate aviation (Transcript, p. 431).

Likewise, the Chamber of Mines and Energy of Western Australia submitted that:

> Western Australian airfares are still unjustifiably high. Impediments to the entry of new carriers (apart from safety regulations) must be removed. (Sub. 121D, p. 3)

The Government of Queensland also referred to regulation of air services in their submission to this inquiry. Major trunk routes in Queensland were deregulated in May 1987, with remaining regulation relating mostly to 'thin' routes in the western and northern areas of the State. The Government of Queensland submitted that since partial deregulation of the State's aviation market:

> ... airlines provided then as now regular passenger services to most Queensland cities, particularly those on the coastal belt. (Sub. 92, p. 52)

Some participants have proposed that the deregulation of intrastate aviation would force the discontinuation of their local air service, adversely affecting the capacity of the region to adjust or develop. However, the Commission believes that both Australian and overseas experience tends to suggest that 'thin' routes are likely to be continued, though usually with smaller craft on a more frequent timetable — a change many would view as a service improvement.

For those regions where an air service is unlikely in the absence of regulation, and that service is judged to represent some form of community service obligation, then the service should be maintained via a direct government subsidy. Indeed, this is the case in Queensland where the State government, through the Queensland Department of Transport, provides subsidised services to towns they believe would otherwise not receive regular passenger air services (Sub. 92, p. 53).

In its recent report into Intrastate Aviation, the Commission found that the benefits of removing regulation of intrastate aviation would far outweigh the costs that deregulation may impose on some areas of the community. That report recommended that all remaining economic regulation of intrastate aviation be dismantled — with Commonwealth regulation of safety standards to remain intact (IC 1992b). For this inquiry, the Commission believes that the regional implications of intrastate aviation deregulation do not constitute an argument against further removal of government intervention. Indeed, for many regions, regulatory controls act as an impediment to adjustment, lifting the costs of air transport above those that would result from a competitive market, and constraining service delivery.

8.3 Telecommunications

Telecommunications is another area of the services sector which has undergone substantial change in recent periods. Notably, the previous monopoly held by

Telecom was removed, and a second carrier, Optus, has commenced operations. The telecommunications duopoly is due to end on 30 June 1997, when the market will be opened to competition.

At present, Optus competes only on the domestic long distance and international services markets, with the 'network rollout' conditions specifying that they must make available these services to at least 65 per cent of Australia's total population by the end of 1993. Optus also has been issued with the second licence to provide mobile telephone services, with a third licence awarded to Vodafone. The issue of further mobile licences will be considered in 1995.

The Commission often heard that telecommunications was one method by which many remote regions could overcome the disadvantages of geographic isolation. For example, despite large physical distances, the development of facsimile machines, video conferencing and links between computer networks allows for complex communications and information intensive activities to be located in remote areas. Along these lines, the Brisbane Insight Group advised the Commission to:

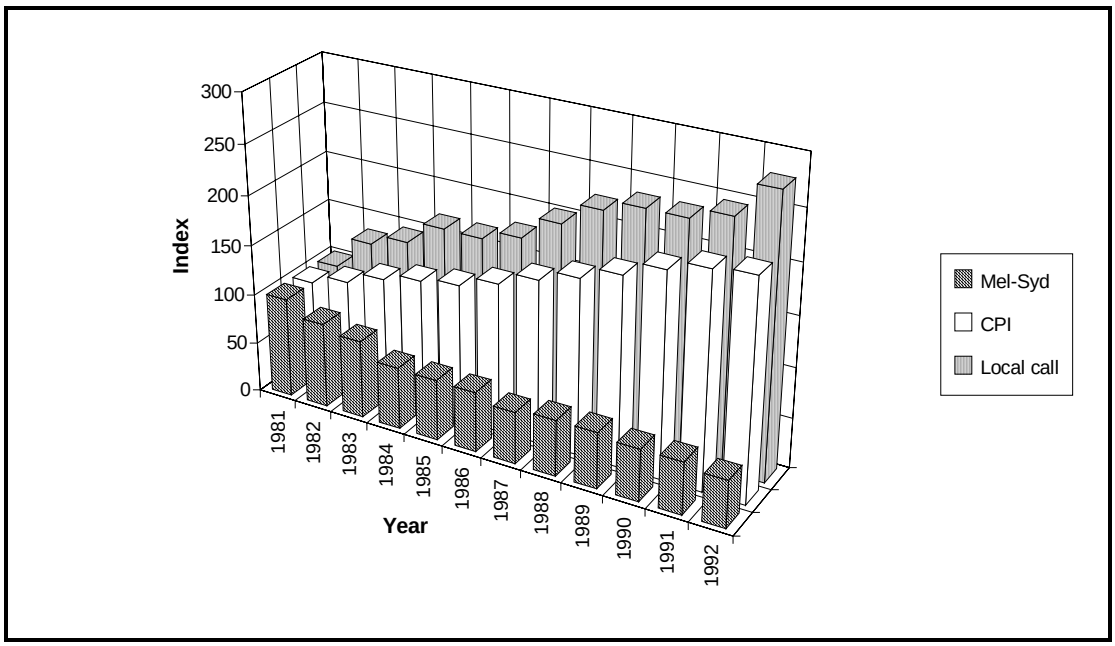
> ... recognise the potential which the telecommunication[s] revolution provides for remote areas to participate in mainstream economic activities. (Sub. 57, p. 4)

Technological advancements and continued competitive pressures on the telecommunications sector should continue to bring many non-metropolitan regions up to the same level of telecommunications services that most metropolitan regions enjoy. The New South Wales Country Mayors' Association recognised this trend, stating:

> Telecommunications advances in terms of technology and deregulation will allow remote, rural and regional centres in country NSW to compete more effectively nationally and internationally for business. It will mean new markets can be accessed, back-up city operations and others can be relocated and country business will be less disadvantaged over metropolitan areas in price structure. ... The challenge is to educate rural towns and regional centre populations in the use of telecommunications — particularly to improve their business performance and open up new markets. (Kinhill 1993)

Technological developments have been the principal cause of the observed trend of declining real costs to users of long distance telecommunications (see Figure 8.3). The figure plots the price of long distance telecommunications relative to the consumer price index and the cost of local telephone calls. The reductions illustrated, while based on the costs of calls between metropolitan Sydney and Melbourne, are still indicative of the declines in general long distance telecommunications costs across Australia. Competition will help ensure that these trends continue.

Figure 8.3: **Real decline in the price of (selected) long distance calls relative to local call charges**



Notes: Mel-Syd refers to the average price of calls between Melbourne and Sydney.
Source: Australian Telecommunications Authority, unpublished data.

However, telecommunications can still represent a significant cost impost for many non-metropolitan firms, even with improvements in technology and competitive pricing regimes. For example, the State Data Centre commented that its computer, telephone and facsimile costs had increased by a substantial proportion since their shift from Melbourne to Ballarat — indicating that the cost of telecommunications is still one area in which some non-metropolitan regions are naturally disadvantaged compared to metropolitan areas.

Frequently, this competitive disadvantage stems from capital city businesses having access to untimed local calls within the metropolitan region. In contrast, many non-metropolitan firms are required to pay for timed telephone calls when communicating with most of their contacts.

8.4 Access to financial capital

Financial capital refers loosely to the funds firms use to invest in new plant and machinery, inventories, research and development and many other projects or physical commodities.

The influence of financial capital on adjustment revolves around two issues: the availability of capital in general, and the allocation of available capital between specific activities or regions. Access to capital in general and its allocation to small business was dealt with in the Commission's Availability of Capital inquiry (IC 1991e). However, the availability of capital to enterprises in country regions was seen by many participants as an issue pertinent to this inquiry.

Investment funds would appear readily transferable between both regions and activities. However, several inquiry participants believed that banks and other financial institutions were somehow biased against lending to non-metropolitan ventures. For example, the Northern Rivers Regional Development Board submitted that:

> It seems that traditional capital providers are risk averse and although the region possesses many competitively advantaged business opportunities, the lenders appear to favour metropolitan areas ... (Sub. 47, p. 14)

Several regions contended that this has led to surplus savings from country areas being channelled off to fund metropolitan business opportunities. For example, the Riverina Regional Development Board said that:

> Under present savings patterns most local savings placed with institutions are invested outside the region. (Sub. 75, attachment p. 13)

Moreover, several participants argued that this situation was exacerbated by compulsory superannuation. For instance, the Government of South Australia submitted:

> The superannuation guarantee charge presents a problem for non-metropolitan regions within South Australia, in that in most cases, it represents a net outflow of funds from the regions. (Sub. 152D, p. 4)

Likewise, the Fleurieu Regional Development Corporation referred to the superannuation guarantee levy as a drain on non-metropolitan regional capital reserves (Sub. 102D, p. 1).

A further factor limiting the availability of capital for some country regions may be the lower asset values associated with such areas. These lower values limit the amount of collateral some country industries have to offer as loan security. This issue was noted by the New South Wales Government:

> This immediately puts country-based businesses at a disadvantage since their land is generally of a lower value than that of equivalent sites in the metropolitan area. Hence, the low cost of land which is often the very feature which often makes a country location most attractive also serves to make a business proposal ineligible for the finance it requires. (Sub. 75, p. 4)

Banks traditionally are conservative in their lending practices, lending predominantly to low risk ventures. Further, they have a well known preference for collateral assets as loan security. Yet, as the cornerstone of the financial market, banks contribute to general economic stability, playing a central role in the maintenance of confidence surrounding the entire financial system.

To counter the perceived bias on the part of traditional financial institutions, some participants suggested the establishment of alternative savings depositories geared towards investing in local business opportunities. These institutions are similar to the Regional Development Funds proposed by the organisation 'Strategies for Growth and Change' (see Box 8.2).

Box 8.2: **Regional Development Funds**

Regional Development Funds (RDFs) gather savings from local households and businesses by selling shares representing part ownership in the RDF itself. The RDF then invests these savings in regional enterprises, making it (and its shareholders) part-owners of these firms. In this way, the RDF offers regional companies and residents a savings alternative which will support the capital needs of regional firms.

At present there are approximately 16 RDFs proposed for Victoria, South Australia and Western Australia, with each hopeful of managing a capital base of between $100 000 and $10 million. The return on these funds will be in the form of a dividend, essentially similar to returns paid on equity investments.

The extent to which these RDFs are able to alleviate the capital deficiencies of their regions will obviously vary. Clearly it will depend on the scale of funds available, as well as the criteria on which they base their investment decisions. Ultimately, as long as they are managed prudently they could help the adjustment process of regions.

Some participants proposed that governments should become more involved in the provision of finance for non-metropolitan business ventures. Indeed the New South Wales Country Mayors' Association has suggested that:

> ... significantly more direction is required by government to free up private sector and infrastructure capital for investment in value added processing of country produce. (Kinhill 1993)

Similarly, the Government of South Australia commented:

> Merit is therefore seen in a mechanism which would mandate or encourage the investment of a proportion of the [superannuation] levy in regional projects. (Sub. 152D, p. 4)

The Commission believes it is unlikely that financial institutions — including superannuation funds — would intentionally forgo profitable lending opportunities. Apart from questions about the relative risk/reward ratio for activities in non-metropolitan regions, observed lending patterns may reflect underlying information asymmetries, where officers in charge of assessing loan applications or investment opportunities know relatively little about regions distant from their office. Indeed, this situation may have been exacerbated by the rationalisation of bank branch networks since the deregulation of the financial system in 1985. Alternatively, banks may be reacting strongly to their poor lending performance in the late 1980s by increasing the stringency of their lending criteria.

The Commission does not consider that obliging financial institutions (including superannuation funds) to invest in certain activities or regions would necessarily promote efficiency. Moreover, to the extent that such changes impacted on financial returns, they would have adverse implications for shareholders and superannuation fund members.

8.5 Fringe benefits taxation and income tax zone rebates

8.5.1 Fringe benefits tax and remote areas

Fringe benefits tax (FBT) is paid by employers for non-wage/salary benefits provided to an employee. It covers items such as company cars that are available for private use, free or low interest loans, below cost housing and other discount purchases available to employees.

Previous attempts by the Australian Tax Office to treat some employer provided fringe benefits as income to their recipients had met substantial resistance — especially in the case of housing benefits provided to workers in remote areas. The increasingly widespread incidence of fringe benefits being substituted for (increased) cash remuneration led to the proposal that they be discouraged, or at least treated more equitably, through the imposition of a tax on employers who provide them. The *Fringe Benefits Assessment Act* came into effect on 1 July 1986 and was initially applied at a rate of 46 per cent. Since April 1992, FBT has been levied at a rate of 48.25 per cent. Legislated changes to the method of assessing FBT liability, to apply from April 1994, are outlined in Box 8.3.

Box 8.3: **Changes to the method of FBT assessment**

The *Taxation Laws Amendment (Fringe Benefits Tax measures) Act 1992* changes the method by which the value base for FBT is calculated. From April 1994, FBT will be levied on the FBT inclusive value of the fringe benefit, or the 'grossed up' amount. FBT payments will then be deductible to the employer for income tax purposes. This recognises that the wage/salary equivalent of fringe benefits to those receiving them is the value of the benefit *plus* the tax they would have paid if the benefit was received in cash.

The impact this change will have on organisations presently paying FBT will depend on whether they currently are exempt from paying other forms of tax.

For companies paying the corporate tax rate of 33 per cent, the Commission has estimated that the changes to FBT assessment will increase the companies FBT liability by approximately 12 per cent.

However, the legislative changes will have a greater effect on non-tax paying organisations. As these organisations do not pay income tax, they cannot deduct the cost of FBT from income tax liabilities The Commission has estimated that the FBT liabilities of these organisations will increase by approximately 30 per cent. Some concessions have been granted to certain non-government and non-profit organisations in recognition of this greater impact on them.

FBT impacts particularly heavily on activities, and in regions, where non-cash remuneration is a common method of compensating workers. In particular, the introduction of FBT has had a significant effect on the Australian mining industry and regions where mining is a significant contributor to local economic activity — although in remote regions they receive concessional tax treatment for a range of fringe benefits provided (see later). Submissions to a previous Commission inquiry (IC 1991a) suggested that in the mining industry most of the tax is payable on housing services provided to workers at below cost.

The mining industry (and other remote area industries or organisations) contends that the additional benefits provided to employees in remote regions are necessary to attract and retain an adequate labour force. For example, the Port Hedland Town Council remarked that:

> ... remote areas must provide additional benefits by the way of housing, power subsidies and travel assistance to attract staff to these remote regions. (Sub. 16, p. 2)

More importantly, as some benefits provided by mining companies to their employees are actually provided free of charge in most metropolitan areas (for example, primary and secondary schooling and specialised health care facilities), many remote regions argue that companies are being taxed for

providing services which metropolitan residents receive *gratis*. To tax the provider of these benefits is seen as inequitable.

In relation to these arguments, some inquiry participants have recommended the removal of FBT from remote area operations. For example, the Government of Western Australian submitted that an option to alleviate the disparities mentioned above would be the:

> ... granting [of] exemptions from fringe benefits tax for businesses which operate in remote areas ... (Sub. 69, p. 19)

However, exempting companies operating in remote areas from FBT would discriminate against those employers relying on cash-only remuneration for their employees. Therefore, within the framework of retaining a tax on employer-provided fringe benefits, the Commonwealth Government has implemented other measures which implicitly acknowledge the special circumstances faced by companies operating in remote areas.

The Commonwealth Government recognises remote regions as those centres more than 40 kilometres from a city or town with a population of 14 000 or more, and at least 100 kilometres from a city with a population of 130 000 or more. Areas within zone A or B (see income tax zone rebates table below) are classified as remote if they are at least 40 kilometres distant from a centre of 28 000 people, while the Christmas Islands and the Cocos (Keeling) Islands are specifically classed as remote (CCH 1993).

Employers in remote regions may apply concessional valuation rules to some of the benefits they provide for their employees. These valuation rules apply to employer-provided:

- housing assistance — the value of the benefit on which the employer's FBT liability is calculated is reduced by approximately 50 per cent;
- fuel benefits — liability for petrol, diesel, electricity, gas or other residential fuel benefits is reduced by 50 per cent;
- holiday travel benefits — liability reduced by 50 per cent;
- fly-in, fly-out arrangements — where the distance commuted is unreasonably long to expect the employee to travel on a daily basis, travel benefits are FBT exempt; and
- if an employee is forced to sell a home to the employer under a buy-back arrangement, and this disposal occurs at a loss to the employee, then up to 50 per cent of this loss can be deducted from the employer's FBT liability.

While set at an arbitrary level of approximately 50 per cent for selected employer provided benefits, these concessions recognise the greater role played by non-cash remuneration in remote regions.

Moreover, residents of remote regions may also receive income tax zone rebates, made up of a basic amount plus a percentage of the relevant tax rebate amount (see Table 8.4 notes). Two zones are recognised, with additional 'special areas' designated for taxpayers residing in particularly isolated locations. Table 8.4 outlines the amounts available under the zone rebates scheme.

Table 8.4: **Income tax zone rebates, 1992-93**

Zone	*Basic amount*	*Addition to specified rebate provisions*[a]
	($)	*per cent*
Special areas of Zone A or B[b]	1 056	50
Zone A	304	50
Zone B	51	20

a This percentage is applied to the sum of rebates to which the taxpayer is entitled during the income year for a dependant, housekeeper, or as a sole parent, as well as any rebates to which the taxpayer would have been entitled if rebates were still allowable for dependent children or students; b Special areas of zone A or B are defined as being in excess of 250 kilometres by shortest practical route from the nearest population centre of 2 500 or more — the special areas identified for income tax zone rebate purposes are not the same as the remote areas defined for FBT remote area concessions.

Source: CCH 1993.

Zone rebates apparently were introduced in the mid-1940s in compensation for the special circumstances faced by people living and/or working in remote areas, often including isolation, harsh climatic conditions and higher living costs. Regarding zone rebates, the Western Australian Government said:

> The rebates also provide a degree of horizontal equity for people working in remote areas and take into consideration that people living in these areas are generally provided with disproportionately fewer services and facilities, such as tertiary education, than people living in more developed areas of Australia. (Sub. 69, p. 17)

The Commission has previously suggested that income tax zone rebates are preferable to concessional valuation rules for FBT liability in accounting for differences between remote and non-remote regions (IC 1991a). This preference was based on the transparency and direct nature of zone rebates, compared with the concessional FBT valuation rules.

However, participants have submitted that the real value of zone rebates has declined to the point where the compensation they afford is inadequate to cover the net disabilities of residing in a remote region. For example, the Pilbara Development Corporation (PDC) submitted that:

> Income tax zone rebates were originally provided to compensate for net disabilities of remote areas. These rebates could offer a solution provided their size is commensurate with the tax disabilities arising from paying people more to compensate for the net natural disabilities of remote areas. Present income tax rebates are inadequate. (Sub. 65, p. 7)

The Government of Western Australia added:

> The real value of the Zone Rebate has been severely eroded due to inflation and lack of regular adjustments. (Sub. 69, p. 17)

Moreover, some participants contended that simply increasing the level of zone rebates would not be sufficient to address adequately the special circumstances of remote areas. The Western Australian Department of Commerce and Trade argued that, for some goods or services supplied by employers, no equivalent private market exists. Thus, employer provision is virtually unavoidable. In particular, the Department observed that:

> ... high construction costs combined with the absence of sizeable housing markets in many regional towns virtually thwarts the competitive provision and private ownership of domestic dwellings, necessitating the provision of accommodation by employers. (Sub. 125D, p. 4)

Participants also pointed to the practical difficulties of compensation through zone rebates. The Chamber of Mines and Energy of Western Australia said:

> The Commission's preferred position of shifting the tax to employees and increasing the income tax zone rebate is unworkable in the current labour and fiscal environment. Moreover, given the slow pace of labour market reform and the continuing pressure of government deficits, it is unlikely that the required degree of change will be achieved for many years to come. (Sub. 121D, p. 4)

The Commission does not consider that government should, or could, compensate people in remote regions for all disadvantages inherent in the 'tyranny of distance'. The fact that employers in remote areas are required to provide certain facilities (such as housing) to their employees, is not a justification for Commonwealth tax concessions. It is part of the inherent cost of operating in such places and, if not charged for, a source of benefit to employees. The Commission considers that tax compensation should be confined to those disadvantages relating to Commonwealth funded or supported services which are unavailable in remote regions, or more difficult for remote area residents to access.

In principle, zone rebates would seem to be the most effective, transparent and equitable way to compensate those living in remote areas; with employers providing benefits subject to full FBT. However, in practice, this would probably require a large increase in the level of zone rebates, and given that they apply to everyone, the budgetary costs could be significant. Such a shift may

also result in high transitional costs, disturbing the balance that has evolved (under the current system) between employees in remote regions receiving remuneration via fringe benefits and those paid in cash only.

The Commission recommends that the Commonwealth Government undertake an assessment of the administrative and financial implications of replacing FBT concessions with income tax zone rebates designed to compensate residents of remote regions for lack of government services.

8.5.2 FIFO operations, FBT and regional development

Several participants suggested that FBT has led to the demise of the mining company town and the proliferation of fly-in, fly-out (FIFO) operations. These long distance commuting practices, exempt from FBT, involve mining companies transporting workers from established population centres to remote work sites.

However, in reality, the growth in prominence of FIFO operations can be attributed to a range of factors. The Office of Northern Development cited several possible influences, including:

- international investment trends favouring short life-span ventures over longer term large scale projects;
- numerous limitations of single-industry mining towns (eg, high start-up and closure costs, lack of economic diversity, and social problems arising from isolated locations and hierarchical social divisions);
- technological change making FIFO more cost effective (eg, cheaper air transport, better telecommunications, lower overall labour demand); and
- changes in regulatory policies, for example, environmental standards favouring low impact projects and imposing higher mining town servicing requirements. (Sub. 26, p. 26-27)

Mining companies visited by the Commission concurred with these views. Indeed, the Western Australian Government claimed that FIFO operations enabled:

> ... the development of the economically marginal operations that would not be possible if permanent social infrastructure had to be provided by the developers. (Sub. 69, p. 10)

Moreover, FIFO arrangements can reduce the environmental impact of mining developments, preventing the need to construct large scale townships over previously virgin land.

The relative importance of these factors in explaining the growth of FIFO operations varies between individual projects. For some ventures, it is possible

that the introduction of FBT may have been an influential factor in a company's decision to use FIFO, while other companies' decisions may have been swayed by advances in technology making air transport a more cost effective option. It is unlikely that the 'demise of the mining town' can be attributed solely to FBT.

Regardless of its origins, the growth in FIFO operations will have differing impacts on regional development and adjustment depending on the way in which it is implemented.

Several inquiry participants told the Commission that FIFO arrangements were commonly conducted from capital cities or larger provincial centres, resulting in few benefits accruing to the regions in which resource developments were actually located. For example, the PDC submitted that:

> The introduction of Long Distance Commute using Perth as a domicile and recruitment base in the future, is perceived to be an impediment to any increased economic activity in regional areas. (Sub. 65, p. 12)

The Western Australian Municipal Association echoed these concerns, stating:

> Fly-in fly-out operations retard the development of existing townsites in municipalities which have the resources, not only through the lesser capital adjustment associated directly with the mine-site development, but also through the loss of multiplier effects when workers live outside the region. (Sub. 25, p. 5)

Remote regions may also be disadvantaged by the 'fly over' effect often associated with FIFO operations. This refers to the tendency for necessary goods and services (as well as labour) to be sourced from capital cities or larger provincial centres instead of from existing regional townships.

Reflecting these concerns, a number of participants suggested that State governments should encourage mining and other remote area companies to decrease their dependence on FIFO and source required inputs from the region in which the resource development is located. Alternatively, remote area organisations would prefer FIFO operations to be conducted from existing regional centres.

Despite the adverse effects which FIFO, and related fly-over activities, may have on some remote areas, there are several benefits associated with the use of long distance commuting practices. Operating FIFO from larger capital cities may provide the company with a wider cross-section of the labour force, both in terms of skills and experience. Moreover, the absolute size of the labour pool available from larger population centres may be of benefit to the company. For example, with FIFO operating from a smaller regional centre, workers may be able to exert more power over a 'captive' company, extracting higher wages and possibly diminishing the viability of a project.

Where local communities feel that they would benefit from FIFO operations based in their region, the Commission believes that they should be free to actively encourage companies to do so — provided the costs of their actions are borne by those purported to benefit. This will ensure that the benefits enjoyed by the community from, for example, the attraction of a mining company's FIFO operations (and the subsequent effects on local economic activity) are not outweighed by the overall costs borne by State, or even Commonwealth taxpayers.

The Commission considers that companies should be free to conduct operations from whichever location they believe is best suited to their needs.

9 INFRASTRUCTURE PROVISION AND PRICING

The provision and pricing of infrastructure can play an important role as Australia's regions face substantial structural adjustment. Infrastructure influences location decisions of people and industries and can thus facilitate regional adjustment and growth. But to do so effectively, it must be used more efficiently.

Where there is a perceived need for additional infrastructure, decisions must be based on the net social benefits of different options, and on efficient pricing policies. Such assessment will aid decision-making, particularly for those long-term projects perceived as helping to build the nation. Better coordination of infrastructure decisions in regional areas is essential for regional development and adjustment.

In areas experiencing economic downturn, an important issue concerns the pricing of excess infrastructure capacity. Where unplanned excess capacity exists, the valuation of assets should be reviewed and services priced accordingly.

Infrastructure has been provided predominantly by the public sector, and particularly by the States. Greater private sector involvement could help improve the quality and efficiency of infrastructure use, and complement public sector funding of infrastructure.

9.1 What is 'infrastructure' and who provides it?

The Commission's terms of reference ask it to identify impediments to industry adjustment that may arise from (among other things) 'the provision, quality, access and pricing of infrastructure and government services'.

There is room for debate about what 'infrastructure' means. While boundaries are not easy to draw, infrastructure conventionally is grouped into two broad categories:

- *economic* infrastructure, which includes physical networks and facilities (such as roads, water, power), the services of which enter as inputs to many industries and determine costs and levels of production; and
- *social* infrastructure, which encompasses facilities which are used in the provision of services (such as education and health), which provide social

services to individuals and enter less directly as inputs into the production process.

In Australia, infrastructure traditionally has been provided predominantly by the public sector. According to Australian Bureau of Statistics data, State and local governments are responsible for managing and controlling 83 per cent of the public sector capital stock which, in turn, represents a little over one-third of the nation's (net) capital stock. Table 9.1 sets out significant forms of infrastructure in which the various levels of government play a major role in relation to provision and/or funding.

Table 9.1: **Infrastructure and government services**

Level of government	*Economic infrastructure*	*Social infrastructure*
Commonwealth	aviation (airports) telecommunications and post national highways railways (shared)	tertiary education public housing (shared) health facilities (shared)
State	roads (urban, rural, local) railways (shared) ports aviation (regional airports) electricity supply dams, water and sewerage systems public transport (train, bus)	education institutions (primary, secondary, technical) child care facilities community health services (base hospitals, a number of smaller sized district hospitals, and nursing homes) (shared) public housing (shared) sport, recreation and cultural facilities libraries public order and safety (courts, police stations, traffic signals etc)
Local	roads (urban, rural, local) sewerage treatment, water and drainage supply aviation (local airports) electricity supply	child care centres libraries community centres and nursing homes. recreation facilities, parks and open space

State governments have primary constitutional responsibility for the provision of a wide range of services, both 'economic' and 'social'. Their spending on infrastructure reflects those responsibilities.

The Commonwealth Government has far fewer direct constitutional responsibilities for services which entail infrastructure spending. However, over the years, through exercise of its concurrent constitutional powers and through its power to make 'specific purpose' grants, it has acquired a role in the provision of infrastructure facilities such as telecommunications, national highways and railways. In the recent past, the Commonwealth Government also provided (or funded) virtually all aviation infrastructure. The responsibility for regional airports is now shared by local and State governments, with the Federal Airports Corporation retaining control over major airports.

The Commonwealth also is active in the provision of social infrastructure supporting, for example, tertiary education and health services, for which the States have primary constitutional responsibility. This increased role has been facilitated by Commonwealth Government control over taxation (see Chapter 10).

At both Commonwealth and State levels, the bulk of investment in economic infrastructure is undertaken by Government Business Enterprises (GBEs).

Local government has a major role in the provision of certain infrastructure, but there are significant differences between States. For example, local government is involved in electricity supply in New South Wales, Victoria and South Australia, but not in Western Australia, Queensland and Tasmania. Water and sewerage facilities are operated exclusively by local authorities in Queensland, and by State authorities in Victoria, Western Australia and South Australia: in other States, both are involved. Transport facilities in the major cities are operated by State authorities, with the exception of the Brisbane City Council which runs a city-wide bus service (Lang 1991).

Governments have undertaken the funding of economic infrastructure through a combination of borrowings, tax funded general revenue subventions and user charges. Social infrastructure remains funded largely through general tax revenue. Over the years, there has been an increase in private sector involvement in infrastructure provision, largely as a consequence of funding constraints faced by governments.

9.2 The role of infrastructure in regional adjustment and development

During the Commission's regional visits, participants identified issues involving the provision and pricing of infrastructure as critically important for regional economic adjustment and development.

Services provided by infrastructure are important in helping retain existing populations and in attracting potential investors. For example, the Albury-Wodonga Development Corporation said:

> Investors tend to regard provision of roads, water, sewerage, gas and power, as being automatically in place. Many want a variety of further services, with tertiary education at the fore; as well as an assurance of sophisticated health services; and adequate transport and communications links ...
>
> Without these 'basic' services and facilities, a region cannot compete. (Sub. 39, p. 16)

The Council of the City of Lake Macquarie (Sub. 33) pointed out that the presence of a well developed transport infrastructure connecting the city with Sydney, Newcastle and the Central Coast gives the area its inherent strengths in attracting new industry and enhances the process of regional adjustment.

Transport and communications infrastructure is generally regarded as being of fundamental importance in more remote areas. The Geraldton Mid-West Development Authority said that:

> Roads are an important means for the inland areas to access, interact and communicate with the regional service centre of Geraldton ... The lack of a sealed road network is contributing to the decline of rural communities. (Sub. 28, p. 1)

The Victorian Government noted that:

> ... transport and distribution costs within the manufacturing sector comprise around 13 per cent of total costs. Road transport costs are typically 5 per cent of total costs within the sector. The benefits to the producer, the consumer and the broader economy of a reduction in those costs through infrastructure improvements, microeconomic reform, pricing, regulatory and other measures is potentially considerable. (Sub. 89, p. 22)

Services provided by infrastructure are fundamental to the competitiveness of regions because they are an integral part of the production and cost structures of many industries, as well as being important for households and a range of communal activities. For example, in the Hunter region, which is characterised by heavy engineering and resource based industries such as steel and aluminium production, the cost and availability of energy (electricity and gas) are particularly important for regional competitiveness and development.

Some participants argued that up-front provision of one form of infrastructure (such as transport) can have an impact on other forms and can stimulate or induce secondary effects in the form of associated investments, changes in demographic and social patterns, and regional economic activity. Such infrastructure linkages are said to be crucial in supporting and stimulating the emergence of networks or clusters of firms with common interest in production,

technology and markets, thereby providing opportunities for wider regional industry growth and adjustment.

In South Australia, for example, the proposal to make Adelaide a transport hub is based on the presumption that it is needed to:

> ... provide a very substantial stimulus to the South Australian economy. It has the capacity to make South Australian firms more competitive, both in cost and timeliness. Even more important, it will attract new transport services generating a whole new set of economic activity. (Bannon 1992, p. 22)

Several participants presented anecdotal evidence linking the success of the Gladstone region to government-provided and subsidised infrastructure. The Gladstone City Council said that:

> The Queensland Government constructed the QEC power station, which is the largest in Queensland. The State Government established an electrified rail system to facilitate the carriage of natural resources to the industries and to the port and all levels of government have cooperated to pour million of dollars into the roads and communication network.
>
> ... the large industries have supported Gladstone's infrastructure and have constructed recreation and social facilities for their employees and the community as a whole in the region. (Sub. 41, p. 5)

Mount Isa City Council said that:

> ... places like Gladstone expand and prosper because of the supply of energy at an attractive price. A similar outcome could be achieved in the Mount Isa region. This would seem to denote that national policies which aim at particular areas of potential growth could promote both the region and the nation. (Sub. 38, p. 1)

Social infrastructure has a less immediate and direct impact on industry costs. But facilities such as schools and hospitals are often major employers of local workforces and contribute to the well-being of local communities — thereby impacting on regional economic growth. Moreover, the Northern Rivers Regional Development Board said that:

> The existence of a regional university campus provides considerable benefits to business and commerce. In turn, these sectors can make a positive contribution to ensuring continued growth ... A university campus may ultimately be a catalyst for the development of new technology based industries in a regional setting. (Sub. 47, p. 13)

Services provided by facilities such as recreational areas and cultural centres contribute to a higher quality of life and a more productive workforce, thereby making regions more attractive to industries seeking to relocate or expand.

Given these considerations, participants have argued for increased provision and, in some cases subsidisation, of infrastructure to enhance growth in regions.

9.2.1 Should infrastructure be subsidised?

Social infrastructure predominantly is funded through general tax revenue, rather than through user charges. There are several reasons for this:

- services provided by some forms of social infrastructure are regarded as socially desirable, even though individuals may not be able to afford them or may not choose to pay for them directly. These are referred to as 'merit goods': examples include school education and health care;
- other services may display 'public good' characteristics whereby the amount provided is not reduced by any individual's consumption and it is impossible (or too costly) to exclude non-paying individuals from benefiting from the service. Examples include fire fighting and policing services. In such cases, charging for use, even if feasible, could lead to levels of use that would be less than socially optimal; and
- funding arrangements also may be influenced by considerations about the distribution of income and equality of opportunity.

Traditionally, many *economic* infrastructure services — which do not have such special characteristics — also have been subsidised, with the degree of subsidy varying among users. Growing awareness of wastage of resources and inequities associated with this approach, as well as resulting budgetary pressures, has led governments to move away from subsidising infrastructure (and from cross subsidising some users through higher charges on others) in favour of a 'user pays' approach.

However, a number of participants argued that, in some circumstances, economic infrastructure should be subsidised. Frequently, such calls for infrastructure subsidisation were based on what might be called the 'nation-building' characteristics of many forms of infrastructure. This revolves around the long-term nature of many infrastructure projects, whereby the construction periods and lifespans are such that (subsidised) provision by governments in anticipation of future demand is seen as essential to the development of Australia as a nation. Additionally, such projects are argued to have potential spin-off benefits in terms of their influence on private sector productivity and growth. For example, the Government of the Northern Territory commented:

> ... much of the existing productive infrastructure throughout the nation was put in place by governments which recognised the opportunities for future growth. (Sub. 87, p. 6-7)

Railways, highways, dams and ports were among those types of infrastructure purported, in some cases, to exhibit nation-building characteristics. Participants proposed that large infrastructure projects such as these were needed to

accommodate and promote future growth, as well as further the development of Australia.

On a more regional level, some participants argued that infrastructure should be subsidised because it can stimulate regional development and facilitate adjustment. For instance, the availability of an upgraded road link may help a country region attract new industries to counter reductions in traditional sources of employment, such as farming.

Along similar lines, the Northern Territory Government drew attention to the distinction between 'developed' and 'developing' regions. They suggested that developing regions exhibit greater scope for infrastructure injections to lead to unforeseen benefits and positive spin-offs; therefore, strict application of commercial criteria and 'user pays' type pricing may not always be in the best long-term interests of a region such as the Northern Territory. This contrasts with 'developed' regions, where the scope for such 'spin-off' infrastructure benefits is lower (Transcript, pp. 21-23).

Other participants have argued that the cost of providing major forms of infrastructure may never be fully met by private providers, as the benefits generated by the infrastructure may not be fully appropriable by them. Further, the long lead-time in infrastructure provision may deter private investment. The Office of Northern Development commented that:

> ... the possible developments in the Carpentaria/Mt Isa Minerals Province, may not *initially* warrant the provision of necessary infrastructure that is needed to bring such activities to fruition. In these circumstances of market failure ... the up-front provision of the necessary infrastructure ... may stimulate the expansion of activities which depend on transport links or the availability of water or assured power supplies. (Sub. 26, p. 22)

The Northern Territory Government said that:

> ... completion of the Alice Springs to Darwin railway combined with a new modern port facility in Darwin would provide the impetus for regional development in the Territory. However, the full benefits of this project would be distributed nation-wide. (Sub. 87, p. 6)

Such arguments have found some support in the emerging economic literature on 'new growth theories', which contains new theoretical models of the determinants of longer term economic growth and empirical assessments of their importance (see BIE 1992; IC 1993a).

Factors that generally are acknowledged to be the key to long-term economic growth in this literature include:

- increased productivity from new knowledge produced by investment; and

- investments in innovation, human and physical capital which appear to be important for generating the externalities that lead to growth.

In the new growth theories that deal with infrastructure, the act of investing in infrastructure is considered to generate externalities that contribute to economic growth through increases in private sector productivity (see Box 9.1).

Assessment

Provision of infrastructure can be a catalyst to regional adjustment and development. Some forms of infrastructure can help invigorate a region's economic activity by generating spin-offs in the form of downstream investment and employment growth. Awareness of such spin-offs has led many regions to conclude that if only the government provided a port, a railway line, an airport or a TAFE institution, the region's economic future would be transformed.

The results of the empirical studies that have looked at the relationship between infrastructure provision and growth in the economy are inconclusive (see Box 9.1). There is no consensus about which area of investment (public or private) is the most important in leading growth. For example, Aschauer claims that non-military economic infrastructure is the most important vehicle for leading growth, while DeLong and Summers (1991) argue that investment in equipment, rather than general public infrastructure, is preferred. As Levine and Renelt (1992) pointed out:

> ... tests that rigorously seek to distinguish among the different growth factors or to rank them in order of importance have yet to produce results that command general credence or assent.

Boltho and Holtham (1992) noted that:

> ... the failure of endogenous growth models unambiguously to dominate empirically their predecessors is disquieting ... The literature is largely at the stage of illumination — showing various factors could have an influence on growth — rather than demonstration — showing how some factors do have such an influence.

Also, the models used in the studies largely are based on the (implicit) assumption of a large closed economy. The extent to which these results could be translated to small open economies is unclear. It is even less clear how such results could be translated to regions *within* a small open economy such as Australia.

Box 9.1: **Public infrastructure and economic growth**

Aschauer (1990) investigated the role of public infrastructure investment in explaining growth in the United States, and presented evidence which he claimed supported the contention that a sharp deceleration of public infrastructure investment is very nearly sufficient to explain why growth slowed in the United States in the 1970s and 1980s. In particular, core infrastructure — highways, mass transit, airports, electricity and gas facilities, water works and sewers — was the element of public infrastructure that was estimated to contribute most to private productivity. Aschauer found that core infrastructure increases the rate of return to private capital, thus stimulating private investment in the medium to longer term.

However, critics of Aschauer (such as Aaron 1990, Winston 1990 and Musgrave 1990) have suggested: that his empirical work overstates the impact of infrastructure on productivity by ignoring other factors and is dominated by trend factors; that the direction of causation between public investment and output growth is unclear; and that even if historical empirical relationships were estimated correctly, they provide no clear guidance about current policy.

A recent OECD study (Ford and Poret 1991), revisited the Aschauer hypothesis using the same methodology, but included data for other periods in the United States and for several other OECD countries, including Australia. Its results provided little support for the hypothesis. The OECD study found that, for Australia, there was no significant relationship between infrastructure spending and productivity. Indeed, the results appeared to indicate that infrastructure investment seemed to lag total factor productivity.

Munnell (1990) examined the impact of public infrastructure on output, employment growth and private investment at the State and regional level in the United States in order to ascertain whether variations in public infrastructure by States had any impact on State-by-State employment growth. Her study covered 48 States over the period 1970 to 1986, and concluded that those which had invested more in infrastructure tended to have greater output, more private investment and more employment growth. Her work indicated that public investment comes before the pick up in economic activity and serves as a base for economic performance.

Barro (1989) carried out cross-country analysis of post-war economic growth. His study of 72 countries found that successful countries tended to have large public infrastructure investment shares of GDP. However, as the Economic Planning Advisory Council (EPAC 1990) pointed out, it is not clear whether a large public investment share makes countries successful or is just a feature of countries which have been successful for other reasons.

EPAC (1990) looked at the level of public infrastructure spending in Australia and its relationship with private productivity. The study found that while private rates of return and public infrastructure investment moved in tandem until the mid-1980s, with the former lagging the latter by a few years, in the late-1980s the private rate of return recovered to the levels of the early-1970s while public infrastructure continued to decline.

The Commission recognises the role that large infrastructure projects can play in 'nation-building'. However, such projects, like all infrastructure investments, should be subject to a comprehensive cost-benefit analysis (see Section 9.3.2), so that investment decisions can be based on more than subjective notions of future national requirements.

There is a risk in attaching a nation-building label to infrastructure projects with very uncertain commercial and/or social payoffs, as the capacity of governments to fund infrastructure projects is limited, and funds allocated to one region or project are necessarily denied to other, possibly more worthwhile, ventures. Moreover, continued subsidisation of projects which fail to return a net benefit to society may not be sustainable over the long term. This would not be conducive to regional development.

As some participants recognised, experience suggests that up-front government provision and subsidisation of infrastructure is not a panacea for sustainable regional prosperity and can impose significant net costs on the wider community. The Ord River Irrigation Scheme experience, reported in Box 9.2, is an outstanding example. The initial decision to construct the project was made without a thorough examination of the economics of the scheme. When cost-benefit studies eventually were undertaken, they showed that farming was unprofitable and the scheme was not viable. However, these results were ignored, undue weight was given to highly uncertain regional benefits and a decision was made to continue with the project. Despite some recent improvements in performance, this has resulted in a continued drain on public funds.

For the Western Australian Government, the decision to proceed may have been influenced by its awareness that a large proportion of the required project funds would be raised by taxation from a broader jurisdiction. Thus, the State would benefit, even if the scheme could not be justified nationally on economic grounds. This raises the issue of whether States should be more responsible for their own revenue raising and funding decisions (see Chapter 10).

Box 9.2: **The Ord River Irrigation Area experience**

The Ord River Irrigation Area project was first conceived as a means of opening up the development of the northern areas of Western Australia by supplying the agricultural sector with irrigation water. The decision to construct stage 1 of the project was not made on the basis of the economic viability of the project, but rather on the assumption that higher yields of irrigated crops obtained in experimental trials would be obtained in the Ord River Irrigation Area.

After the decision to proceed with the project already had been made, a number of studies were carried out to assess its economic viability (see Davidson et al 1982). Most studies indicated that farming would be unprofitable unless substantial subsidies were provided to farmers. However, Cannegeiter (1964) claimed that the project was justified by the combined primary and secondary benefits which would arise from it and because of its contribution to Australia's defence. These arguments were criticised by a number of economists who pointed out that the Ord probably was not the region where farmers could be established at least cost and that secondary benefits to a particular region were of little importance from a national point of view (see, for example, Musgrave and Lewis 1965).

Despite evidence pointing to the uneconomic nature of the project, the Western Australian Government went ahead with stage 1. Once committed to the scheme, despite its increasing problems, the State Government continued to move forward to stage 2, involving levels of assistance for the Ord farmers. It requested the Commonwealth Government to provide funds for stage 2 of the project in 1966.

The Commonwealth Government was reluctant to grant the capital necessary to proceed with the project, but finally agreed to do so in 1967. The decision to grant financial assistance for the main dam appears not to have been based on the information available from the cost-benefit studies but rather on political considerations.

By 1976, various crops had been tried on small acreages on an experimental basis, but none were found to be economic. In 1978, a joint Commonwealth and Western Australian Review Committee was established to examine the problems and prospects of the Ord project. Despite the fact that the project had not fulfilled expectations, the Committee recommended continued support for the project for at least another five years to ensure financial viability. However, the Committee felt that further expansion of the project was unwarranted.

By early 1979, the scheme had consumed more than $100 million of public funds and still showed no signs of contributing to national output. However, according to a report in the Australian Financial Review (30 August 1993), a recent study by Hassall and Associates has predicted that, with an expansion of the irrigated area and a change in the region's produce, the scheme could break even by the year 2010 and return a net national benefit of over $2.6 billion by 2021 (using a zero discount rate). At present, though, the operating costs of the scheme are in the order of $2 million per annum, of which the water users meet less than half.

Clearly, some infrastructure investments undertaken without comprehensive cost-benefit analysis have produced net national benefits. Indeed, the Snowy Mountains Scheme — generally recognised as one of Australia's most successful engineering and cultural projects — proceeded with most of the initial investigation focussing on whether the project was technically feasible, rather than economically worthwhile (see Box 9.3). However, the Ord River experience, among others, does highlight the risks and potential costs of allocating infrastructure funding to projects with questionable national benefits.

Box 9.3: **The Snowy Mountains Scheme**

The Snowy Mountains scheme is regarded as one of Australia's major achievements in infrastructure engineering and cultural development. Construction began in 1949 and took almost 25 years to complete. During this time, migrants from New Zealand, England and other Western European nations contributed to the construction of 7 power stations, 17 large dams and over 225 kilometres of aqueducts and tunnels to collect and divert water. The scheme consists of two separate, though interconnecting, systems — the Snowy-Murray development and the Snowy-Tumut development. The total capacity of both systems is approximately 7 000 Gigalitres, or around 13 times the volume of water in Sydney Harbour.

Establishing the Snowy Mountains Scheme was one of the final undertakings of the Chifley Government; the recommendations of a special technical committee, set up by the 1947 Premiers' Conference and the Prime Minister, were adopted in 1949. This committee reported on the mechanics or practicability of the project, but there was no comprehensive analysis of the project's costs and benefits undertaken before commencement. Indeed, the first annual report of the Snowy Mountains Hydro-Electric Authority remarked that the technical committee:

> ... could not, in the time available, do more than make preliminary investigations of the scheme ... (Snowy Mountains Hydro-Electric Authority 1950)

With total construction costs of around $820 million (in dollars of the day), some studies have questioned whether, if a comprehensive analysis of the project was done, the project would proceed today. This is not based on an assertion that the project's benefits would be outweighed by its costs; rather, the difficulty of measuring or even identifying some benefits (and costs) would make cost-benefit analysis (CBA) results unreliable.

For instance, Bambrick (1989) suggests even comprehensive cost-benefit analyses cannot capture all costs and benefits of such a large scheme. Benefits such as access to electric power generated without atmospheric pollution, important in present society, were not even considered in the late 1940s when the project was conceived. Likewise, the costs of salinity problems (a by-product of extensive irrigation) would have been difficult to foresee, let alone quantify.

The argument that infrastructure should be subsidised because individual providers are not able to appropriate the spin-offs needs to be examined on a case-by-case basis. For example, even if all Australia benefited from the provision of some regional infrastructure, such as a rail link, to the extent that this was reflected in demand for the service and in the revenue generated, it should be able to be captured by the service provider.

Similarly, there may be scope for infrastructure providers to benefit through arrangements which enable them to capture part of the enhanced value of property affected by the new services. Proponents of the Very Fast Train considered, at an early stage, that the project could be partly funded through a tax on the enhanced value of land.

Provision of infrastructure can be a catalyst to regional adjustment and development. Some forms of infrastructure can help invigorate a region's economic activity by generating spin-offs in the form of downstream investment and employment growth. Nevertheless, it is not a panacea. Most arguments for subsidisation of infrastructure are not convincing and fail to address the need to allocate available resources among competing regional uses.

9.3 Allocating investments in infrastructure

For most forms of economic infrastructure in Australia, investment decisions within or between regions are made by GBEs in collaboration with State governments. For social infrastructure, however, such decisions are made by governments (and their general government agencies).

The extent to which these allocation decisions facilitate regional economic growth will depend on how well infrastructure facilities are targeted, and how efficiently assets are used. Government funding for infrastructure is not unlimited: in making such allocations, decision makers need to prioritise projects, assessing the net benefits to the community.

Decisions about the allocation of funds for infrastructure in regions are undertaken through the capital works programs of different levels of government. At the State level, allocation of capital works projects occurs through the State budgets and is coordinated between portfolios. The New South Wales Government said that:

> Capital bids by portfolio Ministers are reviewed by the Capital Works Committee of Cabinet as part of the annual Budget process ... which takes into account the worth of the project through the results of economic appraisals and value management studies. Projects may be approved subject to availability of funds in a particular year. (Sub. 75, p. 25)

The Commission understands other States use broadly similar processes.

9.3.1 Using prices to guide allocation decisions

Pricing policies have a role to play in managing infrastructure demand in regions, and in guiding the timing and quality of new infrastructure facilities.

The New South Wales Government commented that:

> Prices for government services should desirably cover the aggregate resource costs, including a risk-adjusted return to capital. Efficient prices send signals to consumers as to the costs of their consumption, which they can then balance against the utility derived from the consumption. Prices that are set too low tend to encourage over-consumption and to wrongly indicate inadequate infrastructure. As a result, the need for infrastructure enhancements or additions may occur earlier than under conditions of efficient pricing and at some opportunity cost to taxpayers by not being able to use scarce resources elsewhere in the State. (Sub. 75, p. 24)

In several of its recent inquiries, the Commission found that the pricing of infrastructure services by GBEs has borne little relationship to current costs of supply, let alone those which would apply if efficient ('best practice') production techniques were utilised. In such cases, demand for the relevant service is distorted, as also will be associated investment decisions.

For example, in the Commission's inquiry into Water Resources and Waste Water Disposal (IC 1992c), it was found that prices charged for water services in most regions of Australia did not fully recover costs. The Commission concluded that this has encouraged water users to demand levels of service which exceed their willingness to pay for additional units of water, and removed incentives for governments to resist unreasonable demands for water services. The resulting over-use of water contributes to environmental damage and it requires substantial investments in new capital works which otherwise could have been delayed or avoided (to the benefit of other infrastructure priorities).

In its reports on Energy Generation and Distribution (IC 1991b) and Rail Transport (IC 1991c), the Commission found that pricing practices were characterised by subsidisation from general tax revenue as well as involving extensive cross-subsidisation between different classes of users *and* between different regions.

Reflecting locational costs

In some regions, cost differences in infrastructure provision may arise because of topography and differences in land values. In other regions, they may arise from the extent to which existing infrastructure facilities can be shared among,

or connected to, additional users. All such costs must be taken into account in decisions to invest in infrastructure projects.

In its report on the Taxation and Financial Policy Impacts on Urban Settlement, the Commission said that:

> To transmit location signals, prices should ideally reflect differences in the total cost of providing infrastructure in different locations. Total costs include the capital cost of providing the necessary infrastructure (for example, the construction costs of roads, pipes, dams and schools) and the recurrent costs of providing the service (for example, annual operation and maintenance costs of pumping water). (IC 1993c, p. 138)

The Commission also discussed the different charging instruments that could be used to achieve efficiency in the provision of infrastructure in different regions (see Table 9.2).

Table 9.2 **Ways of charging for infrastructure services**

Charging instrument	*Application to locational costs*
Usage charges Apply to units of the service consumed; Influence service demand and how extensively existing infrastructure is used.	Usually uniform across locations and in most cases relate to the operating costs associated with the infrastructure system as a whole; Can reflect locational differences but best confined to operating rather than fixed costs.
Periodic access charges Charges for the right to use the infrastructure; Form one component of the conventional 'two-part tariff' (with a usage charge being the other component).	Usually do not vary with location because they typically are used to recover total costs in aggregate; Well suited to targeting capital costs of servicing different areas within a region, including replacement infrastructure.
Developer contributions Paid up-front by developers of land; Relate to capital costs attributable to the development; Can include the costs of roads, hydraulic services, community services and open space.	Are best related to the initial capital costs of providing specific infrastructure in specific areas within a region.

Source: IC 1993c.

Cost minimisation in the use of existing infrastructure is also important, especially in influencing future infrastructure spending. When substantial efficiency improvements remain to be made in the use of existing infrastructure, undertaking additional infrastructure spending could result in considerable

waste. Pricing reform, together with other disciplines such as performance monitoring of GBEs, will help to avoid such inefficient use of resources.

Implications of pricing reform at the regional level

Some participants expressed concerns about increasing reliance on user pricing of infrastructure and its impact on regions. They argued that, as user pricing arrangements have become more widespread, people in rural areas are being hit harder than those in cities. The Commission heard arguments to the effect that metropolitan areas historically had been provided with subsidised core infrastructure while non-metropolitan regional areas are being asked to pay the full cost of infrastructure services.

The Great Southern Development Authority (WA) said that:

> ... user pays/corporatisation can disadvantage regional areas in particular (eg water connection and supply), and can hinder regional growth and regional adjustment.
>
> Clear government programs should be put in place to ensure that opportunities for industrial development in non-metropolitan areas are not hindered through slavish adherence to user pay infrastructure provision policies, whereby the higher costs of the latter in country areas acts as a disincentive. (Sub. 72, p. 11)

However, the New South Wales Government observed that:

> ... it is unclear whether urban areas benefit at the expense of rural areas or vice versa. There are a number of cross subsidies for different services which make it very difficult to disentangle the overall effect. (Sub. 75, p. 19)

The Commission agrees. In the past, both metropolitan and non-metropolitan areas were recipients of subsidised infrastructure. The provision of extensive irrigation infrastructure out of general tax revenue and, similarly, the substantial under recovery of costs on non-metropolitan rail passenger services, are two examples of how rural regions had been favoured.

However, the initial outlays that provided the metropolitan as well as non-metropolitan infrastructure facilities are not recoverable and can be regarded as 'sunk costs'. Because they are associated with decisions already implemented, sunk costs are irrelevant to current decision-making, except insofar as they might provide experience on which to base expectations about the outcome of current decisions. In essence, the benefits from the provision of subsidised infrastructure have already been capitalised in land values and in many cases will have been realised through the sale of assets.

The Commission is of the view that broad pricing principles for infrastructure should be the same for both metropolitan and non-metropolitan areas.

Pricing reforms should apply to infrastructure in all regions to improve the quality and efficiency with which infrastructure services are provided. If evidence were needed of the sorts of problems that arise when users of infrastructure are not required to pay the full cost of services received, it is to be found in the plethora of ill-judged investments in public irrigation systems across Australia. For example, the Commission's report on Water Resources and Waste Water disposal noted that:

> ... there are many examples where public investment in irrigation has meant a loss of community amenity and a continuing drain on the public purse. (IC 1992c, p. 205)

Some participants saw uniform charging for infrastructure as discriminating against lower cost locations. For example, the Latrobe Regional Commission expressed the view that uniform pricing for electricity was disadvantaging the region:

> The Latrobe region generates 85 per cent of Victoria's electricity. However, uniform pricing of electricity throughout Victoria means there is no specific advantage of locating in this region.
>
> This has resulted in similar prices being charged throughout the State, irrespective of the costs of electricity transmission (including energy losses, operations and maintenance costs of the transmission system, and capital costs of the power grid). Electricity prices which are more cost-reflective would provide additional incentives for industry to be attracted to the Latrobe Region — particularly industries with a significant energy component in their costs. (Sub. 94, p. 2)

In the Hunter region, participants pointed out that the region paid a higher price for gas than Sydney, since it had to bear the cost of the additional pipeline. They argued that if similar pricing practices applied for electricity, the region would pay lower prices, since 80 per cent of the State's electricity is generated within the region. The Hunter Economic Development Council saw uniform charging for electricity as an impediment to allowing the region to compete as a low cost location.

The Commission considers that cross-subsidies inherent in uniform charging of infrastructure can impede the development of lower cost regions and should be eliminated.

While pricing reform can disadvantage some regions which rely on services provided by particular types of infrastructure, there are other means of meeting social objectives in ways that do not unduly compromise the pricing reform process. For example, disadvantaged regions can be given explicit assistance. Governments can fund GBEs to subsidise infrastructure in the form of community service obligations (CSOs) by providing targeted subventions (ie, subsidies) from general revenue to enable them to do so.

Incentives to minimise costs

The absence of competitive pressures for many GBEs means that it is possible for them to overprice, inflate costs and/or achieve commercial performance targets through reducing quality of service in regional areas. For example, the Geraldton Mid-West Development Authority said that the:

> User pays concept is causing concern for rural and remote people. Most appreciate the philosophy but find it unacceptable when imposed by monopolies such as Telecom, the Western Australian Water Authority and the State Energy Commission of Western Australia ... due to the large distances involved, the cost of services from utilities such as SECWA and Telecom are substantial although the cost of providing them may be less. (Sub. 28, p. 3)

In other inquiries, the Commission has proposed ways of ensuring that the costs of providing infrastructure services are minimised. These include creating potential for competition where possible — by removing barriers to competition, vertical separation, intermodal competition etc — and privatisation of some services. However, in cases where a natural monopoly exists, the Commission has proposed use of regulatory 'rules' in setting prices (see IAC 1989). These include:

- Consumer Price Index minus X (CPI-X) pricing;
- benchmarking against comparable private sector firms for setting financial targets;
- 'best practice' for non-financial targets; and
- performance monitoring and public disclosure of results (see IAC 1989, Vol. 3, p. 132–135).

Concerns also have been expressed about the trends in required dividend payments by GBEs to governments. Payments of 'unreasonable' dividends can affect GBEs' capacity to deliver benefits from the reform process back to regional areas. However, the issue of dividend payments is complex. On one hand, there is some evidence to suggest that governments have at times placed excessive reliance on GBEs as a source of funds for budgetary purposes. On the other, the dividend performance of GBEs based on assets or turnover seems generally to have been poor (see IC 1993a). **The Commission recognises that such issues are much broader than the scope of this inquiry but urges greater transparency in the setting of dividends.** (See also Chapter 10.)

9.3.2 Cost-benefit analysis as a guide to investment decisions

The pricing mechanism is important in guiding investment in infrastructure. However, for some public infrastructure, such as roads, bridges and railways, provided by general government — with a considerable proportion undertaken by GBEs — governments have to commit funds up-front to finance such projects. Allocation decisions have to be made based on the net social benefits from these facilities (allowing for any spillover benefits and costs).

Furthermore, for some types of infrastructure it is common for there to be no direct user charges, or for users to be charged below cost. As noted previously, this occurs for social infrastructure such as schools and hospitals, the services of which are considered to have 'merit' or 'public good' characteristics. In these cases, price signals are inadequate to guide investment decisions and some other form of discipline is needed.

Cost-benefit analysis (CBA) is a technique for providing methodical and transparent evaluations of such investment decisions. Its role is to present systematically the information covering all relevant costs and benefits relating to a decision, together with indications as to the reliability of the estimates produced.

CBA derives net present values by discounting expected costs and benefits of the project. This inevitably involves placing probabilities on some future outcomes. However, there always is the problem of deciding what costs and what benefits to include in the analysis. In some cases, it may be difficult to put a value or probability on future events because they are highly uncertain.

Some participants have suggested that CBA cannot adequately take into account broader social costs and benefits which are not readily quantifiable, and so tends to be biased against projects with nation-building potential (see Section 9.2.1). Although CBA technically deals best with measurable costs and benefits, its strength lies in allowing social consequences to be built into calculations. Even where such costs and benefits cannot be directly quantified, decision makers can take them into account alongside quantifiable results.

Some participants criticised CBA on the grounds that possible, but highly uncertain, benefits (which are not measured in conventional investment analysis or CBA) could result from the effects of new infrastructure on private sector productivity — perhaps as large as the benefits that can be measured. For example, proponents of the Alice Springs to Darwin railway (see Box 9.4) argued that, with large infrastructure projects of this kind, a long-term view should be taken and that conventional CBA is not capable of taking all potential benefits into account. In this regard, CBA might be able to account for modal substitution (between road and rail) but may not be able to take account of the

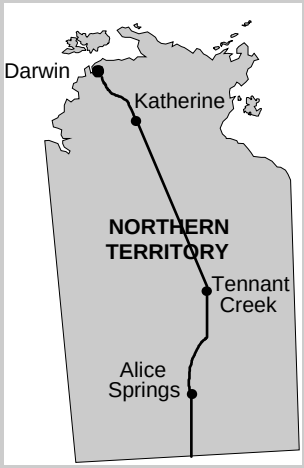
extra cargo that would be generated from new industries that emerge as a consequence of the establishment of the rail link.

Box 9.4: **Alice Springs to Darwin rail link**

The Alice Springs to Darwin rail link has been talked about for more than 90 years. The Commonwealth Government, under the *Northern Territory Acceptance Act 1910*, agreed to its construction but did not specify *when* this was to be done.

Since 1945, the Commonwealth and the Northern Territory governments have commissioned studies to establish whether the project is justifiable on economic and social grounds.

In 1983, the Commonwealth Government commissioned a study — the Hill Report — to assess the relative costs and benefits of two options: upgrading the highway between Alice Springs and Darwin and building the Alice Springs to Darwin rail link. A comprehensive analysis was carried out using both investment and social cost-benefit analyses.



The Hill Report estimated that, at a 7 per cent discount rate, the net present value of the rail link would be minus $374 million. Variations in the discount rate used did not significantly alter the report's bottom line. Therefore, it concluded that investment in the rail project would constitute a major misallocation of the nation's resources.

After the Commonwealth declined to provide full funding for the project, the Northern Territory Government commissioned two new studies — one by Canadian Pacific Consulting Services Limited (1985), the other by the Strategic Defence Studies Centre (SDSC) (1986). These studies did not consider alternatives to building the railway. The Canadian study concluded that the railway was an economic break-even proposition, with a net present value of $100 million, while the SDSC study recommended construction of the line on the basis of its anticipated contributions to development and national security.

A more recent report for the Northern Territory Government by Morrison Knudsen (1992) concluded that the rail project and a new port facility at the eastern arm area of the port of Darwin are commercially viable. However, the estimates were based on a three year construction period and on much more optimistic freight tonnages than previous studies.

Australian National (1993) also has recently examined the proposed rail link. The report emphasised that studies of the rail link need to recognise the national benefits such a project would generate, rather than private commercial viability. It concluded that the project would be of net benefit to the nation at 4 per cent discount rate and would break-even at 7 per cent.

The most recent report was done by the Bureau of Transport and Communications Economics (BTCE 1993). The report criticised the findings of the Australian National report, and concluded the project had a net present value of minus $345 million, based upon an 8 per cent discount rate.

Recent developments have seen the Commonwealth agree to provide funding of $3 million to allow the remaining 375 kilometres of the route from Alice Springs to Darwin to be surveyed. In the 1993–94 Commonwealth Budget, the Treasurer announced the establishment of a Committee jointly with the Northern Territory Government which, among other things, is to consider the potential for the rail link. The Committee is expected to provide its recommendations by mid–1994.

This underlines the importance of the assumptions about costs and benefits in CBA. Analysis for a given project may produce different answers, depending on assumptions made about costs and benefits; one approach may indicate the viability of a project and another that it would not be worthwhile.

This is illustrated by studies done on the Darwin to Alice Springs rail link: studies commissioned by the Commonwealth Government have generally been less favourable to the proposal than those commissioned by the Northern Territory Government (see Box 9.4).

Economic impact statements

Greater discipline, transparency and accountability in the decision-making process could be engendered through the assumptions and the results of CBA being articulated in an economic impact statement (EIS) for public scrutiny.

A requirement for an EIS for major infrastructure projects would ensure that the claims of rival pressure groups can be assessed and that the relevant issues can be debated before a decision is taken. This would help ensure that decision makers take direct responsibility for poor decisions — providing incentives for infrastructure allocation decisions to be rationally based, well informed and transparent.

Some participants were concerned about the various environmental and economic studies required by governments before a project is approved. The Commission is not proposing any additional studies, but that a requirement for an EIS be incorporated within the existing guidelines which most governments have issued on the use of CBA where it applies to *major* projects.

The Commission reaffirms its view that public infrastructure investments — whether in urban or country areas — should proceed only after comprehensive cost-benefit analysis. For major projects, there should be a requirement that such analyses be published to ensure greater transparency in the decision-making process.

9.3.3 Regional coordination of infrastructure provision

Participants have expressed concern about the perceived lack of coordination between Commonwealth, State and local governments in infrastructure provision, with consequent costs to the community. For example, the Boyup Brook Shire Council (WA Municipal Association) said that:

> Council feels there is no adequate coordination between the three levels of government in relation to policies affecting regional development. (Sub 25, App. II p. 8)

In a major recent report, 'A Strategy for Balanced State Development', the New South Wales Country Mayors' Association (Kinhill 1993) noted that:

> A fundamental impediment to regional economic growth is the lack of strategic infrastructure planning, coordination and decision making, particularly regarding roads and rail investment ... (p. 130)

Some participants considered that there was scope for more coordination of infrastructure provision between different providers. For example, AGL Gas Companies (Sub. 34) commented on lack of coordination between utilities when installing services in new subdivisions. AGL drew attention to their comments in their submission to the Commission's inquiry into Taxation and Financial Policy Impacts on Urban Settlement (IC 1993c):

> ... gas was disadvantaged by having no guaranteed early access to new sub-divisions (unlike some other utilities), and that costs of reticulation increased if gas was supplied later. This unsatisfactory situation in NSW contrasts with practice in South Australia. On new SA estates, there is a "common trench" set aside for three services (electricity, gas and Telecom), and installation of those services is coordinated among the utilities and developers. (Sub. 35, p. 7)

The South East Economic Development Board in South Australia saw the overlapping functions of Commonwealth, State and local government as an impediment to the delivery of services such as education and health. It commented that:

> ... State borders represent an impenetrable barrier restricting logical adjustment. An example is in education, where the South Australian TAFE system is doing a feasibility study into provision of multi-sectoral education in the South East. However, a multi-sectoral proposal including the Western District of Victoria was not even considered because of the border. (Sub. 19, p. 10)

Others were concerned about the duplication of service delivery by different levels of government and various government agencies.

Assessment

It clearly is desirable that more coordinated and integrated mechanisms for infrastructure planning and evaluation be utilised.

The role of developers would be greatly facilitated if governments at all levels undertook strategic planning for infrastructure provision in the areas planned for development in relation to major water supply and sewerage works, trunk drainage and major roads, as well as social infrastructure. These plans could indicate the authority's intentions and developers would be required to comply with such plans or otherwise submit alternative plans for approval.

In its submission to the Commission's inquiry on Urban Settlement (IC 1993c), the South Australian Urban Land Trust (SAULT) said that:

> ... SAULT has taken on the role to ensure comprehensive and coordinated social and environmental planning in new developments simultaneously with the physical planning and subsequent development by the private sector. This model ensures that human and community services are provided earlier than would otherwise be the case. (Sub. D108, p. 3)

Coordination of regional infrastructure requirements between levels of governments could be enhanced if, for example, regional development boards (councils) were to act as brokers in the establishment and approval of development plans which encourage regional perspectives on infrastructure requirements. Part of the requirement for coherent integrated planning could be the development of geographically based information systems which cut across program, agency and policy boundaries, and the development of associated mechanisms for setting priorities across agencies.

This is similar to the approach which the Victorian and Queensland governments are developing to help streamline the various government agencies. The Victorian Government said that it is:

> ... currently considering a mechanism for the coordination of economic development infrastructure provision in Victorian regional centres. This will enable the coordination of infrastructure plans for a region, and ensure that the infrastructure necessary for economic development can be provided in a timely manner. The infrastructure plans should be based on, and compatible with, regional strategy plans which identify a region's existing and potential competitive strengths and deal with economic and urban development issues. (Sub. 89, p. 35)

The Queensland Government pointed out that it is:

> ... developing a regionally-based planning process which provides for regional coordination and integration of planning activities, policies and strategies.
>
> This ... incorporates the concept of a regional planning advisory body within each region which can coordinate and integrate regional planning activities, policies and strategies for the region by making recommendations to Federal, State and local governments, business and other community sectors. (Sub. 92, p. 23)

As discussed in Chapters 7 and 12, the absence of effective cooperation between adjoining LGAs in relation to infrastructure provision and other land use planning processes, may result in inefficient service provision. For example, Regional Economic Councils in New South Wales said that:

> Adjoining local government areas often sought to compete with each other, to the detriment of the region as a whole ... [A] regionally based perspective would be more appropriate to many of their activities ... (Sub. 75, p. 7)

At the Commonwealth level, major responsibilities in relation to economic and social infrastructure requirements cross a number of portfolio areas — Housing, Community Services, Local Government, Transport, Communications, Education and Training, Health and so on. The economic and social importance

of infrastructure issues suggests a need for coordination and cooperation within and between different levels of government if service delivery is to be efficient and effective.

Existing structures

The Commission considers that any framework for the coordination of infrastructure requirements between and within regions should include mechanisms to receive comment from concerned regional interests (such as the local regional development board or local council), as well as from those organisations or government departments involved in the provision of infrastructure.

The Commission also notes that, to some degree, a framework does exist under which regional infrastructure requirements could be considered. For example, the Government of New South Wales commented:

> The NSW Government supports the improved coordination and integration of infrastructure planning. Various State government infrastructure bodies already exist (eg, the Capital Works Committee of Cabinet in NSW) which could be used to good effect in the planning and coordination process.
>
> [For example,] the NSW Department of Planning has long established programs to coordinate the planning; servicing and development of new release areas in the major urban regions of NSW. (Sub. 145D, p. 10)

The Government of Victoria also provided information on coordination structures being set up within the government bureaucracy:

> As part of its Regional Development Program, the Victorian Government is establishing a process whereby the provision of industrial infrastructure can be coordinated. It would welcome the involvement of the Commonwealth Government in this process. (Sub. 134D, p. 2)

The Western Australian Municipal Association (WAMA) indicated that coordination between State and local/regional bodies was already possible in Western Australia, with remaining problems centred around involving the Commonwealth. The WAMA suggested:

> ... if that form of liaison was continued at the State level but with representation from the Commonwealth ministry [of Regional Development], this would be a very valuable form or mechanism for ... bringing greater coordination to bear ... (Transcript, p. 95)

The Commission recognises participants' concerns regarding the coordination of infrastructure provision between regions. While existing State and local government structures address, in part, these concerns, there is scope to improve the coordination and integration of infrastructure provision between the Commonwealth and other levels of government. The

Commission considers that the Commonwealth's Office of Regional Development is well placed to examine how this might best be achieved.

9.4 Dealing with excess capacity

Regions in which firms are closing and population falling, face special problems concerning the underutilisation of infrastructure and related services. Much economic and social infrastructure is 'lumpy' and requires threshold population levels (critical mass) in order to remain viable. Out-migration can erode the ability to maintain previous service levels, in part because infrastructure providers are required to spread the fixed costs over fewer people. Underutilisation is more likely to arise the more rapid is out-migration from an area, the longer the economic life of the infrastructure in question, and the less adaptable it is for other users or other regions.

9.4.1 Pricing

An important infrastructure issue, therefore, is how to set user charges for economic infrastructure when there is excess capacity. In this context, excess capacity does not relate to planned excess capacity in the early phases of development but, rather, the emergence of *unanticipated* excess capacity due to declining demand for infrastructure services.

A Bureau of Industry Economics case study found that:

> ...the closure of the meatworks in Tenterfield resulted in the Tenterfield community being required to pay significantly higher per unit charges for electricity. Prior to their closure, the two meatworks utilised about 50 per cent of total electricity consumption in the region. Since the closures, the local electricity supplier was required to spread the fixed costs associated with electricity supply and distribution over a much lower level of total units consumed. (BIE 1983, p. 27)

Wangaratta Regional Development Corporation noted that:

> The infrastructure capacity in non-metropolitan regions that are currently underutilised needs to be targeted for special attention. If forms of incentives apply across all non-metropolitan regions equally, then this available infrastructure capacity may be resourced by new industries. (Sub. 5, p. 5)

The New South Wales Government suggested that:

> Generally pricing should be based on full cost recovery, but it may be desirable to phase price increases over a period of time to avoid the peaks and troughs of the investment cycle ...
>
> When prices for Government services do not cover costs in aggregate, the shortfall ultimately has to be met by the community in some form, such as a topping up from general taxation or other sources of Consolidated Fund revenue, by increased debt or by cessation of the services. The cost to the community arises because these particular funds could have provided more benefits elsewhere, for example in regions experiencing growth. It would not be desirable to introduce further cross subsidies by pricing infrastructure in declining areas at below cost. (Sub. 75 p. 27-28)

However, where there is unplanned excess capacity, the original value of the asset (which has declined) is no longer appropriate as a base for determining prices.

In its report on the Taxation and Financial Policy Impacts on Urban Settlement, the Commission noted that pricing of 'genuine' excess capacity should convey the correct signals concerning the impact of current consumption on future costs, but at the same time should encourage use of idle capacity. To leave capacity idle is to deny a net social benefit, unless there is no demand at all at a charge equal to the marginal cost of connection. Where excess capacity stems from investment decisions based on long run projections of population and demographic changes which will not be realised, it is important that use of it not be discouraged by prices that exceed the costs of supply (IC 1993c, p. 156).

Where two part tariffs (access charge plus usage charge) are in place, it generally would not be appropriate to lower usage charges since, presumably, the opportunity cost of providing additional services will be unchanged. Rather, a preferred policy is one which seeks a lower return on capital by reducing periodic access, or fixed, charges in order to attract new customers. In essence, full cost recovery could be pursued on an asset base devalued to reflect its reduced earning potential.

The Commission recommends that where there is unplanned excess capacity, the valuation of infrastructure assets should be reviewed and services priced to reflect the lower valuation. Where two-part tariffs are in place, a policy that seeks to reduce access charges in order to attract new consumers would be preferred.

9.4.2 Decisions regarding existing social infrastructure

In regions experiencing decline in demand for services provided by existing social infrastructure such as schools and hospitals, the question arises as how to

make decisions on appropriate threshold levels where there is no pricing mechanism to provide a guide.

These decisions normally are based on the unit cost of maintaining social infrastructure services in a particular region relative to the average unit cost of providing similar services in other areas. If the social infrastructure facilities become especially expensive to maintain in one area relative to other areas, governments face decisions whether to cease or reduce services.

Such decisions could have a profound effect on some regions, which may be particularly dependent on social infrastructure facilities such as schools and hospitals, and which also generate substantial local employment. The Queensland Farmers' Federation (QFF) was concerned about the concentration of government services into major provincial centres. The QFF said that:

> ... concentration of government services into major provincial centres and closures of ... court houses and other small government offices in small country towns not only makes access to government services more difficult but importantly depopulates small towns. Taken to the extreme, this process effectively closes the town down. (Sub. 56, p. 4)

While the impact of such closures and downsizing might be alleviated by redundancy payments, unemployment benefits and other social security payments, they are likely to affect economic activity in the area adversely. They may also reduce the capacity of the local economy to absorb any subsequent unfavourable developments.

Some argue that regional social infrastructure services have a value to a local community which is not reflected in their use of the facilities and cannot be quantified. Hence, decisions to close or downsize such services based on unit cost alone can result in the closure of some services which would be viable if all of their benefits were taken into account.

However, if services are maintained regardless of what they cost in some regional areas, then the wider community is required to subsidise the services even though most would never use the infrastructure facilities. Any goods or services which are provided in this way, whereby government payments to maintain the services are largely divorced from their true cost, invariably are provided in an inefficient manner.

The Commission recognises that the local community may value social infrastructure facilities more than is reflected by actual use. While that must be taken into account when facilities face

closure, it does not justify maintaining services through larger subsidies from taxpayers generally.

In cases where existing social infrastructure facilities are under threat of closure, the option should be made available for communities to demonstrate, by financial contributions, the extent to which they value continuation of such services. It is important to note that the Commission does not see this situation as widely applicable. Rather, the Commission believes that those areas which would otherwise lose certain social infrastructure facilities should be given the option of contributing towards the running costs in order to retain them.

An alternative approach is to subsidise people to go to areas where excess capacity exists: this is a broader policy issue, discussed in Chapter 12.

The Commission recommends that where closures or downgrading of social infrastructure facilities within regions are being contemplated by State governments, the local community should be given the option of contributing directly to maintain the facilities.

9.5 Greater private sector participation

Interest in the private provision of infrastructure, especially in regions experiencing growth, has been increasing in recent years. Private sector involvement in infrastructure provision is seen as a way of increasing the quality and total investment in infrastructure to facilitate regional adjustment and development. Private provision of infrastructure (based on raising funds from private capital markets) may be possible at times when economically viable projects would not proceed if they were dependent on inadequate public sector funding.

This increased interest is driven by a number of factors:

- the increasing budgetary pressures facing all levels of government have constrained public sector capital expenditure. Restrictions are imposed on borrowings by government authorities through the Loan Council arrangements (see Chapter 10); and
- the private sector is perceived to be more efficient than the public sector and able to build and operate facilities at lower cost.

These factors have made governments re-examine the scope of their involvement in infrastructure activities and look towards the private sector to

take on some of the role of infrastructure provision in regions. Most State governments have issued guidelines on private sector involvement in infrastructure development. For example, the Victorian Government said that:

> ... [it] has issued guidelines to encourage private involvement in major projects. These guidelines are now being reviewed and the possible introduction of legislation is being considered. Private sector involvement in the Yan Yean water treatment works and Loy Yang B power station are examples of private sector involvement in major infrastructure projects in Victoria. (Sub. 89, p. 34)

Private sector involvement in the provision of infrastructure has taken different forms. Initially, it entailed contracting out of infrastructure works. Increasingly, the capital costs of providing infrastructure such as water and sewerage reticulation and drainage in new sub-divisions, is provided by developers as part of land servicing arrangements. Costs are recouped by developers in the price of serviced land.

Recently, private sector involvement has been in the form of 'build, own, operate and transfer' projects (see IC 1993c, p. 251). Full private ownership of infrastructure facilities also has been increasing.

Increased emphasis on the private provision of infrastructure, especially in growing areas, has focused some attention on the impediments to its provision. While the impediments do not appear to be specifically regional in nature, they do have incidental implications for regions. The Commission, in its report on Taxation and Financial Policy Impacts on Urban Settlement (IC 1993c), examined issues relating to private involvement in the provision of infrastructure especially in urban areas. The Commonwealth Government has foreshadowed an inquiry into private provision of infrastructure in 1994 and the Commission will have the opportunity to analyse the impediments in that inquiry.

10 REGIONAL RAMIFICATIONS OF FINANCIAL RELATIONS BETWEEN GOVERNMENTS

Financial relations between the various spheres of government in Australia can have important effects on regional adjustment and development. The mis-match between the expenditure responsibilities and taxation capacity of the States blurs accountability and reduces incentives for fiscal responsibility. The high proportion of grants to the States and Territories in the form of specific purpose payments may limit budget flexibility in ways inimical to assisting regional adjustment. General revenue grants are distributed between States (and local governments) according to the principle of 'fiscal equalisation'. Though claims have been made that this reduces national economic efficiency, at this stage evidence about the magnitude of efficiency effects is inconclusive.

10.1 Introduction

The terms of reference for this inquiry draw specific attention to Australia's intergovernmental financial relationships. The most significant feature of these relationships, by far, is the magnitude of the grants which are made by the Commonwealth to the principal 'regional' sphere of government — the States and Territories. Not surprisingly, the size, determination and composition of these grants featured heavily in submissions to the inquiry, especially from State governments.

In federal systems of government — such as those which exist in the United States, Canada and the Federal Republic of Germany, as well as in Australia — autonomous sub-national governments have primary responsibility for the provision of many core public services, such as education and health and hospital services, and of economic infrastructure. This tends to result in variations within the nation in levels of taxes and patterns of expenditure on public services. A priori, such a system could be expected to be more efficient than a unitary system of government, because many regionally provided services would better match the different needs of different regions ('States').

The Australian federal system is characterised by a particularly high concentration of control over taxation by the central government and a resultant significant role for intergovernmental financial transfers. Those transfers, in themselves, may create inefficiencies in government administration and spending. In addition, there is an element of redistribution ('equalisation')

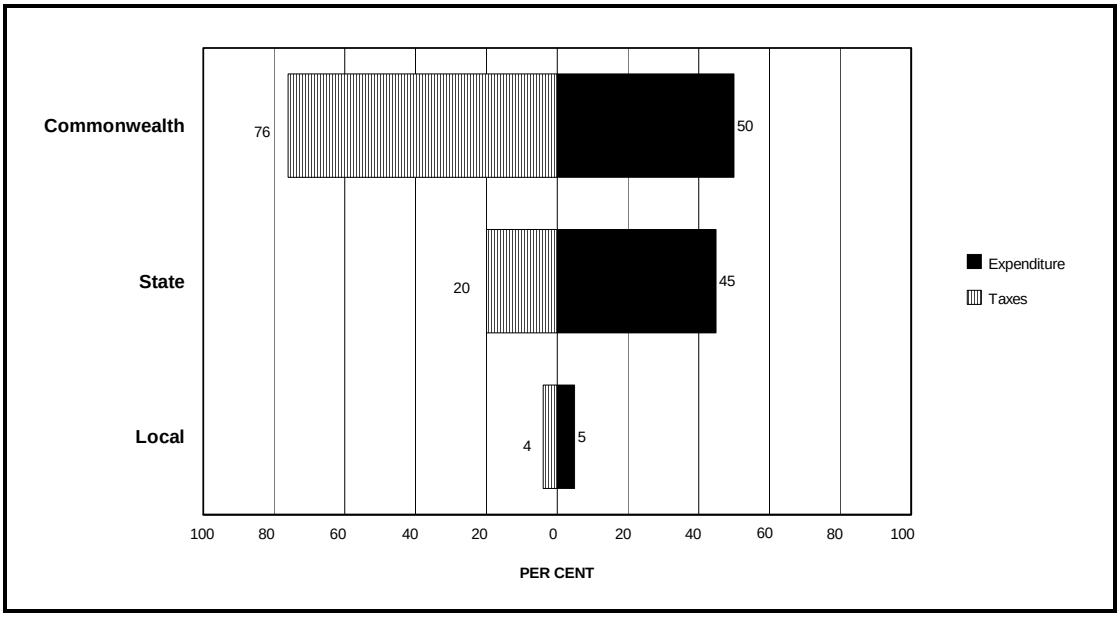
involved and that raises the issue of an appropriate balance between objectives of equity and efficiency: pursuit of equity may be at some cost to efficiency because it blurs the link between the need for, and provision of, government services. The impact of these financial arrangements is most obvious at the State and Territory level, but they also are relevant to regions within States, because local governments receive substantial transfers from Commonwealth and State or Territory governments.

The Commission has considered the following aspects of financial relations from a regional perspective: vertical fiscal imbalance, specific purpose payments, borrowing controls and fiscal equalisation.

10.2 Vertical fiscal imbalance

A distinctive feature of federal fiscal arrangements in Australia is a particularly marked imbalance between taxing capacity and government expenditures at different levels of government. Specifically, the Commonwealth collects about 76 per cent of all tax revenues by all levels of government, but accounts for only half of government direct expenditure. In contrast, State governments collect only 20 per cent of tax revenues but are responsible for 45 per cent of expenditures. Taken together, such relationships are referred to as involving 'vertical fiscal imbalance', the magnitude of which is illustrated in Figure 10.1.

Figure 10.1: **Percentage share of total taxes raised and expenditure by level of government, 1991–92**



Source: ABS 1993j

If all revenue, rather than just tax revenue, is taken into account the imbalance is not quite so marked — State governments account for about 25 per cent of all government revenue. Nonetheless, on any measure, the degree of imbalance in Australia is striking by comparison with other mature federations.

The dominance of the Commonwealth in tax raising emerged during World War Two, at which time the States surrendered the power to levy personal and corporate income taxes.[1] State tax raising power also has been constrained by High Court interpretation of Section 90 of the Constitution, which gives exclusive power over customs and excise duty to the Commonwealth. High Court definitions of excise duty have precluded the States from imposing broad-based consumption or sales taxes on goods. Accordingly, the States have a fairly restricted tax base — mainly payroll tax, stamp duties, land tax, financial institutions duties and franchise fees.[2] While some of these taxes, particularly payroll and land tax, potentially have a quite broad base, most States have provided substantial exemptions and concessions, thereby restricting the revenue raised and introducing distortionary effects. Local governments raise most of their revenue from broadly-based property taxes. Table 10.1 shows the principal sources of revenue for all governments in 1991–92.

High levels of expenditures by State and Territory governments, relative to the revenues they raise, are made possible by an extensive system of grants from the Commonwealth. In 1993–94 they are estimated to total $31.8 billion (gross payments) of which $16.7 billion is in the form of specific purpose payments and $15.1 billion in the form of general purpose payments.

As the mis-match between taxes and expenditures for local governments is relatively small (see Table 10.1), the following sub-section focuses on the impact on the States and Territories of vertical fiscal imbalance.

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1 At the time, this was intended to be temporary (for the duration of the war plus one year) but the Commonwealth retained control over income taxation after the war in exchange for reimbursement grants to the States. Constitutionally, the States retain the power to impose income taxes.

2 The scope for the States to extend franchise fees to a broader range of retail sales remains uncertain in light of the High Court's decision (7 December 1993) that the ACT Government's franchise fee levied on the sale of x-rated videos is invalid. Indeed, some initial interpretations of that decision suggest that the constitutional validity of the States' petroleum franchise fees could now be challenged.

Table 10.1: **Sources of revenue for each level of government, 1991-92** (% of total revenues)

	Commonwealth	*State*	*Local*
	(%)	(%)	(%)
Taxes, fees and fines:			
Personal income tax	48	–	–
Company income tax	16	–	–
Excises	11	–	–
Sales tax	9	–	–
Customs duty	3	–	–
Payroll tax	1[a]	9	–
Stamp duties[b]	–	6	–
Motor vehicle taxes	–	4	–
Franchise taxes	–	4	–
Municipal rates	–	–	51
Other	3	11	3
Total	**91**	**34**	**54**
Other own sources	9	24	24
Total	**100**	**58**	**78**
Payments from higher levels of government			
- from Commonwealth [c]	na	42	14
- from State	na	na	8
Total Revenue	**100**	**100**	**100**

a Includes fringe benefits tax.
b Includes financial institutions duties.
c Payments from the Commonwealth to States for on-passing to local government recorded under 'local'.
Source: ABS 1993j and Commonwealth Budget Paper No. 4, 1992–93

10.2.1 Effects on the States and Territories

Australia's tax structure tends to be a disincentive to the efficient allocation of resources within the States and Territories. In addition, vertical fiscal imbalance blurs government responsibility and accountability, for all levels of government. These two principal effects of vertical imbalance are discussed below.

Disincentives of the tax structure

It sometimes is claimed that the narrow-based nature of State taxes means that they are more prone to distort resource allocation than are broadly-based taxes. Stamp duties on housing and financial transactions clearly have the potential to impede some transactions (see Chapter 4 on stamp duties and mobility). Payroll taxes are viewed as a tax on business inputs, and as a disincentive to expanding employment. The Tasmanian Government pointed out:

> ... State taxes are generally narrowly based, tend to be regressive and inefficient in their incidence and are often distortionary in their impact. State taxes also generally perform poorly against equity and simplicity criteria, which suggests that an increase in State taxation with a commensurate decline in Commonwealth transfers might well actually have an inhibiting effect on development in Tasmania. (Sub. 159D, p. 6)

While the States are keen to obtain increased employment and the related indirect benefits from expansion of business activity in their jurisdictions, their direct tax benefits tend to be limited to the extra payroll tax and other minor taxes collected. In contrast, the more successful and profitable those activities, the more the Commonwealth Government benefits via corporate and personal income taxes. Thus, Australia's tax structure offers less incentive for the States to ensure the financial success of their industries than if they benefited from the successes through directly sharing in taxes on profits and personal incomes.

Other disincentives inherent in the tax structure have become more apparent as reform of government business enterprises (GBEs) proceeds. Reform, including subjecting GBEs to competitive pressures, has begun to remedy the mis-pricing and poor use of resources that has been endemic in GBEs. But there have been ongoing concerns about whether taxation arrangements are impairing further worthwhile reform.

First, the narrow tax revenue base of the States can lead them to place greater emphasis on dividends from GBEs than would be the case if their tax revenue base was wider. This can detract from GBE performance, as well as imposing added costs on consumers and user industries. The evidence to date does not suggest that, in general, dividends and taxes are excessive, although instances do exist of high dividend payments from GBEs to governments. For example, the State Electricity Commission of Victoria has stated that between 1982–83 and 1991–92 it earned $1.1 billion in profit and paid $954 million in dividends (IC 1993 a).

Second, the States had argued that there are disincentives in their withdrawing from ownership of GBEs as any increase in private sector profits and sales would boost the taxes collected by the Commonwealth Government, and there is no element in the sale price of the GBE to compensate the States for that.

At the July 1993 Premiers' Conference, the Commonwealth Government established procedures and set out principles to address some of the issues raised in relation to the taxation treatment of GBEs. The policy proposals include payment of income tax compensation for full privatisation for either a State Bank or insurance office (subject to certain conditions) and a case-by-case assessment for wholesale sales tax compensation.

These tax structure issues go well beyond the scope of this inquiry, but inevitably are raised wherever regional issues are considered. They are the

subject of recent policy proposals and thus have been covered only briefly in this report.

Government responsibility and accountability

The onus is on governments at all levels, on behalf of their constituents, to obtain value-for-money in the provision of public sector goods and services. Governments are not subject to market disciplines of pricing and profitability to ensure that happens, but they can be subject to quasi-market signals. The role of ratings agencies has increased the pressure on governments to better manage their budgets. Ultimately, if expenditures are seen by taxpayers as a clear waste of their money (unprofitable), government may be voted out of office (equivalent to shareholders replacing the board of a company for poor performance).

But if there are only very blurred links between the responsibilities for taxing and spending, as often occurs with Australia's vertical fiscal imbalance, there is little scope even for quasi-market signals to sound the alert that a misallocation of public resources may be occurring.

On these issues, Professor Russell Mathews commented:

> If equality and diversity in service provision are the great strengths of Australia's federal fiscal arrangements, the overriding weakness is that no level of government is responsible for the essential budgetary process of linking revenue-raising and spending decisions. The Commonwealth government lacks the information necessary to form judgements about State and local expenditure levels and priorities, while State and local governments are able to avoid most of the responsibility for determining the extent to which funds are provided to finance those expenditures. (Mathews 1985, p. 21)

The New South Wales Government, in its initial submission to this inquiry, said that the consequences of vertical fiscal imbalance include:

- reduced accountability of governments to their community with confusion as to the roles and responsibilities of the Commonwealth and States;
- overlap and duplication of administration between Commonwealth and State agencies as a result of the extent of tied payments; and
- restriction of the ability of the States to respond in a flexible manner to policy imperatives which differ regionally. (Sub. 75, p. 23)

Such confusion, duplication and lack of flexibility are contrary to all tenets of good management; they are inimical to efficient government.

The Commission considers that there is a compelling case, on the grounds of public sector accountability and management, for State taxation to be aligned better with expenditure responsibilities.

10.2.2 Options for better matching State taxes with expenditures

One of two general approaches (or a combination of them) could be adopted to better align State tax revenue with expenditures:

- reduce State expenditures by handing some responsibilities to the Commonwealth; or
- increase State revenues by widening the States' tax base.

For the purposes of this report, the Commission has taken as 'given' the responsibilities of governments as set down in the Constitution. Therefore, only the second of these two approaches is considered further, although it should be noted that the Victorian Government submission to the Commission in relation to vertical fiscal imbalance pointed out that:

> ... a clear definition of Commonwealth and State responsibilities is desirable. (Sub. 134D, p. 6)

In other mature federations, a much greater balance between expenditure responsibilities and revenues available to sub-national governments is achieved either by:

- allowing both national and State governments to impose income taxes and sales taxes (as occurs in Canada, the USA and Switzerland,) with varying degrees of co-ordination of assessment and collection procedures; or
- giving the sub-national governments a constitutionally guaranteed share of major taxes, such as the income tax (as occurs in Germany and Belgium).

All States' submissions agreed that a better alignment of their expenditures with tax revenues available to them was highly desirable. The Tasmanian Government (alone) suggested this could be achieved by:

> ... improving the adequacy of Commonwealth grants, by linking the national pool of grants to Commonwealth tax revenue or at least to movements in inflation and population growth. (Sub. 159D, p. 6)

This would amount to something approaching the German style of revenue sharing, but without the constitutional guarantee that the shares would be maintained, since only ordinary Commonwealth legislation would be used to establish the system.[3] It is not clear, moreover, that it would secure greater responsibility and accountability by the States since the revenues they spend still would be collected on their behalf, through what would continue to be seen to be a Commonwealth tax.

[3] Revenue sharing prevailed in Australia from the mid 1970s until the early 1980s when it was unilaterally abandoned by the Commonwealth.

Other State governments and the Northern Territory supported exploration of a broader range of options, but they were generally silent about what options should be considered. The New South Wales Government, however, specifically identified:

> ... the need for the States and Territories to have access to a broad-based, revenue elastic and efficient tax base. The most recent example of a transfer of Commonwealth tax to the States satisfied none of the desirable criteria ie the Debits tax is a narrow based (cheque accounts only) tax with a declining revenue yield and a regressive rate structure. (Sub. 145, p. 12)

In practical terms, only corporate and personal income taxes would appear to be available as broadly-based taxes that reap sufficient revenue to enable better alignment of State revenues with expenditures. This is so (as mentioned above) principally because of the High Court interpretation of Section 90 of the Constitution, which implies that a broad retail sales tax or some form of goods and services tax could not be imposed by the States.[4]

During 1990 and 1991, a series of Special Premiers' Conferences reviewed aspects of Commonwealth-State relationships. As part of that process, in October 1991, a working party of Commonwealth and State Treasury officials produced a report on 'Taxation and the Fiscal Imbalance between Levels of Australian Government: Responsibility, Accountability and Efficiency' (Report of the Working Party on Tax Powers 1991). The Working Party was given quite specific terms of reference for its review of the distribution of taxation powers. One guiding principle was to 'ensure a rational allocation of revenue powers between levels of government that further improves the efficiency, effectiveness, equity and simplicity of the Australian taxation system' (p.13).

No recommendations were made by the Working Party, but it did favour reduced fiscal imbalance:

> Although still a matter of judgment, the impact on accountability of greater revenue powers being transferred to the States is likely to be favourable. Both the Commonwealth and the States would have greater incentives for fiscal responsibility. The likelihood of getting a more optimal level and mix of expenditure and taxation would probably be increased; and the link between taxing and spending decisions by governments would be clearer to their electorates. (Report of the Working Party on Tax Powers 1991, p. 11)

The Working Party emphasised that fundamental changes to tax arrangements in Australia would have major effects over long periods, and stressed that clear and substantial benefits would have to be gained to warrant such change.

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[4] The High Court's interpretation of Section 90 does not preclude the States from taxing *services*.

Options discussed in the report included the States increasing revenues from existing tax bases, introducing new taxes, or sharing tax revenue with the Commonwealth. When assessed against the basic tax principles of efficiency, equity and simplicity, the preferred option (although the Working Party avoided saying so explicitly) appears to have been to allow the States to re-enter the field of personal income taxation, using the Commonwealth's definition of the income tax base and its national collection system: the Commonwealth would reduce its tax rates and its grants to the States commensurately.

Subsequently, in November 1991, a proposal was put to the Commonwealth Government, on behalf of all the State Premiers and the Chief Ministers of both Territories, for a shared national personal income tax system. That proposal envisaged continuation of a single national assessment and collection system, but with the States being given a share of the tax base (initially a six per cent rate would have been applied on the personal incomes of their residents). Ultimately the States would have obtained scope to vary (individually or jointly) their income tax rates.

As noted by the New South Wales Government, at that time 'the Commonwealth was not prepared to support this initiative and has opposed any substantive reform to address the issue of vertical fiscal imbalance' (Sub. 75, p. 24).

In the past, a principal reason given for Commonwealth resistance has been that macroeconomic management would become a much less effective policy tool because fiscal power would be more dispersed. However, the Working Party indicated that arrangements could be made to ensure that the States met their fiscal responsibilities and that there was nationally coordinated fiscal policy.

Constructive steps in that direction were evident at the Premiers' Conference in July 1993, described by the Treasurer as a 'watershed in the development of a coordinated approach to fiscal policy'. The key element was the preparation and presentation by the Commonwealth, State and Territory Treasuries of an agreed National Fiscal Outlook (1993). Among other things, the Outlook report suggested that consideration be given to:

> ... the allocation of functional responsibilities for expenditure between the Commonwealth and the States, directed at achieving a clear delineation of responsibilities and reduction in duplication;
>
> an expansion of the States own source revenue base, which is inherently narrow and inelastic ...

While this document does not necessarily have formal government endorsement (it is the report of the Working Party of Commonwealth, State and Territory

officials), these extracts indicate that there is acknowledged to be scope for further discussion on options for better matching State revenues with expenditures.

The Commission recommends that the Commonwealth initiate a program of assessing options aimed at transferring additional revenue-raising capacity to the States (with commensurate reductions in Commonwealth taxes and grants to the States).

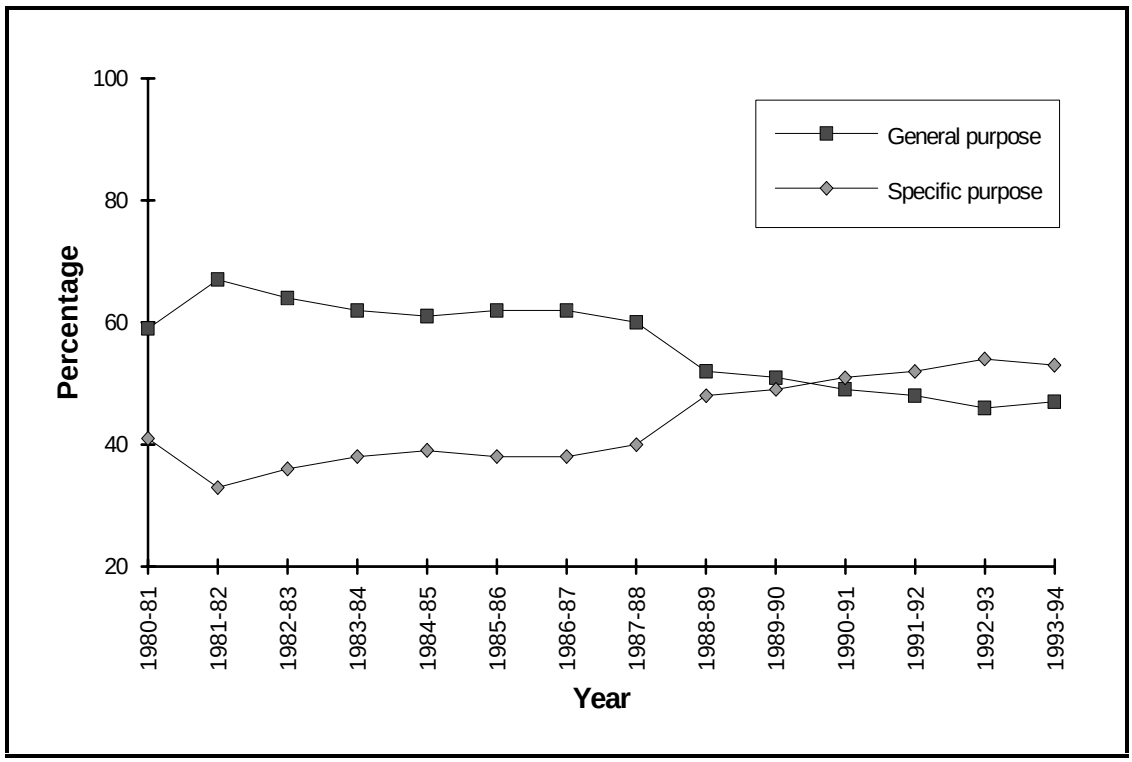
10.3 Specific purpose payments to State and local governments

Specific purpose payments (SPPs) include recurrent and capital payments made by the Commonwealth to the States and Territories on the basis that they meet various conditions to ensure the realisation of policy objectives either set by the Commonwealth, or jointly agreed between the Commonwealth and the States. It is because of these conditions, which can differ substantially between different types of grants, that SPPs sometimes are referred to as 'tied grants'.

Because the bulk of the payments are made for education, hospitals, public housing and roads, SPPs can have significant effects on particular regions. SPPs represent very substantial sources of State revenues, estimated to total $16.7 billion in 1993–94.

Since the early 1980s, there has been a growing trend away from general purpose payments towards SPPs. The relative increase in SPPs compared to general purpose payments is shown in Figure 10.2. Several factors have influenced this trend. The proportion of payments to the States classified as general purpose rose sharply in 1981–82 as a result of the conversion of the former Hospital Cost Sharing Grants into general revenue 'identified health grants'. Thereafter, the proportion declined slowly with the phased conversion of general purpose advances into loans specifically for public housing. The reclassification of health payments to SPPs in 1988–89 also significantly affected the pattern of these payments (Auditor-General 1990).

Figure 10.2: **General purpose and specific purpose payments (gross) to the States and Territories**



Notes: Excludes general purpose assistance for local government. From 1988-89, ACT is included.
Source: Derived from Commonwealth Government Budget Papers No. 1, 1984-85 to 1993-94.

Since 1990-91, SPPs have accounted for more than half of all Commonwealth payments to the States and Territories. Indeed, in 1992–93 the proportion reached 54 per cent, an increase of 14 per cent over the previous year. This increase reflected the employment and infrastructure programs announced in *One Nation*, in the *Youth Statement* and in the 1992–93 Budget (Commonwealth of Australia 1992d). In 1993–94, total SPPs are expected to decrease by 2.5 per cent, reflecting the winding down of expenditure under *One Nation*.

The size of SPPs as a proportion of Commonwealth payments is an area of concern to State and Territory Governments. There are two types of SPPs: payments made direct *to* State Governments, and payments made *through* State Governments to specific organisations, for example, higher education institutions, private schools and local governments. Table 10.2 indicates that in 1987–88 and 1988–89 SPPs to the States increased significantly, but that was attributable mainly to classification changes (the inclusion of health payments mentioned above). Since then, they have been fairly stable at around 33 per cent of total grants to the States.

Table 10.2: **SPPs 'to' and 'through' the States and as a proportion of total payments to the States, 1987–88 to 1993–94**

Year	*SPPs 'to' the States*	*SPPs 'to' the States as a per cent of total grants to the States*	*SPPs 'through' the States*	*SPPs 'through' the States as a per cent of total grants to the States*
	($m)	(%)	($m)	(%)
1987-88	5362	22.1	4008	16.5
1988-89	7446	29.6	4056	16.1
1989-90	8358	31.7	4351	16.5
1990-91	9711	34.1	4819	16.9
1991-92	9871	33.6	5457	18.6
1992-93	11294	35.7	5870	18.5
1993-94[a]	10557	33.2	6176	19.4

a estimate

Source: Commonwealth Government Budget Papers No. 4, 1991-92 and Budget Paper No. 3, 1993-94.

Participants in this inquiry claimed that the high proportion of SPPs *to* the States, limits State government budget flexibility and gives them less control in determining the preferred allocation of funds between activities. For example, the New South Wales Government suggests that:

> The impact of the increasing share of specific purpose payments substantially reduces States' fiscal flexibility and exacerbates the adverse impacts of vertical fiscal imbalance. (Sub. 145D, p. 12)

The Northern Territory Government further commented:

> Tied grant funding reduces the ability of a State government to prioritise its activities to meet its own perceived needs ... that in itself tends to reduce the possible opportunities for regional industry adjustment.
>
> ... the more funds that are provided via tied grants the less discretion State governments have to meet their own perceived needs. (draft report hearings transcript p.17)

The Tasmanian Government suggested:

> ... capping the proportion of total grants which are conditional or tied to specific purposes. (Sub. 158D, p. 6)

In some of its recent reports, the Auditor-General (1990, 1993) has examined SPPs from the viewpoint of the need to secure accountability, value for money and effectiveness of program delivery. It has expressed a number of concerns, including especially the need to ensure the development of performance

indicators and targets as means of securing improved monitoring of, and greater effectiveness in, SPP programs.

It would seem evident that the growth of SPPs, especially in the context of restricted State taxing powers, might reduce the flexibility of State budgets and limit the capacity of the States to facilitate regional adjustment and development. The issue of SPPs has been one of ongoing concern and debate, in relation to both their extensiveness and their potential to create wasteful bureaucratic overlap and duplication. The need for 'coordination' between the activities of different governments has arisen in various aspects in this Inquiry (see for example Chapter 12). A process capable of meeting the objectives of all governments would require that the Commonwealth and States agree on clearly defined targets and performance measures for SPP programs, and allow freedom for States to choose how to implement programs to meet the defined targets.

Turning to more specifically regional aspects of SPPs some, such as the Local Capital Works Program, are explicitly targeted at particular regions.[5] Other payments, such as those for roads program, have effects that are incidentally regional. These two examples are discussed below.

10.3.1 Local Capital Works Program

The Local Capital Works Program is a recent specific measure which seeks to enhance regional infrastructure, and at the same time to use locally supplied goods and services to create employment opportunities. As part of its employment strategy, the Commonwealth Government allocated about $297.2 million in 1992–93 and about $50.5 million in 1993–94 to this program, to be undertaken in partnership with local government (Commonwealth of Australia 1993c).

The program focuses on those regions and local government areas which have experienced and are experiencing sustained higher than average rates of unemployment. In a statement on employment and growth, the Treasurer said that:

> Funds will be provided for specific projects nominated by local government which will directly create jobs in the local area and which have the capacity to provide worthwhile benefits to the local economy and community. It is anticipated that local governments will use this opportunity to bring forward high priority projects with which they have

[5] Another example (not further discussed here) is the Building Better Cities Program for which the Commonwealth is to provide up to $816 million in the period to June 1996. Although payments are classified by the Commonwealth as general purpose (capital) grants, they quite clearly have a specific purpose.

> been unable to proceed because of a lack of funds. Local government may also be encouraged to explore the possibility of undertaking larger projects, in concert with neighbouring areas, which may have strategic importance in encouraging the growth of local industry or removing impediments to growth. (Dawkins 1992, p. 51)

The Local Capital Works Program was targeted at three regional categories:

- $230 million for 23 regions, with a minimum labour force of 60 000 persons, which had an unemployment level at least 0.5 percentage points above the national average in the June quarter 1992 and averaged such a rate for the previous four quarters;
- $90 million for selected projects nominated by 162 individual councils which did not meet the labour force criterion but did meet the unemployment criterion; and
- $27 million for selected projects nominated by 71 individual local councils which did not meet either of those two criteria but which did have unemployment levels at or above the national average.

Details of eligible regions in the first of these three categories are presented in Table 10.3.

Some participants expressed concern about the decision to allocate infrastructure grants on the basis of unemployment figures. They argued that unemployment figures tend to misrepresent the true circumstances of regions. For example, unemployment might be above the national average in some areas that have adequate infrastructure and which are experiencing employment growth because of in-migration of the unemployed in the hope or expectation of finding employment. Other areas, with inadequate infrastructure and low economic activity, might register low unemployment figures because there are few job opportunities and the unemployed have left. In such cases, areas needing infrastructure investment to increase economic activity and employment prospects would be overlooked.

For example, Geraldton Mid-West Development Authority said that:

> ... many unemployed people are required to go to the nearest regional centre (Geraldton) to register for unemployment benefits. Eventually those people move to Geraldton for convenience and as a result the unemployment figures for Geraldton are artificially inflated ... Geraldton receives large grants but the centres which realistically have an urgent need for employment generation assistance miss out. (Sub. 28, p. 6)

Similar points were made by the Shire of Ashburton in Western Australia (Sub. 25) and by the Isisford Shire Council in Queensland (Sub. 6).

Table 10.3: **Local Capital Works Program: eligible regions[a]**

	Region		*Number of Councils*	*Fund allocation[b]*
				($'000)
	New South Wales			
1	Canterbury-Bankstown		2	11 600
2	Fairfield-Liverpool		2	13 200
3	Central Western Sydney		3	9 550
4	Gosford/Wyong		2	6 900
5	Lismore		8	7 050
6	Newcastle		9	15 300
7	Wollongong		3	10 050
		Total	**29**	**73 650**
	Victoria			
8	North Western Melbourne		4	10 250
9	Outer Western Melbourne		8	17 950
10	Inner Melbourne		8	9 000
11	North Eastern Melbourne		6	13 900
12	Mornington Peninsula[c]		10	20 350
13	Bendigo		22	5 650
14	Shepparton[d]		19	7 400
15	Geelong		11	7 050
		Total	**88**	**88 850**
	Queensland			
16	Mackay		10	4 300
17	Gold Coast		3	13 250
		Total	**13**	**17 550**
	South Australia			
18	Northern Adelaide		5.5	11 950
19	Western Adelaide		6.5	8 350
		Total	**12**	**20 300**
	Western Australia			
20	Central Perth		7	4 850
21	South West Perth		6	7 940
22	South East Perth		6	10 200
		Total	**19**	**23 000**
	Tasmania			
23	Hobart		18	6 650
		Total	**18**	**6 650**
	Australia	**Total**	**179**	**230 000**

a Relates to eligible regions in the first of the three categories.

b Based on the four quarter average unemployed persons in each region as a proportion of the total in all 23 regions during September Quarter 1991 to June quarter 1992.

c Part of Cranbourne and part of Pakenham.

d Includes five councils in New South Wales.

Source: Dawkins 1992, p. 54.

Such views highlight the problems of using unemployment figures as the basis for targeting regions, as is done with the Local Capital Works Program. It also

is a rather ad hoc program, with funding levels unlikely to have made fundamental changes to the prospects of particular regions. However, from a regional perspective, the program does have the advantage of giving them some say in how the money should be spent.

10.3.2 Roads funding

Despite having no direct constitutional responsibility for roads, the Commonwealth Government has been able to influence the level and direction of road expenditure in the States. Some of the earliest Commonwealth SPPs (in the 1920s) were for roads, and they made specific provision for improving access to (and within) sparsely populated regions.

Until recent years, funding for local roads was made available as an SPP. However, in July 1991, a Special Premiers' Conference agreed that, in order to reduce ambiguities in the responsibility between levels of government, the Commonwealth should concentrate on national highways and other roads of national significance and should untie its funding for local and arterial roads. This the Commonwealth largely has done, although it continues to 'identify' the former roads component of increased general revenue grants.

In 1992–93, the Commonwealth allocation to roads was $1.8 billion, of which half was for national highways. Under *One Nation*, the Commonwealth provided additional grants of $429.5 million in 1992–93 and $110 million in 1993–94 (Commonwealth of Australia 1992d). Yet some participants have called for more investment in roads. They argue that in certain years investment in roads has barely kept up with physical deterioration. For example, the Great Southern Development Authority said that:

> Government road funding to local authorities over recent years has gone down in real terms. As an example, Shire of Albany road funding grants have increased by only 4.1 per cent since 1985-86 ... In the meantime, primary producers suffer through poorly maintained roads ... (Sub. 72, p. 8)

The Victorian Government was concerned about the proposed revised arrangements for distribution of federal road funds after completion of the current legislation in December 1993. It said that:

> The Commonwealth's allocations for 1993–94 mean that Victoria suffers a reduction of $134 million in Federal funding ($244 million in 1993–94 compared to $378 million in 1992–93). This drop in funding does not recognise that 27 per cent of road travel occurs within Victoria and that Victorian motorists contribute approximately 27 per cent of Federal fuel based revenue.

It recommended that:

> The Commonwealth Government, in distributing road funding to the States after 1993, puts in place new investment principles that reflect and recognise a strategic national approach, the widely varying usage and economic benefits derived from a properly integrated road network, the need for a broader definition of the national road network (especially to encompass roads which link manufacturing freight distribution centres with major air, sea and rail terminals), and the level of road travel and federal fuel based revenue that Victoria contributes. (Sub. 89, p. 31)

Road funding is a complex issue. From a regional perspective, the Commonwealth Government has made changes that have removed local and part of arterial road funding from SPPs to general purpose payments. By the Commonwealth making them unconditional, local governments have been given more flexibility to use road funding according to local priorities, which should facilitate regional adjustment.

10.4 Borrowing controls

The Loan Council, which comprises representatives of the Commonwealth and the States, in the past ensured that certain borrowings remained within voluntarily agreed global limits. 'Global' referred to the wide scope of borrowings covered, including conventional loans, financial leases and equity financing by State governments, Commonwealth and State GBEs, and local government authorities (Commonwealth of Australia 1992d). Because the total global limit was allocated to the States on an equal per capita basis, the practice did not involve any particular regional bias (NSW Government, Sub. 75, p. 23).

However, in its submission to this inquiry, the New South Wales Government said that:

> The global limits set by the Loan Council on borrowings by individual States place a constraint on the provision of infrastructure by the public sector and on participatory arrangements with the private sector. (Sub. 75, p. 23)

In 1991 the Loan Council established conditions which could allow GBEs to be exempt from its coverage. Exemptions could be granted for enterprises:

- operating in a commercial manner and with a track record of fully meeting certain commercial criteria; and
- with substantial private sector equity (of the order of 40 per cent or more) operating in a commercial manner.

However, the Commission understands that no State or Commonwealth business enterprise has yet qualified for exemption.

More recently, in July 1993, Loan Council arrangements were revamped in recognition of the fact that the previous global limits approach failed to give due

cognisance to particular infrastructure needs of some States, and that complex financial techniques had been used primarily to circumvent Loan Council scrutiny. The Treasurer said that:

> The major feature of the new arrangements is the change in philosophy of how Loan Council operates, from an approach based on compliance within limits set with little regard to the budgetary position of individual States to one based on the establishment of a transparent framework based around governments' budgetary circumstances. (Dawkins 1993a)

The new arrangements are to be supported by the development of uniform and more comprehensive reporting of public sector finances (Loan Council 1993, p. 3).

The Commission welcomes these changes. From a regional perspective they will have the benefit of allowing the States and Territories to assume greater freedom and responsibility to borrow, yet remain consistent with their debt situations and with overall macroeconomic constraints (Loan Council 1993, p. 3).

10.5 Fiscal equalisation

10.5.1 Principal characteristics

Financial assistance from the Commonwealth, on which State and local governments depend heavily, is about half in the form of specific purpose grants and half as untied general purpose grants (Section 10.3). Recommendations by the Commonwealth Grants Commission (CGC) are used to help determine how the total pool of Commonwealth general revenue and hospital funding grants is shared among the States. The terms of reference given to the CGC require it to provide its assessment of appropriate relativities for general revenue grants[6] by applying the principle of fiscal equalisation, under which:

> ... each State should be given the capacity to provide the same standard of State-type public services as the other States, if it makes the same effort to raise revenues from its own sources and conducts its affairs with an average level of operational efficiency. (CGC 1993, p. 6)

Fiscal equalisation is based upon an Australia-wide standard of fiscal capacity relative to expenditure needs, and the standards are based upon the average of actual policies adopted by the States. In effect, the CGC increases the

[6] The hospital funding grants component often are required to be subject to alternative assessment procedures to conform with other policy objectives or with Commonwealth-State agreements.

recommended per capita grants of those States which are fiscally disadvantaged — either because their ability to raise their own revenues is lower than average, or because they have greater than average expenditure needs, or cost disabilities, in providing some services — by reducing the grants payable to the more fiscally advantaged States [7].

On the *revenue* side, the CGC assesses revenue-raising capacity for uniform levels of revenue-raising effort. It provides more to States with lower-than-average per capita revenue-raising capacity, and less to those which can raise more because of more favourable circumstances. For example, a State with a relatively low ability to raise payroll tax is compensated by the application of a disability factor. The CGC presents assessments for each of 19 separate revenue sources.

On the *expenditure* side, the CGC assesses the level of expenditure a State would need to incur to provide a standard level of service. It assesses disability factors to take account of:

- differences in the number of units of service which need to be provided; and
- any unavoidable differences in the unit cost of services. (CGC 1990, pp. 3-4)

These will be affected by such characteristics as the dispersion of the population or a demographic pattern which involves greater spending on, for example, schools or hospitals. The CGC presents assessments of differential expenditure needs for 41 recurrent expenditure categories.

The impact of fiscal equalisation on the distribution of general revenue (and hospital funding) grants is substantial. In comparison with an equal per capita grant distribution, fiscal equalisation results in transfers of $1.6 billion from New South Wales and Victoria to the less populous States and Territories. Table 10.4 provides details of the per capita (Medicare adjusted) relativity factors agreed upon at the 1993 Premiers' Conference and the implications they have for the distribution of relevant grants. The table shows the estimated distribution of financial assistance grants for 1993–94, *not* the actual distribution for 1993–94.[8]

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[7] The Commonwealth Government also makes untied grants (through the States) for local governments. The interstate distribution of these grants is determined on an equal per capita basis. States Grants Commissions then apply a process of equalisation to determine the distribution amongst local authorities. The fact that the interstate distribution of these grants is not based on fiscal equalisation criteria is a source of concern to some States.

[8] The final distribution is dependent upon updated population figures for December 1993, provided by the Australian Bureau of Statistics, and the variation between the 1993 Premiers' Conference estimate and the actual CPI in the year to the March quarter 1994.

To get some perspective on the magnitude of the annual redistribution, the $1.6 billion that would be deducted from New South Wales and Victoria relative to an equal per capita distribution of grants is equivalent to $152 per person. The redistribution in favour of Queensland, South Australia, Western Australia and Tasmania averages around $150 per person of their populations: it is much larger for the Northern Territory, being just over $3700 per person. From another perspective, the $1.6 billion is equivalent to about 5 per cent of the $32 billion in estimated total payments by the Commonwealth to the States in 1993-94.

Table 10.4: **Fiscal equalisation — per capita relativity factors and implied grant distributions, 1993–94**

	Per capita relativity factors[a] (Medicare adjusted)	*1993-94 distribution using Medicare adjusted relativities*	*Estimated population for December 1993*	*Equal per capita grant distribution*	*Difference between 1993-94 and equal per capita distribution*
		('000)	($m)	($m)	($m)
New South Wales	0.854	6033.3	5046	5916	-870
Victoria	0.835	4473.2	3658	4386	-728
Queensland	1.093	3146.0	3367	3085	283
South Australia	1.221	1465.4	1752	1437	315
Western Australia	1.117	1684.3	1842	1651	191
Tasmania	1.480	473.2	686	464	222
Northern Territory	4.784	169.6	795	166	628
Australian Capital Territory[b]	0.865	300.9	255	295	-40
Australia	**1.000**	**17 746**	**17 400**	**17 400**	**0**

a The per capita relativities adopted at the 1993 Premiers' Conference are to apply in 1993-94.

b The ACT will also receive transitional allowances and special fiscal needs estimated at $63.8m, in addition to $19.9m special revenue assistance funded from within the pool, and $19.9m funded directly by the Commonwealth.

Source: Commonwealth Budget Paper No 3, 1993–94, p. 56, Table 14.

Apart from comparing the distribution of grants to an equal per capita distribution (as in Table 10.4), another possible basis for comparison is the distribution which would occur if States were reimbursed in proportion to their residents' income tax payments. On this alternative basis, the redistribution away from New South Wales and Victoria would be about 40 per cent larger than that shown in the table, of the order of $2.3 billion (New South Wales, Department of the Treasury 1993, pp. 10-27).

However, not all States accept this analysis of the redistributive effects of fiscal equalisation. In 1991–92, 9.1 per cent of income tax was sourced from Western Australia while it accounted for 10.1 per cent of total Commonwealth general government revenues. Thus, the Treasury of Western Australia pointed out that if *all* Commonwealth revenues, rather than simply income tax collections, were used as the basis for calculating apparent fiscal equalisation transfers, the 'transfer' attributed to Western Australia would be smaller (Sub. 158D, p. 2 and Western Australia Budget Paper No. 5, p. 105). Indeed it suggested that if all Commonwealth revenues raised and expenditures were made in the States considered, not only those included in the fiscal equalisation process, then Western Australia as well as New South Wales and Victoria made net transfers to the other States. The average annual redistribution away from Western Australia between 1988–89 and 1991–92 on that basis would have been $305 million (Western Australian Budget Paper No 5, p. 103).

While the more populous States would not seek to withdraw 'equalisation' transfers entirely from all the other States, they have used this inquiry as one forum (among others) for presenting their cases against the current application of fiscal equalisation procedures. The less populous States have offered their contrary views.

10.5.2 Regional aspects of fiscal equalisation

From a regional perspective, there are a number of points about fiscal equalisation that can be made. One is that the distribution to States and to local governments is simply to give them the *capacity* to provide standard services if they apply standard revenue effort. It does not oblige them to do so. In the words of the CGC:

> It is not for the Commission to tell the States what to do. We are dealing with untied general revenue grants. So, in principle, the policies followed by a State government do not make any difference to the grant it receives. Each State is free to determine its own priorities. (CGC 1993, p. 7)

The Governments of New South Wales (Sub. 145D) and Victoria (Sub. 134D), while not explicitly suggesting that general revenue grants should be required to be spent on particular areas, raised doubts about whether fiscal capacity equalisation actually creates equitable access to services for individuals nationwide if only capacity to provide services is assessed. Moreover, Victoria suggested that:

> ... it seems contradictory that some States receive larger grants because of dispersion and make up of their population when they may actually be using them to subsidise lower taxes in an attempt to attract business and industry. (Sub. 134D, p. 6)

Under fiscal *capacity* equalisation, the option of lowering State taxes to attract business (or for any other reason) is open to all States. However, in choosing to lower its tax revenues, the State also is choosing to reduce its ability to fund State services. Under the procedures utilised by the CGC, the State would not be penalised for lowering its taxes, nor would it be compensated for the consequent reductions in its spending capacity: its future grants would be unaffected.[9] Accordingly, the burden of the States' decision would be borne entirely by its residents in reduced spending on services.

The treatment of specific purpose grants in the fiscal equalisation process, some of which have particular regional impacts, has been a contentious issue. Many argue that such specific financial arrangements should be quarantined from fiscal equalisation. The CGC takes the different view that specific purpose grants should be included in its assessments of fiscal capacity where they supplement State spending power, just like any other source of State revenue. The effect of this 'inclusion method' is that a State that obtains an increase in its share of relevant specific purpose grants, other things equal, will have its share of untied grants reduced.

The Industry Commission accepts this view. There are no strong arguments as to why the two principal components of payments to the States (general revenue grants and SPPs) should be treated as mutually exclusive. If they were so treated, there would be an incentive for States to lobby for greater shares of those SPPs which were distributed on a basis more favourable to them than general revenue grants.

Also of particular relevance to this inquiry is the approach taken by the CGC in examining differential needs or capacities. In particular, it may choose to exclude regional development expenditures from the fiscal equalisation process:

> ... if the activity is of a 'development' character (since it is not clear on either equity or economic grounds that a State government which embarks on an expenditure program intended to expand its economic base should in effect be reimbursed by other States which have their own developmental objectives). (CGC 1993, p. 14)

The CGC (Sub. 149D) drew particular attention to changes in its 1993 assessments, which result in no disability allowances for promotional expenditure in the Services to Industry category (CGC 1993, Vol. II, pp. 86-88).

[9] A slight change could occur through the State affecting revenue and expenditure standards, which are based on (weighted) averages of the actual taxation and expenditure decisions of all States. The CGC (Sub 149D) provided evidence from simulations indicating that deliberate changes to State expenditure policy could not alter grants sufficiently to make them strategically worthwhile.

The Industry Commission also concurs with this approach, which helps to discourage wasteful competitive bidding between States attempting to attract firms (see Chapter 12).

10.5.3 Equity and efficiency

Section 96, of the Australian Constitution, which specifically allows the Commonwealth Parliament to provide grants to the States on such terms and conditions as it sees fit, provides the underpinning for the Commonwealth to give special grants to financially weaker States and those with special needs.

From the outset, even before protective tariff levels, centralised wage fixation and regulation of coastal shipping were seen as sources of disadvantage to the less populous States, special grants were paid to some of them, and in other ways their lesser fiscal capacities were recognised (May 1971). The institutionalisation of special grants arrangements through the establishment of the CGC in the 1930s followed the stresses created by Commonwealth policy developments during the first three decades of Federation, the onset of depression in the early 1930s, and the secession movement in Western Australia.

Since then, the CGC, and wider changes in political values, have shaped and reshaped the development of equalisation arrangements into the complex procedures that apply in Australia today. In recent years, however, the extent of fiscal equalisation, and the way in which it is assessed and applied, have been challenged, especially by the 'donor' States. The debate, in part, has been based on re-examining the links between the CGC's procedures and the modern theoretical foundations for fiscal equalisation, which identify and distinguish between equity and efficiency considerations.

Notwithstanding the current debate, there is broad agreement that the theoretical literature establishes that *an appropriately designed* system of fiscal equalisation ensures not only (horizontal) equity but also efficiency in location decisions. What appears principally to be in dispute is whether the design of current fiscal equalisation procedures in Australia (which, in turn, are likely to affect the extent to which redistribution occurs) is appropriate — or the feasible best.

The equity argument

An explanation of the link between fiscal equalisation and equity has its origins in the work of James Buchanan (1950) which used the concept of fiscal residuum (or net fiscal benefit) to argue the merits and effects of fiscal

equalisation.[10] Buchanan's justification for fiscal equalisation rested on horizontal equity concerns, whereby 'equals should be treated equally'. Taking a 'broad' view,[11] Buchanan argued that fiscal equalisation should aim at reducing horizontal inequities among individuals which may arise in the federal system because different fiscal capacities of States would result in differences between taxes paid and benefits received by residents in similar economic positions.

Buchanan suggested that the best option for achieving equal treatment of equals in a federation would be through a system of geographically discriminatory federal taxes and transfers (grants) applied to individuals, while allowing the States to choose the tax and spending pattern they preferred. However, he observed that such a policy would be unworkable in practice, and proposed transfers among State governments as the feasible best policy alternative. That is, the resulting horizontal inequities arising from differing fiscal capacities can be eliminated or at least ameliorated, by a system of 'equalisation grants', in which States with higher fiscal capacities transfer part of their resources to those with lower fiscal capacities.

Similarly, Boadway and Flatters (1982b) noted that horizontal equity requires that differences in fiscal residua experienced by similar individuals in different States be eliminated. They suggested that, in principle, horizontal equity could be achieved by including net fiscal balances in taxable income for federal tax purposes (federal income tax should apply to real income, equal to taxable income *plus* net fiscal benefits). Given the practical difficulties of implementing such a policy, Boadway and Flatters suggested a system of interjurisdictional transfers — capacity equalisation transfers — whereby jurisdictions would have equal capacity to provide services if they make the same fiscal effort. Boadway and Flatters argued that capacity equalisation gives States the capacity to achieve horizontal equity in the broad sense, but does not make it mandatory, and thus does not eliminate fiscal diversity which is the basis for federation.

However, the concept of horizontal equity as a justification for fiscal equalisation, as it actually is practiced in Australia, has been criticised on a

[10] Fiscal residuum is the difference between what an individual contributes in taxes to the home State and what is received in State provided goods and services.

[11] The broad view of horizontal equity is that individuals who are equals in the absence of federal and State government budget activities should be equals after the fiscal and expenditure actions of both levels of government. In the narrow view, persons otherwise equal in the presence of State government policies should also be equal after federal government policies are in place. This implies that federal government should only correct for differentials in net fiscal benefits caused by federal government actions, while those created by State policies would remain.

number of grounds. Some argue that because fiscal equalisation is not directed at individuals, horizontal equity is not actually achieved. For example, Dimasi (1989), argued that fiscal equalisation is directed to States and not individuals and is unlikely to eliminate differences in net fiscal benefits among individuals. This is because States can use equalisation payments as they see fit. It is only in the unlikely event that all States choose the same taxation and expenditure policies that differences in net fiscal benefits between individuals will be fully eliminated.

Gramlich (1984), referring to fiscal equalisation as financial equalisation, observed that:

> ... the link between financial equalisation formulae of the Canadian or Australian variety and the traditional public finance objectives of horizontal equity and efficiency is at best highly tenuous in principle and very uncertain in application. Even if there were no major problems associated with the detailed calculations, unconditional financial equalisation grants will not generally ensure equal treatment of economic equals residing in different provinces ... If equals are not actually to be treated equally — and, under the so-called ex ante concept, they are not to be treated equally even in expected value terms — how can the principle of horizontal equity have any bearing on the matter.

However, insisting on achieving horizontal equity between individuals in this strict sense would require a degree of equality of outcomes that is inconsistent with the federal nature of the political system.

The efficiency argument

There has been considerable debate as to the trade-off between equity and efficiency — does the application of fiscal equalisation result in significant efficiency losses to particular regions or to the nation as a whole?

The literature associated with Buchanan, Boadway and Flatters and others which establishes the equity case for fiscal equalisation also indicates that fiscal equalisation is required to achieve efficiency — in particular, with respect to the location decisions of individuals. For example, Buchanan (1950) argued that, in the absence of fiscal equalisation, migration from States with low net fiscal benefits for some individuals to those with higher net fiscal benefits would involve considerable distortion of location decisions, because it is concerned only with the redistribution of existing economic rent. His proposed solution was to employ a system of (equalisation) grants to equalise the fiscal benefits without the need to undertake migration.

Scott (1950, 1952) was critical of Buchanan's argument. He observed that higher fiscal capacity in one State could be due to greater endowments of natural resources, past investments etc. He noted that one of the major benefits

of migration is the increase in GDP or national wealth that results when labour and capital move from low income (low marginal product of labour and capital) regions to high income regions. Fiscal equalisation would remove much of the incentive to move to the State with higher wages where the worker's contribution is higher. He also noted that fiscal equalisation would not extend to private goods and hence there may still be some limited incentive to migrate to the richer State.

In response to this, the Treasury of Western Australia observed:

> It is just as possible for marginal productivity to be *low* in a *high fiscal capacity* State as it is to be *high*. (Sub. 158D, p. 3, emphasis in original)

In support of Buchanan's approach, the thrust of the Boadway and Flatters (1982) argument is that, in the absence of some form of fiscal equalisation, migration between regions can lead to inefficient location decisions, because those who migrate ignore the consequences *for others* of their decisions.

Others argue that fiscal equalisation distorts resource allocation because the prices of publicly provided goods and services no longer reflect the cost of provision. For example, the Victorian Government commented:

> Fiscal equalisation undermines the efficient allocation of resources by subsidising the cost of supplying public services in areas where costs are high. (Sub. 134D, p. 6)

This discourages resources from flowing to their most efficient uses, thereby adversely impacting on low cost locations. For example, the New South Wales Government (Sub. 75) asserted that fiscal equalisation discourages people and firms from locating in New South Wales and Victoria where the true costs of providing public services is lower compared with the other States. Moreover, the two larger States are forced to increase their tax rates because of the redistribution process, on what are widely regarded as inefficient, regressive taxes; the New South Wales Government said that this is a second source of efficiency losses resulting from fiscal equalisation. Similar points were made by the Victorian Government (Sub. 89).

However, it should be pointed out that the CGC's procedures do not compare high cost regions directly with low cost regions. The Western Australian Treasury observed:

> fiscal equalisation of States does *not* give each State the capacity to provide the same standard of services in all areas of all States— rather, it allows a comparable level of services to be provided in comparable regions of each State (eg. services in remote regions of Western Australia should be comparable to those in remote regions of New South Wales). Cost disabilities between States arise because, for example, Western Australia has more high cost remote regions than does New South Wales, but the standard of service in these regions is lower than in the major urban areas ... (Sub. 158D, p. 3)

In calculating relativity factors, the CGC takes into account population density, isolation, geographic features, economies of scale, etc. These are location-specific cost disabilities beyond the control of any government. Although present procedures acknowledge the point, the economic risk in including such factors has long been recognised. The very first CGC report in the 1930s noted that:

> It would be wrong to give subsidies to the people of a State to make up for poverty of resources. Such grants would encourage a population which in the long-run cannot be maintained and would thus perpetuate an uneconomic regime. (As quoted in Victoria, Department of the Treasury 1991, p.14)

Gramlich (1984) said that:

> The CGC mechanically tries to eliminate these cost differentials by its equalisation formulas. But that just removes a disincentive that would otherwise encourage citizens to move away from these high-cost areas and in the long run raises the overall cost of providing public service. (p. 247)

The Grants Commission itself was required to report (CGC 1988) on the efficiency implications of its methods. It said that no evidence was presented to indicate that equalisation had any effect on the way States allocated resources between high-cost areas and low-cost areas. In this regard, it is important to recall that fiscal equalisation changes only the income (capacity) of the States and leaves them to determine their own priorities. Mathews (1989) argued that, as an income support mechanism, it is unlikely to distort prices of services or uses of funds.

More recently, Albon (1990) while critical of the methodology used by CGC, accepted Mathews' defence of the CGC, but maintained that the distinction between the income effect and price effect was irrelevant to the analysis of intergovernmental grants to compensate for locational disabilities:

> The fact that fiscal equalisation transfers could be spent as recipient States wished meant that their resource allocation decisions were not distorted in any way ... the transfers produced an income effect and not a distorting price effect.

Some are of the view, however, that current Australian fiscal equalisation procedures induce individual States to engage in 'grant-seeking' behaviour by substantially altering their tax and expenditure policies to benefit their own residents at the expense of other Australians. This is because the redistributive system involves large grants. Such a system could make competition for shares of grants an important activity for States.

The Victorian Government claimed that fiscal equalisation impairs economic efficiency because:

> revenue collection in some States has been skewed to maximise Commonwealth grants. (Sub. 89, p. 29)

A summary supplied to the Commission of a study undertaken by Swan (1993) for the New South Wales and Victorian Treasuries, argues that the grant design mechanism used by the CGC to assess relativities can induce States to undertake 'grant-seeking' behaviour. In raising revenue, the types and levels of taxes may be influenced by the process of fiscal equalisation. If a State has a small tax base in one area, it may impose a high tax rate with the result that the relatively high revenue raising effort raises relatively little revenue – and that attracts a higher grant share. Similarly, activities which provide a large tax base for a State may tend to attract low rates of tax. Swan further argues that the States' expenditure patterns may be influenced by the process of fiscal equalisation. The process is said to encourage both the over-provision of relatively high cost services, and the under-provision of relatively low-cost services to attract a higher grant share. This study estimated the collective cost of this behaviour to be between $13 million and $54 million per year.

However, it is not clear that the assessment procedure used in the process of fiscal equalisation actually results in such manipulation. There are a number of reasons why a State which specifically acted to increase its grant share would not be certain of achieving a favourable outcome.

First, States cannot be certain that the methods used in the assessment procedure will not be changed. The CGC reviews all assessment methods every five years. Second, there is a significant time lapse between a State engaging in 'grant-seeking' behaviour and the outcome of this action. Third, a State over-providing high cost services is unlikely to recover the full cost of providing that service even with an increased grant share. (Sub. 149D, p. 4)

The CGC does not believe that States engage in 'grant seeking' behaviour.

> ... the Commission considers that 'grant-seeking' activities are more a theoretical construct than a practical occurrence. They are not seen as a major concern in the present system. (Sub. 149D, p. 5)

The CGC gave examples of a number of hypothetical simulations it had undertaken to test the benefits that might flow to States from 'grant–seeking' changes in their behaviour. It found that even substantial policy changes produce small and long-delayed changes in grant share (Sub. 149D, Appendix, p. 8).

The Commission is of the view that the incentives for the States to adopt such tactics are likely to be weak, in part because they would involve politicians taking decisions which are either detrimental to State finances or inexplicable to their constituents.

Others argue that fiscal equalisation may encourage governments to fall into the 'transfer dependency' trap (Courchene 1993) if equalisation compounds other

policy inflexibilities, such as wage rigidity. In these circumstances, it would have the potential to lessen innovation and militate against regional adjustment and development. The first best solution would be to remove the fundamental causes — the policy inflexibilities.

The States that are net gainers from the system generally supported the equity and efficiency rationale for fiscal equalisation.

The Western Australian Government (Sub. 69) emphasised that the potential gains from changes to fiscal equalisation are minor compared with those from remedying Australia's vertical fiscal imbalance. It also drew attention to the inconsistency between allocating Commonwealth grants to local government initially among the States on a per capita basis and then within the States on an equalisation basis. The Western Australian Government considered that equalisation should, on efficiency grounds, occur at both stages. However, it noted the potential efficiency losses if equalisation were to be based on the actual size of local governments:

> local government equalisation should not be based on the *actual* size of local governments, but rather a *notional* size based on the average size of comparable local governments across Australia. In other words, local government assessments should be based on 'standard policies' for the size of local governments in urban, rural and remote areas. In this way, incentives for individual local governments to amalgamate would not be distorted, but local governments in some areas of Australia would still receive greater funding for small scale costs. (Sub. 158D, p. 5, emphasis in original)

The Government of South Australia (Sub. 88) recommended that 'the Commission affirm the principle of fiscal equalisation as an essential equity and efficiency measure', asserting that equalisation results in similar outcomes to those that would be apparent under a system of unitary government.

The Northern Territory Government stated that:

> ... in the absence of horizontal fiscal equalisation, (it) would be unable to provide the current levels of services, particularly to remote communities, without raising taxes or charges to prohibitive levels. (Sub. 87, p. 3)

It said that the Commission should recognise fiscal equalisation as an important instrument in achieving regional industry adjustment.

The Queensland Government supported fiscal equalisation on the basis of reducing external costs. It suggested that:

> ... the absence of fiscal equalisation may produce economic inefficiencies, such as congestion and over-crowding in large cities, as has occurred in some parts of the United States. (Sub. 92, p. 25)

Assessment

It is difficult to assess the equity and efficiency effects of fiscal equalisation solely on qualitative grounds. Discussion of the equity rationale suggests that fiscal equalisation should be directed at individuals if the object of horizontal equity is to be fully achieved. However, Australia, like other federations, adopts the concept of equalising fiscal capacity across States as the only feasible way of achieving equity between individuals in different States while allowing States to choose different outcomes.

Some aspects of how the fiscal equalisation principle is translated into practice, may result in efficiency losses. However, the magnitude of these potential costs is difficult to assess *a priori*, and there is surprisingly little empirical work on their magnitude. Currently available estimates vary so widely as to be inconclusive.

One attempt to examine the likely distortions was provided by Dixon et al (1990). They used two models, ORANI-NT and FEDERAL (TASMAIN) to examine the effects of changing the distribution of general revenue assistance among States. Their empirical evidence suggested that location-specific disabilities imposed net efficiency costs of only $30 million a year. Nearly all of these costs were accounted for by the Northern Territory. The present value of the inter-regional efficiency gains from removing location-specific disability factors from the CGC's distribution formula was estimated at about $600 million.

In contrast, the National Institute for Economic and Industry Research (in a study commissioned by the Victorian Treasury) estimated that the removal of location-specific transfers could increase national output by $500 million per year. This estimate has been criticised on the basis of the assumptions adopted, including that the benefits of higher grants to New South Wales and Victoria would be offset by reduced indirect taxes (Government of Western Australia, Sub. 69, Appendix 6) — changes to indirect taxes give relatively large activity responses in most economic models.

A third empirical study on efficiency effects of fiscal equalisation was jointly commissioned by the New South Wales and Victorian Government Treasuries and was conducted by the Monash University Centre of Policy Studies, using the MONASH-MR model. It projects that by increasing grants to New South Wales and Victoria, real GDP would be expected to increase 0.18 per cent holding nominal wages constant, or 0.24 per cent holding real wages constant. The model is based on a number of assumptions including: State governments adjusting the payroll tax rate or level of consumption expenditure rather than their net borrowings, to maintain the current level of borrowings; real investment being unaffected by changes in grants; and labour being immobile

between States, but in excess supply in each State. The New South Wales Treasury acknowledges that the results are preliminary and that 'the conclusions are more illuminating than definitive' (NSW Department of Treasury 1993b, Section 10, p.35). The Treasury of Western Australia (Sub. 158D) said that, on the basis of flaws in the modelling, it could not assign any credibility to the results — a view broadly supported by the CGC (Sub. 149D).

The Commission's terms of reference require it to 'take account of any recent substantive studies undertaken elsewhere'. It had expected that some important studies would have been available during the inquiry, namely:

- a Heads of Treasury report examining all aspects of fiscal equalisation, including the possible efficiency costs in the context of industry reform and structural change; and
- full copies of studies commissioned by the New South Wales and Victorian Governments, one, by Swan and Associates on qualitative impacts and the other, by the Monash University Centre for Policy Studies, providing a quantitative analysis of the effects of equalisation on efficiency, economic activity, prices and incomes.

It was announced at the July 1993 Premiers' Conference that the Heads of Treasury report had been deferred until 1994. At the time of completion of this report, only summaries of the Swan and Monash studies were publicly available.

Given the unsatisfactory evidence, to date, on the magnitude of efficiency losses, a case for *fundamental* change to the system of fiscal equalisation would be difficult to sustain. But there may be a case for marginal change to ensure that efficiency costs of the procedures currently in use are minimised.

Efficiency costs are likely to be greatest where the subsidy or equalisation provisions are the largest. **The Commission acknowledges that the CGC is continuing to examine those expenditure categories having relatively high unit cost disabilities in particular States and, in order to enhance the transparency of the fiscal equalisation process, suggests that this analysis be given more prominence in its reports.**

11 ADJUSTMENT ASSISTANCE: THE REGIONAL DIMENSION

There are both efficiency and equity grounds for government to provide some adjustment assistance to 'oil the wheels' of change.

Commonwealth and State governments provide a range of assistance and other measures directed at improving the adjustment process. Expenditures may amount to around $2 billion a year. Most programs are not designed with particular regions in mind. However, the assistance does have regional implications. Data on the regional incidence of expenditures are poor, and should be improved.

To the extent that regions differ in their economic circumstances and social characteristics, there is a question about whether existing programs are appropriate or adequate. In considering what might be needed at the regional level, the role of adjustment assistance and the measures that currently are available are assessed. While adjustment assistance properly is directed at the needs of people, there may be benefits from increasing the regional sensitivity of assistance, especially where there are major adjustment shocks.

11.1 Introduction

This report has concentrated thus far on identifying impediments, or potential impediments, to adjustment. Action by governments to remove or ameliorate these impediments would facilitate regional adjustment, enabling regions better to exploit their potential, and consequently to enhance Australia's growth prospects.

However, the removal of impediments to adjustment may not be possible in some cases, at least within a reasonable time frame. Even if it were, this would not necessarily be the end of government's role in regional matters. Market outcomes are not always economically or socially optimal. Political considerations sometimes will dominate — especially within regions, which are co-extensive with political constituencies.

A number of participants in this inquiry saw a need for government assistance in particular regions. For example, the Latrobe Regional Commission commented that:

> There has been enormous structural change in the Latrobe Region's principal industry sectors: electricity, oil and gas, timber and wood products ... [causing] job losses in the order of 4,500 over the past five years. At least 1,000 more positions are expected to go in the electricity sector over the next 12 months.
>
> This has resulted in significant unemployment throughout the Region, and some extremely high youth unemployment figures ... In the light of these pressures ... it is imperative to reorientate this Region from a local service base to a national and international perspective. This will require State and Federal assistance. (Sub. 94, p. 1)

Similarly, the Brotherhood of St. Laurence advocated greater government involvement, commenting that:

> There are strong economic and social reasons for fostering Australia's regional centres. These reasons relate to pressure on the infrastructure and environment in metropolitan areas, especially Sydney and Melbourne, and the existence of facilities and skills in regional areas which could be put to better use. (Sub. 45, p. 6)

In practice, governments have a range of policies directed at influencing economic and social outcomes within regions. At a broad level, the allocation of funds through the Commonwealth Grants Commission has an important regional component, as discussed in Chapter 10. The Commonwealth also has taken specific regional initiatives and has developed a suite of programs which have significant regional effects. At the State level, there has been an even more sustained regional policy presence. At both State and Commonwealth levels, there have been signs of increasing activity in recent times, responding in part to high regional unemployment and increasing disparities in regional economic fortunes.

In looking more closely at the existing range of policy measures — and recognising that there are areas of overlap — it is useful to draw a distinction between:

- those measures directed at assisting the *process* of adjustment ('oiling the wheels'); and
- those which seek to promote particular *outcomes*, or patterns of activity, within and among regions.

These approaches are discussed in this report under the headings of 'adjustment assistance' and 'development policy', respectively. While the former falls more closely within the Commission's terms of reference and is the subject of this chapter, the latter clearly also is of great concern to many inquiry participants (see Chapter 12).

11.2 Rationales for adjustment assistance

The reasons for providing *regional* adjustment assistance need to be considered in conjunction with the case for providing such assistance more generally. This has been the subject of considerable discussion internationally as well as in Australia. Australian studies on this issue include that by the Priorities Review Staff in 1975, the Crawford Report in 1979 and a number of studies and reports by the Commission itself. However, the regional dimension of adjustment has not been a major concern of most Australian studies, unlike those undertaken in other countries.

Rationales for adjustment assistance can be based on 'efficiency' and/or 'equity' considerations. For example, the South Australian Government has advocated that:

> ... in principle acknowledgment be given to South Australia's case for Structural Adjustment Assistance ... Payment of Structural Adjustment Assistance would be premised on equity grounds and would be used to enhance the efficiency of Structural Adjustment. (Sub. 88, p. 4, emphasis in original)

11.2.1 Promoting efficiency

The adjustment process will unavoidably involve some transitional unemployment and production losses. This is the case even in the absence of significant policy-related impediments or when general economic conditions are more buoyant than they have been in Australia in recent years. In order to be able to flow into new, more productive and competitive uses, resources first have to be released from existing uses, and often will need to adapt or be adapted (retrained, modified or relocated) for the new roles.

The efficiency case for adjustment assistance is based on the existence of 'market failures' which make transitional losses larger and more sustained than they would be with appropriate government intervention.

It is in relation to labour market adjustment that there is most potential for such failures. Two important mechanisms of labour adjustment, identified in Chapter 4, are the regional and occupational mobility of labour. As noted previously, people have a natural reluctance to shift locations, especially as they get older and develop family and social ties in their home region. But the chances of moving can be further reduced by lack of information about employment and accommodation prospects in other locations. As the Commonwealth Department of Employment, Education and Training (DEET) observed:

> Those who seek to move outside their own labour market generally will have fewer search methods available to them. In particular, they will not be able to use their

> network of friends and relatives, and direct contact with employers in search of possible job openings is difficult ... (Sub. 71, p. 7)

Governments traditionally have provided such information, as well as sometimes providing job search and relocation subsidies. The prospect of 'market failure' in this area — namely, that adequate informational services would not be provided (for a fee) by private firms — is likely to be greater in more remote or isolated regions than in large cities.

A second area of potential market failure, already raised in Chapter 6, relates to labour training. When people lose their jobs through structural change (as opposed to cyclical pressures) their technical skills often become redundant, especially those that are more specialised. Successful adjustment will require that new skills be acquired. Skill enhancement may not only make a worker more mobile occupationally, but also regionally. However, because of the difficulty of ensuring an adequate return from training, private firms may provide less training than is desirable for the economy as a whole. As discussed in Chapter 6, this has been accepted as a rationale for government programs involving direct provision of training and incentives to firms to undertake greater training. Moreover, the loss of skills through disuse during prolonged unemployment can make training important even for those unemployed who could expect to see vacancies in their accustomed field.

While there are efficiency grounds for providing adjustment assistance to workers, the efficiency case for helping 'capital' adjust is much weaker. Reductions in the value of a firm's assets are a common phenomenon and are not a 'cost' to the economy as a whole. They are not a market failure, but a reflection of the risk that investors accept in choosing one investment rather than another. The same applies to idle plant capacity that is no longer economic when a portion of the capital is sunk. This is the case, regardless of how much of the capital is sunk and specific to an enterprise or region. Moreover, the changes leading to declines in asset values in some industries and regions will often be offset by higher asset values elsewhere (for example, some firms will lose from tariff reductions, but others will gain).

The same principles would seem to apply to public infrastructure. The difference is that most infrastructure is 'government-funded' and there are budget constraints on meeting demand in expanding regions. It is only where excess capacity in infrastructure reflects over-pricing relative to its cost of provision (so that people leave the region) that there is *economic* wastage and, as noted in Chapter 9, this has a remedy.

A related but distinct rationale for adjustment assistance is based not on market failures, but on the existence of impediments to adjustment resulting from other government policies. For example, the need for employers to pay trainees a

wage that is higher than warranted by their lack of skill and experience contributes to the under-provision of training (and retraining). Similarly, policy related 'poverty traps', which reduce the incentive for less skilled workers to accept employment at going wages (and tax levels), contributes to prolonged unemployment.

If nothing can be done about the underlying policies impeding adjustment, new forms of assistance can be a 'second best' approach. However, it is difficult to devise them without causing new difficulties. For example, as noted previously, wage subsidies designed to encourage employment of workers needing experience, can lead to displacement of existing workers.

In sum, the efficiency arguments for adjustment assistance require measures that are, firstly, related to the source of market (or government) failure and, secondly, are less costly in their implementation and side-effects than the failure itself. It is important to note that the causes of such failures are generally not region-specific, although their effects — the composition and magnitude of unemployment — may differ widely among regions.

11.2.2 Equity in regional adjustment

All regions experience pressures for change, but not with the same intensity. Changes in the conditions of demand and supply in different markets will benefit some regions more than others, and some will be net losers.

A case for compensating the losers from adjustment has sometimes been made on equity grounds. The context usually relates to policy changes that yield net benefits to the economy as a whole, but involve disproportionate losses to some members of the community.

This is clearly relevant to the regional dimension of adjustment, since some activities affected by policy (or other) changes can be regionally concentrated. Examples are changes in government assistance arrangements for producers of sugar, tobacco or motor vehicles; irrigation water pricing reforms; and environmental regulation.

Equity is a subjective notion, the interpretation of which can differ among societies, and groups within a society, as well as over time. There are, nevertheless, some basic equity concepts that most members of the community would generally accept. Among those that seem relevant to the question of adjustment compensation are:

- that government policies should treat 'equals' equally (horizontal equity);
- that in redistributing income, the poor should be favoured over the rich; and

- that government should not confiscate or deliberately devalue peoples' rightful property without compensation.

What these suggest, among other things, is that the regional *concentration* of losses from a policy change need not, in itself, justify compensation. The source of such losses, though, is an important consideration, as is the status (ie firm or worker, income level, property rights) of the potential recipients of compensation.

Equity arguments based on compensation for policy changes derive from the fact that policies such as tax concessions, import tariffs or regulatory barriers to competition (which lead to a misallocation of resources among economic *activities*, thereby reducing national income) may not ultimately benefit *individuals* in the favoured activities. This is because such benefits either attract additional people into those activities, or become capitalised in the prices that investors must pay — eventually resulting in only 'normal' returns to new entrants. Policy reform will thus produce winners and losers — violating the principle of horizontal equity. The extent to which this applies in practice will depend on the nature of the benefit conferred and removed by government.

In the case of tariff reform, which is the context in which regional adjustment assistance has most often been raised, horizontal inequity is more likely to arise for workers than for owners of assets in an industry. To the extent that equity holders have diversified portfolios, reforms that reduce the value of some assets will enhance the value of others. (Tariffs subsidise some activities by taxing others.) Moreover, the holders of equity in firms will generally be better placed than workers to understand the risks inherent in dependence on government assistance. The real value of tariff assistance has rarely been stable for any enterprise and the trend for most has been downwards since the early 1970s.

In any case, the phasing of reforms allows a period for returns to continue from investment decisions made under the pre-existing regime. As Sorensen notes:

> ... the slower the change, the weaker the case for compensation. (Sub. 24, p. 13)

The equity case for compensation seems stronger where a *new* tax or regulation is put in place that imposes losses on some groups. In its report on Costs and Benefits of Reducing Greenhouse Gas Emissions (IC 1991d), for example, the Commission drew attention to the adverse consequences for coal producing regions (such as the Hunter and Latrobe Valleys) of a carbon tax, which was estimated to cut coal production and exports by about 60 per cent. Participants in the present inquiry cited the case of a limestone quarry in southern Tasmania that was forced to close when it was subsumed within a heritage listing.

The practical problem in pursuing compensation for policy-induced losses — apart from its budgetary implications — is where to draw the line. *All*

government policies can generate winners and losers. For example, tight monetary policy, in raising interest rates, hurts those with mortgages or other debts, but benefits those dependent on income from savings. Choosing which deserve compensation and by how much requires difficult judgments and will inevitably be viewed by some as (horizontally) inequitable.

Moreover, as noted previously, there are many other (non-policy) sources of change that can impose significant losses on particular groups or regions. It would be difficult in practice to know what the contribution of different influences was in determining whether and how much compensation might be appropriate. This poses particular difficulties at a regional level, since most policy changes will generate both winners and losers within a given region, especially within States.

It is for these reasons that assistance based on equity grounds tends to be provided universally to individuals who meet general criteria relating to income or employment, rather than depending on the reasons for poverty or job loss.

11.3 Current adjustment programs

State and Commonwealth governments have a range of measures intended to promote adjustment. Most of these measures are not regionally specific, although in recent years there has been an increase in the regional focus of adjustment assistance. Whether programs are designed for particular regions or not, they will clearly have an impact on adjustment within regions to the extent that the criteria for providing assistance are met.

This section briefly reviews available adjustment assistance measures, looking in particular at their regional incidence and applicability. Measures defined as 'adjustment assistance' include those which are intended to enhance occupational or locational mobility of resources by seeking to improve productivity and skills ('quality') or by changing costs and prices of factors and inputs.

The treatment here is not intended to be comprehensive. Information at the Commonwealth and the State level was not always available. More detailed information about the main adjustment programs and measures is given in Appendices H and I.

It is possible to classify the available adjustment assistance programs in various ways. Given the focus here on regional adjustment, the classification chosen, in

the first instance, relates to the degree to which there is targeting of regions. It includes:

- national programs for both workers and firms;
- State-wide programs;
- region specific programs (ie within States); and
- sector and industry specific programs.

For each of these categories, measures can be further distinguished in terms of their effects on the price, quality and location of labour and capital (see Appendix I).

11.3.1 National programs

The Commonwealth sponsors a suite of adjustment programs that are available throughout Australia. They are directed predominantly at labour markets, although some focus on firms. Expenditure on national labour market programs by the Commonwealth in 1992–93 totalled $1.133 billion (excluding Aboriginal Employment Support Programs), and a further $15.5 million was spent on enterprise-based assistance.

Labour programs

Unemployed workers — or, in some cases, firms taking them on — can receive a range of assistance through wage subsidies, training, relocation assistance, counselling and job placement. As discussed in Chapter 6, most programs currently target the long-term unemployed and disadvantaged job seekers and do not focus on the sources of job loss — whether cyclical or structural.

At the national level, public provision of training and training subsidies are the most common type of adjustment assistance (see Table 11.1), although since the onset of the recession wage subsidy and mobility assistance programs have received increasing attention. The Commonwealth Budget for 1993–94 has reaffirmed this trend.

Since the onset of the recession in 1988–89, some new training programs have been introduced and there has been a three-fold increase in total expenditure on the six main labour adjustment programs: Jobstart, Jobtrain, Jobsearch, Mobility Assistance, New Enterprise Incentive Scheme (NEIS) and Skillshare (see Table 11.1 and Appendix H).

In general terms, these labour market programs can be seen as addressing perceived market failures in the areas of training or information for job seekers. However, as discussed in Chapter 6, it is not clear that they are all effective in meeting objectives and yielding net benefits to Australia as a whole.

Table 11.1: **Major national labour market programs**

Program	*Eligible recipients*	*Nature of assistance*	*Expenditure* 1991–92	1992–93
			($m)	($m)
Jobstart	Employers of disadvantaged job seekers	Wage subsidy	117.2	339.0
Jobtrain	Long-term unemployed, unemployed youth at risk, unemployed aged 50-64 years	Training, income support	189.4	167.8
Accredited Training for Youth	Long-term unemployed young people	Vocational training	–	59.5
Jobsearch	Persons registered with CES as unemployed for more than 3 months	Training, information	16.4	13.3
Mobility Assistance	Unemployed job seekers travelling to an interview, seeking work in high employment opportunity areas or taking up an offer of permanent employment	Fares or petrol subsidy, relocation assistance, job search regional mobility assistance, post placement fares assistance, job search assistance, subsidy for cost of entering employment.	8.6	15.1
NEIS	Unemployed persons over 18 with a business proposal that meets certain criteria	Self employment assistance, includes provision of information, training, capital subsidy and income support	28.2	44.2
Skillshare	Long-term unemployed (12 months +) and other disadvantaged job seekers	Training, information	136.0	176.7
Jobskills	Long-term unemployed (12 months +)	Training, work experience	45.5	144.4

For other programs and further detail see Appendices H and I.
Source: DEET 1993c

DEET is cognisant of the problems that labour market programs present for country locations. It stated that regional sensitivity is receiving major policy emphasis. This is evidenced by greater autonomy for regional offices. DEET's labour market program funding is allocated to the States by their share of long-term unemployed and reallocated amongst 'DEET Areas' taking into account

each area's clients, employers, training infrastructure and labour market characteristics.

Funding arrangements ensure that those regions that suffer the greatest unemployment receive larger shares than others. This is entirely appropriate given that labour market programs are directed at the needs of *people*. Thus, although they are essentially regionally neutral, most programs have a varying regional incidence.

The Commission would have liked to compare the regional distribution of labour market program funding with unemployment levels by DEET region, on the one hand, and with labour market program expenditure (per unemployed person) by DEET region, on the other. Such a comparison would provide an indication of how well labour market program expenditures are targeted to regions most in need. However, DEET could only provide data on where expenditure was approved and not where it was spent. Consequently, State Office approvals — comprising 30 per cent of total expenditure — were not attributed to the regions in which they were spent, rendering the proposed comparison meaningless. Moreover, DEET does not provide data on the number of registered unemployed persons by DEET area.

While it would appear that the criteria currently used for labour market programs would address regions in need, it would be useful to confirm this. Regional expenditures on labour market programs could then be combined with Office of Labour Market Adjustment (OLMA) expenditures in regions (with some reconciliation of differences in regional boundaries) to provide a more complete picture of direct regional assistance from all of the national labour adjustment assistance programs.

DEET also provides labour market adjustment assistance to Aborigines through the Training for Aboriginals and Torres Strait Islander Program (TAP). This program provides training, wage subsidies and assistance for career development strategies to improve employment outcomes. In 1992–93 total expenditure under TAP amounted to $48 million (see Appendix I for details).

Assistance to firms

Firms throughout Australia can obtain subsidies under the enterprise-based assistance programs administered by OLMA for consultancies, training, and human resource needs. Expenditure on these programs increased four-fold between 1991–92 and 1992–93 (see Appendix H).

Table 11.2 provides information relating to the objectives, eligibility requirements, nature of assistance and expenditure for the three enterprise-based assistance programs: the Training and Skills Program (TASK); Assistance to

Firms Implementing Change (ATFIC); and Employee Skills Upgrade[1] (ESU). Expenditure under the enterprise-based assistance programs represent approximately 20 per cent of total OLMA adjustment assistance outlays.[2]

Table 11.2: **OLMA enterprise-based adjustment assistance**

Program	*Objective*	*Eligible recipient*	*Nature of assistance*	*Expenditure*	
				1991–92	*1992–93*
				($m)	($m)
TASK	Assist employers to retain and train staff during period of economic downturn	Enterprises facing retrenchments or short-time	Assistance to: establish a consultative committee; investigate training needs; develop training resources; and deliver training (this includes a contribution per trainee per full time training day to offset the award-based training rate of pay that must be paid by employers)	2.82	7.97
ATFIC	Assist firms to expand, restructure and develop effective business and human resource planning practices	Firms undertaking expansion or new production methods	Subsidy for enterprise committees, consultancies, training	0.47	7.47
ESU	Two year pilot program to assist companies overcome skill shortages by upgrading the skills of existing employees and backfilling their positions with suitable unemployed people	Firms with skill shortages	Training; creation of employment opportunities	0.05	0.07
Total				**3.34**	**15.51**

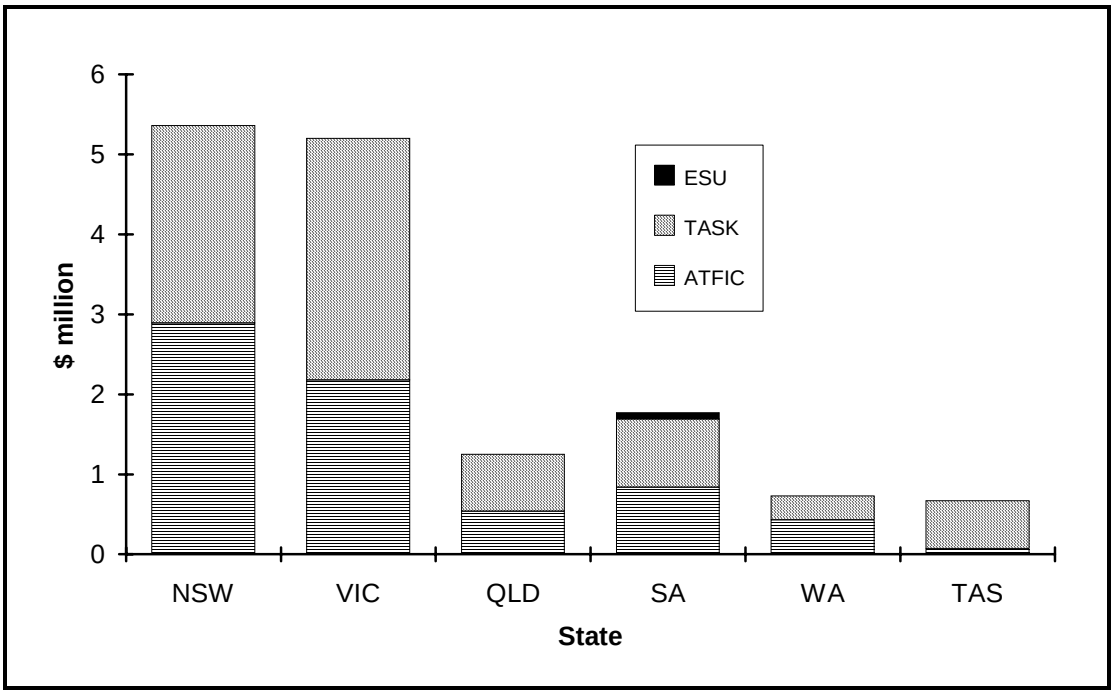
Sources: DEET 1992a, 1993c.

[1] This two year pilot program was not widely implemented and will not be continued in 1993–94.

[2] In addition to enterprises, OLMA also provides labour adjustment assistance to industries and regions.

A State breakdown of expenditure for each of the three enterprise-based assistance programs is provided in Figure 11.1. Further details on these programs are available in Appendix H.

Figure 11.1: **OLMA enterprise-based labour assistance by State, 1992–93**



Source: Information supplied by OLMA.

To the extent that enterprise-based adjustment assistance programs subsidise the retention of existing labour within firms, enabling firms to stay in business or to expand their operations, there is a risk that such measures could serve to actually impede necessary adjustment. However, according to DEET:

> The suggestion [in the Commission's draft report] that enterprise programs may subsidise production activities is inaccurate. The program limits assistance to non-production areas and, in the case of training, follows the definition in the Training Guarantee legislation to rule out specifically the possibility of subsidising production during on-the-job training. (Sub. 123D p.18)

In practice factors affecting non-production areas can also indirectly affect production areas. For example, training in occupational or work skills, offered under the TASK program, will enhance worker productivity and thereby benefit production. Moreover, because TASK is specifically targeted during periods of economic downturn it may be used by firms to avoid the transactions costs associated with laying off staff and rehiring down the track.

Given the existence of hysteresis in the labour market, however, subsidised labour retention may be seen as an alternative to retraining redundant workers — although employment subsidies create another set of problems. For instance, it would be difficult to establish whether, in the absence of a subsidy, firms would actually lay off workers. Distinguishing between the temporary and permanent decline of a firm is also likely to be difficult in practice. If it is permanent, subsidised labour retention could encourage resistance to inevitable adjustment. Further, a displacement problem may arise to the extent that subsidising particular production activities could be at the cost of competitors (who may have to lay off workers) or other activities, unless they too are subsidised.

In the past, enterprise schemes included eligibility criteria relating to the size of a company's workforce. For example, TASK applied to enterprises with more than 20 employees and ATFIC applied to firms with less than 50 (but more than 5) employees. Since the proportion of enterprises defined as small businesses is around 96 per cent for all States and Territories[3] (slightly lower for the Northern Territory), these criteria appear unlikely to have discriminated between States (ABS 1990b). However, it may have been that individual sub-State regions — characterised by a significantly higher than average proportion of small enterprises — had reduced eligibility for OLMA assistance relative to regions with differing industry size profiles, but similar adjustment concerns.

11.3.2 State-wide programs

Commonwealth and State governments provide a number of adjustment assistance programs that are available State-wide. Some programs are funded jointly by Commonwealth and State governments.

The Commonwealth provides assistance to the Northern Territory Government for the rehabilitation of former uranium mine sites that were operated in the period before self-government. The Commonwealth also provides compensation to shippers of specified goods under the Tasmanian Freight Equalisation Scheme, to alleviate the comparative freight cost disadvantage suffered by Tasmanian industry in shipping goods to and from the mainland. This amounted to $34 million in 1992–93. In Tasmania it is seen not as a subsidy, but as compensation for the costs it bears from national coastal shipping regulation. As noted in Chapter 8, Tasmania is not the only part of Australia disadvantaged by assistance to the coastal shipping industry. Unlike most other places, however, land-based alternatives are not available to it.

[3] The ABS defines a small business as any non-manufacturing enterprise with less than 20 employees, or a manufacturing enterprise with less than 100 employees.

Most State-wide adjustment assistance programs are run by the States themselves. As in the case of national programs, assistance predominantly is directed at labour markets. For example, the New South Wales Government allocated $41.5 million in 1992–93 towards its own labour market adjustment assistance programs (see Table 11.3), while the Victorian Government spent about $26 million (see Appendix I for details).

The New South Wales Department of Industrial Relations, Training and Further Education was able to provide a full breakdown, by region, for six of its labour market programs. (This contrasts with the situation at the Commonwealth level, described previously.) These programs account for around two thirds of the State's total expenditure on labour market programs (see Appendix H, Table H.7).

Table 11.3: **New South Wales labour adjustment assistance programs**

Program	*Expenditure 1992–93*
	($m)
Australian Traineeship System	5.76
Skills Gap Program	1.15
Workplace Community Based Employment and Training	6.72
'First Chance' Enterprise Training for Youth	1.18
Group Training Program	1.13
Intensive Training for Out of Trade Apprentices	0.41
Vocational Training Assistance Scheme	2.19
Government Group Apprenticeship Program	0.69
Training Opportunities Placement Services	0.50
Self Employment Development Program	6.36
Community Based Employment and Training	3.20
Sydney City Mission	2.65
Industry Skills Training Program	0.56
Industry Training Development	0.65
Outplacement and Retraining Assistance Scheme	1.70
Aboriginal Employment and Training Schemes	4.43
Migrant Employment and Training Schemes	2.03
Retrenched Workers Retraining Project	0.22

Source: NSW Dept of Treasury 1992b and information provided by NSW Department of Employment and Training.

The Victorian Government abolished an array of programs which relied extensively on wage and training subsidies that predominantly targeted young people and replaced them in September 1993 with a single scheme — the Community Based Employment Initiative. This program has a budget allocation of $9 million for 1993-94 to provide grants to private firms and community

groups to carry out training and job replacement activities previously carried out by the State government (see Appendix H and Appendix I).

The Queensland Government provided $12.7 million in labour market adjustment assistance in 1992–93, a 27 per cent increase on the previous year. This funding is provided by a variety of programs through wage subsidies, job training, placement assistance, advice and loans to complement the Commonwealth's NEIS program (see Appendix I).

In South Australia, the 'Kickstart' program is the only State funded employment initiative (Sub. 93). It was established to coordinate employment and training programs at the local level. Regional development boards coordinate employment activities with OLMA, local governments, training providers, community groups and local industry. The program provides training infrastructure, funding of training programs and advice to assist the retention of 'jobs at risk' and relies on the Department of Social Security (DSS) to provide income support payments while clients are undertaking training (see Appendix I).

In 1992–93, the Western Australian Government spent $2.3 million[4] on labour market adjustment assistance. Its programs are intended to fill gaps left by the Commonwealth's programs and to coordinate community employment projects. Employment Access Officers identify gaps in labour market services, including TAFE colleges and Commonwealth labour market programs, and assist with the development of appropriate responses (see Appendix I).

The Tasmanian Government abandoned a number of labour market programs in 1990 and now operates only one — the Employment Opportunities Program — which aims to complement Commonwealth programs in two areas considered to be inadequately covered by existing Commonwealth programs. The State Government considers the duration of assistance under Jobstart to be too short to effectively stimulate youth employment, so it has initiated the 'Tas Jobs for Youth' program which provides a wage subsidy for youth. The second program, 'Employment Tasmania', is designed to complement the Commonwealth's Jobstart program through the provision of wage subsidies. Total expenditure for both programs amounted to $0.5 million in 1992–93 (see Appendix I).

[4] This figure does not include $1.04 million budgeted for labour adjustment assistance during the 1992 calendar year. See Appendix I for details.

11.3.3 Regional programs

At the (sub-State) regional level, the predominant source of adjustment assistance is the Commonwealth Government, through region-based adjustment assistance programs administered by OLMA. Most State assistance to particular regions is directed not so much at the *process* of adjustment as at achieving particular outcomes, and is considered in the discussion of development policy in Chapter 12.

The number of regional projects approved by OLMA increased from 330 in 1991–92 to 585 in 1992–93. OLMA targeted 126 regions throughout Australia in 1992–93, under its region-based adjustment assistance programs, with expenditure of $21.8 million, compared to $8.1 million the previous year (DEET 1993c, 1992b). For 1993–94, 143 regions have been targeted for OLMA region-based adjustment assistance. (A list of these regions is provided in Appendix H). As part of its region-based assistance measures, OLMA also operates a number of Regional Adjustment Packages (RAPs) and Regional Enterprise Adjustment Schemes (REAs), described in Appendix H. All programs contain elements of development assistance as well as assistance to facilitate the adjustment process.

Region-based packages can contain: grants for the establishment of regional employment, education and training committees; regional economic development grants to 'facilitate the development of economic activity and/or small business or local enterprise ventures'; regional enterprise assistance for enterprises with a capacity to expand to increase the regional employment base; skills surveys; and 'public awareness' elements (OLMA 1992b, p. 2.1 and 2.2). Some packages can also provide funding for regions wishing to undertake import replacement (eg Innisfail/Johnston Shire in Queensland). All region-based assistance packages are developed in consultation with relevant community groups.

Box 11.1 describes the nature of this assistance for two regions: Tasmania and Geelong. OLMA's assessment of the Tasmanian Regional Adjustment Package, based on 1992 information, indicates that almost 58 per cent of those placed under the program and 68 per cent of those placed under other OLMA packages were still in employment or training three months after assistance had ended (DEET 1992b). However, as noted previously, given that three months is a short period for post-program evaluation, it is difficult to determine how meaningful these statistics are.

Box 11.1: OLMA region-based labour adjustment packages: two case studies

Tasmania

During 1992–93, the State of Tasmania (until recently, defined as one region by OLMA) was allocated $1 million in region-based adjustment assistance. This funding provided assistance for: an estimated 1600 retrenched workers from designated companies until June 1995; a consultancy to identify skill shortages and potential labour sources to meet identified shortages; a comparative study of costs in metropolitan and non-metropolitan areas to formulate strategies to address regional development imbalances; a study of growth potential in Tasmanian production and employment through import substitution from a State and a national perspective; an orchard hand training course in the Huon Valley for 20 trainees; organisation of a pool of unemployed persons (appropriately trained) to service casual labour requirements of North West small crops industry; establishment of an industrial adjustment consultancy to match training to local job opportunities; entry level training and multi-skilling for 120 new employees within the Tasmanian fishing industry; hiring of a consultant for preparation of a best practice model; management training feasibility study; and upskilling of workers with the Hydro Electric Commission.

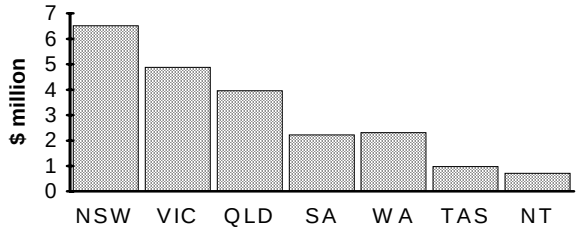
Geelong

Geelong received $1.225 million in OLMA region-based adjustment assistance prior to July 1993. This funding has been used for: retraining retrenchees from Ford Geelong (and other employers) for re-employment in the aerospace industry; establishment of a committee to promote labour market initiatives; teaching participants in Certificate of Occupational Studies program new skills appropriate to the metal/engineering industry; identification of local workforce skill deficiencies and development of appropriate training programs; development of an industrial database (in conjunction with the former Geelong Regional Commission, Australian Chamber of Manufacturers and Victorian Education Foundation); expansion of job search training assistance program; seed funding for the Geelong Business Leadership Team to build a community network; subsidised training of 15 first year apprentices in manufacturing industry trades; subsidised employment of an industry development officer in the building and construction industry; industry survey of employment and training needs by the Geelong Regional Training Council; feasibility study and development of a business plan for a business incubator; publication of an 'Innovators Book' to highlight successful business operations in Geelong; establishment of a Wool Textile Information Centre; pre-feasibility studies on products to be manufactured from molten aluminium; and establishment of a network of local people to act as a non-government promotional group to attract new industries and businesses to Geelong.

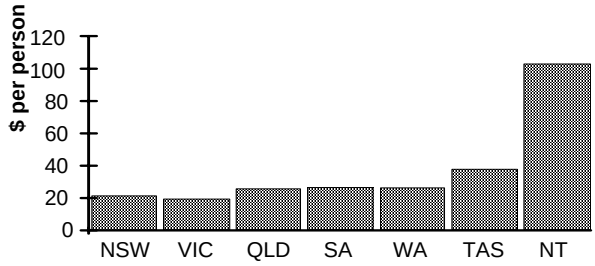
Sources: OLMA 1992a, 1993b and 1993f.

Figure 11.2:
OLMA region-based adjustment assistance packages, 1992–93

Part A **Expenditure by State**



Part B **Expenditure per person unemployed**



Sources: OLMA 1993 a-g

Figure 11.2 provides a breakdown of regional based packages by State. (For information on the regional allocation of funds for the past three years, by project type, see Appendix H).

According to OLMA, the prime criterion for selecting areas for OLMA region-based adjustment assistance is the unemployment rate.

> Unemployment above the State or national average is usually a prerequisite [for OLMA regional assistance] although a region could be designated based on a substantial recent increase in the unemployment rate or a marked decline in the labour force participation rate. (OLMA 1992b p 3.1)

The proportions of long-term unemployed, job seekers with non-English speaking background and other disadvantages, also are taken into account. Other criteria include: diversity of the local labour market, availability of public transport; changes in the demographic, occupational or skills profile of a region; a skills mismatch between industry requirements and the skills of the existing workforce; and socio-economic problems. (OLMA 1992b)

Since unemployment rates are important in determining whether or not a region should receive OLMA region-based assistance, it is appropriate to examine total expenditure by the number of unemployed persons in a region (see Figure 11.2 Part B).

While New South Wales and Victoria accounted for approximately 30 and 23 per cent of total regional assistance respectively, they effectively receive the least amount of funding Australia-wide when this is adjusted for number of persons unemployed. On this basis, the largest beneficiaries are the Northern Territory and, to a lesser extent, Tasmania. Average expenditure per unemployed person in the Northern Territory is approximately five times greater than that in New South Wales. OLMA told the Commission much of this could be explained by the assistance directed toward several remote Aboriginal

communities where region-based assistance benefits the whole community and not just those counted in labour market surveys as unemployed (the basis of Figure 11.2, Part B). The Commission notes that Aboriginal communities also receive assistance through the Aboriginal and Torres Strait Islander Commission (ATSIC) controlled employment programs, such as Community Development Employment Projects (CDEP), the Business Funding Scheme, Enterprise Employment Assistance, the Community Economic Development Scheme and the Community and Organisation Training Program (see Appendix H).

The distribution of funding per unemployed person varies greatly between regions, ranging from $1 in Glenroy in Victoria to $1193 in Bombala[5] in New South Wales (see Figure 11.3).

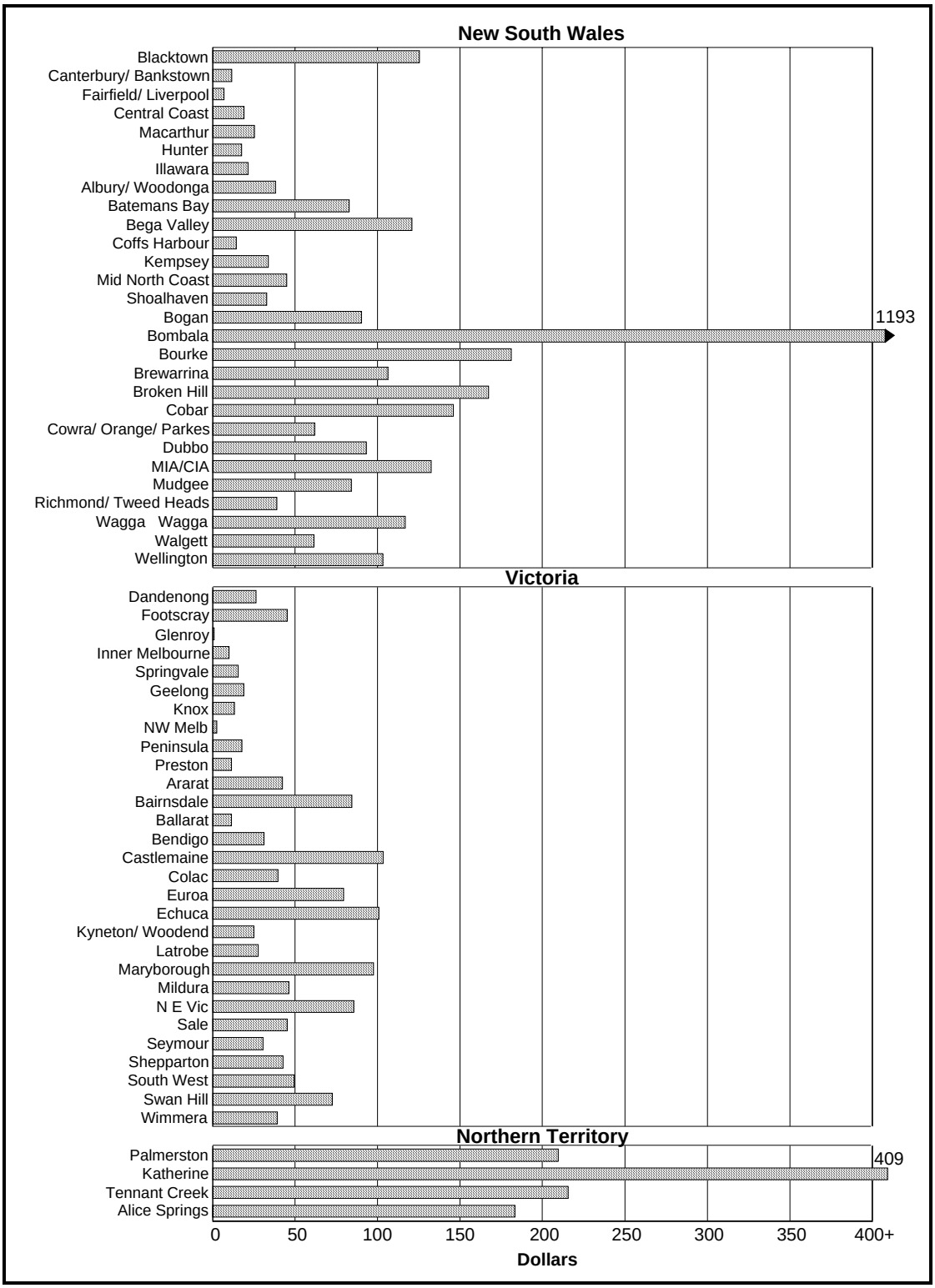
The Commission questions the appropriateness of providing regional funding without considering how much firms and individuals in the region have already received under other OLMA programs (ie enterprise-based and industry-based adjustment assistance programs). Unless information is available on how much regions receive under the various OLMA programs, it is difficult to determine the 'success' of any one program. Furthermore, as with the labour market programs, evaluation of these region-based programs is made difficult by measurement problems discussed earlier.

The Victorian Government argued the need for OLMA to develop an overall strategy for each State which coordinates both the OLMA guidelines for the regional program and State governments own policies and priorities. They submitted:

> difficulties in the operation of the OLMA Regional Program include: the apparent ad hoc nature of submissions for funding of regional initiatives which appear to have developed in the absence of an overall view on the type of initiatives that would most benefit the region; the piecemeal adherence to the program's overall objectives and the failure of some initiatives to meet the prescribed guidelines particularly ... with some of the local OLMA committees; the scale of the proposals which are mostly small and will have little impact on the region...and the absence of significant attempts to liaise with other interested parties. (Sub. 89, p. 37)

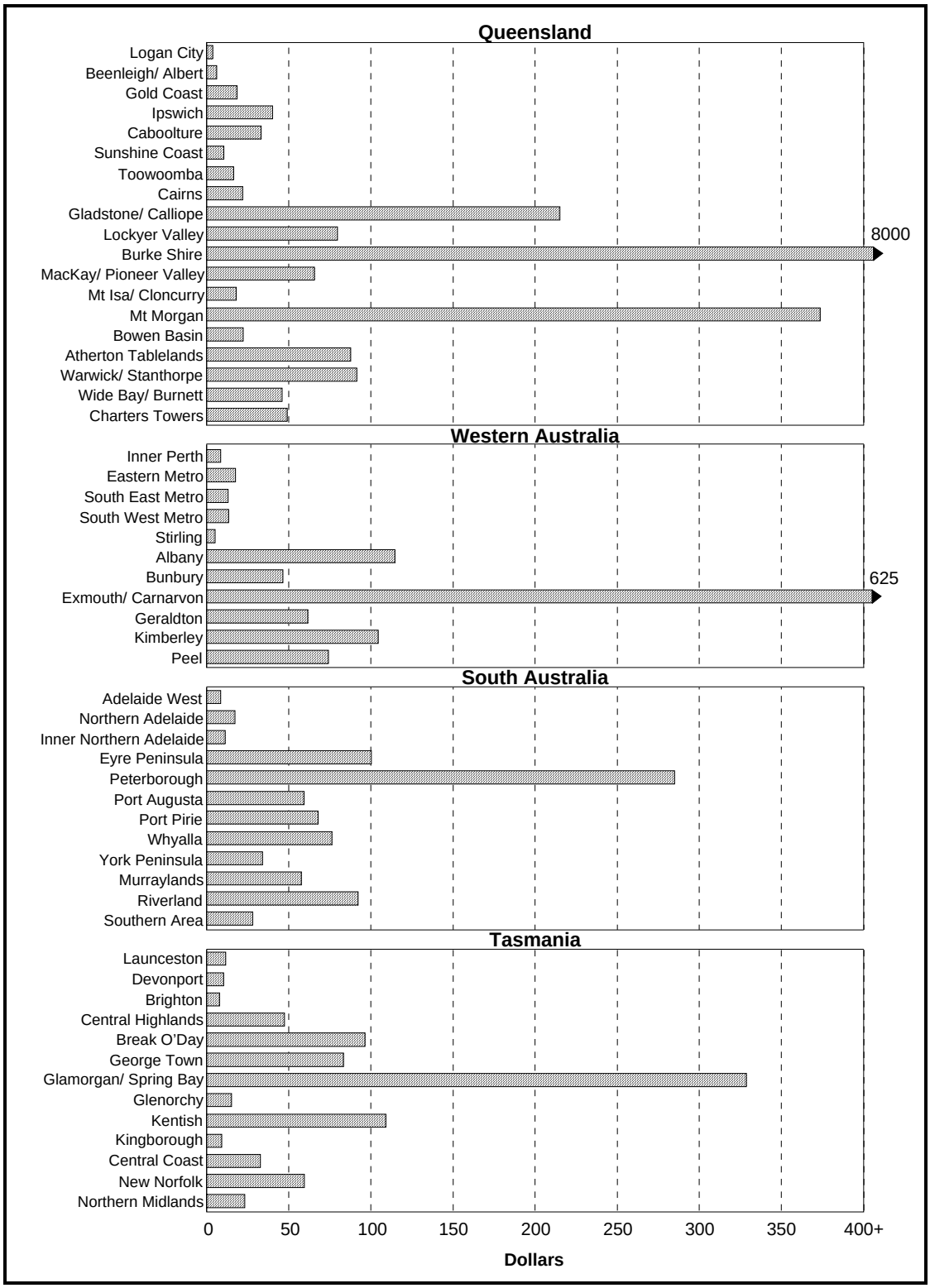
[5] Bombala received $142 000 in region-based adjustment assistance in 1992–93 in anticipation that 16 per cent of employees in the region would be laid off from three major employers: the Snowy Mountains Engineering Corporation, local State government authorities and the timber industry. These large scale retrenchments did not eventuate, which accounts for the high amount of region-based assistance per unemployed person in the Bombala region. Assistance for 1993–94 subsequently has been reduced to $34 000.

Figure 11.3: **OLMA regional expenditure per person unemployed**



Sources: DEET 1993a, 1993 b, 1993d.

Figure 11.3: **OLMA regional expenditure per person unemployed** (continued)



11.3.4 Sector and industry programs

A substantial amount of adjustment assistance is provided on a sectoral or industry basis (see Appendix I).

Agriculture

The agricultural sector as a whole — and thus rural regions — is a major beneficiary through the Rural Adjustment Scheme (RAS), which was created to promote better financial and technical performance on farms and an industry structure that is more responsive to changes in agricultural markets. The principal forms of assistance are grants and subsidised loans. The Farm Household Support Scheme, which was recently made separate from RAS, provides income support for those seeking to leave agriculture (see Box 11.2).

Box 11.2: **The Rural Adjustment Scheme**

The RAS was established by the Commonwealth Government in 1978, evolving from the Rural Reconstruction Scheme, and has since been subject to many changes. In the past, different parts of the RAS tended to discourage necessary change. For example, Synapse (1992) reported that the previous form of RAS was criticised for creating the expectation of long-term concessional finance.

The latest revision of RAS, effective from 1 January 1993, encourages rationalisation to achieve better financial and technical performance and a rural industry structure that is more responsive to emerging needs. This new structure aims to provide adjustment assistance, not simply assistance, to the farm sector. In response to claims that RAS was being implemented differently in each State, a Rural Adjustment Scheme Advisory Council was established to oversee the administration of the scheme for the Commonwealth Government.

Three types of assistance are provided through RAS: interest rate subsidies on loans; grants to upgrade practical and managerial skills; and Farm Household Support and relocation assistance. The scheme is controlled by the Department of Primary Industries and Energy (DPIE), with different parts being administered by the States and DSS. From 1 January 1993, the States contribute 10 per cent towards normal RAS (ie excluding exceptional circumstances, such as severe flooding or drought), with the Commonwealth contributing the remainder. Previously, the States contributed up to 50 per cent under Part B of the scheme.

In exceptional circumstances, the Government can provide an interest subsidy of up to 100 percent. The first 50 per cent is provided under the normal 90:10 Commonwealth : State funding arrangements, while the remainder is provided on a 1:1 basis.

Funds allocated to the scheme have increased from $54 million in 1988–89 to $179 million in 1992–93. The Commission estimates that wool, beef, wheat and manufactured milk sectors receive the highest proportions of funding through RAS.

As shown in Table 11.4, New South Wales and Queensland received the greatest share (ie more than half) of Commonwealth RAS monies in both 1991–92 and 1992–93. They were also among the three largest State contributors during this period.

Table 11.4: **Commonwealth and State contributions to RAS**

State	*1991–92*		*1992–93*	
	Commonwealth	*State*	*Commonwealth*	*State*
	($m)	($m)	($m)	($m)
NSW	48.77	4.35	61.23	0.32
Vic	32.34	0.50	15.06	0.22
Qld	33.12	3.17	42.63	0.44
SA	20.98	0.88	37.24	0.63
WA	16.93	0.50	8.13	0.10
Tas	3.01	0.14	3.44	0.04
NT	2.18	..	1.25	0.01
Total	**157.33**	**9.54**	**168.97**	**1.77**

Source: Information provided by DPIE.

Industry-specific assistance

OLMA provides industry-based adjustment assistance programs, referred to as Labour Adjustment Packages (LAPs), to workers retrenched from three industries: Textiles Clothing and Footwear (TCF), Passenger Motor Vehicles (PMV) and Australian National (rail). These industry LAPs provide a range of assistance, including formal vocational training, basic language and numeracy skills, wage subsidies to employers in other industries taking on retrenched workers, and relocation or travel assistance (see Table 11.5).

Eligibility criteria for the industry LAPs relate to individual employees, who must have worked full-time for at least 6 months and been retrenched after a specified date. They therefore appear not to involve any discrimination among regions, including States.

In 1992–93, OLMA provided $26.5 million in adjustment assistance under the TCF LAP (DEET 1993c). This was equivalent to about one-sixth of total expenditure afforded to agriculture under RAS.

Table 11.5: **OLMA industry LAPs by State, 1992–93**

	Passenger Motor Vehicle	*Textile Clothing Footwear*	*Australian National*
	($'000)	($'000)	($'000)
NSW	88	8230	0
Vic	9744	16938	0
Qld	42	131	3.2
SA	1257	1026	613.8
WA	1	163	0.3
Tas	24	11	1.4
NT	0	0	4.2
Total	**11 156**	**26 499**	**622.9**

Source: DEET 1993c and information provided by DEET.

OLMA does not collect data on the regional (ie sub-State) incidence of its industry-based labour adjustment packages. This makes it difficult to determine the regional spread of such funding and, in particular, whether or not it is complementary to assistance provided under OLMA's regional or enterprise-based programs.

While it seems likely that much of the TCF LAP expenditure has gone to the capital cities, where employment is concentrated, the non-metropolitan regional spread is significant. As Sloan et al (1985) noted:

> Notwithstanding the fact that TCF as a whole is no more decentralised than other sectors of Manufacturing, it may be the case that the 21 per cent or so of total TCF employment which is outside ... capital cities is concentrated in a few regional centres, rather than being spread widely across non-metropolitan areas. (p. 29)

Within the services sector, the Commonwealth operates a number of adjustment schemes for shipping and waterfront activities — largely in the form of exit subsidies and redundancy payments to workers.

State governments also are involved in the provision of adjustment assistance to mainly agricultural industries, with a few exceptions. For example, in New South Wales, $289.7 million was spent over the last two financial years to subsidise redundancies in the State Rail and Transit Authorities. That Government has also contributed assistance to the Coal Board redundancies jointly with the Commonwealth. (Details on sector and industry specific adjustment assistance provided by State governments are in Appendix I.)

11.4 Are existing programs sufficient for regional adjustment?

This survey of adjustment programs, while incomplete, indicates that there is a wide range of programs available, involving substantial expenditure. Taking Commonwealth and State programs together, total expenditure in 1992–93 was of the order of $2 billion.[6]

Most of this activity is directed at enhancing the occupational and geographic mobility of displaced workers through subsidised training, which is broadly consistent with the efficiency and equity rationales discussed previously.

In the context of this inquiry, the main issue is whether the available schemes are likely to be deficient from a regional perspective — bearing in mind that the concern here is with adjustment processes, rather than outcomes for particular regions.

11.4.1 Regional focus

While most schemes are not regionally specific in either design or application, they clearly have regional implications. If a region has a higher than average share of disadvantaged job seekers, under existing arrangements, it will receive (in addition to general DSS support for all unemployed persons) a proportionately larger share of assistance devoted to these groups. As noted, most general labour market programs provide the same amount of training irrespective of the cost of providing it across regions, which should mean that people in more distant regions or those with higher costs of service delivery are not disadvantaged. Certain regions also benefit substantially, even if incidentally, from industry-specific programs. The RAS, for example, is obviously confined to rural regions. But the TCF and PMV adjustment programs provide funds not only to people within capital cities, but also to those within country towns in which firms and displaced workers are located.

Since the underlying sources of adjustment failure are often not regionally specific, even if their regional manifestations differ, there is much to be said for maintaining a general approach to regional adjustment assistance.

Nevertheless, it is inevitable that training opportunities will be more limited in some regions than others, reflecting differences in formal training infrastructure and in the nature of local employment opportunities. In such areas, it may be that the subsidisation of training within firms will be more effective, and provide more scope to match trainees with job opportunities in the region. These differential circumstances are not accounted for in the general programs.

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[6] There was also expenditure of $458 million on the CES and $8 billion on more general unemployment relief in the same year.

There also is a question as to whether relocation assistance should be more generous in remote regions or those with especially high unemployment and low job creation prospects. However, as long as the job market is generally depressed, moving people between regions will not be a panacea. The Brotherhood of St Laurence commented:

> It is simplistic to argue that people should move to other areas ... there are often real barriers for people to move, such as housing costs, children's education, the care of ageing relatives, community and social support networks and such like. More than ever, in times of uncertainty government needs to foster community rather than feed the process of social dislocation. (Sub. 45, p. 6)

OLMA has a program of regionally targeted adjustment packages, devised for regions with above-average unemployment (among other criteria mentioned previously). These are supplementary to the general training and employment subsidy programs and provide assistance that is more responsive to adjustment shocks than the general labour market programs, which are directed at long-term unemployed and other disadvantaged groups. Some OLMA regional packages effectively involve support for particular small businesses and local enterprise ventures, which would appear to go beyond the mere facilitation of adjustment. (The role of development assistance is considered in the next chapter.)

Circumstances in which a region-specific approach would seem warranted include:

- where an adjustment shock is large relative to the size of the regional community, placing an intolerable strain on the existing infrastructure used for the delivery of generally available assistance, including training and retraining facilities. One example of this was the closure of the scheelite mine at Grassy on King Island (see Appendix D); and
- where there is advance knowledge of *major* adjustment requirements, such as in the Exmouth case (see Appendix D). In this case, the resulting adjustment problem appears to have been ameliorated by a plan of action being implemented ahead of time — even though most of the measures were from a normal 'menu'.

There may also be a case for changing the mix of assistance (or fine tuning available programs) where regions have special needs; for example, because of remoteness or the ethnic balance of the population. As with general schemes, the process and measures should be transparent, targeted at individuals (or firms) that meet criteria that will facilitate adjustment, and their performance subject to public scrutiny.

However, a region-specific approach to assisting the adjustment process can present greater management and monitoring difficulties than general measures.

A region-specific approach also requires coordination with general measures and those provided by other levels of government.

11.4.2 Improving coordination

Several participants commented on the need for greater coordination, especially within DEET agencies. When making decisions about whether a region should receive regional based assistance, or even how much it should receive relative to other regions, OLMA does not consider how much it already spends in the region through its enterprise and industry-based assistance programs. While these programs target firms and workers respectively, that assistance still ends up in regions. As illustrated in Box 11.3, it is possible for a region to be in receipt of all three types of OLMA assistance. While a range of factors enter into the decision-making process — including unemployment rates, labour force participation, existence of disadvantaged groups, industry and occupational structure, demographic/skills profile, access to employment and training opportunities — consideration also should be given to the amount OLMA already makes available to firms and individuals in a particular region.

Some participants also expressed concern over the apparent lack of coordination between DEET agencies and other government agencies which provide adjustment programs at the Commonwealth, State and local level. For example, in its original submission to this inquiry, the Victorian Government noted:

> OLMA programs have resulted in overlap and duplication of State and Commonwealth funding ... in the provision of economic development and enterprise improvement programs. The ways in which OLMA programs not only overlap with those of the State Government, but can actually work to decrease the effectiveness of State funding include: much larger grants being awarded for similar projects, with much less stringent conditions than are applied under State Government Programs; large grants paid to development bodies to undertake tasks for which they are already funded under legal agreements with the State Government; and funding being given to some projects which are of doubtful economic worth. (Sub. 89, p. 37)

Unfortunately data on the regional incidence of DEET and most OLMA assistance are not readily available. OLMA does not collect data on the regional incidence of industry-based labour adjustment packages on the grounds that such programs were not devised to provide assistance to regions. The Commission appreciates this, but as noted earlier, unemployed persons and some regions may indirectly benefit from more than one program and this suggests that information on where funds are expended is important, especially for policy making where it is desirable to have a broad view. For example, the Victorian Government noted that:

> ... [it] found the data collected and published by DEET on many labour adjustment assistance schemes to be totally inadequate. The Victorian Government aims to

complement, but not duplicate, Commonwealth initiatives. The lack of reliable

Box 11.3: **OLMA assistance to the Dandenong region**

The Greater Dandenong region in Victoria comprises six Local Government Areas (LGAs). Since 1986, some have had very high population growth and others have experienced high unemployment. The region as a whole has been classified as disadvantaged because of the high proportion of people of non-English speaking background and low educational attainment relative to the State average.

Profile of Dandenong regional labour market: September Quarter 1992

LGA	*Unemployment rate*	*Labour force*	*Pop growth*	*NESB*
	(%)	('000)	(%)	(%)
Berwick	9.2	37	35.9	na
Dandenong	16.1	32	1.4	20.5
Moorabbin	7.2	50	– 1.2	17.5
Oakleigh	11.1	30	– 1.2	34.3
Pakenham	9.7	4	35.1	na
Springvale	14.9	50	7.3	21.9

NESB: proportion of population who are of non-English speaking background.
Source: Sub 71, Attachment X, p. 1.

At the end of 1992, there were over 34 000 people from the Dandenong region registered with the CES. Of these, nearly 7800 people (22 per cent) received assistance through labour market adjustment programs during the second half of 1992. Three hundred and twenty of those assisted found jobs. Most (5901 persons or about 76 per cent) were assisted through mainstream programs such as Jobstart and Jobtrain, while the remainder (approximately 1600 persons) received OLMA PMV LAP assistance.

The closure of the Nissan plant in December 1992 led to the retrenchment of almost 1800 employees. Warning of the event allowed a tripartite taskforce to be set up to offer retrenchees access to job opportunities, financial and personal counselling. OLMA provided a grant of $250 000, under provisions of the PMV LAP, which was used to establish an enterprise-based committee (with representatives from Nissan, DEET, unions and shop stewards) to develop and administer a training plan for workers.

An Employment Assistance Centre was established on-site at the Clayton plant to provide a range of services to Nissan employees, including: a special CES office; counselling, investment advice, small business courses, advice about community-based assistance, vocational guidance and training advice; and a DSS office to process applications for social security benefits. A notional costing by DEET puts the total cost of the assistance package at around $1 million, with up to 50 per cent provided by the Nissan company. DEET reports that there was some resentment expressed by the wider community at the perceived 'unfairness' of the large amount of money spent on the Employee Assistance Centre and the generous retrenchment payouts (Sub. 71, Attachment X).

In addition to its PMV LAP assistance, OLMA continues to provide assistance at the regional and enterprise levels. Through its region-based assistance program, OLMA provides grants to community organisations for job creation. A further $310 000 has been earmarked for the region under OLMA's strategic plan for regional initiatives in Victoria, where projects intended to develop employment and economic opportunities in the region have been identified. At the firm level, OLMA provided enterprise-based assistance to seven companies in the region through the TASK program, which assists firms facing retrenchment or reduced working hours to retain and enhance the skills of their workforce.

A survey of former Nissan employees was carried out 5 months after the closure of the Nissan plant. Of the 513 former employees who responded to the survey, 28.6 per cent were in unsubsidised employment and 15.4 per cent were in subsidised employment, the remainder being unemployed.

Sources: Sub. 71, Attachment X; and information provided by DEET.

> regionally specific data makes this targeting more difficult. The lack of published data about the impact of programs on demographic groups exacerbates the problem. (Sub 134D p.2)

The Commission considers that it is essential that DEET and OLMA regularly publish information, on an appropriate and consistent basis, on the regional incidence of expenditure for all their labour adjustment assistance programs.

In an environment where the Commonwealth's involvement in regional adjustment and development is growing, where individual State governments are trying to coordinate their labour market initiatives with those of the Commonwealth, and where State regional development boards are attempting to construct regional data bases, the Commission considers that special attention be paid to the annual publication of data relating to:

- expenditure on DEET labour market programs, OLMA industry-based LAPs and enterprise-based adjustment assistance programs by region, fully attributed to reflect actual expenditures; and
- unemployment (rates and levels) by comparable region.

11.4.3 Monitoring and evaluation

Since a region is made up of individual firms, workers, and unemployed people, all of whom may benefit directly or indirectly through one or more of the enterprise-based, industry-based or region-based assistance programs, it is extremely difficult to attribute outcomes to particular programs.

In any case, published 'success rates' for labour market programs vary greatly and are difficult to interpret. For example, Jobstart appears to have got more people into employment than the general training programs, but the net effect depends on displacement and substitution effects, and the possibility that recipients would have obtained employment anyway. Apart from DEET's program evaluations, which are undertaken every three to five years, both the general labour market programs and the OLMA programs are assessed against monitoring periods that are too brief to be meaningful. The post-program monitoring surveys are seldom assessed against a control group.

Several participants were concerned about the amount of money spent on labour adjustment programs and questioned whether the return to the community could be improved. For instance, the Queensland Farmers Federation commented:

> ... the Federation is concerned at the proliferation of labour market programs all of which are funded at taxpayers expense. Significantly, much of the funding is absorbed by the apparently growing body of bureaucrats necessary to invent the schemes and to

> subsequently administer them. There appears a strong case to substantially reduce the number of schemes and the administrative overheads. (Sub 110D, p. 2)

While DEET does undertake internal assessments, carried out by different officers to those who implement the programs, the Commission considers that reviews of programs of such national importance should be undertaken by an independent agency. In a review of DEET's Jobtrain program, the Auditor-General found:

> ... although JOBTRAIN improves employment outcomes of participants, the extent of the contribution of JOBTRAIN assistance is not evident on existing data.....the ANAO [Australian National Audit Office] found major shortcomings in a number of areas of program administration, including target setting, guidelines, acquisition of courses, selection of and assistance to participants and integration with other labour market programs (Auditor-General 1991 p. xi)

Given the proliferation of labour market programs and the substantial expenditure involved, the Commission recommends that there be an independent public review of their role and effectiveness.

Such a review would be desirable before undertaking any extension or expansion of labour market programs.

It is appropriate that independent and public reviews should then be undertaken at least every 5 years. Currently, the most recent outside review of the Commonwealth's approach to the provision of labour market programs is that undertaken by the Kirby Committee in 1985 (Committee of Inquiry into Labour Market Programs 1985).

11.4.4 Limitations

Finally, it is important to recognise the limitations of adjustment assistance, whether general or region-specific:

- adjustment measures can enhance occupational and locational mobility, but if there is a general recession with widespread unemployment, 'oiling the wheels' may not do much to reduce regional unemployment; and
- the effectiveness of such measures may also be greatly curtailed by the existence of other policy-related impediments to adjustment.

Adjustment assistance alone cannot be expected to hold people in declining regions. Nor can it ensure that those who refuse to leave will obtain employment. If these are policy objectives, they will require stronger medicine — the subject of the next chapter.

12 REGIONAL DEVELOPMENT POLICIES

Regional adjustment processes need not lead to regional growth — which is the objective of many communities. To this end, State governments have established administrative arrangements focussed on regions and have implemented a range of programs involving financial and other assistance to attract regional investment.

Traditionally, measures have been generally available to country regions, in line with concerns to decentralise activity away from big cities. But there has been an increasing tendency to provide more ad hoc and selective assistance, which carries greater risk of negative-sum outcomes. Commonwealth interest in regional development has increased recently, and greater coordination among governments is needed. Ultimately, the most effective policies will be those which improve the underlying cost structure and productivity of regions.

12.1 Introduction

Regional adjustment is important in order to realise the growth potential of the economy as a whole. In some cases this initially may involve contraction of activities and population in regions which have lost competitive advantages. While many accept the need to adjust, the overriding concern is that regional adjustment should lead to regional growth. Sorensen (1990) observed:

> ... rural development remains a potent issue, particularly in the bush. There is hardly a rural community that does not hanker after the benefits of economic growth and its corollary, population expansion. It is not difficult to understand the attractions of more community services, a greater diversity of employment and social activity, better retail and commercial services, and rising property values — all the more so after the upheavals of the recent rural recession. (p. 36)

The Bendigo Regional Development Board put a case with which many other regional groups would concur:

> Regional centres have the capacity to accommodate a far greater share of Australia's population ... [they have] extensive infrastructure networks which are underutilised ... [and] can also provide access to social and community support networks due to their compact size. ... In order for Regional Centres to maximise their growth potential ... employment opportunities must be created. (Sub. 74, p. 1)

The Geraldton Mid-West Development Authority also was concerned with regional development, submitting:

> Unless all levels of government act to provide incentives to get people back into the country, many rural towns are in danger of closing, or simply existing to house a large body of unemployed people. ... Federal and State governments have the means to encourage the development of rural and regional communities through public sector employment policies, supply of physical and social infrastructure and economic incentives. (Sub. 28, pp. 2 and 6)

If government policies are to promote sustained regional growth, however, they need to be able to raise a region's productivity or lower its costs, to make up for any inherent disadvantages of its location.

An important means of promoting regional development is for governments to reform policies which serve to raise the costs and lower the productivity of regional economies. These have been analysed in previous chapters. Some reflect nationally uniform and centralised approaches to economic regulation, which do not allow for regional diversity; others reflect policies to assist particular industries or groups which impact adversely on some regions. For example:

- centralised fixing of wages and conditions can penalise regions that have lower living costs, climatic differences, etc;
- manufacturing protection, in imposing costs on mining and farming, has essentially been a tax on 'the bush';
- regulation of transport and communications, to the extent that it has raised the costs of these activities — which are high by international standards — is almost by definition a tax on regional development; and
- inefficiencies in the delivery of infrastructure and services raise input costs for regional businesses.

Governments are undertaking some reforms in these areas and the Commission considers it imperative that they continue. But governments also provide various types of assistance intended to promote regional growth more directly, which is the approach normally associated with the term 'regional development policy'. These policies typically focus on regions outside the major metropolitan areas; and generally fall into one of three categories:

(a) policies dealing with 'adjustment failures' — those regions with persistently high unemployment and declining economic activity;

(b) policies which seek to promote selected regional 'winners'; and

(c) general decentralisation measures, to spread people and industry beyond the capital cities.

The purpose of this chapter is to look at the various rationales for providing development assistance, comment on approaches that governments have followed and to consider issues relevant in evaluating their effects on regions

and the national economy. The treatment does not pretend to be comprehensive or definitive. An evaluation of existing policies and programs would constitute an inquiry in its own right and would require much more information than has been made available to this inquiry. Indeed, a Commonwealth Taskforce on Regional Development was established for this purpose. Regional development was also the subject of a recent NSW Standing Committee report (Parliament of NSW 1993).

12.2 Commonwealth assistance for regional development

In contrast to the Commonwealth's more dominant role in adjustment assistance policies (discussed in Chapter 11), the States traditionally have been the main players in regional development policy. Nevertheless, Commonwealth involvement has, at times, been significant.

The Commonwealth has long been involved in the redistribution of income from the more populous to the less populous States. This has included payments to local governments directly and through State governments. The Commonwealth also has influenced regional development through industry policy and the provision and pricing of public infrastructure, notably in relation to roads, transport and communications. However, direct Commonwealth involvement in sub-State regional development has been less common.

The 1944 Premiers' Conference sought to establish agreement on a coordinated approach to the general principles of regional development and decentralisation. In the following years, the Commonwealth outlined broad arrangements for cooperation between the Commonwealth, State and local governments, though no firm policies evolved. Frictions developed between the Commonwealth and the States about respective roles and responsibilities for regional development. Consequently, an integrated Commonwealth-State approach to regional development was never agreed (Taylor and Garlick 1989, BIE 1985).

This period of Commonwealth involvement ended with the fall of the Federal Labor Government, leaving the States to provide various decentralisation incentives throughout the 1950s and 1960s (Stilwell 1974).

The next significant Commonwealth initiative occurred under the Whitlam Government in the period 1972–75. This period saw the creation of the Department of Urban and Regional Development (DURD) and the use of public funds to promote growth centres (see Box 12.1). However, these policies have been judged as relatively unsuccessful in promoting regional development in Australia. DURD was abolished in 1976.

Box 12.1: **The DURD experiment**

The Whitlam decentralisation approach involved the creation of a new Ministry with a mandate to promote decentralisation — the Department of Urban and Regional Development (DURD) — and a shift from general to selective policies. Instead of broad decentralisation incentives available to all industries wishing to relocate to a regional location, funds were provided for the development of selected 'growth centres'. Regional development corporations were established with funding to buy land within their assigned jurisdictions. The aim was to assist the growth centres to reach a critical 'self-sustaining' size, after which it was expected that continued funding support would not be necessary.

Albury-Wodonga was chosen by the Federal Government as one growth centre, with other regions selected by their respective State governments. Initially, twelve growth centres were selected, but Albury-Wodonga, Bathurst-Orange and the subsequently aborted Monarto were the major beneficiaries of Commonwealth funding. Wilson (1978) estimated that approximately $140 million was spent on the DURD's growth centres project between 1973 and 1976.

Growth centres	**1973–74**	**1974–75**	**1975–76**
Regional centres	*($m)*	*($m)*	*($m)*
Albury-Wodonga	2.4	42.3	35.1
Bathurst-Orange	-	6.7	8.3
Metropolitan centres			
Sydney, SW sector/Holsworthy	-	8.4	15.7
Monarto, SA	4.4	5.4	0.7
Others	-	0.4	na
Capitalised interest	-	1.6	na
Total	*6.8*	*64.8*	*69.5*

With the largest share of Commonwealth funding, Albury-Wodonga fared the best among the selected growth centres, although the region never realised the anticipated levels of population growth (see Appendix D). Monarto's development corporation was wound up in 1980-81, after a prolonged period of declining funding support, while the Bathurst-Orange development corporation sold off parcels of its land stocks in response to slower than expected growth rates.

Source: BIE 1985; Wilson 1978; Vipond 1984

Subsequently, the Office of Local Government became the main administrative focus for regional development at the Commonwealth level — albeit with a considerably more modest budget than it predecessor. The Commonwealth

continued to administer some schemes, such as the Commonwealth Regional Development Program, the Special Assistance to Non-Metropolitan Areas scheme and the Regional Employment Development Scheme (REDS) (see Box 12.2), although the life of these latter two programs was relatively short and their effectiveness questionable (Crawford 1979).

In recent years, there has been increasing 'regionalisation' of Commonwealth Government service delivery. Over the past 5 or 6 years, departments such as the Departments of Employment, Education and Training (DEET) and Social Security (DSS) have begun to establish offices more widely throughout regional Australia. Aside from their direct employment effects, these regional offices can provide a boost to the local economy by helping to retain economic activity and by improving the effectiveness with which government services are provided.

Additionally, the Office of Labour Market Adjustment (OLMA) has developed several 'adjustment' packages which contain elements of development assistance in tandem with their adjustment or facilitation role (see Chapter 11).

The Aboriginal Torres Strait Islander Commission (ATSIC) administers the Community Development Employment Projects (CDEP) scheme, which aims to improve employment opportunities through training and regional development activities. The program provides employment in various community development projects in remote areas as an alternative to reliance on unemployment benefits. A further proportion of this benefit is provided to community organisations who administer the scheme. Support is also provided for capital and equipment expenditure on projects (see Appendix H for details).

The Department of Primary Industries and Energy (DPIE) also has a range of programs which are designed to promote the development of Australia's rural sector. Comprising both adjustment and development schemes, DPIE's rural industry initiatives are intended to provide an integrated package of measures to facilitate efficient rural development in Australia. These measures include Rural Business Development programs such as: the Business Advice for Rural Areas (BARA) scheme, which helps to develop and expand business opportunities in rural communities through the services of a business facilitator; and the Innovative Agricultural Marketing Program, which finances development of innovative export or import replacement ventures in agriculture or related industries (Sub. 91).

Box 12.2: **Regional Employment Development Scheme (REDS)**

The Regional Employment Development Scheme (REDS) was introduced in September 1974 to create jobs in regions with particularly high unemployment. REDS financed locally initiated labour-intensive projects which were considered socially useful or economically viable. The scheme was generous and loosely targeted. Persons employed under the scheme were paid award wages, with no qualifying period of unemployment required.

Substitution effects were minimised by the scheme's focus on projects which would not otherwise have gone ahead, thereby generating a net addition to the demand for labour. However, the attractiveness of the scheme may also have increased labour force participation, thereby offsetting its effect on unemployment. The scheme provided employment to those who would have found it particularly difficult to find jobs (in particular the young and the unskilled) and those in country areas.

In February 1975, as unemployment rose rapidly, the scheme was expanded to include other regions and was thus transformed from an instrument of regional policy to one of general unemployment assistance. This resulted in a rapid increase in the numbers employed under the scheme, from 5929 in January 1975 to a peak of 31 969 in June 1975 (Sheehan and Stricker 1980). Overall, almost 81 000 people were employed on the scheme, which was equivalent to about 30 per cent of the number of persons unemployed in 1975 (Stretton and Chapman 1990). Total expenditure on the scheme was calculated at equivalent to $600 million in 1989–90 prices.

Payments made under the scheme were directed at State governments, local government authorities and non-government bodies. The majority of the assistance was provided to local government authorities, with almost half of the total assistance going to New South Wales.

Sheehan and Stricker (1980) report that REDS was widely criticised as wasteful and expensive; yet they argue that these criticisms are harder to justify if allowance is made for the unemployment benefits saved, the social value of the projects undertaken and the additional tax receipts generated. However, many commentators have queried the value of the projects initiated under the REDS, and the scheme is generally considered a failure (Stretton and Chapman 1990).

In response to growing inflationary and budgetary pressures in the mid-1970s, the Commonwealth Government was forced to adopt greater fiscal restraint. This led the Whitlam government to announce in September 1975 that no further projects would be approved under the REDS. The scheme was abolished 12 months later.

Source: Sheehan and Stricker 1980; Stretton and Chapman 1990

Other significant recent Commonwealth initiatives at the regional level include the Local Capital Works program and the Better Cities program. The Local

Capital Works program provides local governments with funds for the construction of economic and social infrastructure in regions with sustained higher than average levels of unemployment (see Chapter 10). Under the Better Cities Program, the Commonwealth contributes funds to assist States in the implementation of agreed urban development or redevelopment projects which often require cooperation across municipal boundaries. The States themselves and the private sector also contribute funds under this program.

More recently, the Commonwealth Government's administrative capacity on regional issues has been upgraded through the creation of an Office of Regional Development (ORD) within the revamped Department of Industry, Technology and Regional Development (DITARD). One of the responsibilities of the ORD will be to compile a comprehensive database of existing Commonwealth, State and local government policies and programs relating to regional development.

Further, in July 1993, the Minister for Industry, Technology and Regional Development announced the establishment of a regional Taskforce, chaired by ACTU secretary Bill Kelty. It was charged with identifying how regions can best contribute to national economic growth, including how they can attract greater private sector investment. The terms of reference also request the Taskforce to report on whether adjustments should be made to existing Commonwealth policies and programs, or whether new schemes are warranted.

12.3 State and local approaches to regional development

All States see regional development as a policy area with high priority. For example, the Government of Western Australia submitted that:

> The importance of regional areas of Western Australia to the development of the State has long been recognised by successive governments, irrespective of political persuasion. (Sub. 69, p. 6)

Likewise, the Queensland Government said:

> The Queensland Government is strongly committed to regional economic development. (Sub. 92, p. 8)

Each State has a department responsible for promoting 'regional development' within its borders. For example, in Queensland the Department of Business, Industry and Regional Development provides assistance and support to regional economic development organisations and delivers numerous programs designed to promote regional development. Similarly, the Victorian Office of Regional Development (within the Department of Business and Employment) is responsible for encouraging investment to country areas in order to:

> ... diversify the economies of regional centres and reduce their vulnerability to the pressures arising from industry restructuring. (Sub. 89, p. 27)

In the process of promoting regional development, most State governments have defined a set of regions within their jurisdictions and established administrative arrangements accordingly. These arrangements include decentralised departmental offices and, in most cases, regional development organisations with a specified role in relation to regional promotion.

The majority of States have formal schemes and policies designed to encourage regional development. For example, in New South Wales the Regional Business Development Scheme offers a range of incentives to firms wishing to relocate to, or establish in, a non-metropolitan area. While eligibility for these types of programs is often determined on a case-by-case basis, assessment is usually based on a range of factors common across all applicants.

Additionally, some States provide more ad hoc schemes, where forms of assistance and eligibility are determined on a discretionary basis. These schemes often are associated with encouraging major projects to establish in one State instead of another. For example, the Northern Territory's Department of Industries and Development may provide:

> Financial guidance and planning assistance ... [and] ... in special circumstances such as sunrise industries, tailor-made financial assistance packages may be arranged. (Northern Territory Department of Industries and Development 1992)

A selection of regional development programs offered by different State governments is reproduced in Table 12.1. (More information is provided in Appendix J.)

In some States there has been a shift away from traditional decentralisation incentives, such as tax concessions for businesses locating outside the metropolitan area, towards a more 'targeted' approach, where funds are utilised in a more selective way. For example, in Victoria the pursuit of decentralisation objectives through payroll tax concessions has been discontinued, with recently announced initiatives designed to facilitate investment through Enterprise Zones (see Appendix J). South Australia was the first to move to an Enterprise Zone system (see Box 12.3), with the State additionally targeting some specific *regions* with special assistance packages.

Another recent development in South Australia is the establishment of the Economic Development Program, which includes a $40 million package in 1992–93 (and a similar amount for 1993–94) to boost and modernise industry, with further assistance to the automotive industry, the textile, clothing and footwear industries, the mining sector, tourism and infrastructure. In addition to the South Australian Economic Development Authority — the successor to the now defunct Department of Industry, Trade and Technology— a new Economic Development Authority (EDA) has been established to be responsible for the development of sub-programs within the Economic Development Program. The

EDA has released a strategy document which, among other things proposed that it should:

> Establish an investment mobilisation organisation with responsibility for (undertaking) an aggressive investment attraction program to recruit businesses on a targeted basis from outside the State to establish operations in South Australia ... identify South Australian sectors and companies with potential to expand ... and make them a major focus of co-operative investment attraction activities ... work with commercial financial institutions to design new lending arrangements to support investments in new productive capabilities .... (and establish) a financial facility to support small and short term requirements of self employed businesses to assist the development of micro-enterprises (South Australian Economic Development Board 1993, p. 24)

In contrast, the submission from the Queensland Government commented that:

> ... the government rejects any approach which targets specific regions at the expense of other regions, through special assistance measures which are only available to certain localities. (Sub. 92, p. 1)

Similarly, the Tasmanian Government commented that:

> The Tasmanian Government in general avoids offering specific deals to companies to entice investment in Tasmania due to the distortionary effects this can have on the economy. Instead, the Government's present approach is to concentrate on creating a business environment that is favourable to investment. This policy should see the development of sustainable economic activity in Tasmania based on actual comparative advantage. (Sub 158D, p. 6,7)

Box 12.3: **South Australia's Enterprise Zones Scheme**

The 'enterprise zones' incentive scheme was announced in the South Australian Premier's *Meeting the Challenge* Economic Statement in April 1993. One zone will be at Whyalla, with the other incorporating the Multi-Function Polis (MFP) sites at Gillman, Science Park and Technology Park.

Within the zones, new businesses that establish will receive favourable State government treatment, including exemptions from State taxes (including payroll tax, financial institutions duty, bank account debits tax, land tax and stamp duty), fast-tracking of regulation reviews and development applications, and concessional utility charges for a period of ten years.

Within the MFP enterprise zones, current occupants will only receive assistance if they expand their activities or commence new activities which comply with enterprise zone eligibility criteria. This will entail developing business proposals with the MFP Corporation and the SA Economic Development Board to ensure consistency with the overall State economic development strategy. Activities should generally relate to the core MFP sectors of environment, education and information technology.

The Whyalla zone, based upon the area set aside for the Whyalla Resource Development Estate, will be structured towards major resource processing activities. As an additional incentive, developments locating in the Whyalla enterprise zone may be eligible for free industrial land.

Source: Arnold 1993.

In addition to approaches adopted by State governments, most local governments participate in development activities through a number of different channels. They are important providers of infrastructure at the local level, supplying facilities such as roads which are crucial to local economic development. Local authorities also frequently act as development coordinators or facilitators, bringing together key private and public sector players and community based networks. And the control local governments have over the regulation of land use and other aspects of the business environment can influence the patterns and levels of development that occur within their jurisdiction.

There is a diverse range of assistance measures used by State (and local) governments to promote regional development. They include:

- provision of administrative and informational services:
- relocation of government departments;
- cheap land and buildings;
- subsidised infrastructure and/or services;
- tax (and rates) concessions; and
- grants, loans and other forms of financial assistance (to lower the cost of labour, capital, relocation etc).

12.3.1 Regional administration, advisory and information services

Most State departments responsible for encouraging regional development provide a range of information and advisory services. These services relate to business licence information; development application requirements; and advice on the suitability of investment proposals. For example, in Queensland the Investment Promotion Program (run by the Department of the Premier, Economic and Trade Development) provides advice, facilitory services and information to interstate and international investors in an effort to attract new productive investment in Queensland. Such services are often delivered through regional departmental offices, or through a network of regional development organisations.

Regional development organisations

Semi-independent regional development organisations have been created in New South Wales, Victoria, Queensland, South Australia and Western Australia to act as one-stop shops, providing information and advice to those seeking to locate, expand or diversify in the region. Each of these States has defined a set

of administrative regions, generally with a development board in each (see Appendix J). The organisational structure of the boards varies (both between and within States) although they generally consist of representatives from local government, business and the local community.

The boards are rarely able to offer financial incentives out of their own budgets to attract new investments. Instead, they rely on their knowledge of local conditions and of Commonwealth/State processes to facilitate better coordination of Commonwealth/State programs at a regional level, and to 'sell' their region to prospective investors.

As outlined in Box 12.4 and Appendix J, each State has set up its regional development organisations somewhat differently. Several boards were dissatisfied with current funding arrangements. For example, the Capricorn Tourism and Development Organisation in Queensland submitted that regional development boards tend to receive funding for community-based programs of two to three years' duration. At the end of that period, a lack of government resources means these programs often cease. It was argued that the boards can then 'lose face' with businesses, who may become unwilling to contribute towards new programs (Transcript, p. 186).

Most other State governments provide contributory funding to regional development organisations, with contributions coming from local governments and the private sector. Provision of such funding over an agreed term, has the benefit of allowing regional development organisations to plan ahead with greater certainty.

Regional Organisations of Councils

In addition to regional development boards, there are currently over 50 voluntary Regional Organisations of Councils (ROCs), covering over 40 per cent of councils and 70 per cent of the population. They are responsible for improving coordination between local councils. However, there appears to be some overlap between the activities of some ROCs and the activities of the regional development boards.

In New South Wales, three ROCs have been established and charged with the responsibility of preparing an economic development strategy for their region. At least one of these, the Northern Rivers Regional Organisation of Councils (NRROC), co-exists with the Northern Rivers Regional Development Board. The NRROC obtains funding from DEET and the NSW Government. It also can access additional money through specific projects.

Box 12.4: **State regional development organisations**

All States except Tasmania have established a network of regional development organisations, with differing organisational and funding arrangements.

In New South Wales a network of regional Department of Business and Regional Development offices, three Regional Economic Development Councils and 9 Regional Development Boards promote development in non-metropolitan areas. The boards facilitate local projects, coordinate proposals for infrastructure provision and promote the region. They identify competitive advantages in their respective regions and draw up individual regional strategy documents.

In Victoria a network of Regional Development Business Centres (RBDCs) has been established around an existing network of State Regional Development offices. The RBDCs provide information to firms on Commonwealth and State Government services and programs. They also provide advice to private regional development organisations. Government funding of regional boards varies according to whether an RBDC has level one, two or three status. Additional funding may be provided to RBDCs to conduct economic profiles for specific projects. The recent amalgamation of local government in Geelong has displaced the Geelong Regional Commission and an economic development unit has been created within the new Council, with funding support from the State Government. This arrangement is quite different to other regional development organisations in the State, which operate at arm's length from local government.

In Queensland, 36 regional development boards and associations operate throughout the State. Some have combined with tourism boards. Those organisations which co-exist with tourism boards receive funding through the Queensland Tourist and Travel Corporation, otherwise the development boards are expected to raise their own funds to finance day to day operations (with one exception). The Regional Economic Development Grants scheme provides 50 per cent funding for special projects, but the boards must compete with businesses in the State for these funds.

In South Australia, the State Economic Development Authority administers a network of ten regional development boards. The boards are incorporated in their own right, with representatives from local government, local unions and various community organisations. They act as facilitators; coordinate government services and programs; draw up strategic plans and feasibility studies; undertake direct marketing of specific firms they would like to attract to the region; and are now looking at ways to get venture capital into regions. The boards receive lump sum funding from the State Government, committed for a minimum of five years. The State will also provide $3 for every $1 of local funding provided by local government (to a maximum of $150 000) in non-metropolitan areas. Additional dollar-for-dollar assistance may also be provided to the boards for consultancies or other special projects.

In Western Australia, nine Regional Development Commissions and Authorities provide information to new and existing firms, coordinate government service provision, conduct studies of social and economic infrastructure requirements, identify regional growth opportunities and impediments to development with the aim of attracting investment to their respective regions. State Government funding for these regional development organisations varies significantly between regions — both in absolute and per capita terms. The Commission heard that often these differences could be attributed to the age of the organisation, since not all were established at the same time.

(For further information see Appendix J.)

In the Latrobe Valley in Victoria, moves are underway to establish a Latrobe Regional Organisation of Councils. This organisation, comprising four of the region's ten councils, is seen as a means of overcoming problems of coordination and cooperation amongst the region's LGAs.[1]

Local Enterprise Initiatives

Another State approach to regional development, set up in conjunction with local communities, are Local Enterprise Initiatives (LEIs), which gained prominence during the 1980s both in Australia and overseas. They encourage community self-help by harnessing private initiative at the local level. Government involvement in LEIs is usually at the local level, though State and Commonwealth governments have also been involved. The focus generally is on small businesses.

In Victoria, LEI funding and other support is provided by the State Government to community organisations so that they may provide referral, information and counselling services to new and existing small business. The objective is to improve the economic performance of small businesses and enhance their employment capacity.

The Western Australian Government provided nearly $1 million in 1991–92 as a grant to 23 local enterprise centres under the Local Enterprise Centres Program. In that State, funding is provided jointly by Commonwealth, State and local governments, with additional contributions by some 20 business organisations. The objective of the program is to assist regional communities translate ideas into practical business ventures through the provision of advice and other business services.

12.3.2 Relocation of government departments

Another State regional development strategy is the relocation of government departments, or sections of them, out of capital cities. In all States, the trend towards the main administrative departments having regional offices has increased over recent years. The Queensland Government described recent developments in that State as follows:

> Consistent with modern management principles, there has been a trend in the public sector to devolve decision-making as close as practicable to the point of client contact,

[1] Originally, the Latrobe ROC was to have involved up to 6 of the 10 LGAs; however, support for that organisation recently waned. In particular, 4 councils have formed another organisation — the West Gippsland ROC — which is aimed at catering for those shires oriented towards rural industries.

> to promote sensitivity to client needs and preferences. This has been achieved through the development of regional management structures in most public sector entities. The restructuring of the public sector in Queensland has also involved elimination of all but highly specialised services from head offices. (Sub 92, p. 8.)

In New South Wales, the Department of Agriculture was relocated to Orange. The move began in late 1991 and involved some 350 people. According to the Department, Orange was an advantageous location because:

- it allowed the organisation to move closer to its client base;
- rent was cheaper in a country centre, compared to Sydney. It was estimated potential savings in this regard would amount to $17 million over 10 years and $56 million over 20 years;
- it provided greater opportunity for staff promotion to Head Office management and technical positions without the financial impediments of high housing and transport costs; and
- it allowed an improved quality of life for staff. (NSW Department of Agriculture 1992, p. 68)

The Commission heard that this relocation had also encouraged private consultants, such as Agcor, to relocate to Orange.

However, the relocation was not a costless exercise. In addition to the standard employee assistance package, a range of enhancements were approved to encourage staff to relocate including conveyancing costs and subsidised temporary accommodation. The Department also lost almost one quarter of its staff during the transition (NSW Department of Agriculture 1992).

In Victoria, the State Data Centre went to Ballarat and a planned moved by the Department of Agriculture to Bendigo was abandoned for budgetary reasons. The Victorian Government also subsidised a move by part of the Australian Securities Commission (a Commonwealth body) to Traralgon in the Latrobe Valley (see Box 12.5).

Some government agencies (or sections thereof) are more 'footloose' or appropriately based in country regions than others. For example, relocation of the New South Wales Department of Agriculture to a country location could be justified by the need for the department to remain in touch with its predominantly regional constituencies. Similarly, the nature of the work carried out by other departments may enhance their mobility. For example, advances in telecommunications technology and reductions in real costs of long distance telecommunications (see Chapter 8) may make country locations more cost-effective than previously for departments involved with electronic information services.

Box 12.5: **Regionalisation of the ASC**

In 1989, the Australian Securities Commission (ASC) decided to centralise its information processing operations and move this centre to a regional location. Three regions were considered as potential sites for the information processing centre: Newcastle, Hobart and the Latrobe Valley. Traralgon, in the Latrobe Valley, was selected by the ASC as the location of its information processing centre. The Victorian Government provided a grant of $4.6 million to assist with establishment costs.

The centre in Traralgon employs 300 full time employees and up to 170 casual employees in peak periods. Two thirds of the workforce are women and 95 per cent are from the local area.

Factors which assisted the re-location of the operations to a regional centre include:

- the high technology nature of the information processing centre, which operates Australia-wide, means location does not affect operational efficiency; and
- the regional workforce had the skills base necessary to staff the information processing centre.

According to management, benefits to the ASC of locating their information processing centre in Traralgon include:

- a very low rate of staff turnover, providing a stable workforce and contributing to decreased induction and training costs;
- low rental costs of office space; and
- availability of high quality employees at the established remuneration levels.

Source: Victorian Government Submission (Sub. 89, p. 38)

Despite the direct benefits enjoyed by the community which is chosen as the site for relocation, such moves are not without cost. Aside from the actual costs of relocation (which may be quite substantial for larger agencies), the recurrent costs of operating from a non-metropolitan centre may also be significant. The Commission heard that, for some organisations, travel budgets and other communication expenses had increased significantly as a result of their relocation.

Additionally, if existing buildings within a region are inadequate to house a large government department, it may be necessary to construct a new building or renovate existing office space to meet requirements. This may benefit the region, but may add significantly to overall relocation expenses. Indeed, the high costs of constructing new office accommodation in Bendigo for the Victorian Department of Agriculture was one major reason for its move not proceeding.

Moreover, the Commission heard from a number of companies that the majority of staff will typically decline to move if the relocation is further than commuting

distance (see Chapter 4). This can present an opportunity to recruit staff locally, boosting employment and economic activity at the new locality, but at the cost of loss of skilled staff to the organisation and possibly creating additional unemployment in the previous location.

12.3.3 Cheap land

Another State and local government approach to regional development involves the provision of cheap land to encourage firms to relocate to a particular region.

Country regions generally have an advantage over capital cities in the cost of land. For example, the abundance of cheap land at Whyalla in South Australia has been influential in attracting the interest of Tioxide — a firm contemplating relocation (see Box 3.4 in Chapter 3).

In addition, local councils have sometimes made land available at below market price to attract new activities (and a larger rate base). Bruce Rock Shire in Western Australia provides an example (see Box 12.6).

Box 12.6: **Bruce Rock**

Bruce Rock is a Shire in the Wheatbelt region of Western Australia, located 250 kilometres east of Perth. The Shire has experienced a slow decline in its population and associated adjustment pressures, including the possibility of a reduction in government services (such as schools, police, and medical personnel) as well as private sector operations.

In 1992, in response to the population decline, the local council of Bruce Rock offered free land and reduced connection fees for people willing to build a house and live there. They received 2000 applications for approximately 40 blocks of land. The immediate results of this offer are 10 houses currently under construction and an increase in school enrolments. To complement this free residential land, industrial land and factories are being constructed by the council and rented out at nominal fees to facilitate growth in business.

Most of the land given away was owned by the local council; some was Crown land — which the local council had maintained — provided at the council's request for this undertaking. The increase in population is not expected to incur significant costs for the town as the infrastructure in Bruce Rock was designed to support a larger population.

The scheme is an example of activities undertaken by a local council, with the support of the local community, to reverse the decline in population. It has provided an air of optimism in Bruce Rock and encouraged other shires in the State to undertake similar initiatives.

Source: Sub. 95.

Other towns and regions have created serviced industrial estates, in which land is often sold for less than the cost of its development. For example, the South Australian Government has recently announced that land within the Whyalla Resource Development Estate will be made available for no charge to approved firms (see Box 12.3). The extent of the subsidy would depend, however, on the level of subsequent rates and charges.

This strategy is often based on the premise that once suitably zoned, serviced and cheap industrial sites are available, increases in business activity will follow. However, some participants were sceptical about this, noting the empty industrial estates that can be found in many country towns. Also, to the extent that neighbouring towns or regions felt compelled to provide similar inducements, the effectiveness for any one of them would be reduced.

12.3.4 Subsidised infrastructure

While local councils may subsidise some of the infrastructure under their control for enterprises establishing locally (roads, water, sewerage and drainage) State governments also have done the same, as a means of attracting investment from other States or from overseas.

These subsidies may be in the form of reduced tariffs for infrastructure usage, or through additional grants for the provision of 'non-priced' infrastructure. A well known example of the former is the Victorian Government's arrangements with Alcoa for the provision of electricity to its Portland smelter (see Box 12.7). Similarly, the South Australian enterprise zones scheme provides concessional utility charges for new businesses locating within the designated zones.

Alternatively, State governments may provide additional funding for the provision of infrastructure services as a catalyst for further development. For example, in Victoria the Regional Infrastructure Support Program provides grants to local councils and other government agencies for the provision of infrastructure necessary to service industrial and commercial sites. Grants may be provided for the provision of headworks, major service trunks, and the development of municipally owned industrial land.

Similarly, the New South Wales State government has provided financial assistance with the initial establishment and infrastructure costs of Sydney's Advanced Technology Park. The park is situated on surplus government land at Eveleigh and is a joint venture between the University of Technology (Sydney), the University of New South Wales and the University of Sydney.

Box 12.7: **The Portland smelter electricity deal**

The Victorian Government became a part-owner of the Portland aluminium smelter in 1984. Its equity in the project increased from 25% when the deal was struck to 40% in June 1985. In addition to its equity investment the Government: provided financial assistance through a loan to Alcoa to finance construction expenses; assumed responsibility from Alcoa for compensation payments to the SECV for delays in the smelter's construction (approximately $4 million per month); and undertook to virtually underwrite the profitability of the smelter by pegging the cost of its electricity to the market price for aluminium.

Under the flexible electricity tariff arrangements, the Victorian Government bears all risk arising from deviations of the actual tariff within a broad range and, hence, partially shields Alcoa from global price changes in aluminium. At the time of the deal there was general acceptance that aluminium prices would hold a value higher than they did. No long term subsidy was originally intended. As it turned out, subsidies from the Victorian taxpayer have been necessary in eight of the nine years since the deal was struck.

The net cost of this arrangement to Victoria, as at 30 June 1992, was in excess of $445 million. It was estimated that this would rise to $640 million by the end of the 1992–93 financial year. The discounted present value of the Government's future obligations under the flexible tariff contract extending to 2016 is $1.6 billion (Victorian Auditor-General 1990).

Another problem with the current flexible tariff arrangements is the lack of incentive for the SECV to reduce costs of power provision. The Victorian Auditor-General noted:

> There are clear lessons to be learned from the [flexible electricity tariff] experience. It would be highly undesirable for such an inequitable sharing of risk in a commercial venture between the State and other parties to be repeated. The issue of reviewing the electricity supply agreement to restore the original intention that there would be no long-term subsidy to the smelters should be taken up with Alcoa and other joint venture partners. (1990, p. 372)

The Victorian Government is currently reviewing these arrangements.

Source: Victorian Auditor-General 1990.

While these subsidies provide benefits to the recipient region, they may involve cross-subsidisation from other users and regions. The Commission heard several complaints relating to this issue. In particular, participants from the

Latrobe Valley remarked that the proximity of electricity generation infrastructure to their region should have resulted in lower power costs to local

industry. However, the uniform charging regime of the State Electricity Commission of Victoria (SECV) had led to the situation where Latrobe Valley users were effectively charged above the true costs of providing power, in order to cross-subsidise those regions more distant from the Latrobe region's power station (Sub. 94, p. 2).

12.3.5 Taxation incentives

State governments are also in a position to offer tax incentives to influence location decisions.

Enterprises and individuals can be sensitive to differences in taxation rates in making location decisions, especially if they are expected to be maintained for some time. This applies internationally as well as within Australia.

At the Commonwealth level, country areas are beneficiaries of zone rebates, discussed in Chapter 8.

States have a limited range of taxes with which to finance services and compete for business, the bulk of their revenue coming from stamp duty on conveyancing, payroll tax, franchise fees and land taxes. These taxes can vary among States through:

- differences in their nominal rates, thresholds and exemptions; and
- concessions and tax holidays, applying either to new firms establishing anywhere within the State, or to firms locating outside capital cities or in designated regions.

Table 12.2 summarises the differences between major State taxes. The 'effective rates' shown incorporate the effects of differences in tax rates, tax-free thresholds and available deductions or concessions. For example, although New South Wales and Tasmania levy equal rates of payroll tax (see Table 12.3), when exemptions, threshold variances and other factors are accounted for, their effective rates of tax on a payroll of $1 million are significantly different.

Table 12.3: **Payroll tax rates and revenue by State**

State	*Rate*	*Tax free threshold*	*Revenue* *1991-92*	*1992-93*
	(%)	($)	($'000)	($'000)
New South Wales	7.0	500 000	2 339 175	2 444 318
Victoria	7.0	515 000	1 725 900	1 710 200
Queensland[a]	5.0	600 000	787 489	817 000
South Australia	6.1	438 000	485 800	496 600
Western Australia[bc]	3.95 - 6.0	322 500	519 665	537 000
Tasmania[d]	7.0	565 000	137 514	137 400
Northern Territory[e]	5.0 or 6.0	400 000	70 883	75 213
Australian Capital Territory	7.0	500 000	86 634	90 690

a Queensland provides a payroll tax deduction of $1 for every $3 of payroll expenditure over $600 000 and less than $2 400 000. b Western Australia has a progressive rate of payroll tax, with rates ranging from 3.95% for payrolls up to $1 400 000, to 6% for payrolls in excess of $2 916 667. c Western Australia provides a deduction of $1 for every $3 of payroll expenditure over $322 500 and less than $1 400 000. d Tasmania offers a payroll tax deduction of $2 for every $3 of payroll expenditure over $565 000 and less than $1 412 500. e The Northern Territory provides a deduction of $2 for every $3 of payroll expenditure over $400 000 and less than $1 000 000.
Sources: CGC 1993; State/Territory Government Budget Papers 1992-93.

Many States traditionally have offered general concessions on payroll tax, along with other taxes, for new firms establishing in non-metropolitan areas. However, in recent years most have abandoned this broad-brush approach.

In the case of New South Wales, the Country Industries (Payroll Tax Rebate) Scheme — which provided either 50 or 100 per cent concessions on payroll tax liability for firms establishing in non-metropolitan areas — is being phased out. As a replacement, the New South Wales Government has introduced the Regional Business Development Scheme under which payroll tax concessions may be granted, although on a more discretionary basis than through the previous scheme.

Similarly, both South Australia and Victoria have discontinued their general payroll tax concessions for decentralised industries and replaced these schemes with a more targeted approach. For example, the enterprise zones scheme in South Australia provides for tax holidays to be granted to new firms establishing in designated 'enterprise zones', while the recently announced 'Investing in Country Victoria' package includes grants to offset payroll and land tax for firms that relocate or establish anywhere in Victoria.

12.3.6 Grants and other financial assistance

In addition to the above measures, State governments offer a range of grants, concessional loans, loan guarantees and other forms of financial assistance to

firms in country areas. Often this assistance is targeted at a specific area of business operations or costs, such as:

- subsidising the costs of additional investment;
- covering certain business relocation and establishment costs;
- undertaking consultancies and feasibility studies;
- subsidising interest rates and rental costs;
- subsidising fuel and other transport expenses;
- labour subsidies;
- research and development activities and the adoption of new technologies;
- marketing and promotional activities; and
- community strategic planning and identification of development opportunities.

These measures generally are provided within a package and often exhibit similarities across States. For example, measures under Victoria's Regional Development Program include financial assistance for the costs of moving to a country location, 'enterprise improvement subsidies' and assistance for export development. Likewise, the NSW Regional Business Development Scheme provides subsidies for relocating to non-metropolitan areas, as well as for infrastructure, local government charges, business planning, consultancies and export development (additional details of these and other regional development schemes are presented in Appendix J).

Amounts of financial assistance provided under schemes vary quite widely, often reflecting the size and relative importance of the development in question. For example, the relocation of Australian Defence Industries (ADI) to Benalla in Victoria was accompanied by a State government grant of $3 million to cover costs incurred in the early establishment phases of the project. The ADI factory is expected to offer 300 jobs for Benalla residents and will involve a total investment of approximately $120 million (Victorian Department of Manufacturing and Industry Development 1992).

Generally, eligibility for assistance is determined on an individual basis. Projects are assessed according to the employment opportunities created, the extent to which the project would compete with similar businesses in the State or region and, perhaps the most difficult to judge, the likelihood that the project would proceed without government assistance.

Concessional loans typically are administered by a separate authority — examples include the Rural Finance Corporation of Victoria, and the Rural Adjustment and Finance Corporation of Western Australia. These organisations provide finance for a wide range of proposals, including the purchase of land,

farm improvements and property development, and the enhancement of personal skills to increase productivity. In the case of Victoria, the Rural Finance Corporation had a total loan portfolio of around $400 million as at June 30 1991. During 1991-92, it provided additional loans of over $70 million, $2.7 million of which took the form of concessional loans to rural enterprises[2] (Victorian Rural Finance Corporation 1992).

12.4 Some issues in assessing regional development policies

In contemplating the range of measures used by governments in pursuit of regional development, there are essentially two sets of issues. The first concerns the effectiveness of such measures in meeting their regional objectives; the second concerns the effects of regional development policies on the performance of the economy generally and the interests of the wider community.

Most States naturally see regional development policy from a State perspective — as a means of enhancing wealth creation, living standards and employment within the State. This can also be beneficial to Australia as a whole. After all, Australia's economic performance is the accumulation of outcomes within its constituent regions and States. It need not follow, however, that what is good for one region will necessarily be good for Australia, or even for the State in which that region is located.

If they are to lead to net benefits, regional policies would need to raise output and income levels within targeted regions by more than any consequent declines elsewhere. Policies which enhance productivity within regions can do that, as can policies which tap unutilised (but productive) resources within regions. But for schemes which attract projects from other regions to be nationally beneficial, the project would need to be more productive in the sponsored location than elsewhere (allowing, inter alia, for any costs associated with the relocation).

12.4.1 Rationales for development assistance

Where a regional development assistance package is successful in enticing an enterprise to a region which it would not otherwise have chosen, there is sometimes a presumption of net losses. But there are a number of reasons that participants and others have given as to why some incentives for location in country regions may be more widely beneficial.

[2] The remainder went towards commercial loans ($41.4 million) and the RAS ($25.7 million).

Informational problems

In making locational choices, firms may not have accurate information about the benefits to them, or their likely performance, in different regions. Cowra Shire Council argued:

> There is a great deal of ignorance by city based people concerning lifestyle, professional expertise, workforce skills and locational factors in the bush ... One great difficulty which faces country towns is for them to project the reality that industry can and will prosper in the bush. (Sub. 80, p. 4)

During its visits to Whyalla and the Latrobe Valley, the Commission heard that these places were battling to overcome an 'image problem' that does not accord with present reality.

Such problems are likely to be most effectively addressed by the local communities themselves. For local councils, promotional activities funded out of local rates could be a good investment, if the problem is simply one of misinformation. And a number of local communities are undertaking such activities.

But in many cases, fragmentation of local jurisdictions may make it hard to mount a regional promotion effort. The creation, usually with some State assistance, of regional development boards appears to have been useful in this respect.

'Big city' problems

Most decentralisation programs (including that sponsored by DURD in the 1970s) have been motivated in part by perceptions that the capital cities were getting too big, with attendant problems of pollution, congestion and social tension. During the Commission's visit to the Northern Territory, officials spoke of the inability to control 'east coast externalities' as justifying subsidisation of other locations.

Where people in cities do not directly bear the costs of pollution and congestion they cause, investors will move to other centres only when the social costs have become very high. Many participants commented that they believed residents of metropolitan areas were not fully meeting the costs of their decision to live in the city. For example, Cooma Monaro Shire Council submitted that:

> Millions of dollars are spent in capital cities to subsidise urban development where those funds could be spent to develop country towns with existing infrastructure, particularly given the large capital cities' pollution and transport problems. (Sub. 11, p. 3, emphasis in original)

Similarly, the Shire of Kojonup expressed concerns about the costs of increasing metropolitan populations:

> ... centralisation of population is known to add to environmental damage [and] social problems ... [therefore] ... Governments must make a real effort to assist with the process of decentralisation (Sub. 4, p. 3)

Externalities associated with population growth in already large cities are likely to be greater than in smaller towns. However many people still prefer to live in big cities because of the other benefits that they provide. To the extent that there are externalities that need to be addressed, the ideal solution would be to constrain directly the 'east coast externalities' (preferably through prices and tax penalties rather than regulatory controls). While this increasingly is being done, residual costs remain. It is ironic though that environmental taxes and regulations often apply State-wide (Chapter 7), making no allowance for the lesser environmental effects associated with industrial activity (including transport) in country areas. This approach in effect discriminates against non-metropolitan locations.

The social advantages of decentralisation are less clear. Big cities often are observed to have major social problems, including crime, but it is not clear that such problems are always *proportionately* worse than in smaller towns.

Infrastructure costs

It commonly is argued that excess infrastructure capacity in country towns warrants inducements to keep or move people and firms there, rather than having to build new infrastructure in cities.

The Association of Development Executives of Victoria commented that little recognition was given to the:

> ... availability of an under-utilised infrastructure, particularly in land and physical and community services, in many regional areas, which would enable these areas to absorb substantial levels of industry and population growth at little or no cost to the public purse. (Sub. 68, p. 2)

Others have argued that it is cheaper to provide some infrastructure services in country areas. For example, the Country Mayors' Report cites a 1970 study which estimated that infrastructure cost savings of $1.4 billion (1992 dollars) would stem from locating 500 000 people in the country instead of the capital city (Kinhill 1993).

The excess capacity issue is more complicated than it appears. Much economic infrastructure these days is supplied on a user pays basis, so that the cost consequences of locating in alternative areas should be taken into account by investors. As long as the services that have excess capacity are appropriately priced (see Chapter 9), investors can make decisions based on the costs *and* benefits involved in established or 'greenfields' locations and thus locate where they are (socially) most productive.

The situation is different for those infrastructure services — such as schools— that are not charged for. Users will not take those costs into account in their location decisions and there is some logic in providing inducements to use available excess capacity, provided it is genuine. Indeed, a subsidy to users of social infrastructure with excess capacity is comparable to reducing charges where there is excess *economic* infrastructure, as discussed in Chapter 9.

While inducing people to make use of existing (excess) capacity can save government outlays on infrastructure elsewhere, the argument should not be taken too far. In many cases, excess capacity will have emerged for infrastructure because industry perceives that it is not as productive a place to use it as other locations. Any public sector saving from inducing industry to use it would need to be weighed against a loss of efficiency in production. (Indeed in such circumstances the inducements themselves may need to be very large to offset the disabilities of the location.)

Australia's capital cities also are said to have excess infrastructure capacity in established (inner) locations and comparable arguments are being used to foster greater population growth there. (There would appear to be some tension between the urban consolidation policies of government and the concern to promote regional development). In its report into Taxation and Financial Policy Impacts on Urban Settlement (IC 1993c), the Commission found that claims about excess capacity need close scrutiny. Excess capacity in some services can coexist with (potential) bottlenecks in others. Any augmentation costs for such infrastructure would need to be taken into account. It is likely that this applies also to many country towns, especially where existing infrastructure has been there a long time.

'Equity' considerations

Several participants put arguments to the Commission that regional development should be encouraged on equity grounds. For example, the Shire of Kojonup submitted that governments should ensure that all regions had:

> ... adequate sporting and community facilities ... [and] sufficient resources to enable country roads to be adequately constructed and maintained. (Sub. 4, p. 3)

Likewise, the Brotherhood of St. Laurence also saw regional development as an avenue for pursuing equity goals. They commented:

> ... there needs to be a national policy on regional development which encompasses goals of ensuring equality of opportunity, access and resource allocation for regional and rural communities across Australia. (Sub. 45, p. 7)
>
> the Brotherhood takes the view that there is an urgent need for a clearly articulated regional development policy in Australia on the basis of social equity, economic efficiency and economically sustainable development. (Sub. 45, p. 8)

While equity considerations clearly are important, there are several points which need to be considered in a regional context.

First, it would appear that average household income is less divergent among Australian States and Territories than is the case in other countries (Courchene 1993). To a degree this is attributable to the influence of the system of horizontal fiscal equalisation. Income differentials are more significant with respect to sub-State regions (see Chapter 2).

Second, there are inherent difficulties in adopting blunt instruments that target regions, rather than individuals, on equity grounds. For example, even in regions with relatively low average incomes, individual residents will have a wide range of income levels. Assistance on equity grounds may end up also benefiting those with relatively high incomes.

Third, while regional income may be below the State or national average, cost of living may also be below average. Moreover, people living in some regions with relatively low costs of living may benefit from nationally uniform social security benefits.

Concern has been expressed that people in different regions do not have the same employment opportunities. This is also the case in most other countries; to a large extent it reflects differences in locational productivity that governments would not want to countermand. However, as noted in previous chapters, disparities in regional unemployment can be compounded by policy related impediments to adjustment. If these are not remedied, and people cannot be induced through adjustment assistance to move to where jobs prospects are better, assistance to boost local employment may be 'next-best', depending on its cost.

12.4.2 Alternative approaches

The regional development policies surveyed here range from general decentralisation measures, such as concessional tax rates for any firm locating in country areas, to selective measures that are either:

- region-specific, involving subsidies and tax concessions for firms locating in a specified region; or
- firm-specific, involving inducements for particular firms to locate within the State; or
- firm *and* region specific, involving assistance that is designed to attract a particular firm to a particular location.

General measures

The traditional approach to regional development policy predominantly involved general measures, but there has been an increasing tendency, especially in Victoria and South Australia, to provide more selective assistance.

General measures have the desirable feature that, having created an incentive for country location, they do not distort firms' choices *among* regions. This reduces the likelihood that firms will be induced to move to less productive locations. It also avoids the need for difficult judgments by governments about the relative merits of different locations, and is likely to be seen as more equitable than targeted assistance.

However, there have been a number of criticisms of this approach. For example, Vipond (1984) notes:

> Two explanations have been put forward as to why these policies were not more successful. One was that the States did not have the funds available to provide the level of incentives required for success. The other was that the funds were spread too thinly. The States pursued a policy of unselective decentralisation. (Perhaps it was too hard to choose areas of positive discrimination). Whatever the reason, the wide spatial spread of incentives meant that economies of scale could not be developed in specific locations. (p. 2)

The real value of such assistance to firms was found by the Bureau of Industry Economics (BIE 1985) to be relatively small:

> The assistance element of the ongoing subsidies such as payroll tax rebates is considerably higher than that associated with the one-off subsidies. However, even with payroll tax rebates and other ongoing subsidies, the general availability of these schemes has the effect of diluting the assistance to individual establishments to the extent that they are also unlikely to have a strong effect on decentralisation. (p. 156)

In contrast, the New South Wales Chamber of Manufactures argued that the payroll tax rebate available in that State has had a significant influence on the locational decisions of eligible firms (Sub. 67, p. 21).

A further criticism of the general approach to decentralisation was that it encouraged firms of questionable viability to set up in country areas:

> The Victorian decentralisation program's greatest success of the 1970s has been to encourage the establishment of textile plants in provincial cities. This has increased the vulnerability of the employment base of these cities by promoting the presence of an industry facing continuing restructuring threats. (Carter 1983, p. 326)

This clearly is a problem, although it can also occur for more selective (firm-specific) assistance, depending on government's ability to judge a firm's longer term prospects. In the case of some Textiles, Clothing and Footwear (TCF) firms that were dependent on the continuation of high levels of protection, decisions to locate in small country towns may also have been made on strategic grounds: to gain political leverage for the maintenance of protection. These days, with the decline in protection levels, newly decentralising firms are less likely to be dependent on protection for their viability.

Selective measures

It seems clear that, even if more substantial levels of assistance were provided, general decentralisation measures are unlikely to be able to achieve desired changes in the *pattern* of activity among regions. As noted at the beginning of this chapter, governments may want to influence development in particular regions, either because they are perceived to be potential 'winners' or because they are 'losers'.

General measures are more likely to reinforce market tendencies for individual firms to locate in places that they perceive to be best for them. For that reason, however, allowing successful regions to self-select in this way is more likely to generate durable outcomes. And there is less chance that it will disadvantage other regions with greater potential.

It is for the regions that are experiencing major adjustment problems, with high and sustained levels of unemployment, that the arguments for selective measures have most force. As noted, the prospect of emerging welfare towns with dependence of successive generations on unemployment benefits is something which policy must address.

The Commission considers that, where governments seek to sustain population in particular regions, there are advantages in approaches designed to make the regions concerned more attractive to capital generally — such as by improving regional infrastructure, labour force skills and administrative efficiency — rather than sponsoring individual firms to locate there.

As noted previously, the best way of initiating this process is to remove the *impediments* to regional adjustment. Where additional assistance is called for, measures which enhance the skills and mobility of the regional labour force, or which improve its infrastructure, are more likely to lead to sustainable outcomes

than assistance which merely compensates for the region's disabilities. In an article supporting a more region-specific approach, Carter (1983) argued that regional policy should be:

> Diversified away from assisting firms, to a greater emphasis on investments in *people* (human capital) through education and training policies and investments in *regions* (infrastructure), that will promote appropriate economic development. (p. 329)

In contrast, the South Australian Government submitted:

> There is a role for the continued provision of targeted incentive packages for individual firms as part of a focussed investment mobilisation effort. This is considered essential to winning investment against competing locations in the Asia Pacific Region. (Sub. 152D, p. 8)

Similarly, the Victorian Government commented:

> On the issue of assistance to individual firms it is frequently the case that several different investment locations, both metropolitan and non-metropolitan, can provide the resources needed for an investment project at a competitive and comparable cost. Where this is the case, investment incentives can produce a "positive-sum" outcome nationally where they lead to a decision to invest in an area of underutilised resources, both human and physical. (Sub. 134D, p. 8)

The dilemma for government is that if assistance does not improve the underlying competitiveness (attractiveness to investors) of the region, nor facilitate the relocation of its inhabitants, there may be pressures for it to become permanent. This would not only be likely to reduce the productiveness of the economy more generally, but also involve substantial transfers from the wider community.

The dangers of 'lock-in' effects would be greater, however, where assistance is targeted at individual firms. Governments have never found it easy, politically or administratively, to terminate assistance to industry. This difficulty is multiplied where the fortunes of a region (electorate) are connected to that of a firm.

The OECD, in a major report on 'Positive Adjustment Policies' (OECD 1983) observed:

> ... automatic and general assistance systems are from the point of view of positive adjustment preferable to selective and/or discretionary interventions. When aid is discretionary there is always some danger that, due to social and political pressures, funds are allocated to less productive firms, thereby prolonging the existence of inefficient structures. (p. 79)

12.4.3 Interstate competition for investment: the potential for negative sum games

Competition among the States for mobile capital on the basis of their general tax regimes, expenditure levels and administrative performance can make an important contribution to national economic growth. However, there appears to be an increasing trend towards more discretionary, firm-specific assistance packages from which a positive payoff for the nation seems less likely.

The incentives for State governments to attract capital to their own States through subsidies, has parallels in the international arena — where it finds some support in the 'strategic trade' literature (for example, see Krugman 1986). However, to the extent that such policies involve 'neighbour beggaring' (ie one region's welfare being increased at another's expense), they have more potential to lead to net losses when the competition occurs within a country, than when the 'neighbours' are overseas.

As in an international context, if every government provides the same inducements, they will tend to cancel out as an influence on resource flows. In the past, there have been remarkable similarities between the taxation and other development assistance policies of different States. And the budgetary allowance for regional incentives has been modest, especially when compared to Commonwealth subsidies to industry. However, a move to inducements that are negotiated with potential entrants would appear to have more scope to lead to bidding wars with 'negative sum' outcomes.

States are aware of the potential for negative sum games among regions within their own borders. Assistance is generally not given to firms to relocate from one sub-State region to another. For example, the Victorian Government submitted that:

> The Victorian Government offers incentives to encourage investment in Victoria generally, and in country Victoria in particular, according to a set of rigorous guidelines to ensure that public money is well-spent, and that "negative-sum" outcomes are avoided. These guidelines include: assistance ... by way of grants rather than ongoing subsidies... Preference is given to the provision of assistance for infrastructure and training or retaining employees. (Sub. 134D, p. 8)

An exception is where relocation is from metropolitan to non-metropolitan areas, as with the New South Wales Regional Business Development Scheme (which does not provide assistance for other moves within the State). Some States also have procedures whereby regional bids for new investment from outside the State are coordinated. For example, in Victoria, the Department of Business and Employment coordinates bids by individual regions for prospective investment opportunities, and will assist the most suitable regions in preparing submissions to attract this investment.

Nevertheless, it would appear that *interstate* firms are regarded as 'fair game' — and available evidence suggests that interstate relocations of major enterprises may be becoming more common. Brown (1993, p. 5) notes that, according to Australian Stock Exchange records, at least a dozen listed companies moved States in the first six months of 1993, with another twenty companies announcing that 'they were moving all or part of their operations in one State to another'. However, the contribution to these relocation decisions of government inducements relative to underlying locational advantages is not known.

Assistance targeted at 'newcomers' is argued to be more cost effective than generalised assistance to all firms, many of which are already based in country areas. However, that approach can have some undesirable side-effects on State development. For example, concessions quarantined to newcomers may give them a competitive advantage to the detriment of existing firms. Moreover, should a rival State match the incentives, a perverse series of cross-border moves could be set in chain, depending on the degree to which firms are footloose.

12.4.4 The role of the Commonwealth

In the light of these issues, there is a question as to what the Commonwealth could do to facilitate nationally-rewarding outcomes from regional policy.

The Australian Government is not the only national government in a federal system to play a significant role in regional development, even if more indirectly than directly. For example, the Canadian government has played a highly pro-active role since the 1960s (see Box 12.8).

Where the Commonwealth has sponsored activities in particular regions, there have been mixed responses at the State level. For example, the Queensland Government informed the Commission that, at a meeting of the Australian Industry and Technology Council (AITC), it:

> ... raised concerns about a range of programs, but had particular concerns about the DEET, Office of Labour Market Adjustment (OLMA) suite of programs. It is understood that other States had similar concerns about OLMA. (Sub. 92, p. 11)

Similarly, the Government of Victoria submitted that:

> ... there remain areas where Commonwealth economic development packages, often involving large amounts of funding, are delivered directly by the Commonwealth, with little or no account being taken of State priorities, or knowledge and experience of regional areas and their economic potential. A major example of this is the regional assistance measures delivered by the Commonwealth Office of Labour Market Adjustment (OLMA). OLMA programs have resulted in overlap and duplication of State and Commonwealth funding, particularly in country Victoria, in the provision of economic development and enterprise improvement programs. (Sub. 89, p. 37)

Box 12.8: **Canadian regional development policies**

Like in Australia, the Canadian federal system of government has three levels: Federal, Provincial and Municipal. Since the 1950s, the Federal Government has initiated policies to address the persistent and large regional disparities across the twelve Provinces and Territories. Prior to 1968, general incentives were provided to encourage the private sector to invest in designated 'slow growth' regions. Additional assistance was provided to the Atlantic provinces via the Atlantic Development Board.

In 1968, the Department of Regional Economic Expansion (DREE) was established to take control of regional development programs. A range of regional development programs were instituted to promote growth in disadvantaged provinces, including tax concessions and exemptions, capital grants, accelerated depreciation, cash grants and training programs.

DREE, as a Federal agency located in the Federal capital, often provoked conflict between the Federal and provincial governments (Savoie 1992). Consequently, during the 1970s, DREE was moved out of Ontario and a new program, known as General Development Agreements (GDAs), was introduced to assist in the formulation of regional economic policies. These Federal-Provincial Agreements provided assistance to whole provinces, sub-regions within provinces, or particular industries. Federal government contributions under these Agreements varied according to the wealth of the region. Poorer provinces received 80 to 90 per cent of costs, although in most cases the Federal Government met 50 per cent of total costs and provided a loan for the balance. By the mid to late 1970s, the Agreements had become uncoordinated and lacked direction. At times a GDA operating in one province worked against a GDA operating in another province (Hansen et al 1990, Government of Canada 1984).

It is estimated that between 1974 and 1982, DREE was involved in 130 projects at a cost of $6 billion (Savoie 1992). Most of this funding was directed into slow growth provinces. Assistance programs which were to be phased out were continued or replaced by restrictions on inter-provincial trade. Additionally, regional and sector specific policies tended to discourage rationalisation in declining industries (OECD 1981). In 1982, a regional development policy review found that, although regional policies had been actively pursued for two decades, significant regional disparities remained. Consequently, the uncoordinated regional assistance programs were abandoned in favour of a more coordinated approach.

A new Ministry of State for Economic and Regional Development was established to take responsibility for the overall coordination of regional development policy and to encourage an economy wide view in their designing and implementation. DREE was merged with the Department of Industry, Trade and Commerce to form a new Department of Regional Industrial Expansion (DRIE). DRIE operated a revised GDA system (renamed Economic and Regional Development Agreements), which allowed the Federal Government to intervene directly in regional programs. Several 'line' ministries also began to build in significant regional or provincial components to their programs. In addition, the Federal government embarked on a major program to relocate public service units to slow growth areas. From 1983, a development index was applied to all regions which determined the type and level of assistance for which that region was eligible. During the late 1980s, the regional development system became coordinated under regional development agencies. Regions eligible for assistance had agencies established to coordinate programs for that region only. (OECD 1993 and 1991, Courchene 1993)

Continued next page

Box 12.8 continued

Animosity between Federal and Provincial governments over the method and level of funding remains (Hansen et al 1990, Savoie 1992). Premiers from slow-growth provinces argue for greater federal regional development efforts, while premiers from the more developed provinces argue for less on equity grounds. After 30 years of government assistance, the original slow growth areas continue to have high levels of unemployment and per capita incomes substantially below the national average. Savoie (1992 p.3) noted:

> There is probably no other field of government expenditure in which so much public money is committed but so little is known about the success of the policy. There exist very few objective research studies on regional development efforts in Canada.

While the government was highly active in the area of regional development assistance, very little was done to redress some of the underlying causes of regional disparities, such as provincial procurement policies and barriers to inter-provincial trade (OECD 1981b). Courchene commented:

> 'rent-seeking' on the part of provinces or regions....has frequently involved a series of regional/provincial compromises and/or side payments. Now that the money is running out and that these compromises are more obviously zero-sum or negative-sum in nature, the east-west bonds are beginning to fray. (Courchene 1993, p. A1)

Some participants felt that the Commonwealth was not doing enough in the way of regional development incentives, submitting that there was a range of programs favouring metropolitan areas over country regions. For example, the Maryborough and District Development Committee commented that, while State government schemes were worthwhile, they were concerned that the Building Better Cities program favoured capital cities (Sub. 35, p. 4). The Department of Health, Housing, Local Government and Community Services noted that six of the 25 Better Cities projects occur outside capital cities (Sub. 172D).

The Commission considers that it is important that Commonwealth and State programs are coordinated. (There is little to be gained from the Commonwealth *competing* with the States in regional policy.) One means of doing this would be to give State agencies greater responsibility for the delivery or implementation of Commonwealth programs. The new Commonwealth Office of Regional Development (ORD) could also play a useful role in facilitating coordination and cooperation between the Commonwealth and State governments on regional policy. One step in this direction is the restructuring of the Federal-State Ministerial Council as the Australian Industry, Technology and Regional Development Council. A working group (chaired by DITARD) has been established, with representatives from State and Territory governments responsible for regional development.

The Commission recommends that Commonwealth programs directed at regional development be developed and implemented in consultation with the States, which also could have greater responsibility for their delivery.

12.4.5 Tackling the 'fundamentals'

Policies which serve to enhance the productivity and improve the underlying cost structure of regional economies are the most likely way of achieving 'win-win' outcomes, locally and for the wider economy. As noted, in some cases this will require reform of those existing policies which have detrimental regional effects; in others, it will involve new initiatives. All three levels of government have an important role to play.

Among the areas identified in this report which have important implications for regional development are:

- *Labour market reform*: Further moves to decentralise and widen the scope for regional workplace bargaining would provide a fillip for the development of many regions, allowing them to compete according to their individual circumstances. Greater flexibility in wages (enabling firms to pay 'training wages') and work practices (allowing workers to multi skill) would also help redress the limited skills base which often leads to prolonged unemployment and help increase regional employment opportunities.
- *Transport reform*: Artificially high transport costs can arise through inefficient transport regulation or inappropriate levels of revenue raising taxation on transport industries. In both cases, they are a tax on regional development. In the past this tax has been ameliorated for some regions only by cross-subsidisation from others. In particular, many Australian railway lines were kept open with losses covered by over-charging on profitable routes. For those communities where rail transport is uneconomic and unlikely to be continued, the efficiency of air and sea transport can be critical to their development prospects. Increasing the exposure to competition of intrastate aviation and coastal shipping would bring benefits to many parts of the country.
- *Infrastructure*: The availability and pricing of infrastructure can exert substantial influence over the locational decisions of both industries and households. In particular, some types of developments may be frustrated by inadequate provision of infrastructure, while other regions may experience problems in dealing with excess capacity. The coordination of infrastructure provision, maintenance of existing facilities and pricing

policies could all be improved — yielding significant benefits to many regions.

- *'Red Tape'*: Transaction costs loom large for many businesses. Development approval processes can be tortuous — reflecting rigidities within government rather than necessity. A move to regional 'one-stop shops' and elimination of duplication appears to have made a significant difference where undertaken, but some regions and States have progressed further than others. Apart from such issues of process, it is questionable whether many of the regulations, such as uniform environmental regulations, are appropriate for regional conditions.

Following the discussion in this chapter, two additional categories can be added to this list of 'fundamentals'; namely self-help initiatives and improved regional administration.

'Self-help' initiatives

Local governments are potentially important players in promoting the development of different regions. The New South Wales Government said that, in its experience:

> schemes which are developed ... with the onus being placed on the people who live and work in these [regional] centres to plan for the future of their town and actively participate in community development schemes, tend to have the highest probability of success.
>
> Other studies have supported the view that the solution for declining centres is not to attract some big project to a particular region where there is no underlying economic reason for it to be there, but to develop locally-based strategies in which the region concerned takes responsibility for its own development, based on its own resources, potential and comparative advantages. (Sub. 75, p. 3)

And the Country Mayors' Association included among its observations of international and national experiences:

> It is often the efforts and tenacity of a few 'movers and shakers', with the backing of the community, that gets things done. (Kinhill 1993, p. 119)

Indeed, the Commission was impressed, during its regional visits, by the number of towns and regions that had taken initiatives which utilise local knowledge, infrastructure and services to encourage regional development. The network of State regional development organisations were often involved, but not always. For example, the community of King Island has galvanised itself since the closure of the Grassy mine by forming the 'King Island Enterprise Development Committee' to act as a focus for development opportunities and as a promotional organisation. It has facilitated community debate about the pros and cons of alternative development options for the island, especially tourism.

In public hearings, the Commission heard how several regional boards have adopted a pro-active approach to attracting new investment to their region. In a study of Gladstone, Kasper (1992) remarked:

> ... the representatives of local interests in Gladstone have set up a 'Taskforce' that facilitates first contacts and helps the community identify its interests vis-a-vis new industrial projects. There are instances where representatives of local interests were in active pursuit of major investments in ways that are rare in Australia — and were successful. (p. 323)

The representative for Gladstone Area Promotion and Development Ltd described how this 'courting process' began in at least one instance with letters dispatched to businesses which do not seem 'wanted' in other regions, inviting them to get together and talk (Transcript, p. 192).

Local bodies can also play an important role in reducing the 'search and entry' costs for potential investors, as well as in marketing the region. An important role for the 'boards' has been to guide firms over the various regulatory hurdles at State as well as local levels. In some cases they have even played the role of developer in assembling parcels of land that would meet the requirements of particular companies.

The Commission considers that regional development organisations, involving local representatives, are playing a useful role in facilitating regional development and sees merit in the joint funding arrangements that exist in most States.

The Commission considers that in many cases, regional development organisations may be in a position to administer and implement various State programs, provide feasibility studies and proposals to State governments, as well as advise State governments about their infrastructure needs. However, it is not clear that these organisations should also play a direct role in project funding.

Like most regional boards, Local Enterprise Initiatives are partly funded by State governments. They also have an important role to play in the process of regional development, especially as they operate at the local level, ie the immediate environment of most enterprises. Perhaps the most important feature of most Local Enterprise Initiatives is that they are able to harness cooperation between public authorities and private sector players. Sorensen has noted:

> This approach has much going for it. The town's civic and business leadership can tailor strategies to local opportunities, constraints and threats. They can galvanise community effort, target business development, raise local capital, identify available workforce skills, and determine training needs for both labour and management. (Sub 24, p. 15)

Local employment initiatives encourage people to take responsibility for the longer term economic development of their region, based on their own assessment of its comparative strengths and weaknesses.

Improved regional administration

A number of participants saw the proliferation of local government jurisdictions within regions with common characteristics as an obstacle to regional development. For example, the Riverina Regional Development Board submitted that:

> In most regions local government is unable to take a leadership role in regional development because of the limited geographic area and population. There are very few regional organisations of councils which could provide a regional focus for economic development. (Sub. 85, p. 13)

Similarly, the Northern Rivers Regional Development Board referred to a survey of local governments within their region:

> On the question of the need for efficient adjustment between regions (LGAs) four responses acknowledge that inefficiencies exist due to the competition between LGAs to attract new industry. [Further,] ... several respondents noted the effect of 'parochial' politics in the decision making for infrastructure establishment. (Sub. 47, p. 34)

Issues relating to multiple Local Government Authorities (LGAs) within one region have arisen in a number of different adjustment contexts in this report. Clearly, the influence on regional development issues is also important. Aspects of local government fragmentation bearing on regional development include:

- land use (zoning) inconsistencies;
- duplication of administration, infrastructure and community facilities;
- diseconomies of small scale; and
- competition among councils within a region for investment and government grants, and the lack of a unified 'voice' in promoting the region.

One approach to such problems is to find ways of improving coordination and cooperation among councils. This does occur in some places and, frequently, regional development boards and ROCs (discussed earlier) have played a useful role.

Another approach is to amalgamate councils. In Tasmania, an extensive program of local government modernisation has included a reduction in the number of local government authorities in the State from 46 to 29 (Sub. 159D). Amalgamations have also occurred in a number of regions, including south east Queensland, and Geelong. Reports on the results have thus far been favourable. In the Geelong case, it was noted previously that the amalgamation of LGAs

will lead to estimated cost savings of between $17 million and $23 million per year (Kennett 1993).

To further the process of reforming the local government sector in Victoria, a Local Government Board has recently been established to advise the Minister for Local Government of ways to improve the efficiency and effectiveness of the local government system. This includes the responsibility of conducting public reviews of municipal boundaries. The Board is presently conducting reviews in the Shires of Barrabool and Winchelsea, the Shire of Bannockburn and the northern rural portion of the City of Greater Geelong, and also councils in the Ballarat and Bendigo areas (Sub. 167D).

The Victorian Government commented:

> While boundary issues cannot be exempt from this agenda, the Government believes that proposals for boundary changes should be driven by the community. (Sub. 89, p. 26)

Clearly, amalgamation may not always improve the effectiveness of local government. In some cases, separation of a local government area into two or more regions may be more appropriate, especially where the original LGA covered an exceptionally large area, or where land-uses can be easily separated into geographical areas. In Western Australia, the Wiluna Shire recently was separated into two LGAs: the Wiluna Shire and the Ngaanyatjarraku Shire. Similarly, the Perth City Council is currently being reorganised into three LGAs.

The Commission recognises that local government amalgamation is both a sensitive and complicated issue. However, existing local government boundaries are not necessarily best suited to the circumstances of today. It is also not clear that coordination mechanisms can overcome all difficulties.

Experience confirms the importance of avoiding a 'tops-down' approach to changes in local government jurisdictions. While consultation between State and local government and local communities is important, ultimately the system should be sufficiently flexible to allow people in regions to choose what they believe is best.

The Commission sees merit in State governments, in consultation with local communities, initiating a process whereby the appropriateness of existing local government jurisdictions can be publicly evaluated.

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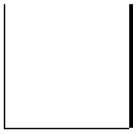

INDUSTRY COMMISSION

IMPEDIMENTS TO REGIONAL INDUSTRY ADJUSTMENT

Volume 2: Appendices

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CONTENTS

VOLUME 2 - APPENDICES

		Page
ABBREVIATIONS		vi
A.	**INQUIRY PARTICIPANTS AND REGIONAL VISITS**	A1
B.	**FEATURES OF REGIONS WITHIN THE STATES**	
B.1	The roles of the urban centres	B1
B.2	New South Wales	B3
B.3	Victoria	B4
B.4	Queensland	B6
B.5	South Australia	B7
B.6	Western Australia	B9
B.7	Tasmania	B11
B.8	Northern Territory	B12
C.	**PERSONAL INCOME AND EMPLOYMENT**	
C.1	Personal incomes	C1
C.2	Changes in employment in different industries and States	C9
D.	**ADJUSTMENT EXPERIENCES OF SELECTED REGIONS**	
Introduction		D1
D.1	Albany	D3
D.2	Albury-Wodonga	D7
D.3	Bundaberg	D11
D.4	Cairns	D15
D.5	Elizabeth	D19
D.6	Exmouth	D22
D.7	Geelong	D25

D.8 Gladstone D29
D.9 Hunter Valley D33
D.10 King Island D37
D.11 Latrobe Valley D41
D.12 Wangaratta D45

E. SOCIAL SECURITY PAYMENTS AND AWARD WAGE BASED INCOMES

E.1 Social security payments E1
E.2 Illustrative award wage income packages E2
E.3 Factors for consideration when making comparisons E4

F. AN EXAMINATION OF SELECTED LITERATURE ON WORKFORCE MOBILITY AND WAGE FLEXIBILITY

F.1 Setting the scene F2
F.2 Theories of labour markets F6
F.3 Empirical tests of labour market flexibility F12
F.4 Empirical tests of the impact of minimum wages F24

G. AN EMPIRICAL ASSESSMENT OF INTERSTATE MOBILITY AND WAGE FLEXIBILITY

G.1 Mobility among Australian States G2
G.2 Experience in other countries G23
G.3 Do State wages respond to unemployment in Australia? G26

H. LABOUR MARKET PROGRAMS USED FOR REGIONAL ADJUSTMENT

H.1 Introduction H1
H.2 Employment Access H2
H.3 OLMA labour adjustment assistance H9
H.4 Aboriginal employment support schemes H17
H.5 State government labour market programs H19

I. ADJUSTMENT ASSISTANCE PROGRAMS I1

J. REGIONAL DEVELOPMENT PROGRAMS

J.1 Introduction J1
J.2 Commonwealth regional development programs J1
J.3 State regional development programs J6

REFERENCES R1

ABBREVIATIONS

ABPDP	Australian Best Practice Demonstration Program
ABS	Australian Bureau of Statistics
ACTU	Australian Council of Trade Unions
ADI	Australian Defence Industries
AITC	Australian Industry and Technology Council
ALRA	Aboriginal Land Rights Act
ALTD	Australian Land Transport Development Program
AMIC	Australian Mining Industry Council
AN	Australian National
AN LAP	Australian National Labour Adjustment Package
AOTC	Australian and Overseas Telecommunications Corporation
APM	Australian Paper Manufacturers
ASC	Australian Securities Commission
ATFIC	Assistance to Firms Implementing Change
ATOYP	Accredited Training Offer for Young People
ATSIC	Aboriginal and Torres Strait Islander Commission
AWDC	Albury-Wodonga Development Corporation
AWIRS	Australian Workplace Industrial Relations Survey
BACAS	Bundaberg Area Community Apprenticeship and Training Scheme Ltd
BBC	Building Better Cities (Program)
BCA	Business Council of Australia
BIE	Bureau of Industry Economics
BLMR	Bureau of Labour Market Research
BTCE	Bureau of Transport and Communications Economics
CBA	Cost benefit analysis
CDEP	Community Development Employment Projects
CES	Commonwealth Employment Service
CGC	Commonwealth Grants Commission
CMA	Country Mayors' Association
CSOs	Community service obligations
DBIRD	Department of Business, Industry and Regional Development
DEET	Department of Employment, Education and Training
DETAFE	Department of Employment and Technical and Further Education
DEVET	Department of Employment, Vocational Education and Training
DIR	Department of Industrial Relations

DITAC	Department of Industry, Technology and Commerce
DITARD	Department of Industry, Technology and Regional Development
DITT	Department of Industry, Trade and Technology
DPIE	Department of Primary Industries and Energy
DREE	(Canadian) Department of Regional Economic Expansion
DRIE	(Canadian) Department of Regional Industry Expansion
DSS	Department of Social Security
DURD	Department of Urban and Regional Development
DYP	Disadvantaged Young People
EAW	Enterprise Albury-Wodonga
EBP	Enterprise Bargaining Principle
EDA	Economic Development Authority
EEP	Employment Equity Program
EIA	Environmental impact assessment
EIS	Environmental Impact Statement
EPAC	Economic Planning Advisory Council
ESU	Employee Skills Upgrade
FBT	Fringe Benefits Tax
FIFO	Fly-in-fly-out operations
FTA	Formal Training Allowance
GBEs	Government Business Enterprises
GDA	General Development Agreement
GDP	Gross domestic product
GMH	General Motors Holden
GSDA	Great Southern Development Authority
GSP	Gross State product
GST	Goods and services tax
HEADP	Heavy Engineering Adjustment Development Program
HEDC	Hunter Economic Development Council
IAC	Industries Assistance Commission
IC	Industry Commission
ILO	International Labour Organisation
IRC	Industrial Relations Commission
LAPs	Labour Adjustment Programs
LDC	Long distance commuting
LEAP	Landcare and Environment Program
LEI(s)	Local Enterprise Initiative(s)
LGAs	Local Government Areas
LMPs	Labour Market Programs
LRC	Latrobe Regional Commission
MFP	Multi-Function Polis

MPIS	Major Projects Incentive Scheme
NAIRU	Non-accelerating Inflation Rate of Unemployment
NEIS	New Enterprise Incentive Scheme
NESB	Non English speaking background
NFF	National Farmers' Federation
NIES	National Industry Extension Service
NLM	Natural labour market
NRC	National Rail Corporation
NRROC	Northern Rivers Regional Organisation of Councils
NRTC	National Road Transport Corporation
NSWFA	NSW Farmers' Association
OECD	Organisation for Economic Cooperation and Development
OLG	Office of Local Government
OLMA	Office of Labour Market Adjustment
ORD	Office of Regional Development
PDC	Pilbara Development Commission
PMV	Passenger motor vehicle
PMV LAP	Passenger Motor Vehicles Labour Adjustment Package
PPM	Post-program monitoring
PSA	Prices Surveillance Authority
QFF	Queensland Farmers' Federation
QTTC	Queensland Travel and Tourism Corporation
RAN	Royal Australian Navy
RAP	Regional adjustment package
RAS	Rural Adjustment Scheme
RBDC	Regional Development Business Centre
RBDS	Regional Business Development Scheme
RDBCs	Regional development business centres
RDBs	Regional Development Boards
RDP	Regional Development Program
RDSP	Regional Development and Services Program
REA	Regional Enterprise Assistance
RED	Regional Economic Development (scheme)
REDC	Regional Economic Development Co-ordinating Committee
REDIS	Regional Enterprise Development Initiative Scheme
REDS	Regional Employment Development Scheme
ROC	Regional Organisation of Councils
RPIP	Regional Projects Investment Program
SAEDF	South Australian Economic Development Fund
SAHT	South Australian Housing Trust
SAULT	South Australian Urban Land Trust

SECV	State Electricity Commission of Victoria
SEP	Structural efficiency principle
SEPP	State environmental planning policy
SPC	Special Premiers' Conference
SPP(s)	Specific Purpose Payment(s)
TAP	Training for Aboriginals and Torres Strait Islanders Program
TASK	Training and Skills Program
TCF	Textiles, clothing and footwear
TCF LAP	Textiles, Clothing and Footwear Labour Adjustment Package
TCFU	Textiles, Clothing and Footwear Union
TDA	Tasmanian Development Authority
TDZ	Trade Development Zone
TPC	Trade Practices Commission
USN	United States Navy
VFT	Very Fast Train
WELL	Workplace Literacy
WIRA	Waterfront Industry Reform Authority
WRDC	Wangaratta Regional Development Corporation

A INQUIRY PARTICIPANTS AND REGIONAL VISITS

The Commission received 172 submissions (75 in response to the Draft Report — these are indicated by the 'D' after the number) from a wide range of participants (see below).

In October and November 1993 the Commission held public hearings on its Draft Report in Darwin, Perth, Adelaide, Gladstone, Ballarat, Launceston, Tamworth and Canberra. *Participants who attended the public hearings are indicated by an asterix (*).*

The Commission did not hold an initial round of public hearings, but instead conducted an extensive round of visits to regional centres around Australia. Those with whom informal discussions were held during those visits are also listed in this appendix.

Inquiry participants

	Participant	*Submission number*
	ACIL	137D
	Action for Public Transport (Sydney)	15, 112D
	AGL Gas Companies (Sydney)	34
	Albany Port Authority	53
	Albury-Wodonga Development Corporation	39
	Ararat Regional Development Board	76
	Ardmona Fruit Products Co-operative Co. Ltd.	60
	Association of Development Executives Victoria	68
	Australia and New Zealand Regional Science Association	24
	Australian Chamber of Manufactures (Bendigo, Victoria)	63
	Australian Council of Libraries and Information Services	54
*	Australian Council of Trade Unions	144D
	Australian Mining Industry Council	147D
*	Australian National University, Northern Australia Research Unit	97D
*	Ballaarat, City of	83, 133D
*	Ballarat Regional Board for Planning and Development Inc.	130D
	Bauhinia Shire Council	18
	Bendigo, City of & 'Regional Australia Now' Campaign	66
	Bendigo Regional Development Board	74

	Brisbane Insight Group	57
	Brotherhood of St Laurence	45, 150D
	Bunbury, City of	113D
	Bundaberg Area Community Apprenticeship Training Scheme Ltd	13
*	Capricorn Tourism and Development Organisation Incorporated	124D
	Caucus Sub-Committee on Regional Development	165D
*	Central Goldfields Regional Development Board Incorporated (formerly Maryborough and District Development Committee)	35, 126D
	Central West Regional Development Board (Orange, NSW)	23
	Chamber of Commerce and Industry - Whyalla	77
*	Chamber of Manufactures of NSW	67, 131D
	Chamber of Mines and Energy of Western Australia Incorporated	121D
	Coffs Harbour City Council	10
	Commonwealth Grants Commission	149D
	Consumers' Transport Council (Wollongong, NSW)	44, 170D
	Cooma-Monaro Shire Council	11
	Council of Social Service of New South Wales	116D
	Cowra Shire Council	80, 146D
	Croesus Mining NL	22
	CSR Sugar Mills Group	21
*	Department of Business and Regional Development (NSW - Hunter Economic Development Council)	oral only
*	Department of Commerce and Trade (Western Australia)	125D, 168D
	Department of Education, Employment and Training (Commonwealth)	71, 123D
	Department of Employment, Vocational Training and Education (Western Australia)	55
	Department of Employment & Technical & Further Education (South Australia)	93
	Department of Geography, University of Newcastle	31
	Department of Health, Housing, Local Government and Community Services (Commonwealth)	172D
*	Department of Industrial Relations (Commonwealth)	148D, 171D
	Department of Primary Industries and Energy (Commonwealth)	79, 91
	Department of Tourism (Commonwealth)	84
	Department of Transport and Communications (Commonwealth)	162D
	Duggans Pty Ltd	9
	Economic Research Services	81
	Employment Studies Centre, University of Newcastle	98D
*	Federation of Industrial Manufacturing and Engineering Employees	oral only
*	Fleurieu Regional Development Corporation	86, 102D
	Flynn, Mr Martin	115D
*	Geelong, City of Greater	118D
*	Geelong Trades Hall Council and Ballarat Trades Hall	119D

	Geraldton Mid-West Development Authority	28
*	Gladstone City Council	41, 114D
	Government of New South Wales	75, 145D
	Government of Queensland	92
	Government of South Australia	88, 152D
	Government of Tasmania	159D
*	Government of the Northern Territory	87, 108D, 156D
*	Government of Victoria	89, 134D, 167D
	Government of Western Australia	69
	Grafton, The Council of the City of	40
	Great Southern Development Authority	72
	HIsmelt Corporation Pty Ltd	20
	Hunter Development Board	32
	Hunter Region Association of Councils	73
*	Hunter Valley Research Foundation, The	138D, 139D
	Insurance and Superannuation Commission	96, 99D
	Isisford Shire Council	6
*	Jabiru Town Council	30, 82, 101D
	Jerramungup, Shire of	43
	Kastner, Rene Mr	109D
*	King Island, Municipality of	46, 163D
*	King Island Enterprise Development Committee Inc	14
	Kojonup, Shire of	4
	Lake Macquarie, City of	33
	Latrobe Regional Commission	94
	LaTrobe Valley Regional Organisations of Councils	127D
	Lithgow Business Enterprise Centre	36
	McArthur, Stewart MP, Federal Member for Corangamite	7, 106D
	Mildura, Shire of	48
*	Milne, K. L.	154D
	Minister for Productivity and Labour Relations, Government of Western Australia	143D
	Mount Isa City Council	38
	Mount Remarkable, District Council of	2
	Murraylands Regional Development Board	17, 136D
*	National Association of Forest Industries	142D
*	National Farmers' Federation	51, 164D
*	Neville, Paul MP, Federal Member for Hinkler	oral only
	New South Wales Coal Association	161D
*	New South Wales Country Mayors' Association	122D
*	New South Wales Farmers' Association	59, 129D
	Northern Development, The Office of	26
*	Northern Region Commission Inc	90, 132D
*	Northern Rivers Regional Development Board	47, 128D, 140D

	Orbost Power Co-operative	160D
	Paroo, The Council of the Shire of	42
	Peoples' Committee for Melbourne	169D
	Pilbara Development Commission	65
	Port Hedland Town Council	16
	Prices Surveillance Authority	155D
	Printing and Allied Trades Employers' Federation of Australia	157D
	Queensland Confederation of Industry	166D
	Queensland Farmers' Federation	56, 110D
*	Riverina Regional Development Board	85, 151D
	Riverland Development Corporation Inc.	49, 52
	Riverland Horticultural Council Inc.	70
	Rockhampton Chamber of Commerce	100D
	Ronaldson, Michael MP, Federal Member for Ballarat	117D
	Rutherford, J A	95
	South Australian Farmers' Federation	141D
*	South Australian Regional Development Association	oral only
	South Coast Conservation Society Co-operative Limited, The	58
*	South East Economic Development Board, The	19, 104D
	South West Development Authority	29, 103D
	Sunraysia Districts Citrus Co-operative Society Limited	1
	Sunshine Coast Economic Development Board Ltd	8
	Tambo, Shire of	61
*	Tasmanian Chamber of Commerce and Industry	oral only
*	Tamworth Development Corporation	135D
*	Thunderstorm Bioregion Development Exchange Network	oral only
	Treasury of Western Australia	64, 158D
*	United Trades and Labour Council of South Australia	105D
	University of Wollongong (Department of Mathematics), The	37, 120D
	Wagga Wagga, The Council of the City of	50
	Wangaratta Regional Development Corporation	5
	Warrnambool, City of /Warrnambool Regional Development Board	62
*	Western Australian Municipal Association	25, 107D
	Western Port Development Council	27
	Whyalla Education City Association, The	78
*	Whyalla Industrial Development Executive Inc	12, 111D
	Widgee Shire Council	3
	Wollongong, City of	153D

Regional visits

The Commission held informal discussions with the following organisations and individuals during its regional visits. Some meetings were held in a 'round table' format with members of the local community to provide a cross-section of views and interactive discussions. Such meetings took place in Newcastle in New South Wales; Bundaberg in Queensland; the Riverland regions of South Australia; Albany, Bunbury, Geraldton, Kalgoorlie and Northam in Western Australia; Darwin; and The Huon Valley, Smithton and King Island in Tasmania.

New South Wales	Albury-Wodonga Development Corporation
	Australian Council of Social Service (Sydney)
	Department of Geography, University of Newcastle
	Department of Planning
	Department of State Development
	Employment Studies Centre, University of Newcastle
	Federal Task Force for the Hunter
	Goninans Pty Ltd (Newcastle)
	Hunter Development Board
	Hunter Economic Development Council
	Hunter Port Authority
	Legislative Council Standing Committee on State Development
	Murray Regional Development Board
	Newcastle City Council
	NSW Farmers' Association
	NSW Treasury
	Tomago Aluminium Company Pty Limited (Newcastle)
Victoria	Australian Defence Industries (Bendigo)
	Australian Paper Manufacturers - Gippsland
	Australian Securities Commission (Traralgon)
	Ausvac Pty Ltd
	Ballarat Regional Board for Planning and Development
	Ballarat Regional Development Agency
	Bendigo City Council

	Bendigo Regional Development Board
	Department of the Premier and Cabinet
	Geelong Regional Commission
	Gordon Technical College
	Industrial Conveying Pty Ltd
	Latrobe Regional Commission
	North Eastern Regional Development Agency
	Northern Region Commission Inc.
	Office of Regional Development - Traralgon
	Oliver and Stephens (Ballarat)
	Paul Langley, La Trobe University
	Rocklea Spinning (Bendigo)
	SPC Ltd
	State Data Centre (Bendigo)
	State Electricity Commission of Victoria (Traralgon)
	Vehicle Builders Union (Geelong)
	Victorian Chamber of Industry
	Victorian Regional Development Agency
Queensland	Austoft Industries (Bundaberg)
	Avtech Pty Ltd (Bundaberg)
	Boyne Smelters Ltd
	Bundaberg Area Community Apprenticeship Training Scheme Ltd
	Bundaberg Sugar Company
	Caboolture Shire Development Association
	Cairns Chamber of Commerce
	CSR Softwoods (Caboolture)
	Department of Business, Industry and Regional Development (Brisbane and Bundaberg)
	Department of Education
	Department of Employment, Vocational Education and Training
	Department of Housing, Local Government and Planning
	Department of Primary Industries
	Department of Transport
	Electra Breweries (Bundaberg)
	Far North Queensland Promotion Bureau Ltd
	Fishmac Pty Ltd (Bundaberg)

	MIM Holdings (Brisbane)
	Minproc Chemicals (Gladstone)
	NQEA Australia Pty Ltd (Cairns)
	Office of the Cabinet
	Wide Bay Brickworks (Bundaberg)
South Australia	BHP - Long Products Division
	Department of Employment, Technical and Further Education
	Department of Industry, Trade and Technology
	Department of Premier & Cabinet
	Electricity Trust of South Australia
	Engineers' Employers Association
	Moore Brother Processors (Riverland)
	National Institute of Labour Studies
	Riverland Development Corporation
	Riverland Employment and Training Committee
	Riverland Horticultural Council
	Riverland Irrigation and Industry Restructuring Committee
	Riverland Local Government Association
	Treasury
	University of South Australia, School of Business
	Whyalla Chamber of Commerce
	Whyalla Industrial Development Executive
	Whyalla Tourist Association
Western Australia	Albany Chamber of Commerce
	Albany Port Authority
	Australian Workers' Union (Kalgoorlie)
	Australian Workers' Union
	BHP Iron Ore (Perth and Port Hedland)
	Bunbury Chamber of Commerce
	Bunbury City Council
	Bunbury Port Authority
	Chamber of Commerce and Industry
	Chamber of Mines and Energy of WA Inc
	Coolgardie Gold NL
	Department of Agriculture
	Department of Cabinet
	Department of State Development

Department of State Development - Social Impact Unit
Gascoyne Regional Development Commission
Geraldton Building Company
Geraldton Chamber of Commerce
Geraldton Enterprise Development Agency
Geraldton Mid-West Development Authority
Goldfields Esperance Development Authority
Great Southern Development Authority
Kalgoorlie Chamber of Commerce
Labour Market Agency
Lake Grace Shire Council
Mallina Holdings (Geraldton)
Mid-West Development Authority
Municipal Association
Nufab Dongara (Geraldton)
Pilbara Development Commission
Port Hedland Enterprise Centre
Port Hedland Port Authority
RCG Mineral Sands (Geraldton)
Shire of Murchison
Shire of Albany
Shire of Bruce Rock
Shire of Chapman Valley
Shire of Dandaragan
Shire of Denmark
Shire of Greenough
Shire of Irwin
Shire of Kojonup
Shire of Kulin
Shire of Merredin
Shire of Mingenew
Shire of Morawa
Shire of Northam
Shire of Plantagent
Shire of Shark Bay
Shire of Tammin
Shire of Wongan-Balidu
South West Development Agency
South West Development Authority
Town of Albany

	Town of Moora
	Town of Northam
	Town of Port Hedland
	Treasury
	Western Collieries
	Western Sands Ltd
	Wheatbelt Development Commission
Tasmania	Apple and Pear Growers Council (Huon Valley)
	Department of Employment, Industrial Relations and Training
	Department of Environment and Planning
	Department of Mines
	Department of Premier and Cabinet
	Department of Primary Industries and Energy
	Department of Roads and Transport
	Department of Treasurer and Finance
	Duggans Pty Ltd (Huon Valley)
	Esperance Shire Council
	Huon Shire Council
	King Island Enterprise Development Committee
	Local Government Office
	McCains (Smithton)
	Tasmanian Farmers & Graziers Association — Vegetable Committee
	Tasmanian Seafoods (Smithton)
	Tioxide Pty Ltd
Northern Territory	Australian Bankers' Association
	Chamber of Mines and Energy
	Department of Industries and Development
	Motor Trades Association
	Northern Territory Business Council
	Northern Territory Confederation of Industry and Commerce
	Northern Territory Treasury
	Office of Aboriginal Development
	Office of Northern Development
	Real Estate Institute
	Road Transport Association

Territory Construction Association

Australian Capital Territory	Australian Mining Industry Council Barry Cunningham, MP Federal Member for McMillan, Chairman Caucus Sub-Committee on Regional Development Department of Employment, Education and Training Department of Industrial Relations Department of Social Security National Farmers' Federation Office of Local Government Office of Regional Development Professor Wolfgang Kasper Regional Science Association

B FEATURES OF REGIONS WITHIN THE STATES

This appendix provides regional information supplementary to that in Chapter 2. It begins by looking briefly at the differing roles of urban centres, from the small country service town to the State capitals.

Following this, for each State and the Northern Territory there is a brief description of key industry/output characteristics and of changes in employment, drawing on what regional data could be obtained. Apart from employment statistics, there appears to be a dearth of readily available regional economic data on a consistent basis in Australia.

B.1 The roles of the urban centres

At the time of the 1991 Census, 85 per cent of Australians lived in towns or cities of 1000 people or more (see Table B.1). The proportion was even higher in New South Wales and Victoria.

Table B.1 **Urbanisation of Australia's population** (number and per cent).

Population in urban areas (number)	14 339 788
Percentage of people	
in localities with 200–999 people	2.7
in urban centres with 1000–9999 people	10.0
in urban centres with 10 000–24 999 people	6.9
in urban centres with 25 000–99 999 people	6.0
in urban centres with more than 100 000 people	62.4
Population in rural areas (number)	2 510 558

Source: ABS 1993d

Around 450 000 people live in small towns with populations between 200 and a 999. (These centres are especially important in Tasmania and the Northern Territory where 7 and 8 per cent of the populations respectively live in such towns.) For the most part these towns are likely to be service centres for rural areas and holiday resorts. In the course of the inquiry the Commission heard many stories of the struggles of these towns to compete with larger centres. With ever-improving communications, the role of the local town as the place for a bank, school, shops and medical facilities has diminished. The difficulties of

attracting new residents to these centres and of maintaining the present levels of infrastructure and services were very common concerns.

There are almost 80 non-capital cities with populations of more than 10 000 (excluding the major centres of Newcastle, Wollongong, Geelong and the Gold Coast).

> Between 1981 and 1991 the labour force in non-capital cities grew by 19.3 per cent, while the number of employees in the capital cities and their satellites (such as Geelong, Wollongong and Newcastle) grew by 16.7 per cent. ...
>
> While the work force of coastal cities grew faster on average than inland cities, many inland cities had growth rates well above coastal centres. Queensland and Western Australian non-capital cities grew considerably more rapidly than Victorian and New South Wales non-capital cities, while Tasmanian and South Australian cities grew more slowly... (Beer, Bolam and Maude 1993, p.11)

Growth in these non-capital centres has depended in large part on whether the town is locked in to the fortunes of a particular industry. The most specialised cities have been associated both with rapid growth and decline. All ten of the fastest growing non-capital cities in the period 1976 to 1991 were on the coast and specialised in tourism, leisure and retirement migration. The seven centres that declined most acutely over this period were concentrated in mining, heavy manufacturing and related industries. Whyalla, Broken Hill and Mt Isa were the outstanding examples (Beer, Bolam and Maude 1993).

The capital cities, with their much more diverse activities, are not affected so readily by the fortunes of individual industries. However, within these cities it is still possible for a region to be affected in this way. The Northern Region Commission Inc. (NRC) told the Commission that :

> Broadly, metropolitan Melbourne has five distinct regions. The central region centres around the ports and surrounding industrial areas, the central business district and commercial areas in South Melbourne. The region has maintained its predominance in the service sector, but has demonstrated a relative decline in transport industries and considerable suburbanisation of its manufacturing base.
>
> In the south-east, there is a highly developed industrial and commercial sector from Moorabbin to Berwick and spilling over to Frankston and beyond. In the east, light industry, commercial and service industries are concentrated from Waverley to Nunawading and beyond to Croydon. In the west, there is a concentration of large manufacturers, transport services and the chemical industry from Footscray to Sunshine.
>
> In the north, there is a large concentration of clothing and footwear factories beginning in Brunswick and extending north. There is a concentration of transport industries in the Broadmeadows area with surrounding component industries and strong transport services. General manufacturing is strong, with firms centred around Coburg/Preston and extending north. (Sub. 90, pp–3)

Because of declines in assistance, particularly to the textile, clothing and footwear industries and the passenger motor vehicle industries there have been many jobs lost in the northern region of Melbourne. Unemployment rates in the region were around 20 per cent in 1993. The NRC believed that for a number of reasons it was likely that many of the residents of this region would not seek or be able to accept employment in the more distant parts of Melbourne.

B.2 New South Wales

New South Wales, the largest and most diverse State economy in many ways mirrors the nation as a whole.

Manufacturing has undergone dramatic change with employment falling by around 51 000 in the last five years. The losses of around 10 000 jobs in the textile, clothing and footwear industries and 42 000 in metal products and transport equipment have been the most significant changes. Most manufacturing employment is in or around Sydney, but the iron and steel and heavy engineering industries in particular are very important to the regions north and south of Sydney. The Newcastle City Council told the Commission that BHP Steel now employs 3000 in that region compared with 14 000 previously. The Newcastle region has gradually adjusted to this with the establishment of an aluminium plant at Tomago, expansion of coal mines and the development of the University of Newcastle.

Mining now accounts for only 2.5 per cent of the State's GSP and its decline has created adjustment stresses in areas such as Broken Hill and the Newcastle hinterland. Total employment in mining has fallen by 4100 in the last five years. Coal is the major mining activity in the State, principally in three regions — around Cessnock, Lithgow and Wollongong. In each of these regions coal mining is a major element of the local economy.

In common with farmers in the rest of Australia, many of the State's rural producers have been affected by cyclical falls in the prices of grains and wool, the effects being concentrated in the regions specialising in these products. The dairying industry, which is predominantly along the coastal fringes with main areas in the Hunter, Mid-North Coast and Richmond-Tweed areas, is one rural activity undergoing considerable structural adjustment. In the last few years there have been large falls in cattle numbers and in the number of herds as deregulation of the industry proceeds. This has opened the New South Wales market to lower priced competition from Victoria and production in most types of milk products has fallen.

Table B.2: **Changes in employment, New South Wales, March 1988 to March 1993**

Region	*March 1988*	*March 1993*	*Change*	
	('000)	('000)	('000)	(%)
Sydney Statistical Division	1648.9	1652.9	4.0	0.2
Hunter	214.1	196.5	-17.6	-8.2
Illawarra & South-Eastern	200.6	225.8	25.2	12.6
Richmond Tweed & North Coast	130.0	158.1	28.1	21.6
Northern, North-Western & Central West	214.8	198.5	-16.3	-7.6
Murray & Murrumbidgee	117.2	98.5	-18.7	-16.0
Total	**2525.6**	**2530.3**	**4.7**	**0.2**

Source: ABS 1993l

In recent years there has been considerable employment growth in the Illawarra & South-Eastern region (this covers the South Coast from Wollongong to the Victorian border and inland cities such as Young, Goulburn and Cooma), and especially in the coastal area from around Taree north to the Queensland border. It seems much of this employment growth is associated with the growing popularity of these coastal areas for retirement and as homes for those without work. For the remainder of the State outside Sydney there has been a strong fall in employment in the past five years. Unemployment in Wollongong and on the Mid-North Coast has been close to double the rate in Sydney. Within Sydney itself there have been wide variations. For example, in August 1992 the Northern Beaches area of Sydney had an unemployment rate of 4.4 per cent: in the Fairfield-Liverpool region it was 18.3 per cent.

The experiences of two regions of New South Wales — the Hunter Valley and Albury-Wodonga — are discussed in Appendix D.

B.3 Victoria

Victoria is the most densely populated State with many significant towns and cities outside the State capital. Some of these towns exist simply as regional centres for the surrounding rural areas. Others are, in addition, major manufacturing, tourist or transport centres. Appendix D discusses in more detail the experiences of three of these centres — Geelong, Wangaratta, Albury-Wodonga and also the Latrobe Valley region.

In most areas of activity, growth in Victoria has been at or below the Australian average in the last decade. Employment has fallen widely, the major exception being in *community services*.

Victoria's manufacturing industry, concentrated in the past in highly subsidised activities, has been severely affected by Australia's move to a more internationally focused economy. Growth of output in manufacturing equalled that for the whole economy, but this sector has seen some of the most substantial employment adjustments, losing 41 600 jobs in the last five years. Almost every part of manufacturing has lost employees, the one bright spot being expansion in the *food, beverages and tobacco* sector. The major falls have been in the transport, machinery and equipment areas with a combined loss of 36 000. Manufacturing now accounts for 18 per cent of employment in the State (and 18 per cent of Gross State Product) compared with 24 per cent ten years ago.

Employment losses in the electricity and gas sectors have been particularly marked, falling from 36 000 to 21 000 in the State as a whole. In the Latrobe Valley alone, State Electricity Commission employment fell from 9859 in June 1988 to 5368 in June 1993 as the SEC has striven for greater efficiency. This reduction has been accompanied by a much reduced demand for apprentices. The Victorian Government told the Commission that the combined effect of the downturn in manufacturing employment and in commodity prices has caused employment falls in many rural centres. However,

> Manufacturing output in country Victoria is expected to grow in the areas of food processing, and other sectors which concentrate on adding value to natural resources such as wool, timber and minerals... employment in these low labour intensive sectors will not increase to fill the employment gap unless significant new investment occurs.
>
> ... The regional economic base is often characterised by a significant dependence on one or a few relatively large employers which are often concentrated in a particular sector. Recent plant closures or workforce reductions in the smaller regional centres, in particular, have had a major impact on employment in those centres because of the lack of alternative employment...
>
> The dependence of a range of regional centres on the clothing and footwear industry is a major cause for concern, given the extent of industry restructuring as a result of lowering protection levels. These centres include Benalla, Bendigo, Geelong, Maryborough, Stawell, Wangaratta, Warrnambool, Albury-Wodonga and Ballarat. (Sub. 89, pp 11–12)

Levels of unemployment vary widely around the State. In August 1992 the average for the State was 10.9 per cent with both the highest and lowest regional levels within the Melbourne area. In north-eastern Melbourne, where *manufacturing* is the main source of employment, the unemployment rate was 17.8 per cent; by contrast, in inner-eastern Melbourne where *wholesale and retail trade* is important, the rate was 7.3 per cent. Many areas outside Melbourne are badly affected also. The Latrobe Regional Commission told the Commission that following widespread structural change in the principal

industries of that region, Moe now has youth unemployment of around 37 per cent (Sub. 94).

B.4 Queensland

Queensland has seen higher growth than the national average in many sectors. Employment has grown faster in Queensland than in any other State; it has provided nearly half of Australia's new jobs in the last five years (see Appendix C). Most of the employment growth was in the service industries. Much construction and the growth of service activities has been associated with the expansion of tourism and the establishment of new urban areas such as on the coast directly north and south of Brisbane and around Cairns. (Cairns is included in the Far North region of the next table.) There have also been pockets of much lower employment growth such as in the Mackay-Fitzroy-Central West (extending from the coast around Mackay and Rockhampton west to the border with the Northern Territory) and in the Northern and North-West regions of the State.

Table B.3: **Changes in employment, Queensland, April 1988 to April 1993**

	April 1988	*April 1993*	*Change*	
	('000)	('000)	('000)	(%)
Brisbane	552.7	648.5	95.8	17.3
Moreton	182.7	217.9	35.2	19.3
Wide Bay-Burnett	72.0	79.8	7.8	10.8
Mackay-Fitzroy-Central West	123.1	125.8	2.7	2.2
Darling Downs-South West	86.5	102.0	15.5	17.9
Northern and North-West	97.6	93.4	-4.2	-4.3
Far North	71.6	94.5	22.9	32.0
Total	**1186.2**	**1361.9**	**175.7**	**14.8**

Source: ABS 1993l

Tourism has been Queensland's fastest growing industry. Brisbane and the Gold and Sunshine Coast regions remain the biggest attractions, but the far northern areas around Cairns have grown very quickly in recent years. From 1989 to 1991 tourist accommodation takings in that region expanded 62 per cent and now account for 24 per cent of all Queensland takings.

Meat cattle is the major livestock industry and among crops, sugar cane and vegetables are the major activities. Much of the cropping is of a more intensive nature than common in other States: with 15 per cent of Australia's crop lands

the State produces 25 per cent of the total value of crops. Prices for beef, sugar and vegetables have been less variable than those for wool and wheat which predominate in so many of Australia's agricultural regions.

While much of Queensland agriculture may escape large variability in prices, in 1991 large areas of the State experienced one of the most severe droughts on record. Queensland Treasury estimated the drought reduced the value of the State's production for 1991–92 by about $600 million (quoted in ABS 1993g, p.19).

The mining industry is one of Queensland's great strengths. Black coal accounts for about three-fifths of the value of production, followed by metallic minerals (copper, gold, etc) and then oil and gas. The largest coal deposits are in the Bowen Basin and there has been a great expansion of this industry over the past twenty years. Black coal is by far the State's most important export. Metallic minerals come mainly from the north-west, especially around Mount Isa.

Manufacturing in Queensland differs from other States in that the food industries are the most important, accounting for around a third of manufacturing output. The largest component of this is meat processing with large abattoirs in Brisbane, Toowoomba, Rockhampton and Townsville. Most other manufacturing is concentrated near Brisbane, but there is important processing of basic metal products in Mount Isa, Townsville and Gladstone. There is little presence in Queensland of the protected textile, clothing and footwear or motor vehicle industries.

Queensland is the only State in which there has been employment growth in manufacturing. There have been important gains in chemicals and forest-based industries and a marked growth of manufacturing and associated infrastructure in the Gladstone area.

The experiences of three Queensland regions — Cairns, Bundaberg and Gladstone — are discussed in Appendix D.

B.5 South Australia

Mining has been the fastest expanding area of activity in South Australia, but from a low base. More importantly, there has been a recent loss of 9000 jobs in the *manufacturing* industries. While this has affected some regions such as Whyalla badly, others such as around Murray Bridge have increased manufacturing employment. The Murray Regional Development Board told the Commission that in the period 1986 to 1991 manufacturing employment in Murray Bridge grew by 18.6 per cent (Sub 136D).

Table B.4: **Changes in employment, South Australia, April 1988 to April 1993**

	April 1988	*April 1993*	*Change*	
	('000)	('000)	('000)	(%)
Adelaide	451.1	464.9	13.8	3.1
Outer Adelaide, Murray lands & South East	103.2	106.5	3.3	3.2
Yorke & Lower North, Eyre & Northern	66.5	71.7	5.2	7.8
Total	**620.8**	**643.1**	**22.3**	**3.6**

Source: ABS 1993l

Table B.5: **Industry classification of South Australians aged 15 or more, 30 June 1991, by Statistical Division** (per cent)

Industry Sector	*Adelaide*	*Outer Adelaide*	*Yorke & Lower North*	*Murray Lands*	*South East*	*Eyre*	*Northern*
Agriculture, forestry, fishing	0.8	14.0	27.9	26.1	20.6	25.8	7.9
Mining	0.4	0.6	1.0	0.3	0.2	0.6	4.2
Manufacturing	15.3	13.6	6.3	9.7	16.3	5.1	15.9
Elect, gas & water	1.1	1.1	1.2	1.7	1.0	1.6	2.6
Construction	5.2	5.5	3.6	3.6	3.9	4.2	3.7
Services and other	77.1	65.3	60.0	58.6	57.9	62.7	65.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: The category 'other' covers people not classified to a particular industry and those who did not state their industry.
Source: ABS 1993b

Employment growth has been mainly in Adelaide. Most of this growth was in the period up to the end of 1990 and more recently the regions outside the capital have been improving. Much of the job growth has been in *community services*. In South Australia employment growth has been much more even across regions than in other States.

There are distinct areas within the State — some regions where intensive agriculture is very important, some of extensive agriculture and other regions where manufacturing activity has been predominant. The extent of these differences is illustrated by the 1991 census results concerning industry classification of the population — see Table B.5.

Sheep and cereal grains are the main products of the rural sector. Both have experienced dramatic changes in recent years. The gross value of the State's

wheat crop rose from about $290 million in 1988–89 to $516 million in the next year and then fell to $275 million in 1990–91. Low world prices have led graingrowers to seek alternatives to wheat and there has been a large expansion in sowings of other grains.

Manufacturing in South Australia has tended to specialise in three areas — the motor vehicle, electrical goods and household appliances industries. These, all clustered around Adelaide, have undergone major restructuring in recent years.

The experiences of the City of Elizabeth in South Australia are described in Appendix D.

B.6 Western Australia

The growth picture for Western Australia is dominated by the importance of *mining* in GSP, although mining accounts for only a very small share of direct employment. However, the associated services and the provision of the necessary infrastructure has had a major impact in many regions.

Agriculture is now quite a small part of the State economy, but remains the dominant activity in many regions. The slow growth in the agricultural and pastoral regions, relative to the rest of the State, is creating pressure for adjustment, especially as the infrastructure in many small towns declines with loss of population. In contrast, other regions of the State, particularly around Bunbury and the mining areas of the north, have seen considerable development in the past decade. There is great variability across the State with some regions markedly more prosperous than others.

The differences in activities between the regions of Western Australia are illustrated by Table B.6. In three of the regions — the Kimberley, Pilbara and Goldfields-Esperance, mining is very clearly the predominant activity. The Central region is dominated by rural activities; and, as in the other States, business and public services are concentrated in the State capital.

Beyond the urban centres, Australia is thinly populated with families of farmers and graziers and in some areas, especially in the north of the continent, by Aboriginal communities. The Australian National University, Northern Australia Research Unit, told the Commission that in the Kimberleys (of Western Australia) Aborigines make up 43 per cent of the population and are the long-term demographic base for the region. While much of their income is derived in one way or another from government, their spending and occupations form the economic base of the community.

Table B.6: **Western Australia, estimated contribution of industry sectors to regional output, 1990-91** (per cent)

	Whole State	*Perth*	*Kim-berley*	*Pilbara*	*Gas-coyne*	*Gerald-ton Mid West*	*Central*	*Gold-fields Esperance*	*Great South-ern*
Agric, forestry, fishing	3.8	1.0	6.2	0.5	10.6	12.7	30.4	3.7	7.9
Mining	16.6	5.6	34.8	74.7	16.9	25.0	8.8	60.9	19.4
Manufacturing	13.2	16.2	3.7	1.2	7.3	6.1	4.6	3.8	17.8
Electricity, gas and water	3.7	3.7	5.2	1.3	14.1	3.6	4.6	1.7	6.5
Construction	9.5	10.4	11.6	6.4	3.0	8.9	6.8	5.3	9.2
Services	53.3	63.1	38.5	15.9	48.2	43.7	44.8	24.7	39.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Based on shares on State GDP at factor cost, but excluding the Ownership of Dwellings and General Government components of GDP. These exclusions result in the shares shown for the State in this table being different to those shown in Table 2.2.

Source: Western Australian Government, Sub. 69

In the Kimberleys the mining industry is the largest contributor to gross regional product but,

> the benefits of that and the economic spin-offs from that largely don't stay in the region, particularly because of the nature of the fly-in, fly-out arrangements.
>
> ... there is a very distinct difference in the employment pattern applying to Aboriginal and non-Aboriginal people — very heavy concentration on Aboriginal people in community services and government departments and Aboriginal organisations, very little employment in private industries where private ownership is very high. (Draft report hearing transcript, p40).

The Western Australian Government told the Commission that the State's strong economic performance over the past decade has meant that Western Australia's adjustment 'problems' are more likely to be related to facilitating growth than to ameliorating decline. (However, it has been experiencing relatively high levels of unemployment.) The Government attributed this favourable result to:

- strong performance in export oriented sectors, notably mining and agriculture;

  > Much of the strength in the Western Australian economy can be attributed to the performance of its export oriented businesses. Western Australia's share of exports, in 1991-92, was 26 per cent of all Australian exports with exports accounting for 33 per cent of the State's Gross Domestic Product. This performance resulted in the achievement of a trade surplus of approximately 23 per cent. (Sub. 69, Appendix 1)

- a relatively small, but growing, manufacturing sector which is founded on small-medium sized firms which are dispersed across and within regions rather than concentrated, and which are generally not in tariff protected sectors — the State has very little manufacturing of motor vehicles, textiles or clothing;
- an economy which is relatively well balanced in terms of the contribution made to GSP by each sector; and
- support for regional development through a number of administrative mechanisms, and through sectoral activities (some participants the Commission met during its visits disputed this claim).

Where decline has been experienced it is generally related to regional specialisation; for example, adjustment has occurred in the agricultural region as a result of continuing structural change and the vagaries of markets. In the main, this adjustment has been seen in the loss of population from smaller towns to regional centres and to Perth.

Exmouth and Albany have, in different ways, undergone considerable restructuring in recent years; they are discussed in Appendix D.

B.7 Tasmania

In complete contrast to Western Australia, Tasmania has grown more slowly than Australia as a whole. Only in agriculture and manufacturing has the rate of growth exceeded the Australian average and even in these sectors many jobs have been lost. It is the one State that has had a net fall in employment in the last five years. As elsewhere, employment growth in services has offset losses in other sectors: in Tasmania's case growth has been especially concentrated in wholesale and retail trade. Tourism continues to be an important industry but attracts very few overseas visitors.

The 1991 population census provides some guide to the types of activity which predominate in the different areas of the State. Manufacturing is important in each of the regions shown in Table B.7, but especially in the Mersey-Lyell Statistical Division which covers the north-western corner of the State. This area contains a number of food processing plants and important forest products industries.

Table B.7: **Industry classification of Tasmanians aged 15 or more, 30 June 1991: by Statistical Division** (per cent)

Industry Sector	*Greater Hobart*	*Southern*	*Northern*	*Mersey -Lyell*
Agriculture, forestry, fishing	1.6	20.6	7.6	9.0
Mining	0.4	0.4	0.6	4.1
Manufacturing	10.4	10.4	14.6	16.4
Elect, gas & water	2.1	3.3	1.0	1.3
Construction	5.4	5.6	5.2	5.2
Services and other	80.1	59.8	71.0	64.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

Note: The category 'other' covers people not classified to a particular industry and those who did not state their industry.
Source: ABS 1993b

Tasmania is the one State in which *agriculture, forestry and fishing* has made a significant contribution to growth in the last decade. Wool, fat lambs, beef, dairying and vegetable growing are the major agricultural activities. These, with the State's forests, form the basis also of the manufacturing sector. There are food processing plants in many locations along the northern coast of the State as well as in the Hobart region.

Although there has been some increase in the value of output in recent years, many mines in Tasmania are becoming uneconomic. The King Island scheelite mine closed in 1990: the Mount Lyell copper mine at Queenstown is due to close in 1995 and mines at Que River and Savage River are winding down. The effects of such closures are discussed for King Island in Appendix D.

Unemployment in Tasmania has been high by national standards, but uneven through the State. In the year ended June 1991 the level of unemployment in the Mersey-Lyell Statistical Division rose by 43 per cent, the Northern Division 24 per cent and the Hobart and Southern Division 9 per cent.

B.8 Northern Territory

Growth of GSP in the Northern Territory has been led by expansion in the mining sector. Its contribution to the gross product was about 22 per cent in 1991–92, compared with around 5 per cent for the nation as a whole. As in the other States, however, its direct contribution to employment is small. Mining employment has actually fallen in the Northern Territory.

Employment in the Territory is dominated by services (around 53 000 out of total employment of 69 000). The only significant employment growth in recent years has been in *public administration, defence etc* and *community services*.

DEET defines five natural labour markets in the Northern Territory — Darwin, Katherine, Alice Springs, Tennant Creek and Other Areas. Darwin dominates the picture with a little more than half the labour force. Alice Springs accounts for about 20 per cent of the total. *Other Areas* account for another quarter and the labour force has been growing fastest there in recent years. The 1991 population census provides the following employment information.

Table B.8: **Industry classification of Northern Territorians aged 15 or more, 30 June 1991, by region** (per cent)

Industry Sector	*Darwin*	*Rest of the NT*
Agriculture, forestry, fishing	0.7	5.6
Mining	1.5	5.5
Manufacturing	4.5	4.7
Elect, gas & water	1.0	1.0
Construction	5.8	6.4
Services and other	86.5	76.8
	100.0	100.0

Note: The category 'other' covers people not classified to a particular industry and those who did not state their industry.
Source: ABS 1993b

C PERSONAL INCOME AND EMPLOYMENT

This appendix provides some estimates of the varying levels of personal income and the costs of living around Australia. The appendix also gives detail of changes in employment.

C.1 Personal incomes

There are wide variations between regions in the levels of average personal income, from $13,224 in the Yorke and Lower North areas of South Australia to $26,425 in the Pilbara of Western Australia — estimates are for 1991. Table C.1 shows the Commission's estimates of average personal incomes for people over 15, using data collected by the 1986 and 1991 Censuses of Population and Housing.

There has been considerable stability in income rankings over this period. The last column of the table shows the number of places by which a region moved between the two censuses; only 17 of the 62 regions listed moved by more than five places .

A positive number in the last column of the table implies a region has improved its relative position. Five Statistical Divisions stand out in this respect — Far North in Queensland, South West in Western Australia, Moreton in Queensland, Northern in Tasmania and Far West of New South Wales. Apart from Far North in Queensland (which includes many of the most popular tourist destinations), there is no obvious single cause for these improvements. The most dramatic loss of position was by the Northern Statistical Division of Queensland, a large area with Townsville as its major city — this may be drought related.

There are also significant differences within regions. For example, a similar exercise for the sub-statistical divisions of Sydney shows that residents of the Lower Northern area of the city had average incomes of $26,519 while those of Fairfield-Liverpool received $16,002.

There is no simple explanation for these variations. Average income levels reflect a range of demographic factors, resource strengths or weaknesses, the activities undertaken in a particular region and the vagaries of world commodity markets. In the major urban centres people with higher incomes tend to congregate in more expensive parts of the city.

Table C.1: **Estimated average personal incomes in years ended June 1986 and 1991, ranked highest to lowest in 1991, by Statistical Division**

Statistical Division	***1986***			***1991***			
	Average personal income	*Ratio to Aust average*	*Rank*	*Average personal income*	*Ratio to Aust average*	*Rank*	*Number of places different*
	($)			*($)*			
Pilbara (WA)	17,875	1.45	1	26,425	1.46	1	0
Australian Capital Territory	17,081	1.39	2	23,295	1.29	2	0
South Eastern (WA)	13,633	1.11	6	22,320	1.24	3	3
Darwin (NT)	15,835	1.29	3	21,313	1.18	4	-1
North West (Qld)	13,757	1.12	5	20,563	1.14	5	0
Sydney (NSW)	13,379	1.09	9	20,399	1.13	6	3
Northern Territory	14,723	1.20	4	20,223	1.12	7	-3
Mackay (Qld)	12,935	1.05	11	19,084	1.06	8	3
Northern Territory - Balance	13,553	1.10	7	19,043	1.05	9	-2
Kimberley (WA)	13,506	1.10	8	18,958	1.05	10	-2
Melbourne (Vic)	13,077	1.06	10	18,881	1.05	11	-1
New South Wales	12,438	1.01	14	18,799	1.04	12	2
Western Australia	12,438	1.01	15	18,081	1.00	13	2
Australia	12,293	1.00	16	18,057	1.00	14	2
Victoria	12,510	1.02	12	18,030	1.00	15	-3
Perth (WA)	12,449	1.01	13	17,957	0.99	16	-3
Central (WA)	11,922	0.97	21	17,924	0.99	17	4
South Eastern (NSW)	11,565	0.94	25	17,799	0.99	18	7
Far North (Qld)	11,071	0.90	38	17,778	0.98	19	19
Fitzroy (Qld)	12,108	0.99	18	17,633	0.98	20	-2
Brisbane (Qld)	12,100	0.98	19	17,573	0.97	21	-2
Adelaide (SA)	11,933	0.97	20	17,244	0.95	22	-2
Greater Hobart (Tas)	12,175	0.99	17	17,194	0.95	23	-6
Hunter (NSW)	11,656	0.95	22	17,133	0.95	24	-2
South West (WA)	10,906	0.89	41	17,118	0.95	25	16
Central West (Qld)	11,347	0.92	32	17,110	0.95	26	6
Northern (Tas)	10,923	0.89	39	17,032	0.94	27	12
Queensland	11,497	0.94	27	16,980	0.94	28	-1
Illawarra (NSW)	11,394	0.93	31	16,973	0.94	29	2
Upper Great Southern (WA)	11,121	0.90	35	16,788	0.93	30	5
Far West (NSW)	10,861	0.88	42	16,694	0.92	31	11
South Australia	11,596	0.94	24	16,685	0.92	32	-8
Northern (SA)	11,546	0.94	26	16,512	0.91	33	-7
Barwon (Vic)	11,403	0.93	30	16,363	0.91	34	-4
South West (Qld)	11,100	0.90	36	16,340	0.90	35	1
Tasmania	11,445	0.93	28	16,186	0.90	36	-8
East Gippsland (Vic)	11,427	0.93	29	16,178	0.90	37	-8
Moreton (Qld)	10,452	0.85	51	16,053	0.89	38	13
Midlands (WA)	10,835	0.88	43	16,033	0.89	39	4
Victoria - Balance	11,310	0.92	33	16,011	0.89	40	-7

Table C.1: **Estimated average personal incomes in years ended June 1986 and 1991, ranked highest to lowest in 1991, by Statistical Division** (continued)

Statistical Division	***1986***			***1991***			
	Average personal income	*Ratio to Aust average*	*Rank*	*Average personal income*	*Ratio to Aust average*	*Rank*	*Number of places different*
	($)			*($)*			
Central West (NSW)	10,694	0.87	46	15,854	0.88	41	5
South East (SA)	11,145	0.91	34	15,833	0.88	42	-8
Murray (NSW)	10,738	0.87	45	15,715	0.87	43	2
Goulburn (Vic)	10,910	0.89	40	15,710	0.87	44	-4
Northern (NSW)	10,300	0.84	52	15,666	0.87	45	7
Mersey-Lyell (Tas)	11,090	0.90	37	15,584	0.86	46	-9
Northern (Qld)	11,642	0.95	23	15,567	0.86	47	-24
Murrumbidgee (NSW)	10,563	0.86	49	15,562	0.86	48	1
Loddon Campaspe (Vic)	10,769	0.88	44	15,532	0.86	49	-5
North Western (NSW)	10,230	0.83	55	15,446	0.86	50	5
Outer Adelaide (SA)	10,591	0.86	48	15,436	0.85	51	-3
Central Highlands (Vic)	10,683	0.87	47	15,331	0.85	52	-5
Lower Great Southern (WA)	10,498	0.85	50	15,150	0.84	53	-3
Darling Downs (Qld)	10,237	0.83	53	14,992	0.83	54	-1
Southern (Tas)	10,231	0.83	54	14,482	0.80	55	-1
Wimmera (Vic)	10,198	0.83	56	14,471	0.80	56	0
Richmond-Tweed (NSW)	9,511	0.77	61	14,415	0.80	57	4
Mid-North Coast (NSW)	9,535	0.78	60	14,197	0.79	58	2
Eyre (SA)	9,980	0.81	57	13,952	0.77	59	-2
Wide Bay - Burnett (Qld)	9,586	0.78	59	13,864	0.77	60	-1
Murray Lands (SA)	9,831	0.80	58	13,638	0.76	61	-3
Yorke & Lower North (SA)	9,420	0.77	62	13,224	0.73	62	0

Note: There are no official data on average personal incomes at the Statistical Division level. The Commission has derived the estimates in Table C.1 from population census information on the numbers of people aged 15 and over whose income fell within each of a series of income ranges.

It was assumed that for people in any income range the average income was the midpoint of the range. For those few in the highest range ($50,001 and over in 1986) it was assumed the average was the bottom of the range plus 50 per cent. In this way total personal income for all residents of each Statistical Division was estimated and then divided by the number of respondents. It was assumed that those who did not answer the relevant population census question (6.8 per cent of the population in 1986) were spread evenly over all income groups.

A small number of people were recorded at each census as being in Statistical Divisions described as 'Off-Shore Areas & Migratory'. These have not been listed separately, but they are included in State and Australian estimates.

There were several changes to the boundaries of Statistical Divisions between the two censuses, especially in Victoria where a number have been combined as 'Victoria - Balance' to enable a comparison.

Source: Commission estimates derived from ABS 1989; and ABS 1993d.

All State capitals (other than Perth) with their typically complex mix of activities, have incomes above those of their States as a whole. If the incomes

of all Australians are ranked from lowest to highest and then divided into five groups of the same size, higher income earners are over-represented in the capital cities. Capital cities in general have fewer people in lower income groups and more in the highest income group than do regions outside the capitals — see Table C.2.

Table C.2: **Distribution of income units by gross weekly income quintile group, Capital cities and Rest of States, December 1990.**

Quintile	*Capital city*	*Rest of the State*
First	19%	22%
Second	18%	23%
Third	20%	20%
Fourth	20%	19%
Fifth	22%	17%
All income units	100%	100%

Note: These results are derived from the 1990 ABS survey of income and housing costs, not the population and housing census of 1991 on which the previous table relied.
Source: ABS 1993o.

Some areas depend largely on one particular commodity: the Pilbara region depends very much on the mining and associated industries which have boomed in recent years. Broken Hill (which falls in the Far West statistical Division of New South Wales) is another city which depends very much on mining, but there the mining is running down and incomes are now much closer to the Australian average. The Yorke area of South Australia, once another mining area, now depends on agricultural products which have been affected by poor markets. In the Pilbara, mining companies have been able to pay high wages to attract workers to the region. In the Yorke and Lower North it is more likely that residents are hanging on, accepting low returns, in the hope of a better future.

In Table C.3 a number of demographic characteristics are compared for each of the Statistical Divisions and States in 1991. Labour force participation rates (that is, the share of the population aged 15 or over who are employed or looking for work) are highest in the regions with highest personal incomes and lowest in regions with low incomes. In between, however, there are many variations. Unemployment rates do not seem to bear much of a relationship to income levels other than that they are high in a number of low income regions.

Regions with high personal incomes often have only a small number of the older age groups in their population. Thus, the Northern Territory, Canberra and the Pilbara all have populations with median ages of 28 or 29. In contrast, many of the retirement areas on the eastern coast have very high median ages and low incomes; and the Yorke and Lower North area of South Australia with the lowest average income has the highest median age (37 years compared with the Australian median of 32).

Table C.3: **Ranking of Statistical Divisions by average income and selected demographic features, 1991**

	by average income	*by participation rate*	*by labour force as share of population*	*by unemployment*	*by share of population under 15*	*by share of population over 54*
Pilbara (WA)	1	1	5	62	2	65
ACT (ACT)	2	4	1	64	35	59
South Eastern (WA)	3	3	3	56	12	61
Darwin (NT)	4	2	2	25	28	64
North West (Qld)	5	5	9	60	5	60
Sydney (NSW)	6	18	11	49	62	34
Northern Territory (NT)	7	10	23	38	8	63
Mackay (Qld)	8	14	30	51	17	56
Northern Territory - Bal (NT)	9	24	59	50	1	62
Kimberley (WA)	10	37	61	44	6	57
Melbourne (Vic)	11	15	10	30	63	43
New South Wales (NSW)	12	38	28	40	59	21
Western Australia (WA)	13	22	22	26	39	53
Australia (Aust)	14	34	25	36	57	31
Victoria (Vic)	15	25	18	28	60	37
Perth (WA)	16	29	20	16	55	50
Central (WA)	17	19	29	13	31	46
South Eastern (NSW)	18	28	26	54	53	15
Far North (Qld)	19	27	33	37	43	47
Fitzroy (Qld)	20	32	37	52	22	55
Brisbane (Qld)	21	30	21	45	58	48
Ovens-Murray (Vic)	22	13	17	57	26	45
Adelaide (SA)	23	40	15	35	65	14
Greater Hobart (Tas)	24	46	36	27	46	29
Hunter (NSW)	25	59	53	31	56	8
South West (Qld)	26	7	6	63	19	54
Central West (Qld)	27	8	4	65	37	36
Northern (Qld)	28	31	27	53	44	51
Queensland (Qld)	29	42	34	39	54	26
Illawarra (NSW)	30	57	58	10	48	10
Upper Great Southern (WA)	31	6	7	61	3	58
Far West (NSW)	32	62	62	6	52	7
South Australia (SA)	33	36	16	34	61	17
Northern (SA)	34	17	19	17	30	49
Gippsland (Vic)	35	45	51	29	13	39

Table C.3: **Ranking of Statistical Divisions by average income and selected demographic features, 1991** (continued)

	by average income	*by part-icipation rate*	*by labour force as share of population*	*by unem-ployment*	*by share of population under 15*	*by share of population over 54*
Barwon (Vic)	36	56	45	19	51	18
South West (WA)	37	49	55	24	10	28
Tasmania (Tas)	38	48	41	11	36	30
East Gippsland (Vic)	39	53	57	21	14	16
Moreton (Qld)	40	61	56	7	64	3
Midlands (WA)	41	11	24	41	4	52
Central West (NSW)	42	47	50	42	21	23
South East (SA)	43	9	8	47	16	42
Murray (NSW)	44	23	32	48	33	20
Goulburn (Vic)	45	26	31	32	20	35
Northern (NSW)	46	43	46	33	25	32
Mersey-Lyell (Tas)	47	50	52	3	23	41
Northern (Tas)	48	54	43	14	49	22
Murrumbidgee (NSW)	49	35	40	46	15	38
Loddon-Campaspe (Vic)	50	55	54	22	27	19
North Western (NSW)	51	33	44	15	11	33
Outer Adelaide (SA)	52	20	14	55	41	13
Western District (Vic)	53	41	38	43	32	11
Central Highlands (Vic)	54	58	60	9	34	27
Lower Great Southern (WA)	55	21	35	23	7	40
Darling Downs (Qld)	56	51	49	59	24	25
Mallee (Vic)	57	39	39	20	29	9
Southern (Tas)	58	44	47	5	9	44
Wimmera (Vic)	59	52	42	58	45	5
Richmond-Tweed (NSW)	60	64	64	2	47	4
Mid-North Coast (NSW)	61	65	65	1	38	2
Eyre (SA)	62	12	12	8	18	24
Wide Bay-Burnett (Qld)	63	63	63	4	40	6
Murray Lands (SA)	64	16	13	18	42	12
Yorke and Lower North (SA)	65	60	48	12	50	1

Note: This table contains more regions than Table C.1 as the areas combined in that table are shown separately here. In each column the ranking is from highest to lowest. Thus, the Pilbara has the lowest share of population aged over 54 and the Yorke and Lower North the highest share of people in this age grouping.
Source: Commission estimates derived from ABS 1993d.

Regional variations in the cost of living

The average incomes of Table C.1 are derived from answers to a census question asking *What is the gross income (including pensions and allowances)*

that the person usually receives each week from all sources? The answers make no allowance for the local cost of living or for the possibility that income was received in kind. A person in Sydney and another in Brisbane receiving exactly the same cash income would almost certainly enjoy differing lifestyles and *real* income.

Just what effect this might have on rankings is hard to say as there do not seem to be any comprehensive data on the cost of living in different parts of Australia outside the capital cities. The most commonly quoted measure, the *Consumer Price Index*, is an indicator of the rate of change in the prices paid by people who derive at least three-quarters of their income from wages and salaries and live in capital cities. It measures price movements, not price levels.

Some indications of current price differences around Australia are given in the next two tables which show the cost of a standard basket of household grocery items in various cities; and the median price of a home in several locations around the nation. In Table C.4 the prices of baskets of groceries are compared. Darwin, Launceston, Hobart, Perth and Bunbury were the most expensive cities: a brand name basket in Hobart or Launceston cost around 13 per cent more than it would in Sydney, and a cheapest products basket about 15 per cent more. In the cases of Perth, Bunbury and Darwin the cost differences are likely to reflect distance from the eastern seaboard of Australia where food production is concentrated. For Tasmanian cities too, freight costs are high although distances not so great.

Median house prices also vary widely with the most expensive homes in Sydney, Canberra, the areas north and south of Brisbane, and in Darwin (see Table C.5). A house in Sydney costs 30 per cent more than in Melbourne. Launceston, while a very expensive place to buy groceries, has homes for a little more than half the Melbourne price. In Queensland, median house prices in tourist destinations such as Cairns and Noosa were well above those in Brisbane. But prices in other Queensland cities such as Townsville, Gladstone, Rockhampton and Bundaberg are significantly lower than in the State capital.

Table C.4: **Cost of a grocery basket, various cities, February 1993.** (ranked lowest to highest by "cheapest products" basket)

City	*Brand name products*	*Cheapest products*	*City*	*Brand name products*	*Cheapest products*
	$	$		$	$
Toowoomba	65.41	51.16	Tamworth	67.22	54.32
Newcastle	62.30	51.25	Albury-Wodonga	68.28	54.57
Adelaide	65.78	52.05	Sydney	66.60	54.74
Brisbane	66.40	52.84	Townsville	66.87	55.01
Central Coast NSW	65.94	52.91	Bathurst	67.26	55.02
Melbourne	68.38	53.14	Bendigo	69.52	55.45
Geelong	68.35	53.31	Bunbury	72.02	58.78
Ballarat	67.93	53.40	Perth	72.79	60.29
Canberra	67.60	53.71	Hobart	75.45	62.77
Wollongong	67.49	53.72	Launceston	75.59	63.47
Orange	67.68	53.86	Darwin	77.38	64.62
Gold Coast	66.87	54.02			

Source: Australian Consumers Association 1993.

Table C.5: **Median house prices in selected cities, August-September 1993**

City	*Median price*		*City*	*Median price*	
	$'000	*Melb=100*		*$'000*	*Melb=100*
Sydney	188	130	Townsville	119	82
Canberra	159.5	110	Mackay - City	118	81
Gold Coast	149	103	Townsville - City	118	81
Darwin	147.5	102	Adelaide	112	77
Sunshine Coast - Noosa	147	101	Brisbane - Redcliffe	109	75
Melbourne	145	100	Hervey Bay	108	74
Brisbane - City	143	99	Toowoomba	107	74
Cairns - Mulgrave Shire	142	98	Perth	105	72
Cairns - City	139	96	Hobart	105	72
Brisbane - Redland Shire	136	94	Brisbane - Caboolture	103	71
Alice Springs	131	90	Gladstone	100	69
Brisbane	125	86	Rockhampton	100	69
Sunshine Coast - Maroochy	125	86	Brisbane - Ipswich City	90	62
Mackay - Pioneer Shire	122	84	Bundaberg	88	61
Brisbane - Pine Rivers Shire	121	83	Maryborough	83	57
Newcastle	120	83	Launceston	78.5	54

Source: Real Institute of Australia Ltd 1993 and The Real Estate Institute of Queensland Ltd 1993.

C.2 Changes in employment in different industries and States

In the ten years ended August 1993 employment rose by nearly one and a half millions. Two-thirds of this increase was concentrated in the first five years of the decade and all of the net national increase was in either the service or construction sectors. However, there *were* rises in the manufacturing industries of Queensland and Western Australia and in the Western Australian mining industry.

Details of changes in the five industry sectors are shown for each of the States and Territories in the next table.

Table C.6: **Employment changes, August 1983 to August 1993**

	Numbers employed			*Change*			*Per cent change*		
	1983	*1988*	*1993*	*1983 to 1988*	*1988 to 1993*	*1983 to 1993*	*1983 to 1988*	*1988 to 1993*	*1983 to 1993*
	('000)			*('000)*			*(%)*		
New South Wales									
Agriculture, forestry, fishing & hunting	120.2	124.3	124.8	4.1	0.5	4.6	3.3	0.4	3.8
Mining	31.3	30.5	33.2	-0.8	2.7	1.9	-2.6	8.9	6.1
Manufacturing	397.7	419.4	373.7	21.7	-45.7	-24.0	5.2	-10.9	-6.0
Electricity, gas and water	51.7	39.3	36.4	-12.4	-2.9	-15.3	-31.6	-7.4	-29.6
Construction	121.7	165.7	188.7	44.0	23.0	67.0	26.6	13.9	55.1
Services	1418.4	1717.1	1788.5	298.7	71.4	370.1	17.4	4.2	26.1
Total	2141.0	2496.3	2545.3	355.3	49.0	404.3	14.2	2.0	18.9
Victoria									
Agriculture, forestry, fishing & hunting	91.5	95.8	89.2	4.3	-6.6	-2.3	4.5	-6.9	-2.5
Mining	6.0	5.6	3.4	-0.4	-2.2	-2.6	-7.1	-39.3	-43.3
Manufacturing	390.7	407.2	340.1	16.5	-67.1	-50.6	4.1	-16.5	-13.0
Electricity, gas and water	34.3	33.9	23.6	-0.4	-10.3	-10.7	-1.2	-30.4	-31.2
Construction	95.6	132.2	112.1	36.6	-20.1	16.5	27.7	-15.2	17.3
Services	1057.1	1255.6	1362.5	198.5	106.9	305.4	15.8	8.5	28.9
Total	1675.2	1930.3	1930.9	255.1	0.6	255.7	13.2	0.0	15.3

Table C.6: **Employment changes, August 1983 to August 1993** (continued)

	Numbers employed			*Change*			*Per cent change*		
	1983	*1988*	*1993*	*1983 to 1988*	*1988 to 1993*	*1983 to 1993*	*1983 to 1988*	*1988 to 1993*	*1983 to 1993*
	('000)			*('000)*			*(%)*		
Queensland									
Agriculture, forestry, fishing & hunting	88.6	85.9	82.5	-2.7	-3.4	-6.1	-3.1	-4.0	-6.9
Mining	17.7	22.1	15.3	4.4	-6.8	-2.4	19.9	-30.8	-13.6
Manufacturing	134.5	149.5	164.2	15.0	14.7	29.7	10.0	9.8	22.1
Electricity, gas and water	19.3	14.4	13.9	-4.9	-0.5	-5.4	-34.0	-3.5	-28.0
Construction	78.2	103.2	121.6	25.0	18.4	43.4	24.2	17.8	55.5
Services	641.9	824.1	963.0	182.2	138.9	321.1	22.1	16.9	50.0
Total	980.2	1199.2	1360.5	219.0	161.3	380.3	18.3	13.5	38.8
South Australia									
Agriculture, forestry, fishing & hunting	44.3	44.8	48.9	0.5	4.1	4.6	1.1	9.2	10.4
Mining	5.9	3.7	5.3	-2.2	1.6	-0.6	-59.5	43.2	-10.2
Manufacturing	107.1	104.8	95.3	-2.3	-9.5	-11.8	-2.2	-9.1	-11.0
Electricity, gas and water	10.2	10.1	7.5	-0.1	-2.6	-2.7	-1.0	-25.7	-26.5
Construction	31.7	38.4	40.5	6.7	2.1	8.8	17.4	5.5	27.8
Services	338.6	415.9	444.1	77.3	28.2	105.5	18.6	6.8	31.2
Total	537.8	617.7	641.6	79.9	23.9	103.8	12.9	3.9	19.3
Western Australia									
Agriculture, forestry, fishing & hunting	51.6	57.3	47.3	5.7	-10.0	-4.3	9.9	-17.5	-8.3
Mining	23.8	26.3	30.4	2.5	4.1	6.6	9.5	15.6	27.7
Manufacturing	70.0	87.0	80.2	17.0	-6.8	10.2	19.5	-7.8	14.6
Electricity, gas and water	12.7	10.0	10.3	-2.7	0.3	-2.4	-27.0	3.0	-18.9
Construction	37.6	59.0	68.9	21.4	9.9	31.3	36.3	16.8	83.2
Services	378.7	472.5	549.3	93.8	76.8	170.6	19.9	16.3	45.0
Total	574.4	712.1	786.4	137.7	74.3	212.0	19.3	10.4	36.9
Tasmania									
Agriculture, forestry, fishing & hunting	13.6	16.3	15.6	2.7	-0.7	2.0	16.6	-4.3	14.7
Mining	3.2	3.5	2.5	0.3	-1.0	-0.7	8.6	-28.6	-21.9
Manufacturing	24.9	28.4	22.7	3.5	-5.7	-2.2	12.3	-20.1	-8.8
Electricity, gas and water	6.0	4.5	3.0	-1.5	-1.5	-3.0	-33.3	-33.3	-50.0
Construction	10.4	12.7	12.4	2.3	-0.3	2.0	18.1	-2.4	19.2
Services	106.9	123.4	131.2	16.5	7.8	24.3	13.4	6.3	22.7
Total	165.0	188.8	187.4	23.8	-1.4	22.4	12.6	-0.7	13.6

Table C.6: **Employment changes, August 1983 to August 1993** (continued)

	Numbers employed			*Change*			*Per cent change*		
	1983	*1988*	*1993*	*1983 to 1988*	*1988 to 1993*	*1983 to 1993*	*1983 to 1988*	*1988 to 1993*	*1983 to 1993*
	('000)			*('000)*			*(%)*		
Northern Territory									
Agriculture, forestry, fishing & hunting	1.4	2.9	1.7	1.5	-1.2	0.3	51.7	-41.4	21.4
Mining	6.3	3.3	2.4	-3.0	-0.9	-3.9	-90.9	-27.3	-61.9
Manufacturing	3.2	2.7	3.7	-0.5	1.0	0.5	-18.5	37.0	15.6
Electricity, gas and water	1.0	0.7	0.3	-0.3	-0.4	-0.7	-42.9	-57.1	-70.0
Construction	6.0	6.2	5.0	0.2	-1.2	-1.0	3.2	-19.4	-16.7
Services	41.7	54.5	61.0	12.8	6.5	19.3	23.5	11.9	46.3
Total	59.6	70.3	74.1	10.7	3.8	14.5	15.2	5.4	24.3
ACT									
Agriculture, forestry, fishing & hunting	0.2	0.9	1.2	0.7	0.3	1.0	77.8	33.3	500.0
Mining	0.1	0.3	0.0	0.2	-0.3	-0.1	66.7	-100.0	-100.0
Manufacturing	3.8	4.5	4.8	0.7	0.3	1.0	15.6	6.7	26.3
Electricity, gas and water	0.9	1.0	1.0	0.1	0.0	0.1	10.0	0.0	11.1
Construction	6.7	11.7	10.0	5.0	-1.7	3.3	42.7	-14.5	49.3
Services	96.2	119.7	141.5	23.5	21.8	45.3	19.6	18.2	47.1
Total	107.9	138.1	158.5	30.2	20.4	50.6	21.9	14.8	46.9
Australia									
Agriculture, forestry, fishing & hunting	411.4	428.2	411.2	16.8	-17.0	-0.2	3.9	-4.0	0.0
Mining	94.3	95.3	92.5	1.0	-2.8	-1.8	1.0	-2.9	-1.9
Manufacturing	1131.9	1203.6	1084.8	71.7	-118.8	-47.1	6.0	-9.9	-4.2
Electricity, gas and water	136.0	113.9	95.8	-22.1	-18.1	-40.2	-19.4	-15.9	-29.6
Construction	388.0	529.2	559.3	141.2	30.1	171.3	26.7	5.7	44.1
Services	4079.6	4983.0	5441.3	903.4	458.3	1361.7	18.1	9.2	33.4
Total	**6241.2**	**7353.2**	**7684.9**	**1112.0**	**331.7**	**1443.7**	**15.1**	**4.5**	**23.1**

Source: ABS 1993l

D ADJUSTMENT EXPERIENCES OF SELECTED REGIONS

Introduction

This appendix provides a brief summary of the adjustment experiences of twelve regions across Australia. They are:

- Albany (Western Australia)
- Albury-Wodonga (New South Wales/Victoria)
- Bundaberg (Queensland)
- Cairns (Queensland)
- Elizabeth (South Australia)
- Exmouth (Western Australia)
- Geelong (Victoria)
- Gladstone (Queensland)
- Hunter Valley (New South Wales)
- King Island (Tasmania)
- Latrobe Valley (Victoria)
- Wangaratta (Victoria).

These regions were selected to highlight a range of adjustment pressures and the different ways in which adjustment has occurred.

Some of the regions selected are characterised by growth; others have experienced long-term loss of population and industries; a third group includes regions confronted with change in the composition, rather than the magnitude, of their economic activities.

The selected regions include examples of remote areas, regional centres, and city/urban centres. At least one region from each State was included.

These regional summaries are not intended as a comprehensive treatment of the characteristics and problems of the regions. Rather, the intention was to examine experiences of regions in order to draw out themes that might have general applicability and point to a need for policy action. (For example, one theme common to many was the importance of local government authorities in helping to establish an environment that facilitates regional adjustment.) The

regions covered in this appendix have been used as examples in the main report when particular themes and issues are discussed — see particularly Chapters 2 and 3.

The Commission visited nine of the regions included in this appendix. In these visits, Commissioners and staff were able to talk with a cross-section of the local community and visit local enterprises. The Commission was impressed by the positive steps being taken in many communities to address regional adjustment problems.

D.1 ALBANY

Background

Albany is the regional centre of the Great Southern Region situated on the south coast of Western Australia. The region has a population of about 46 000; almost half reside in the town of Albany.

For many years Albany was Western Australia's busiest port, initially as a coaling and mail depot and then supporting the region's primary industry activities.

Overall unemployment across Albany town and shire, Denmark and Plantagenet shires was recorded at 8.9 per cent in March 1993 (DEET 1993d). However, this varied from 11.9 per cent in the coastal shire of Denmark to 7.9 per cent in Plantagenet Shire. Although the overall population of the region has shown some decline in recent years, the coastal regions of Denmark and Albany shires have shown strong population growth.

Chief characteristics

Agriculture has been the most important industry in the region, accounting for about one-third of direct total employment. Wool accounts for about two-thirds of total value of agricultural production, followed by wheat and livestock.

In addition, the region supports significant horticulture, viticulture and timber activities. Although fishing has shown some decline it remains an important industry, the main catches being pilchard, salmon, herring, tuna and shark. Tourism is also an important industry and is regarded as having good prospects for growth in the region.

Agriculture provides the basis for much of the region's manufacturing sector. The main manufacturers include a woollen mill, a vegetable processor, a fertiliser works and a sheepskin product manufacturer. Other manufacturers are small, employing less than 10 people, and servicing local markets. In total, there are approximately 120 manufacturing firms employing 1200 people (GSDA 1992b).

Rapid population growth in coastal areas has resulted in an increase in demand for infrastructure services. However, in the northern areas the problem is one of maintaining infrastructure in the face of a declining population.

Regional issues

Fishing

The industry has experienced some major shocks. Declining whale numbers and the subsequent international ban on whaling in the late 1970s resulted in the closure of the Cheynes Beach Whaling Station, the last whaling station in Australia. There was also a decline in tuna in the late 1980s which led to the closure of tuna canning operations in the region.

At the time of the closure of Cheynes Beach Whaling Station about 96 people were employed in on-shore processing and sea-based activities. In a submission to the Independent Inquiry into Whales and Whaling it was predicted that those retrenched would need to leave the region to obtain employment if the station were closed (see DEYA, 1979). However, four months after the closure of the station about 80 per cent of displaced workers had obtained employment, most within the Albany region.

The southern bluefin tuna fishery experienced major adjustment following the introduction of transferable quota arrangements from 1984–85. The quota was sold to larger more efficient operators, who exercised their quotas further east where the tuna was larger and therefore suitable for the more profitable Japanese sashimi market.

Adjustment in the fishing industry has taken two forms. To some extent, fishermen continued fishing other fish stocks (particularly pilchards). Secondly, fishermen with quotas were able to use the capital from the sale of quotas to finance other activities such as farming.

Aquaculture is emerging as an important industry. On-farm production of marron, yabby and koonac and oyster aquaculture ventures have been established. A Singaporian firm has recently invested $5 million in the ocean food oyster operation.

Food processing

Down-sizing of the local tuna fishing industry meant the end of tuna processing in the region. However, the processing plant has since been converted to process local vegetables. Very little of the cannery's physical capital (mainly refrigeration equipment) was transferred to the new operation. It is not known what proportion of ex-cannery workers were employed in the new operation.

A recent development has been the announcement of the closure of the export abattoir at Albany. The closure, which is due to environmental problems associated with the old plant, will result in a loss of about 300 jobs in the region and will significantly affect employment in Albany. Prior to this announcement

the Great Southern Development Authority (GSDA) had been involved with a feasibility study of a new 'high-tech' abattoir. This proposal has now gained new impetus. The Western Australian Government has signalled that although it is keen to help establish a new abattoir in the region, this would not involve government ownership.

Port trade

Two major events have resulted in the relocation of some port activities from Albany to Fremantle. First was the advent of containerisation which diverted much of the general cargo from the port of Albany. However, the port continues to handle bulk commodities which include imports of fertiliser and petroleum products and exports of wheat and other grains.

The second event occurred in 1984 when exporters of live sheep centralised their operations in Fremantle to minimise costs. Exporters have since made substantial investments there, in holding yards and feed lots, and they also operate the specialised ships and supply live sheep to established export markets. Thus it has been difficult for the port of Albany to attract any portion of the established live sheep trade, despite environmental problems at the Fremantle port. The high cost of transporting live sheep from Albany to Fremantle, has significantly reduced the export of live sheep from the Albany region.

The Albany Port Authority is currently awaiting approval, from the State Treasury, to borrow $2 million for expansion of port facilities. It stated that a major investment in the port (particularly in containerisation/general cargo facilities) would allow it to compete more effectively with other ports in handling exports from the region. Wool, live sheep and woodchips are major exports targeted by the port for development. The Port Authority favoured corporatisation and removal of restrictions on raising of capital to stimulate investment in port infrastructure.

Regional development and the impact of State development policies

The GSDA was established by the State Government in July 1987. Its budget in 1992–93 was $1.2 million (GSDA 1992a). The GSDA has been involved in identifying new economic opportunities, disseminating information, promoting and marketing of local products. This includes the feasibility study for a new abattoir and another study looking at ways to increase port trade prospects (see above). In 1991–92 the Department of State Development provided $30 000 for a feasibility study for a wool scouring/topmaking plant in the region. As a result the GSDA is seeking to attract an existing operator to the region (GSDA 1992c).

There is a perception that the State government's decentralisation policy has tended to favour Bunbury, possibly to the detriment of other regions such as Albany (although this does not detract from developments achieved in Bunbury). The 1991–92 budget allocation for the South West Development Authority (Bunbury being its regional capital) was almost $6 million for a region with a population of about 140 000 ($42 per capita), while for the same period the Great Southern Development Authority received just over $0.7 million for a population of 46 000 ($15 per capita) although this has been recently increased. Until recently, Bunbury has been the only Western Australian regional centre to attract funding under the Building Better Cities Scheme, with more than $30 million in Commonwealth and State funding over five years (SWDA 1992).

Tourism

The region's life-style and the low cost of living has attracted retirees. Tourism is also growing in importance. The Commonwealth Department of Employment, Education and Training's Office of Labour Market Adjustment has funded training programs in the tourism industry and is conducting a study of 'adventure tourism'. The GSDA submitted that an upgrade of the local airport and flight services would improve the region's tourism prospects (Sub. 72, p. 9).

Themes

- *Pressures for change* — The Great Southern Region has experienced a number of shocks over the past three decades. Natural and economic factors have led to pressures for change in the region. Although these pressures have resulted in a decline in some activities, others have taken over, and this has happened without any major government assistance.
- *Diversification* – has forestalled substantial decline in spite of declining employment in agriculture and fishing. The region's economy has been diversifying into processing of primary produce. The region is also benefiting from its natural lifestyle attractions as tourism and retirement industries grow.
- *Development assistance* — development assistance targeting specific regions can be at the expense of other regions.

D.2 ALBURY-WODONGA

Background

Albury-Wodonga is located on the border of New South Wales and Victoria: Albury in New South Wales and Wodonga in Victoria. It is positioned on the Hume Highway which links Melbourne and Sydney.

This region includes the cities of Albury and Wodonga, the new housing estates of Thurgoona and Baranduda, and the surrounding district for a 40km radius. This includes the shires of Hume, Beechworth, Chiltern and parts of the Tallangatta and Yackandandah shires.

In 1991, the population of Albury-Wodonga was 90 850 making it the fourth largest inland centre and the 18th largest urban centre in Australia.

The unemployment rate in the March quarter 1993 was 14.5 per cent in Albury, 10.9 per cent in Wodonga and as low as 5.6 per cent in the surrounding area. In comparison, the average rate was 11.9 per cent in New South Wales and 12.4 per cent in Victoria.

Chief characteristics

Albury-Wodonga as a growth centre

In 1972, part of the newly elected Federal Labor Government's policy was the development of regional growth centres, with the aim to decrease congestion in the major cities. The Commonwealth, Victorian and New South Wales Governments agreed that Albury-Wodonga should become one such growth centre (see also Appendix G).

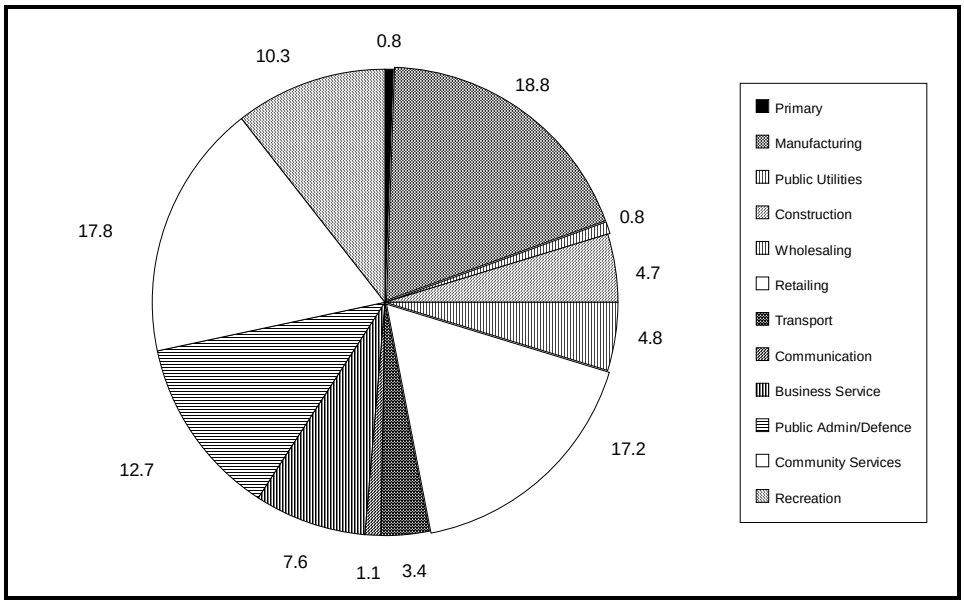
A major goal of the project was to raise the population of Albury-Wodonga to 300 000 by the year 2000. Although population growth has averaged approximately 2.5 per cent a year since 1973 (compared with an Australian average of 1.7 per cent), Albury-Wodonga is now expected to reach a population of around 107 000 by the year 2000.

The region benefited from record high private sector investment in 1992–93. Land sales for housing have been particularly strong for the past two years.

Industries

Albury-Wodonga has a diverse economy for a regional centre, as illustrated in Figure D.1. It has a relatively strong representation of manufacturing, defence, recreation and wholesale/retail sectors. The wholesale/retail sector is large because it serves the surrounding areas.

Figure D.1 **Proportion of employees in industry sectors, 1991**



Includes urban only areas so that much primary industry activity is excluded.
Source: ABS, 1993b

Regional issues

Government assistance

When established as a growth centre, the Federal Government provided funds for: acquisition of land for urban development, the rapid establishment of a development corporation, urban development work including, water supply, sewerage and land servicing. A new university was established. Local infrastructure was improved, including hospitals, schools, Wodonga road and rail by-pass and public housing.

Contributions towards the administrative expenses of the Albury-Wodonga Development Corporation (AWDC) from the Commonwealth, New South Wales and Victorian Governments have been phased out. In 1989–90 each government contributed $350 000, reducing to $250 000 in the following year and to $150 000 in 1991–92; contributions ceased in 1992–93.

Albury-Wodonga Development Corporation

The objectives of the Corporation when it was established in 1973 were to promote economic development opportunities, and optimal urban development and design, in consultation with relevant agencies in the community (AWDC 1992).

A review was undertaken in 1989 by the Corporation's governing Ministerial Council. The Council decided that:

> the Corporation should change direction in line with economic circumstances and realistic growth projections. (AWDC 1990)

As a result of this review the Corporation's mission statement was revised as follows:

> To plan, facilitate, promote and undertake environmentally sound economic, land-use and social development of the Albury-Wodonga region in co-operation with Australian, State and Local Governments and the community.

This change put greater emphasis than before on the promotion and facilitation of economic growth rather than the complete planning of the region. It was recommended that the Corporation hand back planning powers to local authorities, ending the sole planning responsibilities of the AWDC. This was fully implemented in 1992.

A major role of the Corporation is to identify which industries might invest in the region and to attract them to do so. The Corporation develops and sells land for both residential and commercial ventures.

The AWDC has recently adopted the objective of maximising the return to its shareholders. It is expected to pay a dividend of around $6 million to the Commonwealth in 1993–94.

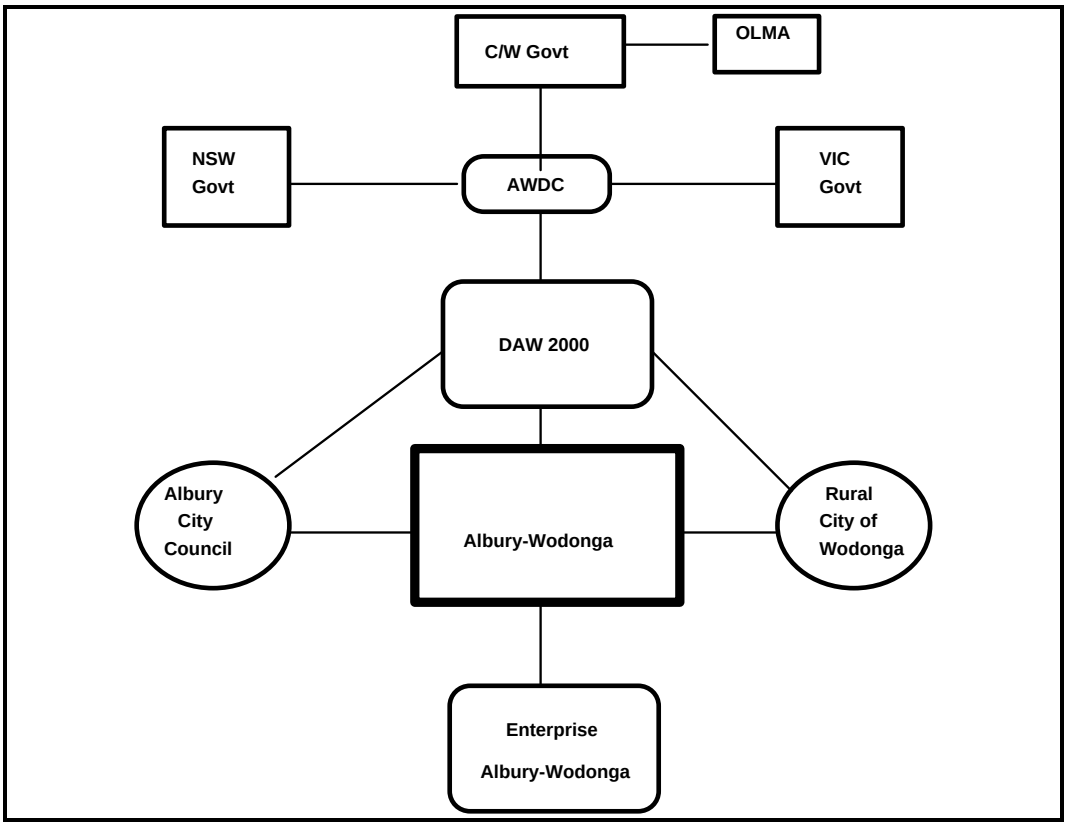
Coordination of agencies

As illustrated in Figure D.2, there are many organisations, apart from the AWDC, involved in marketing and developing the Albury-Wodonga region. The peak body is Development Albury-Wodonga 2000 (DAW 2000). It is composed of representatives of the AWDC, the City Councils of Albury and Wodonga and representatives of the regional business sector; it is responsible for the region's economic development policy making.

Community organisations are also involved in the promotion, marketing and development of the region through groups such as Enterprise Albury-Wodonga (EAW) It was formed in 1992 because of perceptions that policy was not systematic, regular or ongoing. EAW consists of members mainly from the private sector, with secretariat support from the AWDC, and receives funding

from OLMA (of the Commonwealth Department of Employment, Education and Training). It coordinates economic development grants made by OLMA and has recently completed a profile study of the Albury-Wodonga region. Its activities are centred on strengthening business within the region.

Figure D.2: **Organisations involved in Albury-Wodonga**



Themes

Albury-Wodonga is one region which has obtained a relatively large amount of development assistance over a long period. While development has fallen short of the initial projections, the Commission was not able to find any methodical assessment of how successful government assistance has been. Particular difficulties have been:

- *the proliferation of government and other bodies* — Commonwealth, State, local and community groups; and
- *problems of coordination* between levels of government and other statutory authorities.

D.3 BUNDABERG

Background

Bundaberg lies between the two major ports of Gladstone and Brisbane. Bundaberg has port facilities for bulk handling of goods but it is not on the rail system.

The region had a population of just over 56 000 in 1991, including Bundaberg City, Woongarra Shire and Gooburrum Shire. Population growth has increased from an average of 0.9 per cent per annum between 1976 and 1986 to around 2.5 per cent per annum since 1986. Much of the population growth stems from the arrival of unemployed people and retirees from other States, leading to a boom in the service and construction industries in Bundaberg. Unemployment has increased from 11.9 per cent in 1990 to about 17.1 per cent in March 1993 (DEET 1993d).

Sugar production accounts for just over half of the gross value of crops in the region. Expansion of the Bundaberg Irrigation Area (completed in 1991) has enabled the irrigation of 52 400 hectares of sugar cane and other crops. This has provided farmers with the potential to diversify out of cane sugar and into other horticultural production. However, availability of water and arable land limits the expansion of some agricultural activities.

Because Bundaberg's economy is dependent on sugar cane, adverse conditions in this industry are likely to result in substantial flow-on effects. For example, low world sugar prices contributed to the closure of the Qunaba Mill in 1985. Drought in 1991–92 and the continuing effect of falling sugar prices has resulted in a loss of jobs in sugar growing and related activities such as farming equipment manufacture. The number of engineering employees fell by 600 over the 1985–91 period (BDTDB 1992).

Chief characteristics

Major industries currently operating in Bundaberg include:

- sugar cane growing and other horticulture including tomatoes, melons, cut-flowers;
- Bundaberg Rum distillery;
- Electra Breweries (Ginger Beer);

- Bundaberg Foundry and Engineers who are major suppliers to the sugar, marine and mining sectors and related services such as engineering project management;
- Austoft Bundaberg manufactures over 85 per cent of the world's sugar cane harvesters; and
- Wide Bay Brickworks produces various clay products for the construction industry, currently exported to New Zealand and Asian countries.

Social infrastructure and community service provision is becoming strained due to high population growth (BDTDB 1992). Education infrastructure is generally adequate, but changing training needs and population growth have resulted in increasing demand for training. As a result the local TAFE has recently been expanded. Bundaberg campus of the University of Central Queensland is also being expanded.

Regional issues

Sugar industry assistance

Government assistance to the sugar industry is an important issue for the Bundaberg region. The abolition of the embargo on sugar imports in 1989 and the phasing down of tariffs have brought adjustment pressures to the industry (IC 1992a). However, in February 1993, a Sugar Industry Package was announced by the Commonwealth (DPIE 1993) which maintains the level of assistance provided through sugar tariffs at the current levels (of $55 per tonne until July 1997). New assistance measures include $40 million provided by Commonwealth and State governments over the next four years to support infrastructure projects for the development of the sugar industry. The package also provides for increased assistance, through the Rural Adjustment Scheme, for growers to move out of the industry and for farm amalgamations.

Structural change

In the past decade, the region has begun to diversify away from its heavy reliance on sugar production to minimise risk from drought and fluctuations in commodity prices. Some farmers are diversifying into horticultural crops and cut-flowers. A number of major manufacturers of agricultural machinery have begun production of coffee and salix harvesters, trench diggers, wood chipping machines and waste grinding machines.

The region's life-style attractions and the low cost of living have attracted retirees and also the unemployed. Tourism is also growing in importance. These factors have led to a boom in the local service and construction

industries. However, there is some concern in the town about the adequacy of social infrastructure to cope with a larger population and about social problems associated with increased welfare dependency.

Labour and capital

Award wages have been a major issue in the region. In October 1991, the Cane Growers' Association argued that the industry could not afford to pay a proposed wage rise of 3.5 per cent in the face of low world sugar prices and declining farm incomes. The Industrial Relations Commission subsequently deferred the wage flow-on (BDTDB 1992). Recently, the Commonwealth's Sugar Industry Task Force recommended that '... a single workplace union be established or designated for the raw sugar industry and that the concept of enterprise bargaining at a factory level be supported.' (DPIE 1993)

The availability and cost of investment capital is of major concern in the region. Because of the region's dependence on sugar, institutions and investors require a risk premium for investments in the local economy. As the local capital market is not well developed, access to venture capital is largely restricted to relatively expensive debt financing (BDTDB 1992).

Government coordination and regional development

The Commission was told that in all levels of government there has been weak coordination and planning and that the approach to regional development has been fragmented. For example, zoning guidelines differ across neighbouring shires which has led to housing encroachment on 'good red soil' suitable for agriculture in one shire, when land in another shire could have been more appropriate.

The Bundaberg Area Community Apprenticeship and Training Scheme Ltd (Sub. 13) indicated that coordination has improved with the opening of the Bundaberg-North Burnett office of the Department of Business, Industry and Regional Development (DBIRD). In addition, the Government Managers Forum has been formed to overcome coordination problems. It has been suggested that further improvements could be achieved through amalgamating local government authorities and regionalisation of government decision making, but the rural shires resist amalgamation with the city.

Transport

The adequacy of transport services and infrastructure is of concern to the region because of the distance to major markets. Bundaberg is connected to the main Cairns-Brisbane highway (the Bruce Highway). The road system in the North-Burnett hinterland is said to be poor, making transport costs high for many of

the primary producers in the region. Rail services through the region were said to be infrequent and unreliable. The Queensland Government is considering discontinuation of the rail service because the low volume being handled makes the service uneconomic. But local industry and users oppose the closure arguing that if the service were improved volume would increase. The State Government is currently investigating these issues.

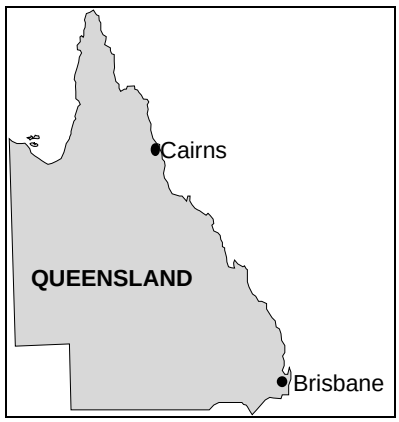
Bundaberg does not have container handling facilities; all containerised cargo is transported to the Brisbane port for shipping. There were complaints of the high cost of coastal shipping due to regulations which restrict the use of foreign vessels (cabotage). Although the single voyage permits system has freed up coastal trade to a limited extent, the cabotage policy remains an important cost impost on local industry involved in intra- and interstate trade. This is of particular concern to Bundaberg because it has few low-cost alternative modes of transport.

Themes

- *Structural change* — Bundaberg has had a heavy reliance on a single commodity, sugar. Falling world prices, reduced import protection and drought have created pressure for change. There have been changes in the sectoral composition of the region's output and within the sectors themselves. Most industries are in the process of restructuring.
- *In-migration* — unemployment levels are high, largely because of migration of people on social security benefits who are attracted by lower living costs and mild climate, and there are concerns about the capacity of social infrastructure to keep up with demand.
- *Coordination between governments* — weak links between government and industry and between governments may have constrained regional development and the supply of infrastructure. The establishment of an office of DBIRD is said to have helped overcome some of these problems, but amalgamation of local jurisdictions remains an option.
- *Transport* — is important to the region because of its distance to major markets. High costs due to poor infrastructure and regulations are said to restrain the region's development and adjustment.

D.4 CAIRNS

History



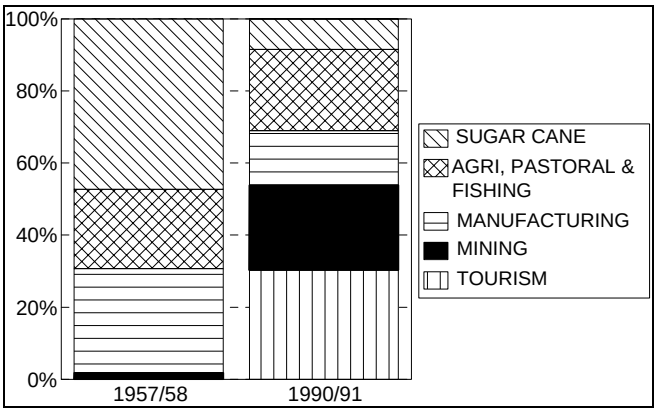
Cairns is on the coast of Far North Queensland, 1400 kilometres north of Brisbane. The region has grown strongly with the development of the tourist industry. Between 1976 and 1991, the population in Cairns increased by 3.7 per cent per annum, to reach nearly 100 000. The unemployment rate in the March quarter 1993 was 13 per cent, compared with the State unemployment rate of 11.5 per cent.

Historically, the composition of industry in Cairns has reflected its coastal location. In 1876, government services of post, customs and the port were established, marking the official settlement of Cairns. It developed as a regional service centre. Fishing, mining, forestry and agricultural industries, especially sugar cane production, underpinned economic activity in the region, and sustained the city. By the 1970s Cairns had become a major domestic and international tourist destination.

An international airport was opened in 1984 and upgraded in 1988 in response to growth in international tourism.

Figure D.3: **Composition of estimated value of production**

Far North Queensland 1957-58 & 1990-91



Source: Sub. 81

Chief characteristics

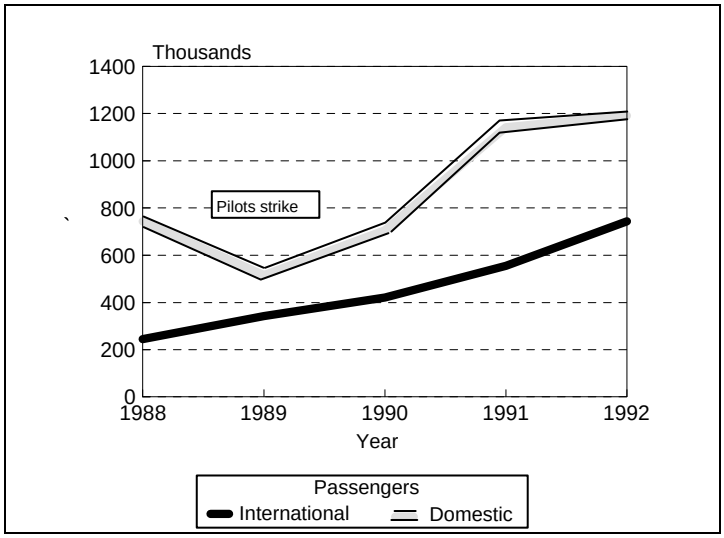
Major industries

Figure D.3 shows the changing composition of the Far North Queensland economy. The decline in the relative importance of sugar cane is notable, as is the growth in tourism and mining.

Tourism

Tourism provided 25 per cent of the gross regional product of the city of Cairns in 1992. The rapid growth in tourism is evident in the increased passenger flow through Cairns airport and increased takings from accommodation in Cairns.

Figure D.4: **Arrivals and departures at Cairns Airport** 1988 -1992

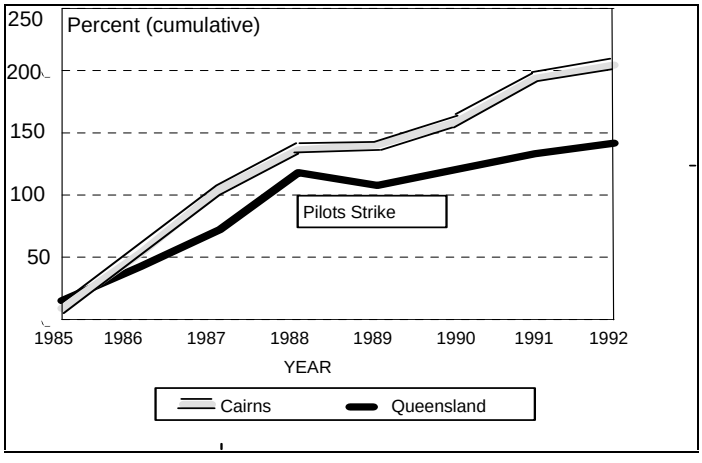


Source: Cairns Port Authority 1993

Figure D.4 shows passenger numbers arriving and departing from Cairns airport. The growth in international passengers has been particularly strong. In 1980–81, 3.7 per cent of international inbound passengers arriving in Queensland disembarked in Cairns. By 1989–90 this had increased to 18.7 per cent.

Tourist accommodation takings of licensed hotels and motels is another indicator of the rapid growth of the tourist industry in Cairns. Figure D.5 compares the percentage increase in takings from licensed motels/hotels for Cairns and Queensland. In 1984, accommodation takings in Cairns accounted for 7.8 per cent of the Queensland total. This increased to 13.1 per cent in 1992.

Figure D.5: **Increase in takings from licensed motels/hotels** (cumulative per cent)



Source: ABS 1992e

Other sectors

The contribution of the agricultural and pastoral sector, excluding sugar cane, has remained relatively constant in the period 1957-58 to 1990-91. However, there was a

marked decline in the relative importance of sugar cane.

Mining has grown in importance to the region. The minerals produced in the region include bauxite (Weipa), silica (north of Cooktown), and gold bullion and limestone (west of the Atherton Tableland). The total value of minerals before processing was $464 million in 1990–91. Although mining activity is far removed from Cairns, it affects the city's role as a service centre for the region.

Cairns has substantial wharf and port facilities that cater for cargo ships, bulk export of sugar, import of fuel, general cargo coastal trade, a navy base, cruise ships, tourist industry boats and a commercial fishing fleet. Slipways, ship repairs and shipbuilding are important.

Regional adjustment experiences

Tourism has provided the impetus for the substantial growth of Cairns. The pace of this growth has been facilitated by:

- the acknowledgment of the special working requirements in the tourism industry through specific industrial awards and agreements;
- the role of institutions promoting development of tourism in Cairns. These institutions include the Far North Queensland Promotion Bureau, the State government funded Queensland Travel and Tourism Corporation (QTTC) and the Australian Tourist Commission;
- the development of the international airport in 1984. The airport is operated by the Cairns Port Authority. An $80 million expansion was undertaken in 1988 to allow for increased passenger movement; and
- the provision of sufficient tourist accommodation, to satisfy growing demand. This accommodation has been provided by the private sector, often by foreign investors.

However, there are potential problems associated with the growing tourist industry in Cairns.

The major problem is the extent to which the city's economy depends on one industry that is so easily influenced by external factors. The 1989 pilots' strike demonstrated the city's dependence on tourism, and particularly on the airline industry. Figures D.4 and D.5 provide an indication of the effect of this dispute. International developments can also have substantial effects on the tourism industry. For example, a recent change in Japanese tax laws (which will increase the scope for businesses to deduct the cost of holidays provided to employees) is expected to increase the number of Japanese tourists travelling to Australia.

A second problem associated with growth of the tourism industry in Cairns is the effect on the environment. Environmental issues have been raised in relation to the fragile nature of resources such as the Barrier Reef and the rainforests. Tourism groups argue that it is in their interests to ensure that the tourist attractions are not damaged by tourist activities.

Themes

From a heavy dependence on sugar, Cairns has been able to diversify its regional economic base. By harnessing the tourism industry, rapid growth has occurred.

- *Initial development* — based on natural advantages of the area.
- *Speed of growth* — has been facilitated by the timely provision of infrastructure, notably the international airport and accommodation. There has been extensive private sector involvement in both the provision of infrastructure and promotion of the city.
- *Role of government* — tourism in Cairns has benefited from the activities of the QTTC and the Australian Tourist Commission.
- *Labour market arrangements* — Cairns has benefited from the flexible wages and conditions applying in the tourism sector.

D.5 ELIZABETH

History

The city of Elizabeth is located 27 kilometres north of Adelaide. It was planned as a satellite city to Adelaide, and built by the South Australian Housing Trust (SAHT) in the 1950s. The city was developed to accommodate the rapid growth in population and industry during the post war period.

The planning of Elizabeth incorporated spatial and social objectives. As a satellite city, Elizabeth was designed to be self-contained. The city plan incorporated local and major shopping centres, a town civic centre, and areas designated for industry, sporting and community facilities. The city was to be a series of neighbourhoods, each with a population of 5000. Each neighbourhood included houses for rental and purchase. In this way the SAHT hoped to achieve a social balance within each neighbourhood unit.

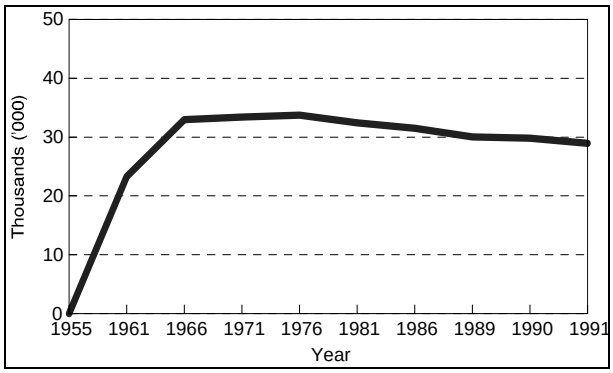
The city was designed for 50 000 residents, but the population in June 1991 was 28 942. The unemployment rate in the March quarter 1993 was 22.7 per cent, substantially higher than the average unemployment rate of 12.0 per cent for South Australia.

Chief characteristics

Growth of Elizabeth

The growth of Elizabeth was very rapid. Occupation commenced in 1955 and by 1960 Elizabeth had become the largest town in South Australia, outside Adelaide. The accompanying figure indicates the growth and levelling out of the population.

Figure D.6: **Population growth in Elizabeth**, 1955-1990



Source: South Australian Yearbook 1993

Employment

In 1990–91, manufacturing was the dominant employer in Elizabeth, employing 29 per cent of the workforce. General Motors Holden (GMH) is the largest single employer. The GMH plant was established in 1958–59, with assistance from the SAHT. In recent years the passenger motor vehicle industry has been undergoing significant restructuring and that has had an impact on the region.

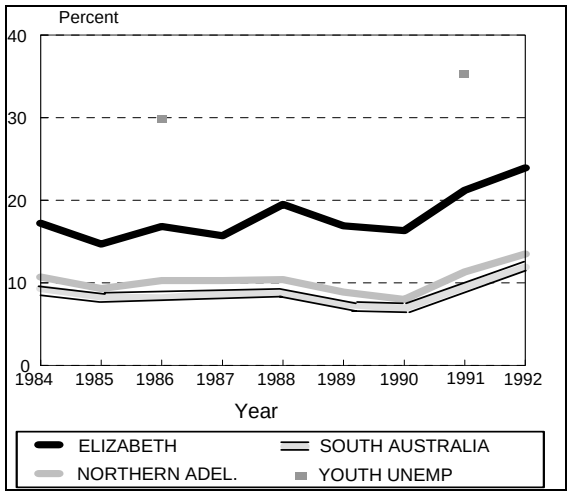
Other organisations with manufacturing operations in the area include: Texas Instruments, British Aerospace, Levi Strauss, Corfu Jeans, Defence Science and Technology Organisation and Australian Defence Industries.

Regional issues

Unemployment

The narrow economic base of the city contributes to the high rates of unemployment experienced in Elizabeth, as evident in the graph. It is included by the Commonwealth Department of Employment, Education and Training (DEET) in the one-third of regions with the highest average rates of unemployment for the period from 1984 to 1991 (Sub. 71, Attachment XII p. 50). In 1986, the unemployment rate for 15–19 year olds in Elizabeth was 29.9 per cent and by 1991 this had increased to 35.3 per cent.

Figure D.7: **Unemployment rates** 1984-1992



Source: ABS 1993b

An Image Problem

Elizabeth suffers from what Forster (1990) calls a 'persistent image problem'. The characteristics of the city are such that it has low average income and high levels of welfare dependence associated with the SAHT presence. The statistics in Table D.1 indicate why Elizabeth has such an 'image'.

The Commonwealth, State and local governments provide assistance for re-development in Elizabeth through the joint Commonwealth-State Building Better Cities program; the State Government's designation of the northern region of Adelaide as a growth region; and the activities of the SAHT. These

programs aim to achieve an increase in population, better use of land, a wider range of housing stock, and diluted public ownership of houses.

Table D.1: **Population characteristics of Elizabeth compared with Adelaide 1991** (per cent)

	Elizabeth	*Adelaide*
Annual Household Income < $16000	34	23.9
One Parent Families - with dependent offspring	17.4	9.4
Homes Owned or Being Purchased	50.5	76.2
Participation Rates — Male	68.4	71.7
— Female	39.0	51.5

Source: ABS 1993b

Themes

Elizabeth was established to be a self-contained city for the growing population of Adelaide. Although the city was able to provide inexpensive accommodation it did not attract sufficient industry to provide employment for residents. As a result two main problems have emerged in Elizabeth.

- The first relates to the high proportion of housing trust accommodation. This contributes to the poor image of the region and to low mobility of residents. Once people have been allocated public housing in a particular area, there is a disincentive to move, as there are lengthy waiting lists to obtain public housing in a new location. The high proportion of public housing has also contributed to problems associated with long-term low income, high unemployment areas. The current initiatives aim to create a more positive image for the city.
- The second problem is the dependence that has developed on one employer. The fortunes of the city are closely aligned to those of GMH. The current employment base of the city provides few opportunities to reduce unemployment.

D.6 EXMOUTH

History

Exmouth is located on the eastern side of the North West Cape, in the Gascoyne region of Western Australia. It is 1270 kilometres north of Perth. The Exmouth Shire is the second largest population centre, after Carnarvon, in the region. The resident population of the shire is approximately 3000 people, which is 25 per cent of the region's population. The unemployment rate in the March quarter 1993 was 5.2 per cent, compared to 10.4 per cent for the State.

The town was established in 1963 in conjunction with the establishment of the Harold E Holt United States Navy (USN) communication station. Direct economic interaction between the USN base and the civilian town of Exmouth was limited. USN personnel were paid in, and conducted transactions in, US dollars. The communications station had a grocery store (all products except bread and milk were imported from the US), a petrol station and a cinema. The town provided only ancillary services, such as house cleaning, for the base.

In March 1990, the Prime Minister announced that the ownership of the communications station was to be transferred from the USN to the Royal Australian Navy (RAN). The change of command, from USN to RAN, was effective as of 1 October 1992, while the transfer of ownership is being undertaken over seven years and will be completed by October 1999.

Chief characteristics

Although the economic interaction between the communications station and the town was limited, the transfer of ownership increased the awareness that the communications station is the focus of the town's activities. The RAN has contracted out the operation of the base to Australian Defence Industries (ADI). ADI will maintain a total staff of 150 — it is expected that 70 will be previous employees of the USN communication station and 80 will be new employees.

The smaller industries currently operating in Exmouth are tourism, pearling and fishing.

Regional adjustment experiences

Population decline

Population decline is viewed as the most critical issue for the adjustment of the Exmouth community. In June 1992, there were 265 USN personnel with 204 dependents in Exmouth. There were 150 Australian civilian personnel employed at the base. The transfer of ownership was expected to cause a rise in unemployment and a decline in population.

The effects of the withdrawal of the USN on the town include:

- some medical services are no longer immediately available and have to be accessed through the Royal Flying Doctors Service. The naval communications station provided specialised medical services which were available to the Exmouth community;
- possible reduction in the provision of government services, such as education. The US personnel and dependents assisted in providing the population necessary for these services. The children of USN personnel accounted for 24 per cent of Exmouth's school population; and
- the decline of social and sporting clubs. This is the area where there was the greatest interaction between US base personnel and civilian residents. With the decline in population the on-going life of these clubs is threatened. The social aspect of adjustment is a major concern to the Exmouth community.

Infrastructure

The infrastructure associated with the US base may be used to benefit Exmouth. The houses at the naval communications station are being sold with a significant part of the proceeds being used to establish the Exmouth Trust Fund. It is estimated that this fund will contain from $8–10 million once all houses are sold. The Fund will be used to assist in developing the infrastructure of Exmouth. The Learmonth aerodrome could be upgraded to an international airport.

Planning for change

The involvement of the US base and (indirectly) the US government has resulted in extensive analysis and planning for the adjustment that is occurring in Exmouth. This has involved the local community, the Regional Development Commission, other State government departments with operations in the region, the Department of Defence, RAN and the United States Consulate in Western

Australia. The planning process has been co-ordinated across all levels of government.

The process of planning for adjustment has included:

- publications of *Exmouth Community Profile, Coping with Change* (the outcome of a community workshop conducted in Exmouth), *The Exmouth Business Directory* and *Exmouth: Changes, Effects and Actions* (a social and economic assessment of the transition on Exmouth)*;*
- the establishment of the Exmouth Consultative Forum Information Services Office and the Exmouth Trust Fund;
- allocation of Commonwealth funds through OLMA to examine the labour market and to identify opportunities for employment, education and training initiatives; and
- identifying potential industries that will broaden the economic base of Exmouth and assist in increasing the population of the Shire. Industries considered to have development potential are:
  - — tourism, pearling and fishing (industries already established in Exmouth). This may require providing better access to the region by improved roads and developing a small boat harbour;
  - — educational and research facilities based on marine life; and
  - — improved transport in the region, including an international airport at Learmonth.

Themes

Advance knowledge of an adjustment shock — Exmouth has been able to plan for the effects of an event which they know will occur and will have major consequences for the region. This has allowed significant planning to occur to counter the expected effects of change.

The planning process — has been assisted by co-ordination between levels of government and community consultation.

Encouraging growth — the infrastructure and natural advantages of Exmouth are being identified in the process of encouraging development in the region.

D.7 GEELONG

Background

The Geelong region covers some 2500 square kilometres in the south west of Victoria. Prior to 1993 it included nine municipalities: the Cities of Geelong, Newtown, South Barwon, and Geelong West, the Borough of Queenscliffe and the Shires of Bannockburn, Barrabool, Bellarine and Corio. Recently they have been amalgamated.

The Geelong region is Victoria's second most populous area after Melbourne; population in 1991 was 191 261 and has increased at 1.5 per cent per annum in recent years. The City of Geelong is the region's major city and is located 72 kilometres south-west of Melbourne on the southern shore of Corio Bay. The Port of Geelong is Australia's sixth largest and the second largest grain handling port.

Geelong's economic development began in the middle of last century with the export of premium wool. The discovery of gold at Buninyong in 1851 led to an influx of immigrants, beginning the commercialisation of the region. The Port of Geelong became the major transport hub of south-east Australia exporting both wool and gold.

The importance of wool led to the development of textile manufacturing. The first woollen textiles were produced in Geelong in 1868. Industrialisation continued over the decades with the establishment of major companies such as the Phosphate Co-operative (1919), the Ford Motor Company (1925), the International Harvester Company (1939) and the Grain Elevators Board (1940). The post-war boom from 1945 to 1957 saw rapid expansion of the region's industrial base and increasing urbanisation.

In the March quarter of 1993, unemployment in the Geelong region peaked at 16.8 per cent in Corio Shire and 16.5 per cent in the City of West Geelong. It was as low as 8.2 per cent in outlying rural areas. The average unemployment rate in Victoria was 12.4 per cent.

Chief characteristics

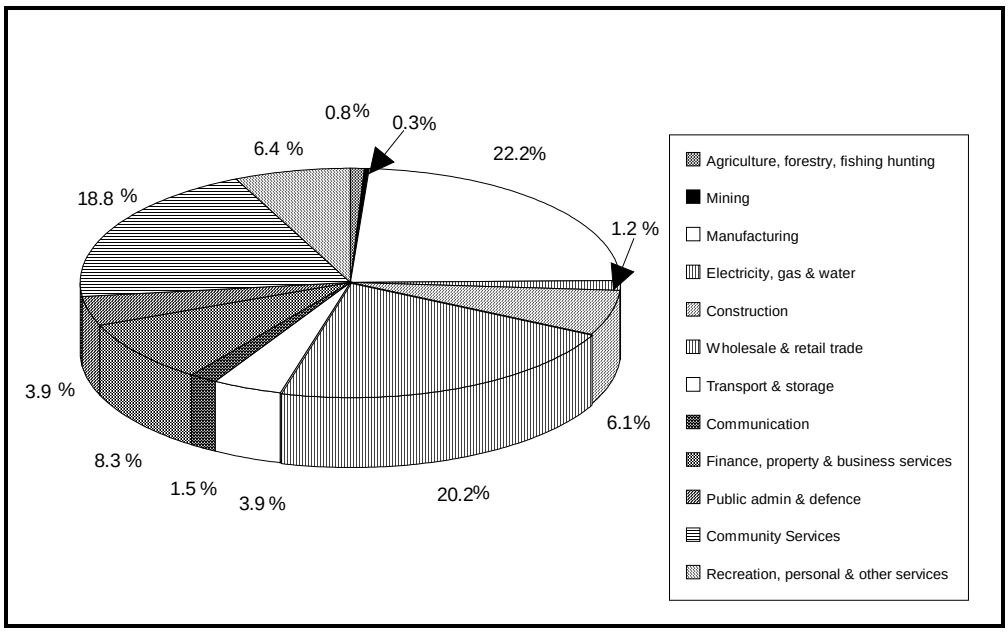
As illustrated in Figure D.8, the Geelong region has a diverse economy involving most industry sectors. The region has a large manufacturing base, including both automotive and textiles, clothing and footwear (TCF) industries,

and a large retail and services sector. The region also serves as major centre for the outlying rural areas. The Port of Geelong handles large volumes of goods for both import and export.

Much of the manufacturing activity in the region was underpinned by high levels of tariff protection and other forms of industry assistance. The region is continuing to adjust to phased reductions in such assistance.

The proportion of workers employed in the manufacturing sector has declined from 32 per cent in 1976, to 20 per cent in 1991. There has been substantial growth in the community services and wholesale and retail sectors.

Figure D.8: **Geelong employment by industry, 1991**



Source: ABS 1993b

The region's manufacturing sector is dominated by a few large firms. These include Ford Australia, Alcoa, Shell Refining (Aust), Pacific Dunlop, Godfrey Hirst Australia, BHP - Wire Products Division, Pilkington ACI Operations and Australian Cement.

Regional issues

In recent years Geelong has faced a series of unfavourable developments. The previously highly protected TCF and automotive industries have been adjusting to lower tariffs, and that has been made more difficult by the general cyclical downturn of the economy. The collapse in June 1990 of the Farrow Corporation

was a blow to the regional economy. In addition there have been poor returns from agricultural industries.

The PMV and TCF industries

The workforce at Ford's Geelong plant has been reduced from about 5000 in 1989 to 3000; most were retrenched. Also, of concern to the region is that Ford has greatly cut back the numbers of apprentices.

Ford Australia is not the only automotive firm that has reduced staff. The supplying firms of Pilkington and Silcraft have also reduced numbers as a result of flow-on effects from Ford.

The TCF industry in Geelong has also reduced its workforce, by 21 per cent between March 1989 and May 1991. There were 134 retrenchments in 1990 and 699 (from a total of 965 in regional Victoria) in 1991 (DET 1991).

Collapse of the Farrow Corporation

The collapse of the Geelong based Farrow Corporation in June 1990 was a blow to the Geelong region. A rush on funds led to a freezing of $3.1 billion of deposits and $130 million of non withdrawable shares. While depositors subsequently received a portion of their funds, the freezing of assets contributed to problems in the retail sector and shook investor confidence in the region.

Local government and planning

Like Albury-Wodonga, Geelong has been the focus of regional development policies since the early 1970s. Until recently the Geelong Regional Commission (in existence in some form since 1969) was involved in the planning, development and promotion of the region.

The City of Greater Geelong Bill, passed on 18 May 1993, abolished the Commission and merged nine local government areas. The Commission's planning responsibilities were given to the new single local government and an administrator appointed to oversee the transition. The remaining operations of the Commission are being wound-up.

The aim of this legislation is to increase the effectiveness and efficiency of local government by eliminating duplication of capital spending and by decreasing administrative costs. A report by KPMG Management Consulting estimated that amalgamation would save between $17 million and $23 million annually in administrative costs and that rates could fall by an average of 29.2 per cent.

Growth areas

While Geelong is experiencing many problems, the region has recently seen the emergence of potential growth areas:

- with its attractive coastline the region is developing as a tourist destination;
- increased processing of rural commodities with the new BWK wool scouring plant;
- emerging export markets for some manufacturing products, such as carpets; and
- the development of an increased aviation and defence sector at the Avalon airport where the skills of some of the retrenched workers from the automotive industry have been upgraded and put to work.

Themes

Geelong has been adjusting to cyclical and structural change. There has been:

- *long-term decline of the region's traditional industries* — TCF and automotive;
- *large scale retrenchments in these industries* — together with the collapse of Farrow Corporation, which depressed the retail sector and business confidence more generally;
- *emergence of a new export orientation* and the development of new industries such as tourism and aerospace; and
- *the amalgamation of local governments*, allowing considerable cost savings and a unified local voice for the region.

D.8 GLADSTONE

Background

Gladstone is located on the central Queensland coast, approximately 530 kilometres north of Brisbane. The region includes Gladstone City with a population of 25 000 and the Calliope Shire with a population of 11 000. The unemployment rate in Gladstone city in the March quarter 1993 was 8.9 per cent, compared to the State average of 11.5 per cent.

Pastoralists settled in the Gladstone region in the late 1840s. Until the 1960s the town's economic base was the provision of agricultural services for its hinterland. The principal industry of the town was a meatworks that had been there since before the turn of the century. In 1963 the meatworks closed, the population of the city declined and the future of the region looked very uncertain.

Industry development

From the mid 1960s, economic activity in Gladstone has been directed toward the development of heavy industry. The choice of Gladstone as the site for industry development was associated with the proximity to the developing coal fields of central Queensland and the port and harbour facilities which had been under the control of the Gladstone Harbour Authority (later the Gladstone Port Authority) since 1914.

The industrial development of Gladstone can be identified in four phases:

- 1964–67 — the QAL Alumina Refinery was built at Gladstone to process bauxite mined at Weipa.
- 1965–67 — the construction of the Moura-Gladstone rail link by the Queensland Government was completed. This rail line linked the Moura coal fields, which were developing in the 1960s, to the Gladstone port. In 1968 the export of Blackwater coal through the Gladstone port began.
- 1971 — construction began of the QEC Power Station, the largest coal-based power station in Queensland.
- 1990 — the first stage of a natural gas pipeline, constructed by the State government from the Wallumbilla and Denison fields to Gladstone, was completed.

Chief characteristics

With the benefits of government provision of infrastructure, Gladstone has actively developed its natural advantages to become a region based on heavy industry and exports.

The major industries in the Gladstone region are:

- QAL Alumina Refinery — commenced operations 1967;
- QEC Power Station — commenced generation 1976;
- QCL Clinker works — commenced 1981;
- BSL Aluminium Smelter — commenced production 1982, currently considering an $820 million expansion;
- Minproc Cyanide Plant — commenced 1990;
- ICI cyanide and chlorine facility — commenced 1990;
- ICI Ammonium Nitrate facility — commenced 1993;
- Gladstone Port Authority — export terminals; and
- private export terminals.

Industry operating in Gladstone has the advantages of:

- well established infrastructure including the port facilities, a reliable and competitively priced source of electricity, a natural gas supply, large amounts of land suitable for industrial development, and a large and reliable water supply;
- a pro-active local government and community which encourages and facilitates industrial development in the town; and
- State and local governments which actively support industry development and have sought to minimise regulatory obstacles.

Regional adjustment experiences

Social infrastructure

The boom-like development in Gladstone in the period from the 1960s, resulted in problems for residents. The region was not able to meet the demands placed on it by the large inflow of people. Social infrastructure such as schools, child care facilities and social amenities including bus and taxi services, shopping centres and department stores were under-supplied. Housing conditions were particularly inadequate. These problems were the result of the priority given to the development of infrastructure associated with heavy industry rather than the

development of social infrastructure. The issues were largely redressed in the mid to late 1980s.

Labour force

Gladstone workers have a reputation for being productive and flexible. Industrial disputes are not common in the region. The per capita income in Gladstone is approximately 20 per cent higher than the Australian average (Sub. 41).

Skilled workers have been attracted to the region in anticipation of continuing strong growth and this has resulted in persistently high unemployment.

Education

The local education facilities have only recently developed courses that cater specifically for the skills required in local industry. This situation is being altered with the upgrading, in 1992, of the college of Advanced Education to a campus of the University of Central Queensland. This campus, and the TAFE college, now offer courses designed to meet the needs of local industry. Industry associations also provide education and training. The skill base of the workforce has also increased through in-migration of skilled workers, cross-indenturing of workers with firms located outside the region and in-house training.

The role of government

The Queensland Government has encouraged industry development in the region through, for example, the orderly provision of serviced land. This is achieved via the Gladstone Industrial Land Use Study and by making available infrastructure which facilitates industry development.

The local community, through the local government and the Gladstone Area Promotion and Development bureau, is involved in promoting and attracting industry to Gladstone. The bureau provides information on the advantages offered by the area, local or State government requirements and local industry contacts. The local government is involved in strategic planning to provide a balance between development, the environment and living amenity.

Themes

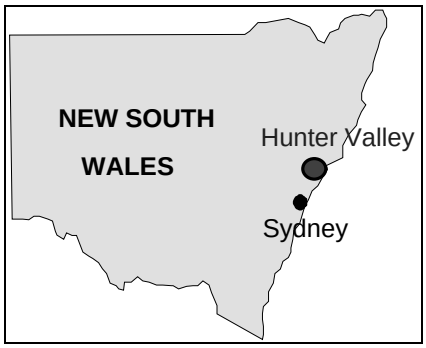
The development of heavy industry has been helped by:

- *world competitive energy prices*;

- *the role played by government* — State and local government and the local community actively encouraging heavy industry to locate at Gladstone by removing regulatory obstacles and adopting a proactive approach to development;
- *the infrastructure in the region* — the development of port and rail facilities was due to the natural characteristics of the area. However, once established, the infrastructure gave Gladstone an advantage over other regions in attracting heavy industry;
- *inter-industry linkages* — these linkages should encourage future development of industry in the region; and
- *the export orientation of industry* — this has encouraged firms in Gladstone to adopt practices, including work practices, which allow them to be internationally competitive.

D.9 HUNTER VALLEY

Background



The Hunter Valley is about 150 km north of Sydney on the New South Wales coast. The first European settlement was in 1801, which focused on coal mining, timber production and lime burning. The regional centre is the city of Newcastle, located on the coast. The region comprises 13 local government areas (LGAs).

In 1991, the region's population was 513 550; it has grown by about 1.5 per cent per annum since 1971 (Paradice 1992). The highest growth rate was in the Great Lakes LGA at 12.3 per cent per annum, which was associated with in-migration of retirees and growth in tourism. The city of Newcastle recorded a population decline of 0.5 per cent per annum for the same period.

The unemployment rate for the whole region in the March quarter of 1993 was 15.6 per cent. It varied within the region from 21.5 per cent in the Great Lakes to 8.4 per cent in Scone.

The structure of the region's economy has changed significantly, as shown by the decline in the proportion of employment in the manufacturing sector from 24.6 per cent in 1976 to 13.8 per cent in 1991. The restructuring of the steel industry in the early 1980s, the coal industry in 1987 and shipbuilding throughout the 1970s and 1980s were important changes. The impetus for change in these industries has come from declining international commodity prices and changes in demand.

Chief characteristics

The region is known for its heavy industry and mining activities, but agricultural production is also important. The Hunter is well known for its wines, wheat and wool production and is now becoming more important as a tourist destination.

The completion of the expressway linking Newcastle to north Sydney has improved the Hunter's access to the Sydney market. It has reduced travel time to the region's tourist destinations such as the Hunter Valley vineyards at Pokolbin (near Cessnock), Port Stephens and Great Lakes while also reducing transport costs for business.

Iron and steel, produced since 1915, are a cornerstone of the region's economy. The region produces about 83 per cent of the State's electricity from coal. The ready availability of coal in the Hunter Region has resulted in development of other downstream industries. Aluminium smelting, which uses large quantities of electricity, has become a significant activity in the Hunter and now produces about 30 per cent of Australia's aluminium output. Tomago aluminium smelter has been expanded recently to become one of the biggest and most efficient in the world.

Owing to out-migration of population over the past two decades, some infrastructure in Newcastle is under-utilised. The region is connected to Sydney by electrified rail and freeway. Port infrastructure has been recently upgraded, increasing coal handling capacity from 80 million tonnes to 115 million tonnes annually. The University of Newcastle has recently been expanded.

Regional issues

BHP Newcastle

In the early 1980s BHP restructured its steel operations at Newcastle, reducing its workforce by almost 37 per cent (4100 jobs). Excess world supply of steel at that time put great pressure on high cost steel producers like BHP to become more competitive (Gordon 1984). Under the Steel Industry Plan implemented in 1984, and through enterprise agreements which came later, over-manning and restrictive work practices were reduced. Combined with investments in plant and equipment, these changes have increased productivity substantially making BHP one of the lowest cost producers in the world.

Improved industrial relations

During the early 1980s the rate of industrial disputation in Australia had been high. In the Hunter, a number of events led to improved labour relations. From the late 1970s industry and unions followed an 'on-time on-budget' approach to completion of major projects, which was based on site-specific agreements which facilitated cooperation between the parties. The environment engendered by this consultative approach led to a constructive community and industry response to the retrenchments in the steel industry which took place in 1983. The Steel Industry Plan was based on productivity improvements through large scale investments and cooperative agreements with workers.

1984 was also a turning point in the coal export industry when a prolonged dispute on the coal haul railway led to the formation of the Hunter Valley Coal Chain Council bringing together unions, industry leaders and government

representatives to help solve industrial disputes. An evaluation of industrial relations in the Hunter region found that, at least in some sectors, the region was 'in the vanguard of positive industrial relations changes' (Brady, Killin and Paradice 1988, p. 39).

Although the Hunter may have a poor industrial relations image outside the region, improved labour relations set the scene for a relatively smooth process of award restructuring which has been a key factor in improving the international competitiveness of small firms. Change came in response to a more competitive domestic market and a refocus towards international markets. There has been a drive to improve work practices, labour productivity and product quality to international standards.

Growth of small firms and inter-firm linkages

Inter-firm linkages have become stronger in recent years encouraged by changes within the community. The Hunter Economic Development Council (HEDC) and programs such as the Australian Best Practice Demonstration Program (ABPDP) have encouraged these developments. Much of the assistance provided under the ABPDP is conditional on 'down-loading' of expertise to other firms and the HEDC has been active in facilitating this process. Hunter Net is a recently established cooperative network of about twenty engineering firms providing mutual support. The role of the networks is to overcome the perceived limitations of small firms, combining skills and capabilities, particularly for tendering purposes (Cornell 1993).

Government coordination

Coordination between various levels of government has tended to be a problem. Funding disputes between State and Commonwealth governments, such as that over the F3 freeway, have delayed completion of projects. At the Commonwealth level, an Industry Development Centre was set up in 1992 to coordinate Commonwealth services and make them more accessible.

Pricing of infrastructure services

Cross-subsidies of infrastructure services may impede firms from taking advantage of regional economic strengths. For example, the Commission was told that the price of gas is higher in Newcastle than in Sydney because users are being charged the full cost of provision while Sydney users are not. In contrast, major users of electricity have complained that uniform electricity charges across the State do not allow the Hunter region to take advantage of the lower costs of producing electricity in the region. The New South Wales government

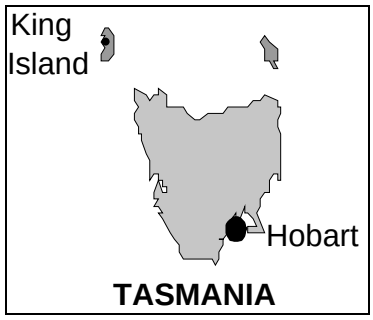
has informed the Commission that its Pricing Tribunal will investigate such claims (Sub. 75).

Themes

- *Diversification of the Hunter economy* — has forestalled substantial decline in spite of major difficulties experienced in its traditional industry base. The region has diversified into aluminium smelting, specialised engineering firms, tourism and education services.
- *A sense of crisis* — facilitated cooperation within the community and introduced a new flexibility among management and workers, and a more outward orientation.
- *Cohesion and coordination of governments* — are important in facilitating adjustment.
- *Uniform electricity charges* – diminish a potential competitive advantage for the Hunter region.

D.10 KING ISLAND

Background



King Island is located off the north western tip of Tasmania. The island supported sealing and timber industries through the 1800s and was settled by pastoralists in 1855. Now beef cattle is the main industry with dairy cattle, sheep farming, kelp harvesting, cray fishing and tourism all important.

King Island had two main population centres, Currie and Grassy. The town of Grassy was established for the mining of scheelite. In November 1990 this mine, and hence the town, closed.

The official DEET estimate of unemployment on King Island for the March quarter 1993 was 4.7 per cent. However, the Municipality of King Island estimates the unemployment rate to be approximately 17 per cent as many have withdrawn from the labour force because of the very limited employment opportunities. The State unemployment rate for the March quarter 1993 was 12.8 per cent.

Chief characteristics

Mining

Until 1990, the scheelite mining operation at Grassy had been important to the Island's economy. At one point the Grassy mine was one of the biggest scheelite mines in the world (tungsten is obtained from scheelite). Throughout the 1980s, the mine had implemented productivity-improving work practices while undergoing a process of downsizing. Mine management claimed they had 'cut costs to the bone' where they could, but continued to be disadvantaged by high shipping costs. The mine's labour force decreased from 440 in 1979 to 127 in 1990. A continued oversupply and low price of scheelite on the world market led to the closure of the mine in November 1990. This effectively meant the closure of the town.

Primary production

In 1979, 50 per cent of the workforce of King Island was employed in primary production; that had declined to approximately 40 per cent by 1989 (Tasmanian Department of Tourism Sport and Recreation, 1989). Primary production is

based on beef and dairy cattle, and the fishing industry. Products from the dairy and cattle industry are exported into domestic and international markets using the 'King Island' brand as a distinguishing feature of quality. Products from the fishing industry include crays, abalone and fin-fish. Kelp harvesting and processing also occurs: the product is exported to Scotland.

Tourism

Tourism is playing an increasingly significant role on King Island. In 1989, there were approximately 8000 visitors to the Island. A tourist development is being undertaken at Grassy, the site of the old mine. The development of the tourist industry on King Island depends on the availability of transport services to the Island, particularly improved air link services to both mainland Tasmania and Victoria and the availablity of an adequate supply of electricity.

Regional adjustment experiences

Population decline

There has been a rapid decline in the population of King Island over the last decade. In 1981, the population was 2720; by 1991 it had fallen to 1770. This population decline can be linked to the closure of the mine, the lack of accommodation on the island and the form of assistance provided to retrenched mine workers.

The settlement at Grassy was established by the mining company North Broken Hill Peko Limited. Infrastructure at Grassy was provided and owned by the company. All residents worked for the mine and rented accommodation provided by the company. When the mine closed, employees could not remain in company-owned accommodation, nor could they purchase the accommodation because the associated infrastructure did not meet local government residential standards. Accommodation was not available at Currie.

Mine employees were eligible for assistance from the company. But the redundancy and relocation package offered by North Broken Hill Peko Limited lapsed if not taken within a specified time period. This encouraged people to leave King Island.

The Tasmanian Government provided a 'facilitator' to find jobs for redundant mine employees. An OLMA program provided assistance to retrenched mine employees in the form of wage subsidies, financial help to undertake training at an educational institution, and relocation assistance. The combined efforts of the facilitator and the OLMA package resulted in 123 out of 127 former mine workers being re-employed, but none on the Island.

The size of the population is important for the maintenance of a level of services, provided by both the private and the public sector. If the population continues to fall, transport services may decline to the extent that existing services and industries on the Island will no longer be viable.

Problems of a remote area

The problems experienced by King Island as a result of the closure of the mine at Grassy, are common to remote regions across Australia. The cost of transport is a particular issue of importance. For example, high freight costs were beyond the control of the mine and contributed to its closure. In a similar way, the cost of transport will affect the tourist potential of the region. Population decline, education facilities, lack of accommodation and jobs for family members are issues that confront King Island and other remote regions.

Future development

Tourism has been identified by the residents as having greatest growth potential for King Island. The current tourism development at Grassy has been a contentious topic within the local community and required two years of negotiations between government agencies and private developers over issues such as power connection and costs. This development utilises the existing infrastructure and could assist in reversing the population decline.

Themes

- *The pace of adjustment* — if the speed of re-employment were used as a measure of the success of adjustment, then the adjustment to the closure of the mine would be judged a success. However, the rapid adjustment was achieved because workers left the island, and so was judged by remaining residents to have been a failure — what may have been best for Australia as a whole was not necessarily good for the small community of King Island.
- *Transport costs* — regulatory costs disadvantaged the local mining operation (shipping) and are an impediment to tourism (intrastate aviation);
- *The ripple effect of downsizing* — the decline of the mine and the resultant decline in population may effect the viability of other activities on the island.
- *Urban drift* — young people are obliged to go to Burnie for senior secondary education; many do not return.

- *Promoting the region* — the residents of King Island have established the King Island Enterprise Development Committee Incorporated to identify opportunities for the island and promote the community. The organisation is identifying advantages and shows a willingness to exploit them.
- *Decline can be reversed* — the Grassy site is now being developed as a tourist venture, using much of the existing building stock and infrastructure, but requiring new skills. Acceptance within the community of a major tourist development on the island was difficult to achieve.

D.11 LATROBE VALLEY

Background

The Latrobe region is about 130 kilometres south east of Melbourne on the Princes Highway. It is a part of the larger Gippsland region. Latrobe includes the cities of Traralgon, Moe, Sale and Morwell, and the Shires of Alberton, Mirboo, Narracan, Rosedale, South Gippsland and Traralgon. The population of the region in 1991 was 114 000. Unemployment rates for the March quarter 1993 ranged from 9.4 per cent in the Shire of Mirboo to 19.6 per cent in Moe. The average unemployment rate in the region was 14.3 per cent, compared with the State wide average for Victoria of 12.4 per cent.

The industries which have developed in the Latrobe region are based on the availability of natural resources. The extensive supply of brown coal led to the establishment of State Electricity Commission of Victoria (SECV) operations in the 1920s. These operations include mining, production of briquettes from brown coal, and electricity generation. In 1937 Australian Paper Manufacturers (APM) established a pulp and paper mill at Maryvale in the Latrobe Valley. APM had been granted the rights to log timber in the region. Natural gas and oil reserves were discovered in nearby Bass Strait in the 1960s. These reserves were developed by Esso/BHP; their administrative office was, until recently, in Sale.

Chief Characteristics

The combined population of the four large cities — Morwell, Traralgon, Moe, and Sale — accounts for two thirds of the total regional population. However, no one city is identifiable as the regional centre.

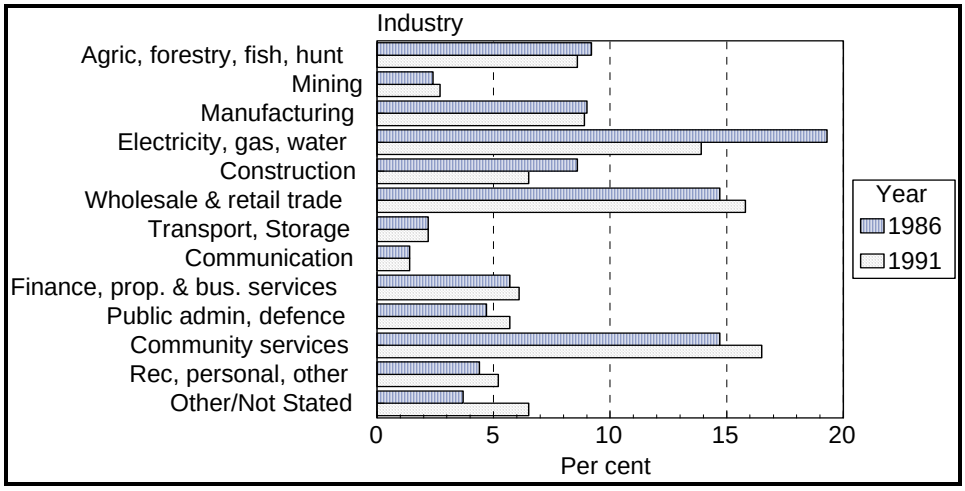
Regional production

Economic activity in the Latrobe region is dominated by the SECV and APM. APM is responsible for 25 per cent of Australia's paper production. The pulp and paper mill in the Latrobe region is its largest operation. About 90 per cent of electricity used in Victoria is generated in the Latrobe region.

The changing employment base

Employment in the electricity, gas and water industry has declined significantly in the last few years while community services have become the largest employing sector.

Figure D.9: **Latrobe region employment by industry** (per cent)



Source: ABS 1993b

The major employers in the Latrobe region have been the State Electricity Commission of Victoria (SECV), Australian Paper Manufacturers (APM) and Esso/BHP. In 1986, these three organisations employed approximately 25 per cent of the region's workforce. By 1992, this had reduced to approximately 17 per cent, as a result of:

- corporatisation of the SECV and workforce reduction of approximately 4500, (some were re-employed by private sector contractors who undertake work for the SECV);
- completion of the Brown Coal Liquefaction Victoria (BCLV) project, causing 270 jobs to be lost;
- the process of rationalisation at APM leading to a workforce reduction of about 270; and
- relocation of Esso/BHP's administrative office from Sale to Melbourne.

Social characteristics

Social characteristics of the region show:

- a high proportion of low income residents, below $16 000 per annum, and a low proportion of high income residents, above $50 000 per annum;

- a high proportion of public housing: 9.1 per cent for the region, compared to 4.3 per cent for Victoria;
- low median sale price of houses; and
- a high proportion of people employed by the public sector.

Regional Adjustment Experiences

Unemployment

Unemployment is rising, largely as a result of the restructuring of the major industries. One response has been to provide more re-training and further education. Programs are currently available through Central Gippsland College of TAFE, Gippsland Group Training, Monash University College Gippsland, and the Department of Employment, Education and Training's Office of Labour Market Adjustment (OLMA) regional package and Skillshare Program.

Development organisations

Many organisations are active in assisting and promoting the Latrobe region including the Latrobe Regional Commission (LRC). The LRC was established by the State government in 1983 to assist in the economic development of the region. It acts as a co-ordinating body, linking State and local government and encouraging community participation. A recent development which recognised the importance of coordination is the formation of the Latrobe Regional Organisation of Councils. It was intended that this would involve up to ten Local Government Areas (LGAs), but four of those have now formed another organisation — the West Rock Organistion of Councils — which aims to cater for those shires oriented towards rural industries.

Other organisations active in the Latrobe region include the Department of Business and Employment (through the Office of Regional Development and Small Business Victoria), Gippsland Small Business Centre and Women's Employment Resource Centre.

Assistance from government

One example of assistance provided to the Latrobe region by government was the selection, in 1991, of the Latrobe Valley as the site for the Australian Securities Commission Information Processing Centre, temporarily at Morwell, and permanently at Traralgon. This centre employs 300 full time, and up to 170 casual employees in peak periods. A State government grant of $4.6 million provided an incentive for the ASC to locate in the Latrobe Valley. Organisations such as the LRC and the Department of Business and Employment, were involved in facilitating the ASC's move into the region.

Themes

- *Industry restructuring* — productivity improvements have been associated with lower employment in the region. Economic diversification to offset unemployment and promote future employment prospects is the major challenge for the region.
- *Institutional factors* — organisations have been established to promote regional development, attract investment and create employment. These include government organisations, such as the LRC, the Department of Business and Employment and OLMA, which are active in the region. Their role is to identify adjustment problems and design and implement programs to alleviate these problems. The LRC and Department of Business Employment also act to promote the Latrobe region.
- *Difficulty of getting coordination among local governments* — the existence of ten 10 LGAs could be impeding regional development, despite the recent initiatives to improve coordination.
- *The adjustment process* — is slowed by regional immobility, to which public housing has contributed, and lack of alternative employment opportunities within the region.
- *Industrial relations* — the region has become known for industrial conflict, especially within the (public) energy sector. Some advances have been made with work practice changes and productivity gains, but greater flexibility would assist job creation and the attractiveness of the region to investment.

D.12 WANGARATTA

History

The city of Wangaratta is in north-eastern Victoria, on the Hume Highway, 240 kilometres north east of Melbourne and 70 kilometres south of Albury-Wodonga. In 1991, the population of Wangaratta City was approximately 16 000. The unemployment rate in the March quarter 1993 was 10.3 per cent, compared to 12.4 per cent for Victoria.

The area around Wangaratta was settled in the 1840s with sheep and wheat farming. Wangaratta City now supplies the agricultural sector of the surrounding region with goods and services. Traditionally, the major employer in Wangaratta has been manufacturing, particularly textiles and clothing firms which have been restructuring as levels of protection are reduced.

Chief characteristics

The textile and clothing industry

The restructuring of the textile and clothing sector is reflected in the declining proportion of employment in the manufacturing sector in Wangaratta, as seen in Table D.2.

Table D.2 **Decline in the manufacturing sector's share of total employment** (per cent)

Year	*Workforce employed in Manufacturing*	*Manufacturing workforce employed in TCF*
1981	25.3	70
1986	23.2	60
1991	21.4	52

Source: ABS 1993b

There are currently three major textile and clothing manufacturers operating in Wangaratta. They are;

- Wangaratta Woollen Mills (WWM), established in 1923, employs 175;
- Bruck (Australia) Ltd, established 1946, employs 620; and
- Yakka, established in 1971, employs 125.

Other manufacturers

IBM Australia (IBM), and two smaller software operations Computing Today and Human Edge Software are located in Wangaratta. IBM established manufacturing operations at Wangaratta in 1976. The factory produces for both the domestic and export market. In 1992, output was $233 million, of which $175 million was exported. IBM employs a full time workforce of 176, and a large casual workforce to meet demand in peak periods.

Tourism

Tourism is growing in importance in Wangaratta. The city ranks second to Melbourne as a tourist destination in Victoria. Tourism in the region is assisted by its location on the Hume Highway and proximity to snow fields and vineyards.

A service centre for the region

Wangaratta is a service centre for the region. In 1991, 21.2 per cent of employees in Wangaratta were employed in the wholesale and retail trade sector and 19.3 per cent were employed in community services.

The city has a Base Hospital, a College of TAFE and government offices including a regional office of the Commonwealth Department of Employment, Education and Training. The city provides a package, storage and distribution centre for locally produced agriculture and viticulture.

Regional adjustment experiences

The changing employment base

The structure of the labour force in Wangaratta is changing, with employment in the TCF industries decreasing and employment in wholesale and retail trade and in community services increasing.

The restructuring of the TCF industries is guided by the TCF Industry Plan that runs to June 1995; under it, the protection received by the TCF industry will decrease. This will be achieved by lowering tariffs and removing quotas and bounties. In Wangaratta, assistance to adjust to these changes is being provided by OLMA programs. Part of the TCF Industry Plan includes a specific TCF Labour Adjustment Package (TCF LAP) for workers retrenched from the industry.

Assistance provided by governments

Some firms have established in Wangaratta as a direct result of incentives provided by State and local governments. The Victorian State Government had

a policy to encourage industry development in non-metropolitan regions during the 1970s and the early 1980s. Incentives were provided for firms locating outside an 80 kilometre radius of Melbourne. In 1984 the payroll and land tax concessions for regional areas were removed.

The State Government currently operates an Office of Regional Development in Wangaratta. This body works with local government, business and regional development bodies to attract investment. The local government of Wangaratta provides incentives to encourage firms to locate in the region. These incentives may be in the form of reduced rates and rentals and low cost land.

The Wangaratta Regional Development Corporation (WRDC), a body funded by the State Government and the three municipal councils in the region, aims primarily to encourage economic development by creating and maintaining employment in the Wangaratta region. However, additional funding from the Commonwealth government has allowed the WRDC to broaden its activities into neighbouring municipalities.

Themes

- *Changing industry base* — in response to increased competition TCF industries in Wangaratta are contracting. Other industries are expanding.
- *Government involvement* in adjustment occurs through:
  - — regionally based organisations such as the Wangaratta Office of Regional Development and the WRDC;
  - — local government in Wangaratta encouraging industry development in the city; and
  - — the identification by the Victorian Government of Wangaratta as a provincial centre, having significance in the region.
- There is a focus on developing those industries already established in the region, such as tourism and viticulture, while identifying industries that may obtain locational advantages if they established operations in Wangaratta.

E SOCIAL SECURITY PAYMENTS AND AWARD WAGE BASED INCOMES

This appendix sets out some illustrative household income packages for those dependent on unemployment benefits and for those with one person in full-time employment but on a low award wage. These estimates are drawn on in Chapter 4, Section 4.5.1 (Volume 1) concerning the effects that public housing provision may have on the mobility of labour, and in Chapter 5, Section 5.4.4 concerning unemployment benefits and wage flexibility.

E.1 Social security payments

Illustrative benefit packages for a selection of different households are set out in the following table.

Table E.1: **Unemployment benefit packages** ($ per annum)

Income	*Single*	*Couple*	*Family 1*	*Family 2*	*Family 3*	*Family 4*
New start allowance	7446	13 712	8221	13 712	13 712	13 712
After tax income	7446	13 712	8221	13 712	13 712	13 712
Family payment	0	0	1087	1087	1087	2358
Additional family payment	0	0	3882	3219	3882	7764
Rent assistance (maximum)	1768	1664	1945	1945	1945	2215
Public housing	ne	ne	3450	3450	3450	3450
Value of benefits 1	7446	13 712	13 190	18 018	18 681	23 834
Value of benefits 2	9214	15 376	15 135	19 963	20 625	26 049
Value of benefits 3	ne	ne	16 640	21 468	22 131	27 284

Notes:

1. Couple assumes both are unemployed
2. Family 1 consists of one adult, one child less than 13 and one child between 13 and 15
3. Family 2 consists of two adults and two children aged less than 13
4. Family 3 consists of two adults, one child less than 13 and one child between 13 and 15
5. Family 4 consists of two adults and 4 children, two less than 13, and two between 13 and 15
6. Value of benefits 1 includes after tax income and family payments
7. Value of benefits 2 includes after tax income, family payments, and rent assistance
8. Value of benefits 3 includes after tax income, family payments, and public housing

ne: not estimated

Source: DSS 1993

Table E.1 is calculated using the following assumptions.

- All benefit rates quoted are those applying between 20 September 1993 and 31 December 1993.
- New start allowance (NSA) is paid to unemployed people capable of undertaking work, and available and actively seeking work. A single person receives $286.40 per fortnight, and a couple that are both over 21 or have children receives $527.40 per fortnight.
- Tax payable is calculated by first subtracting $5400 from the NSA, then taxing the remainder at 20 cents in the dollar. Beneficiary rebates are set to ensure that no tax is paid by NSA recipients, provided they have no other source of income.
- Family payment is provided to all NSA recipients with children at the rate of $41.80 per fortnight for two children, and $90.60 per fortnight for four children.
- Additional family payment is provided to all NSA recipients with children, at the rate of $61.90 per fortnight for each child under 13 and at $87.40 per fortnight for each child between 13 and 15 years.
- Rent assistance is provided to NSA recipients who are renting privately owned housing. Single NSA recipients receive $68.00 per fortnight (the maximum rate) provided that the person is paying $151.47 per fortnight themselves. For couples, the rate is $64.00 per fortnight (maximum rate) provided they are contributing $186.73 per fortnight. Families with two children receive $74.80 per fortnight (maximum rate) provided they contribute $221.33 per fortnight. Families with four children receive $85.20 per fortnight (maximum rate) provided they pay a minimum of $194.60 per fortnight.
- An estimate of the implicit subsidy to tenants of public housing is included in the Commission's report on Public Housing (IC 1993c). The difference between rent paid by tenants and the potential rent value of public housing dwellings was estimated at an average of $67.00 per week for each household, or $3450 per annum.

E.2 Illustrative award wage income packages

The following table sets out the derivation of disposable income of a typical one earner family on a relatively low award wage.

Table E.2: **Award wage based disposable income packages for a two adult - two child family** ($ per annum)

Income	*Textile award*	*Metal award*	*Transport award*	*Building award*	*Retail award*
Award rates (weekly)	325	342	359	364	384
Award rate (annual)	16 920	17 789	18 678	18 948	19 988
Tax payable	2304	2477	2655	2709	2917
Spouse rebate	1425	1425	1425	1425	1425
Net tax payable	879	1052	1230	1284	1492
After tax income	16 041	16 736	17 447	17 664	18 496
Family payment	1087	1087	1087	1087	1087
Additional family payment	3882	3882	3882	3882	3882
Disposable income (annual)	21 009	21 704	22 416	22 632	23 464

Note: A two child family corresponds to Family 3 in the previous table. Their benefits are valued at $18 681 pa excluding rent and housing assistance. It is that figure which can be compared with the disposable income figure above. Disposable incomes for other types of households, as shown in Chapter 5 (Table 5.7), can be derived as follows:

single — exclude spouse rebate and family payments

couple — exclude family payments

sole parent — replace dependent spouse rebate of $1425 with sole parent rebate of $1106

Table E.2 is based on the following assumptions.

- Award rates were supplied by the ACTU (Submission 144D, Appendix 1). The job classifications are:

  Textile industry award, skill level 1
  Metal industry award, classification C 13
  Transport workers award, general hand/courier/loader, other than freight forwarder
  Victorian building services award, building attendant grade 1
  Victorian general shops award, retail worker grade 1.

- Tax payable is 20 cents in the dollar on income in excess of the tax free threshold of $5400.
- Dependent spouse rebate is available to families with only one earner, or if the spouse's income is below $5930 pa.
- Net tax payable is tax payable less the dependent spouse rebate.

- After tax income is calculated by subtracting net tax payable from the award rate.
- Family payment and additional family payment are calculated as for social security recipients assuming two children, one aged less than 13, the other between 13 and 15.
- Disposable income is the sum of after tax income, family payment and additional family payment. Low income households can be eligible for rent assistance and public housing depending on individual circumstances.

E.3 Factors for consideration when making comparisons

In making comparisons between Tables E.1 and E.2, only "value of benefits 1" of Table E.1 should be used as those estimates exclude rent assistance and the value of public housing; Table E.2 also excludes those items. Thus, a family of two adults and two children (Family 3 in Table E.1) obtains social security payments of $18 681 pa; that can be compared with the range of award wage based disposable income shown in Table E.2. However, there are inevitable shortcomings in trying to make realistic comparisons of benefits of a typical family dependent on unemployment benefits with the income of a typical family dependent on earnings from full time employment. Factors that should be taken into consideration in comparing the estimates in Tables E.1 and E.2 include the following.

Table E.1

- Both adults combined may earn up to $100 per fortnight that will not be considered income by the Commonwealth Department of Social Security. A further combined income of up to $60 per fortnight may be earned before unemployment benefits are reduced. Single people may earn up to $90 per fortnight before unemployment benefits are reduced.
- Rent assistance shown is the maximum provided by the Commonwealth Department of Social Security; actual rent assistance may be less. Further assistance may be available through State and Territory public housing authorities.
- No allowance has been made for the concessional fares on public transport, or the concessional rate of $2.60 per prescription item, that the unemployed are entitled to through their automatic eligibility for the Health Care card.

Table E.2

- Few households dependent on award wages would receive the amounts shown in table E.2. Those wages represent the lowest rates of pay; higher rates apply as workers gain skills and proceed through a career structure. Over-award payments are made to a significant proportion of employees covered by minimum rate awards.
- Within single income families, the second adult has a strong incentive to obtain employment, even on a part-time basis.
- Those already in public housing continue to have that benefit after obtaining full-time employment, although the rent they pay is increased towards a market rate as their income rises.

F AN EXAMINATION OF SELECTED LITERATURE ON WORKFORCE MOBILITY AND WAGE FLEXIBILITY

The theoretical and empirical literature dealing with the functioning of labour markets is enormous. Particularly since Keynes proposed that downward wage stickiness could account for involuntary unemployment, there has been a great deal of work by macroeconomists and labour market specialists examining, firstly, whether nominal wages are in fact sticky downwards, and secondly, putting various theories forward to explain this phenomenon. At times the debate has been particularly lively. More recently, a degree of consensus seems to be emerging about the evidence for downwards wage inflexibility and its likely causes (although not necessarily about macroeconomic policy more broadly).

The Commission has examined a significant number of theoretical and empirical papers on the subject, focusing in particular on the more recent literature. The themes that emerge from this research are summarised in Chapter 5, especially in Box 5.5, as well as in Appendix G, sections G.2 and G.3. Section G.2 focuses predominantly on research that has applied the themes from the macroeconomic literature in an explicitly regional context.

Nevertheless, in its draft report submission, the ACTU drew the Commission's attention to a number of papers (mainly in Sub. 144D, Appendix 2) dealing with the functioning of labour markets and the issues of workforce mobility and wage flexibility, mostly at the macroeconomic level. Part of the ACTU's concern in presenting this analysis appears to be a mistaken belief that the Commission subscribes to the view that in the absence of a centralised wage fixing system, labour markets would function perfectly.

> At no point does the Draft Report acknowledge the Keynesian distinction between equilibria in economic systems where resources are fully employed, and those characterised by chronic unemployment of resources. Indeed, GE models which incorporate market clearing and no 'rigidities' do not admit of the Keynesian possibility. (Sub, 144D, p. 6)

Despite this, the ACTU concedes that, in Appendix G, the Commission finds wage inflexibility and unemployment persistence to be a feature of labour markets in Australia.

The ACTU also presents its selected literature in support of the proposition that

> on the evidence little stands to be gained from greater volatility in the wages structure. More 'noise' in the system would, rather, reduce the effectiveness of any allocative mechanism, clouding rather than clarifying any relative price signals. (Sub. 144D, p. 25)

On the Commission's reading, the most recent literature on wage hysteresis, discussed more fully in Appendix G, is designed precisely to test whether wage volatility is merely noise in the system or whether it provides reliable price signals to guide the allocation of resources. That appendix briefly reviews overseas findings on the issue and investigates the question more fully in an Australian regional context. It concludes that in four out of six States in Australia, there are signs that wage variability provides reliable price signals and that greater wage variability would assist the process of regional adjustment.

Given the prominence attached to the ACTU's selection of literature within its submission, and given that some of the literature relates especially to Australia, it is important to consider the selection in more detail. Discussion of it also provides an opportunity to explain the Commission's own reading of the earlier literature more fully, and to explain why the Commission has focused its own research in the areas it has.

The ACTU's selection falls within four main areas of research. Two related articles set the scene by reviewing labour market experiences in OECD countries over the past few decades. A further three articles discuss some of the theories that have been put forward to explain wage stickiness and involuntary unemployment. Ten articles present empirical evidence for Australia and elsewhere on the degree of wage stickiness and the extent to which wages respond to changing labour market conditions. Finally, four articles address the specific question of whether increases in minimum wages contribute to unemployment.

F.1 Setting the scene

The following articles review the labour market experiences in OECD countries. Many of their conclusions are consistent with the Commission's views.

Labour Market Flexibility

OECD, 1986a

The ACTU refers to the following quotation from the OECD's (1986a) report on labour market flexibility which, taken in isolation, suggests that additional wage flexibility is not necessary for effective labour market adjustment.

> ... greater relative wage flexibility is less likely to be effective in promoting labour mobility and better economic performance than such factors as the existence of adequate job opportunities, the provision of appropriate educational and training facilities, and the minimisation of the costs of movement, including, for example, transferable pension schemes and suitable housing arrangements. (OECD 1986a, p. 22)

The OECD report to which the ACTU refers covers a wide range of labour market issues. For example, it observes that

> The prevailing high levels of unemployment and the clear need for structural adjustment have led to a questioning of the way in which labour markets presently operate. Perfection is, no doubt, unattainable in any market but evidence has seemed to be building up that there are undesirable rigidities in labour markets, the easing of which could produce beneficial effects both for economic growth and for the creation of jobs. (OECD 1986a, p. 3)

and it also emphasises that

> ... in the OECD countries today, there are at least four widely recognised needs which call for greater flexibility, including labour market flexibility ... The 'shocks' of the 1970s (energy, inflation, interest rates, and changing patterns of international trade) have underlined the importance of greater responsiveness in labour markets, as well as product and factor markets ... Persistent unemployment has become the dominant social issue in many OECD countries. (OECD 1986a, p. 6)

On the functioning of the labour markets, the report further says

> Until about 1973, they can be said to have operated more or less smoothly. Since then, a more chequered, and on the whole problematic picture has emerged. (OECD 1986a, p. 7)

One element of the problem has been a reduction in mobility.

> All forms of mobility contribute to labour market flexibility. The contribution is not easily measured. Very low mobility may make for undesirable rigidity, but from a certain point onwards, the economic, social and human cost of mobility becomes too high. The apparent decline in (geographical and job) mobility since the early 1970s noted by the Secretariat seems to indicate increasing rigidities (OECD 1986a, p. 15)

Another element of the problem has been labour costs.

> Along with employment protection, labour cost is the most frequently mentioned and, not surprisingly, the most contentious issue related to labour market flexibility ...

> Historically, there can be little doubt that rapidly rising labour cost is related to the emergence of labour market imbalances, including unemployment. (OECD 1986a, p. 9)
>
> ... the Secretariat tells us that countries where real wages were most rigid tended to experience the largest growth in unemployment and vice versa. (OECD 1986a, p. 10)

Further

> This leads to the conclusion that control of labour costs, and notably wage moderation, is of critical importance in the context of the objectives pursued here. Wherever real wages are allowed to grow above productivity increases, broadly speaking, additional unemployment will follow. (OECD 1986a, p. 10)

The report provides evidence of how wage inflexibility and immobility are closely related to problems of unemployment. The report argues for increased wage flexibility and emphasises the positive contribution it can make to the adjustment process.

> Moreover, it would seem that wage differentials can act as incentives, not just in the crude sense of individual competition in the market, but in that of leading to structural changes with respect to regions, industries, skills and age groups. (OECD 1986a, p. 10)

The report then spells out the impacts in each of these dimensions.

> Regional differentials are one element in the process of (external) mobility. Inter-industry differentials have been studied quite extensively. They clearly are relevant for structural change, but do not seem to require major action. There is however a problem with regard to skill differentials, especially in European countries. When methods of wage fixing reduce them too much, a process of de-skilling is encouraged which is equally detrimental in terms of economic adjustment and technological change. So far as wage rigidity for young people is concerned, the evidence suggests that it is at least partly responsible for youth unemployment in some countries. (OECD 1986a, p. 10)

The report also suggests

> Where statutory non-wage labour costs are a significant proportion of total labour costs, or have risen sharply in recent years, we feel that on balance there is a good case for their reduction. (OECD 1986a, p. 10)

On mobility, the report makes the following recommendation.

> However, the combination of growing immobility and increasing regional differentiation suggests the need for action. There are several institutional factors which limit the volume of mobility between regional labour markets to some extent and we recommend to remove them. (OECD 1986a, p. 15)

The concluding section of the report notes that

> Labour market flexibility has its place within the set of structural changes which are a condition of attaining the medium-term objectives of economic and social policy in OECD countries. While we have emphasised the crucial importance of following a policy of wage moderation in providing the basis for sustaining growth, we have also suggested that greater relative wage flexibility is less likely to be effective in promoting

> labour mobility and better economic performance than such factors as the existence of adequate job opportunities, the provision of appropriate educational and training facilities, and the minimisation of the costs of movement, including, for example, transferable pension schemes and suitable housing arrangements. We have further noted that internal flexibility [worker mobility within an industry] can be an effective substitute for external flexibility [geographic mobility]. (OECD 1986a, p. 22)

Thus, considered as a whole, the report does not suggest that wage flexibility is ineffective in labour market adjustment as such. It also concludes that increased mobility is warranted and suggests some direct measures to increase it. Finally, it endorses measures which would increase labour productivity in various ways. In these respects, the OECD report would seem consistent with the Commission's views.

Labour Market Flexibility in the Australian Setting

Report of Professor J.E. Isaac to National Labour Consultative Council Canberra, 1987

The ACTU cites the following from this report.

> 4.7.1 Although the Australian wage structure has changed little over time it is not notably inflexible by international standards (see Hancock Report: 1985, DEIR: 1984; BLMR: 1983a). Some have argued for greater flexibility on the grounds that the structure has impaired the proper adjustment of labour requirements. However, the available studies show that this is not the case and that forces other than relative wage movements may have stimulated the necessary flows of labour to their various uses (see Keating: 1983; Blandy and Richardson: 1982).
>
> 4.7.2 On the test of labour mobility, to be considered further below, it is clear that by international standards, labour in Australia has been among the most mobile, reflecting a highly flexible labour market (see OECD: 1986b). Indeed the question raised in the Report about the cost of excessive mobility may be a matter of some relevance particularly in relation to the turnover of labour in Australian enterprises. (Isaac 1987, p. 14-15)

Professor Isaac was one of the contributing authors to the OECD (1986a) report, which noted the apparent increase in labour market rigidities since the early 1970s. Nevertheless, the studies of Australia's wage flexibility cited by Isaac in the above quotation give results predominantly over earlier periods. Therefore, it is perhaps not surprising that they could find Australian wages to be reasonably flexible. The current question is the degree of flexibility since the 1970s, especially downward flexibility in light of the current recession.

Isaac also notes that Australian labour mobility has been relatively high by international standards, but in light if the OECD's finding that mobility has been reducing, what is needed is a more recent assessment of labour mobility and the

extent to which it has been responsive to changing labour market conditions. Appendix G in this report surveys more recent evidence on regional mobility and wage flexibility in Australia and overseas. This evidence suggests that Australia's pattern of regional mobility appears to have more in common with European countries than with the United States. Appendix G shows that wage flexibility and worker (and job) mobility are not totally lacking in Australia in response to changing economic conditions. But it finds that, while these mechanisms work in the right direction, they are not sufficiently strong to ease regional unemployment in the face of adverse regional shocks.

Isaac considers that both wage flexibility and worker mobility are important. He assesses that a cooperative approach, involving consultation and participation of the affected parties (employer groups, unions and the government), is required to achieve labour market changes.

F.2 Theories of labour markets

The following articles include two very useful surveys covering some of the theories of labour market operation noted in Chapter 5, Box 5.5. Also included is an interesting synthesis of two current views.

A Survey of Alternative Models of the Aggregate US Labour Market

Thomas Kniesner and Arthur H. Goldsmith, 1987

The ACTU notes that this paper commences as follows:

> The auction-market analysis of prices and quantities is the core of neoclassical economics; however, as we will see, viewing the aggregate labour market as an auction has not proved particularly useful for understanding cyclical fluctuations in employment, unemployment, and the real wage. (Kniesner and Goldsmith 1987, p. 1241)

The ACTU further notes that the paper's conclusions suggest that long term contracts have a role to play in explaining labour market functions, but that at present we know little with any degree of certainty.

The Kniesner and Goldsmith article provides a valuable survey of earlier labour market theories. It first describes the ways in which neoclassical economists tried to reformulate the neoclassical model in various ways. It then examines the empirical evidence for disequilibrium analysis in which wages are treated as rigid. Finally, it considers long term contract theories which it describes as a synthesis of the two approaches.

The very simplest neoclassical view of labour markets assumes that wages adjust without hindrance to equate the demand and supply of labour. In the authors' view, this 'auction market' approach is useful in some contexts, including the interregional context germane to this inquiry.

> Moreover, the auction interpretation of the labour market has helped economists identify temporary wage differentials, such as interregional wage differentials, which tend to be eliminated by mobility of labour and capital (Don Bellante 1979). (Kniesner and Goldsmith 1987, p. 1245)

It has sometimes been useful in explaining how long-term forces, such as union coverage, lead to variations in outcomes across different labour markets at any point in time. Where the auction approach has not proved useful is in understanding the cyclical fluctuations over time in aggregate employment, unemployment and real wages; over time, the measured aggregate real wage appears to move randomly around a positive trend (Altonji and Ashenfelter 1980).

Kniesner and Goldsmith explain the problem that this creates as follows:

> ... relatively low employment is expected to persist along with relatively high unemployment when the real wage is rigid ... what is needed is a convincing argument for the source of the real wage rigidity. (Kniesner and Goldsmith 1987, p. 1247)

Throughout the article, Kniesner and Goldsmith tend to refer to real wage rigidity and nominal wage rigidity interchangeably. This is presumably because their article deals with labour market issues rather than macroeconomics more broadly. More recently, it has been recognised that any observed stickiness of real wages could be due to price rather than nominal wage rigidity, a sign of non-auction behaviour in product rather than labour markets. More recent authors tend to be more careful in distinguishing between nominal and real wage behaviour.

Kniesner and Goldsmith explain how neoclassical economists tried to reformulate the neoclassical model to account for cyclical unemployment. One explanation was that workers' real wage expectations may not be in line with reality (Lucas and Rapping 1969). Alternatively, workers may chose to withdraw labour in a low wage period in order to substitute towards providing labour when wages are higher (Hall 1980). The latter reformulation retains one element of the simple auction approach, namely, that everyone who is *willing* to work at the going wage will be able to find a job – those who are still unemployed are voluntarily unemployed. After surveying the empirical work available at the time, Kniesner and Goldsmith conclude that these neoclassical reformulations gain little empirical support. The Commission agrees that the idea that all unemployment must be voluntary or frictional is unrealistic.

Disequilibrium analysis emphasises the idea of work rationing by firms, and shows how involuntary unemployment can persist if wages are sticky. Kniesner and Goldsmith note that empirical models allowing for disequilibrium behaviour seem to fit the data better than equilibrium alternatives. They then examine tests of the reason for wage rigidity. The rationale they examine is that there are transactions costs involved in nominal wage adjustment. But they note that the empirical tests suffer because the transactions costs are not measured directly. Here, Kniesner and Goldsmith suggest that employment rationing could be the result of calculated decisions by employers in conjunction with their workforce, rather than some exogenously imposed phenomenon.

This brings them to a discussion of the role of long term contracts. They discuss various types of contracts including union contracts (Dunlop 1944), overlapping explicit contracts (Taylor 1980), what they call incentive contracts arising from efficiency wage considerations (Stiglitz 1986) and implicit contracts arising to provide insurance to workers with firm-specific skills (Azariadis and Stiglitz 1983, Akerlof and Main 1981). Because these contracts specify a (not necessarily market clearing) wage, they can induce a degree of wage stickiness.

Kniesner and Goldsmith note, however, that implicit contract theories do not explain why firms would lay off workers rather than reduce their hours of work during a recession. They also state that efficiency wage considerations cannot explain involuntary unemployment. This latter criticism does not apply to all versions of the efficiency wage hypothesis. Efficiency wage and insider-outsider explanations of wage rigidity are discussed more extensively by Summers (1988) and Haley (1990), whose articles are considered below.

At the time of writing, Kniesner and Goldsmith found US evidence on long term contracts to be sparse. However, they cite a study by Kennan (1983), who specified various models and found a model based on the idea of long term contracts and wage smoothing to be a preferred model in the United States over the period 1948 to 1971.

Kniesner and Goldsmith do not believe that disequilibrium theories are true representation of all labour markets or all categories of workers. They suggest that, for some categories, the auction market may be a better representation.

> But perhaps no single model applies to all labour markets. For instance, some employees may be working in jobs involving a long-term association with their employers while other employees work under short contracts. This gives rise to the division between ‘job shoppers’ and ‘careerists’. (Kniesner and Goldsmith 1987, p. 1275)

They also suggest that in normal times, most unemployment may come from the job-shoppers’ group because of their high labour force entry and exit rates.

However, careerists can dominate unemployment in periods when the economy is recovering from recession.

> Careerists rarely become unemployed, but when they do they spend a long time at it. (Kniesner and Goldsmith 1987, p. 1275).

Their paper therefore lends some early support to arguments in Chapter 5, although they conclude somewhat cautiously.

> Whether a hybrid approach emphasising parallel labour markets of workers subject to short-term auction outcomes and those with long-term contracts can greatly improve our currently empirical models of the aggregate labour market remains to be seen. (Kniesner and Goldsmith 1987, p. 1276)

Efficiency Wages, Labour Relations, and Full Employment

Lawrence Summers, 1988

The ACTU cites the following portions of this article.

> This misperceptions story is reinforced by two further considerations that distinguish it sharply from misperception interpretations of business cycles put forward by classical theorists. First, the central problem here is one of coordination. Notice that it is sufficient to prevent reattainment of equilibrium following a shock, for some firms to suspect that ... either workers or some firms ... will not assume that the new equilibrium is to be attained immediately. The informational requirement for the costless attainment of a new equilibrium is much more than individual rationality – it is common knowledge that all individuals will be rational.
>
> Second, the plausibility of rapid adjustment is further undercut by the observation that, at least in the face of an adverse shock, workers who are perceived as ignorant of the new equilibrium will benefit, in that their wages will not be reduced. This makes it even less likely that transitions between equilibrium will occur smoothly. The idea of persistent misperceptions is supported by evidence. John Caskey (1985) demonstrates that inflation was consistently underestimated for ten years during the 1970's and has been consistently overestimated during the 1980's. (Summers 1988, p. 387)
>
> ... recognising the role of relative wages in influencing workers' performance will help economists in understanding different types of unemployment. Keynes emphasised the volatility associated with situations where people try to guess the guesses of others in financial markets. This essay has tried to argue that the lesson is a general one applying to labour markets as well. (Summers 1988, p. 388)

Summers uses efficiency wage theories, which argue that firms may be reluctant to offer lower wages because this may lower productivity more than it lowers the wage bill. In Summers' version, the wage paid by one firm depends on the wages paid by other firms, because he argues that productivity depends not on the absolute wage but on the relative attractiveness of opportunities inside and outside the firm (consistent with notions of fairness).

Summers also appeals to insider-outsider arguments, originally put forward as an alternative to efficiency wage theories in explaining unemployment. In the insider-outsider approach, wages are determined by explicit or implicit bargaining between firms and their workers (insiders), who in turn have a bargaining power over the unemployed (outsiders), because turnover is costly, for example. Such bargaining occurs with unions, but may also occur in non-union contexts.

Summers notes how the two theories of labour market operation may be complementary and mutually reinforcing. Insiders increase wages in some firms. The efficiency wage theory would suggest that productivity should increase with this increase in wages, so firm profits are not greatly affected. But in Summers' version, the wage increase will also spill over to other firms. These general wage increases will result in unemployment.

> William Dickens and Katz' (1986) survey of the literature reports some evidence that contrary to the predictions of at least simple competitive theories, the presence of unions in an industry raises the wages of both union and nonunion workers. Similarly it is often argued that increases in minimum wages lead to changes in other wages as well in order to preserve relativities. Relative wage effects on productivity can explain why insider power can create unemployment even if there are some freely competitive sectors of the economy. (Summers 1988, p. 386)

There are two reasons suggested by Summers which would then make wages sticky downwards and prevent the attainment of a new equilibrium. Wages may not fall because workers may misperceive the outside opportunities open to them. In addition, firms themselves may not reduce wages because they may misperceive that other firms are not similarly reducing wages. This reluctance on the part of either side to accept lower wages after the shock would delay the new equilibrium.

In some respects, Summers' model is unrealistic and should be treated as a parable. For example, in his discussion of efficiency wages he highlights the 'fragility' of unemployment 'equilibrium' when increases in *relative* wages yield real productivity gains from workers, even though in his model of *identical* workers and *identical* firms such relative wage increases would never be sustained. However, he highlights the important role that insiders can play in generating unemployment. He also stresses that the resulting unemployment will indeed be involuntary.

Theoretical Foundations for Sticky Wages

James Haley, 1990

The ACTU introduces Haley's article by noting

> Indeed, the more one looks the more one finds studies which cast doubt on the simplistic model. Scattered throughout the literature there are also some studies which more or less torture the data to find some evidence of the neo-classical mechanism at work; such findings are definitely the minority in the field. (Sub. 144D, p. 34)

It then cites Haley's conclusion.

> It should be noted that while choice theoretic foundations for sticky nominal wages and Keynesian involuntary unemployment continue to elude economists, it has been shown that there are compelling reasons based on individual optimising behaviour for wages to display much less flexibility than would be observed in Walrasian auction markets. In contrast, rational expectations theorists maintain that wages are fundamentally flexible or that firms and workers contract to mimic Walrasian market clearing. Because wages are observed to be sticky, the assumption that at any point in time wages are a datum seems to be a more realistic basis on which to model the economy. (Haley 1990, p.147)

Haley's article gives a useful survey of three of the more recent theoretical explanations for sticky wages. These are implicit contracts, efficiency wage models and insider-outsider models. Like Kniesner and Goldsmith (1987), he is not satisfied with the first two types of model.

In the case of implicit contract theories it is for much the same reasons; those theories based on human capital considerations do not explain why starting wages for new entrants are sticky, while those based on insurance considerations do not explain why firms would lay off workers.

His discussion of efficiency wage theories is more complete than Kniesner and Goldsmith's. The criticism that applies to all models in this class is that they do not explain why firms would choose to use wage premiums rather than performance bonds, promotion ladders or other kinds of employment arrangement to encourage productivity performance.

Haley finds the insider-outsider model more compelling because it addresses a fundamental issue ignored by other approaches.

> The insiders-outsiders model represents an important development in the development of microfoundations for wage stickiness because it provides an explanation why workers are incapable of, or unwilling to, bid starting wages down to a level that ensures full employment. (Haley 1990, p. 117)

> The theory presupposes that a firm's existing workforce ('insiders') can exercise control over their wages without regard to the interests of new employees ('entrants') or unemployed workers ('outsiders'). In this formulation, the wages of the insiders are not determined in a competitive labour market, but are related to the degree of bargaining power held by the insiders. This power arises from the turnover cost the firm pays whenever it replaces experienced workers with new employees. This cost enables insiders to raise their wages above the level required to induce workers to become entrants. However, firms have no incentive to hire outsiders. (Haley 1990, p. 138)

> Unions serve to maintain solidarity of the insiders during their wage negotiations with the firm and thereby enhance job security. (Haley 1990, p. 141)

There is a related explanation of why the unemployed do not exert effective downward pressure on wages, although it is not covered in Haley's review. The work of Layard and Nickell (1985, 1986, 1987) stresses that the long term unemployed may suffer a loss of work skills, may become discouraged and search less intensively, or may be perceived as being less desirable workers. In this sense, the long term unemployed may become outsiders with little ability to bid down wages.

One of the empirical models estimated in Appendix G is designed to test explicitly for insider-outsider effects in the States of Australia.

Finally, Haley notes that the coordination problems highlighted by Summers, arising when firms and workers are concerned with relative wages, are more likely to be a problem in times of temporary downturn.

> Similarly, social prohibitions against underbidding can be expected to withstand temporary fluctuations in the demand for labour corresponding to short spells of unemployment. However, in the face of a severe contraction of aggregate demand which prolongs the mean duration of unemployment the social consensus against underbidding may collapse...
>
> Evidence of this asymmetric response can be gleaned from recent labour market behaviour. In the early 1980s there were a series of highly publicised wage concessions by major US labour unions. These concessions came in the midst of the most severe economic downturn since the Great Depression. Moreover, the concessions were concentrated in industries which faced intense competition from foreign competitors or were subject to deregulation (primarily the auto and airline industries). Why were these workers willing to accept nominal wage reductions and violate the unwritten law of labour? The reason is straightforward: they perceived (correctly) that unless concessions were made, they would lose the long-term investments that they had made with their respective firms in the form of seniority pay, pensions and other benefits. (Haley 1990, p. 144).

The empirical evidence in Appendix G suggests that the employment shocks facing the States and Territories of Australia are predominantly permanent.

F.3 Empirical tests of labour market flexibility

The ACTU's submission included a number of articles presenting or summarising empirical evidence on the degree of wage stickiness in various countries. Some found evidence of wage stickiness and some did not. Those that found stickiness differed according to whether they found wages to be absolutely rigid, or whether they found some, albiet muted, adjustment of wages to labour market conditions. Some of the articles use empirical techniques that

have since been shown to be inappropriate. Others examine wage adjustment over periods that are predominantly pre-1970s. In light of the OECD's (1986a) finding that labour markets have tended to become more inflexible since the 1970s, the relevance of these earlier studies can be questioned.

The balance of evidence from the more reliable studies is that, while nominal wages may be set at a premium in some instances, thus contributing to unemployment, both the general nominal wage level and relative wages across industries show responsiveness over time to changes in economic conditions.

Wage Adjustments and Labour Market Systems: A Cross-Country Analysis

G. Withers, D. Pitman and B. Whittingham, 1986

The ACTU cites long excerpts from this article but perhaps the most important part is the summing up.

> The conclusion offered here does not imply that market pressure may not ultimately influence relative wages. It says that any such pressure does not operate in a clear systematic manner, so that labour markets do indeed seem different from, say, commodity markets and finance markets where the transmission mechanisms are more direct and immediate and are more readily ascertained empirically. (Withers et al. 1986, p. 425)

In this paper, the authors relate labour market outcomes to wage changes in alternative systems of wage determination including Australia, the United Kingdom and the United States. They conclude that the rates of change of relative wages are determined independently of labour market outcomes in each of the countries.

Starting from a model of labour demand and supply and allowing for the possibility of disequilibrium, the authors specify a model in which the rate of change of relative wages across either regions or industries is a function of the size of the gap between labour supply and labour demand in that region or industry. They then test this proposition empirically by estimating a vector autoregression of the following form:

$$RW_t = a_o + a_1 T + \Sigma_k b_k D_k + \Sigma_i c_{t-i} RW_{t-i} + \Sigma_j d_{t-j} RED_{t-j}$$

where RW stands for the rate of wage change in the individual market (region or industry) relative to the national rate of change, T stands for a time trend, D stands for seasonal dummies, and RED stands for the level of excess labour demand in the individual market (region or industry) relative to the national level. Two alternative measures of excess demand are specified:

$$RED1 = [(u/v)/(U/V)], \quad \text{and}$$

$$RED2 = [(u/(e+u))/(U/(E+U))]$$

where u is regional (State) or industry unemployment, U is national unemployment, v is regional (State) or industry vacancies, V is national vacancies, e is regional (State) or industry employment, and E is national employment. As defined, the RED2 variable measures the regional or industry unemployment rate divided by the national unemployment rate.

The author's aim was to estimate the above equation by industry and by region for Australia, Sweden, the United Kingdom and the United States, but data non-availability confined the estimation to be by industry for Australia, the United Kingdom and the United States, and by region for Australia and the United States. The authors then tested whether relative excess demand levels had any significant effect on relative wage changes. They did this using an F test of whether all the estimated coefficients on the lagged RED variables were significantly different from zero.

Almost all of the F values and individual t values on the RED variables turned out to be insignificant in all industries and regions in each country. Thus the authors concluded that in no system of wage fixation, did wages respond to labour market outcomes.

However, more recent advances in econometrics would suggest that their model is likely to suffer from statistical problems which could explain this apparent insignificance. The model specification and econometric methods they used are entirely appropriate when the included variables are *stationary*, and do not display stochastic trends. Stationarity is a concept discussed in more detail in Appendix G. Withers et al. did not check the stochastic properties of their variables. However, if for example the excess demand variable in their specification were nonstationary (integrated) and all other variables were stationary, the equation would produce nonstationary residuals. The nonstationarity of the residuals would mean that conventional F and t tests were meaningless.

Although Withers et al. did not test the time series properties of their variables, evidence elsewhere in this report suggests that their excess demand variable is indeed likely to be nonstationary and their wages growth variable stationary, at least for Australia. In Appendix G, statistical tests are performed to check for nonstationarity in both Australia's national unemployment rate, and in State unemployment rates relative to the national average. All are found to be nonstationary (integrated). Similarly, McTaggart and Hall (1993) present evidence of nonstationarity in the Australian unemployment rate, using data for a period which overlaps that examined in the Withers et al. article. Appendix G

also suggests that in Australia, wage levels are integrated of order one, so that the wages growth variable used by the authors is likely to be stationary. Thus the possibility noted above is a real one.

A second problem with the Withers et al. specification is that it includes a time trend in each estimated equation. This would correct for a deterministic trend if one were present. However, it is more likely to be attempting (unsuccessfully) to correct for the stochastic trend in the excess demand variable, and could thus be appearing to be significant when actually it is not (Hargreaves 1992), while at the same time robbing the coefficient of the excess demand variable of its significance. Unfortunately, the significance of the time trend variable is not provided by the authors.

Relative Wages and the Changing Industrial Distribution of Employment in Australia

Michael Keating, 1983

From this paper the ACTU cites the following:

> While changes in industry wage relativities may have been modest over the past 30 years they do appear to have been significant and generally to have assisted labour market adjustment. For the most part not only the direction but the extent of relative wage changes seems to have been broadly consistent with facilitating necessary employment adjustment among industries. (Keating 1983, p. 396)

This finding is at odds with that of the previous article. Keating uses a different model specification and employs techniques which avoid some of the statistical difficulties of the previous article. However, his study is based on labour market data from the second world war to 1979. As noted earlier, the OECD (1986a) report warns that labour markets in OECD countries have tended to become rigid since the shocks of the 1970s. This indicates the need for an analysis of labour market functioning since then.

How Far Does Arbitration Constrain Australia's Labour Market?

W. Brown, J. Hayles, B. Hughes and L. Rowe, 1978

The ACTU points to this study of local labour markets in Adelaide, Coventry and Chicago, highlighting the authors' finding that wages in Australia are as flexible as in Britain and America.

> If compulsory arbitration had not been established in Australia three-quarters of a century ago, it is highly likely that the country would have developed collective bargaining practices having much in common with those of Britain and America. The

> tests applied here suggest that, in at least some respects, the results for the operation of the labour market would not have been very different.
>
> If we set aside the skilled manual workers, little difference has been found in the scatter of earnings within an occupation in the three countries. In so far as differences do exist we have been unable to establish, on the basis of the most respected model of the way workers search for jobs, that they are sufficient to imply a serious difference in the allocative efficiency of the labour market. Similarly, comparing internal pay structures in Australian and British firms, there are no signs that, outside the realm of skilled workers, Australian managers are faced with greater inflexibility in fixing relative pay. Nor, when we looked at the way in which firms applied over-award payments to their semi- and unskilled workers, could we detect signs that they were implicitly compensating for awards that might have misjudged the priorities of the labour market.
>
> For skilled workers, the results are more equivocal. Their intra-occupational pay dispersions are commonly unusually compressed in Australia, although we failed to establish that this might have serious motivational (and hence allocative) implications. (Brown et al. 1978, p. 39)

The study uses cross section data on establishments in Adelaide (for 1974), in Coventry (for 1974) and in Chicago (for 1963) to examine the extent of wage differentials across establishments for similar occupational groups. The study reports the size of wage differentials in terms of the coefficient of variation of wages (measured as a percentage) across establishments in each of 5 separate occupations for which the job descriptions are directly comparable across countries. The authors conclude

> ... all the Adelaide dispersions are narrower than those of Conventry, and that without exception both cities' dispersions are narrower than those of Chicago. However, the absolute differences are not great, the most common results for the three markets being, respectively, around 11, 12 and 14 per cent. The outstanding exception is, again, the Australian skilled manual occupation, the electrical fitter, for whom the dispersion of pay is substantially lower than in the other two countries. (Brown et al. 1978, p. 33)

The authors also calculate measures of the dispersion of wages across occupations within individual establishments in Adelaide and Coventry and reach similar conclusions.

> We conclude from this that, in general, internal pay structures in Adelaide are not noticeably more uniform and thus, by implication, more constrained than in Coventry, except for the skilled workers. (Brown et al. 1978, p. 36)

Finally, the authors examine the distribution of over-award payments in Australia. Their findings are as follows.

> It thus appears that, among the semi- and unskilled occupations, the major determinant of the size of over-award payment is the factory one works in rather than one's occupation. There is no evidence here of over-awards being used systematically to compensate for the failure of award rates to reflect what supply and demand might suggest 'ought' to be the wage. (Brown et al. 1978, p. 38)

As noted by Kniesner and Goldsmith, studies which take a cross sectional approach can shed light on the longer term labour market forces in each city. Brown et al. note that there are likely to be a host of longer term factors influencing wage dispersions in each city, the prevailing system of wage determination being only one. Their study at least controls for skill-based differences by comparing wages in similar occupations.

The longer term focus of their study is also evident in the way they assess the motivational (and hence in their view, allocative) implications of the wage dispersions they observe. They do this by calculating the expected monetary gains from 'shopping around' for jobs, using a method derived from the job search literature. As that literature emphasises, job shopping is a phenomenon to be expected even when wages are fully flexible and in all other respects 'clear' the market for labour. It is not clear that this motivational measure has much to say about whether wages are flexible and do adjust in the face of shocks to labour demand or supply. It is the way that wages, along with unemployment rates, participation rates and so on, adjust in the short term to shocks, rather than the wage dispersion across occupations or industries at any single point in time, that determines the role that labour markets might play in the process of regional adjustment. This requires a time series approach. Appendix G.2 examines the time series evidence from a number of countries on the way in which regional wages vary in response to changing regional fortunes.

Wage Relativities and the Allocation of Labour

Appendix II, Hancock Committee Report, 1985

The ACTU cites the following from this appendix:

> The structure of wages and salaries in Australia is consistent with the provision of broadly indicative signals, rationing scarce talents and acquired skills. We do not believe, however, that relativities are a sensitive signalling device. This comprehends both the following statements: (1) wage relativities do not respond readily to changes in the underlying conditions of demand and supply; and (2) the allocation of labour is insensitive to changes in relativities between the wage levels of major categories of labour. (Hancock Committee Report, Appendix II, p. 29)

The appendix surveys empirical evidence bearing on three areas of complaint concerning the arbitration system in Australia.

> One is that the pattern of wage and salary differences is more compressed than it would be if market forces had their full effect. The second is that they do not change rapidly enough or by sufficient amounts (if they do so at all) in response to alterations in economic conditions. The third is that the [Conciliation and Arbitration] Commission has made concessions to social pressures which conflict with the needs of an efficiently functioning labour market. Specific instances are the granting of 'equal pay' (ie. for

> men and women) and increasing the ratio of juvenile to adult rates. (Hancock Committee Report, Appendix II, p. 11)

The authors of the appendix are aware of the difficulty of distinguishing equilibrium from disequilibium pay differentials at any point in time.

> In practice, comparisons between jobs to determine whether one is worth more than another are subjective and inexact. There is no ambiguity, however, about *changes* in rates. Consequently, the tendency to uniformity in wage movements emerges as a more decisive consequence of comparative wage justice than the equation of like with like in absolute pay rates. (Hancock Committee Report, Appendix II, p. 9)

The appendix first reviews available studies that bear on the alleged compression of wage differentials. It doubts that studies relying on international comparisons (Hughes 1973, Norris 1983, Mulvey 1983) can control for all the other factors likely to affect wage differentials in different countries. It therefore focuses on studies that consider whether over-award payments in Australia are designed to compensate for compressed award rates of pay. Mitchell (1984) uses such evidence to conclude that the arbitration system does compress wage differentials, while Brown et al. (1978), in the study just discussed, conclude the opposite. The appendix authors cannot identify the reason for the difference, but conclude

> Overall, then, we cannot find in the analysis of nominal rates or earnings hard evidence either to confirm or to refute the assertion that arbitration has compressed the wage structure relative to a market-oriented structure. (Hancock Committee Report, Appendix II, p. 14)

The appendix then considers evidence for rigidities in relative wages over time. It cites four studies which all show that relative wages have shown some flexibility, although they all rely on data from the 1970s and earlier and are now somewhat dated. The appendix then examines the question of whether there is a market orientation to this flexibility. They examine the studies by Keating (1983) and Withers et al. (1986), discussed above, one of which noted a market orientation and the other of which did not. They also cite a set of studies carried out by the National Institute of Labour Studies (Blandy and Richardson 1982), examining the markets for particular occupations. In most cases, the studies found that

> the wage did adjust in an equilibrating fashion, but not sufficiently to obviate the need for other mechanisms of reconciling the quantities of labour supplied and demanded ... 'occupations with and without an important role for wage-fixing tribunals are not obviously different in the responsiveness of pay to market forces'. (Hancock Committee Report, Appendix II, p. 20)

Overall, the appendix concludes that

> ... the available evidence about the relation of relative wage changes to pressures of supply and demand is inconclusive. It does not warrant strong inferences about the

> effects of arbitration on the processes of labour market adaptation. (Hancock Committee Report, Appendix II, p. 20)

Finally, the appendix considers a number of studies examining the impact of equal pay provisions and the increase in the juvenile rate of pay (BLMR 1983b, 198c, Gregory and Duncan 1981, Snape 1981, Whitehead and Bonnell 1981). Having noted the problems all these studies faced in controlling for other factors affecting female and juvenile employment, the appendix concludes

> Our survey of the evidence leads us to the view that the increase in juvenile wages was only one of a number of causes of relatively high juvenile unemployment and does not support the view that the Conciliation and Arbitration Commission must bear the major responsibility for it. Proposals to reduce junior rates should not be discarded; but expectations of beneficial effects flowing from such reductions should be restrained. (Hancock Committee Report, Appendix II, p. 20)

On the whole, the appendix is a thorough examination of the evidence available at the time. However, the tentative nature of its interim conclusions, particularly on the first two issues, contrasts somewhat with the firmer nature of the overall conclusion cited by the ACTU. With more recent data and statistical methods brought to bear, the conclusion on the sensitivity of wage relativities as a signalling device could well have been different.

Relative Wage Flexibility in Four Countries

C.A. Pissarides and R. Moghadam, 1990

The emphasis of this paper is on comparative wage flexibility under different wage fixing systems. The paper looks at relative wage flexibility in four countries — Sweden, the United States, Finland and the United Kingdom. The ACTU's quotation from the paper covers the following key findings:

> Sweden's centralised institutions appear to have (a) made relative wages more rigid than in other countries, (b) insulated relative wages from aggregate economic changes, but (c) allowed some very limited response of relative wages to sectoral performance in some sectors. (Pissarides and Moghadam 1990, p. 436)

> As expected, (a) relative wages in the United States fluctuate much more than in Sweden, and (b) more of the fluctuations can be attributed to the economic variables in our regressions. But perhaps surprisingly, (c) most of the fluctuations in relative wages are in response to changes in aggregate inflation and unemployment, not in response to changes in sector performance. Thus, although in the United States there are more 'economic' influences on relative wages, they do not appear to be related to the labour allocation function of relative wages.

> Britain and Finland are between the two extremes of Sweden and the United States with regard to union coverage and centralisation of wage negotiations ... We found that (a) relative wages in both Finland and Britain fluctuate by more than in Sweden and by

> about the same order of magnitude as in the United States. But (b) economic influences do not appear to be as important as in the US, especially in Finland. (Pissarides and Moghadam 1990, p. 436)

The authors use time series evidence in each country to examine whether sectoral relative wages respond to changes in sectoral demands for labour and thus speed up the process of adjustment. They find relative wages do not adjust greatly in the United States in response to the sectoral demand changes. However, such a finding need not suggest that wages do not play an important allocative role. If there is a high degree of inter-sectoral mobility of workers, firms would not need to increase wages greatly to attract additional labour; even a small increase in wages would motivate workers from other sectors to move into the expanding sectors. They find different relationships between sectoral performance and relative wage flexibility in different countries, but these could be related to the different mobility responses as well as different wage bargaining patterns in these countries.

In the conclusion cited by the ACTU, the authors suggest that only the response of relative wages to sectoral, and not aggregate, demand conditions is consistent with the labour allocation function of relative wages. As noted by Robert Flanagan in commenting on the paper (same journal, p. 444), this sits rather uncomfortably with the way in which the authors motivate inclusion of the aggregate demand variables.

> In addition to these questions, we investigate whether sectoral wage differentials respond to aggregate cyclical shocks. This would be the case if different sectors used different methods of determining wages: competitive wages are more likely to be cyclical than efficiency wages or bargain outcomes. (Pissarides and Moghadam 1990, p. 423-424)

The responsiveness of relative wages to aggregate demand conditions in the United States could therefore be interpreted as indicating a greater rather than a lesser role for competitive wage setting in that country.

The authors admit that their model was misspecified.

> In some of the sectors the common dynamic specifications that we have imposed is clearly inadequate. There is evidence of lagged adjustments in relative wages in virtually all sectors in our sample ... in some US sectors and in most Finnish sectors there is evidence of dynamic misspecification. (Pissarides and Moghadam 1990, p. 437)

Correcting the misspecifications could change their conclusions.

Employment Determination in Macroeconomic Models: Some Empirical Evidence

R.A. Hofler and L C. Spector, 1993

Hofler and Spector (1993) test alternative specifications for the determination of employment using US data for the period 1948–84. The ACTU notes that their tests

> ... support the contention that the labour market has been operating under a fixed wage regime in which employment is being determined by the short side of the market. Furthermore, it was found that the coefficient of the real wage variable was insignificant in all cases. This suggests that the observed real wage is as likely to be below the equilibrium real wages as it is to be above it. Therefore, one can not make the claim that even though employment is determined by the short side of the market, it 'acts as if" it was demand determined. Thus, these results provide some evidence that macroeconomists might want to re-evaluate policy prescriptions which stem from demand-determined or equilibrium-determined models. (Hofler and Spector 1993, p. 134)

The authors do not report that they have tested their variables for nonstationarity. However, they include variables that are likely to be nonstationary, along with a time trend, in their specification. Thus their study appears to suffer from the same statistical difficulties noted for the study by Withers et al. (1986).

Five Reasons Why Wages Vary Among Employers

Erica Groshen, 1991

The ACTU cites this paper as showing that different employers pay different wages to workers of equal ability, and note that this result contradicts the predictions of the simple competitive model of wage determination.

Like the earlier study by Brown et al. (1978), Groshen's seeks to explain variations in wages across employers at a given point in time.

> This paper discusses five sources of employer wage differentials: (1) employers systematically sort workers by ability; (2) wages vary because of compensating differentials; (3) costly information generates or perpetuates random variations in wages; (4) the efficient wage for some employers is above the market rate; and (5) workers inside firms exercise a claim on rents. (Groshen 1991, p. 352)

She notes that some sources of employer wage differentials can be consistent with labour market clearing.

> In none of these cases is the presence of employer differentials inconsistent with profit maximisation on the part of employers. However, the last two theories predict the

> existence of queues for high-wage employers, while in the other three models, employer differentials are associated with market clearance. (Groshen 1978, p. 352)

Having reviewed a number of empirical studies, most of which were cross sectional in nature, her conclusion appears more equivocal than the ACTU suggests.

> Without such direct research, we will remain unable to sort out whether employer wage differentials are signs of efficiency or inefficiency, of discrimination or optimal sorting, or of market imperfections or market tested personal strategies. (Groshen 1991, p. 377)

Assessing whether wage differentials at a point in time reflect different equilibria based on different supply and demand conditions, or whether instead they reflect true disequilibrium outcomes, is always likely to be problematic. However, the critical factor for assessing the role of labour markets in the regional adjustment process is the way that labour markets respond over time in the face of regional shocks. As noted above, this is examined in more detail in Appendix G.

Relative Wage Variability in the United States, 1860–1983

Steven Allen, 1987

Allen (1987) considers relative wage variability in the United States from 1860–1983. The ACTU cites his finding that no single macroeconomic model explains year to year fluctuations in the rate at which relative wages change, and that there is a large decline since World War II in the magnitude of changes in relative wages across industries.

That no single theory has consistently highest explanatory power over such a long time period is not surprising. The OECD (1986a) report, discussed earlier, illustrates how there can be structural shifts at various times in the way labour markets operate. Indeed, Allen finds that different macroeconomic theories have better explanatory power in different sub-periods of his sample.

> Rational expectations models are consistent with the evidence for 1860–1890 and the adjustment cost model is consistent with the results for 1890–1926 and 1920–1936. The Keynesian model with nominal wage rigidity is also consistent with the results for these three samples, but it has less explanatory power. In the post-war samples, the results are consistent only with the indexing rationale developed by Hammermesh. (Allen 1987, p. 626)

His post-war samples are 1947–1983 and 1929–1982, neither of which are likely to be free from structural breaks themselves.

An Interplant Test of the Efficiency Wage Hypothesis

Peter Cappelli and Keith Chauvin, 1991

Cappelli and Chauvin test an efficiency wage hypothesis across plants within the same firm, using a data set which standardises many of the exogenous factors which might affect worker performance. The ACTU notes that the study provides empirical support for the efficiency wage hypothesis as applied to shirking.

The study uses cross section data for 1982 from the internal records of a large manufacturing company in which wages are above average.

> Production workers in this industry in 1982 earned approximately 150 per cent of the average hourly wage for similar production work in the economy as a whole, and the workers in this company earned more than the industry average (Cappelli and Chauvin 1991, p. 774)

The study controls for differences in union presence across plants.

> For example, all of the plants included in the study are represented by the same union, the United Auto Workers, and are covered by the same labour agreement which standardises virtually all of the terms and conditions of employment across plants. (Cappelli and Chauvin 1991, p.773)

The study also controls for a number of other factors. Management policies on shirking and discipline are centrally controlled. Nominal wages are also determined centrally by firm-union bargaining; wage premiums varied from plant to plant because of variations in the wage prevailing elsewhere in each plant's labour market. The hypothesis tested by the authors is that larger wage premiums generate a greater reduction in shirking.

> The results suggest that wage premiums are in fact associated with lower levels of disciplinary problems, as the shirking models of efficiency wages imply. But it is less clear whether the overall benefits of the reduction in shirking exceed the cost of the wage premium. (Cappelli and Chauvin 1991, p. 769)

Their estimates of the direct dollar benefits of reduced disciplinary action are very much smaller than the wage premium cost. The authors note that there may be a number of indirect benefits from reduced disciplinary action. They also note that because neither the wage level nor the wage premiums that result are set unilaterally by the firm, there is no reason to expect the premiums to optimise the reduction in shirking. However, in light of the union involvement in setting the wage level, if not the premia, it may be that the authors have identified insider-outsider effects as well.

Wages-Price Flexibility, Market Power, and the Cyclical Behaviour of Real Wages 1959-80

David Garman and Daniel Richards, 1992

This article considers the cyclical behaviour of real wages in the United States over the period 1959–80 using panel data for 301 four-digit manufacturing industries. The paper finds that real wages are strongly pro-cyclical. The ACTU cites the following conclusion by the authors:

> Our view is that this pattern suggests that wages are more flexible than prices. In turn, this interpretation implies that the real effect of demand shocks are mainly the result of price and *not* wage rigidity. (Garman and Richards 1992, p. 1448)

The notion of pro-cyclical real wages means that real wages will fall in an economic downturn. Since in the absence of wage or price stickiness, a downturn would be expected to put downward pressure on both nominal wages and prices, it is not clear a priori whether the real wage, the ratio of the two, would be expected to fall (when nominal wages fall by more than prices) or rise (when nominal wages fall by less than prices). These considerations lead the authors to their conclusion that a pro-cyclical real wage denotes the relative flexibility of nominal wages and the relative inflexibility of prices. It also suggests a negative relation between nominal wages and unemployment, consistent with the idea that nominal wages respond to labour market conditions, at least in the United States. The finding that US real wages are pro-cyclical appears to be a consensus view (eg. Barro 1989).

F.4 Empirical tests of the impact of minimum wages

The final group of papers presented by the ACTU considers the impact that increases in minimum wages have had on employment in the United States and France. Their findings are mixed, but all suffer from empirical problems.

The Effect of the Minimum Wage on the Fast Food Industry

L. Katz and A. B. Kreuger, 1992

This paper uses a longitudinal survey of fast food restaurants in Texas to examine the impact of increases in the Federal minimum wage on teenage employment. The ACTU cites the following quotation from the article to emphasise that an increase in the minimum wage may not reduce employment.

> ... the evidence on employment and price changes does not seem consistent with a conventional view of the effects of increases in a binding minimum wage. Our results

> indicate that employment increased at firms most affected by the minimum wage increase, and price changes appear to be unrelated to changes in wages resulting from the minimum wage increase ...
>
> [This] behaviour ... seems difficult to explain with the standard model that economists use to evaluate the impact of a minimum wage. (Katz and Kreuger 1992, p. 20)

The statutory minimum wage was binding on only a portion of the workers in fast food restaurants, both before and after the increase. The minimum wage ($3.35 before the increase and $3.80 afterwards) was much below the general average wage ($6.52). It was also well below the average wage for teenage workers, which was $4.19 in Texas ($4.61 nationwide) before the increase. Thus the minimum wage increase was likely to be binding on only a small proportion of fast food workers.

Furthermore, information on the number of fast food restaurants that complied with the increase is not known. The authors recognise that non-compliance is likely to have been a problem.

An important concern relates to the significance of the regression equations of employment changes on wage changes, on which the authors' conclusions are based. R squared values for these equations are extremely low, at 0.06 and 0.07. This suggests there are likely to have been a host of other influences on teenage employment in fast food restaurants that have not been controlled for in the study.

The authors report a small increase in overall employment per establishment after the statutory minimum wage increase. They also note that

> Of course, larger increases in the minimum wage may well result in employment decreases and price increases. Indeed, Castillo-Freeman and Freeman (1992) find that the relatively high minimum wage in Puerto Rico has resulted in substantial employment losses. (Katz and Krueger 1992, p. 20)

They also cite other studies which have shown similar negative employment effects for the United States.

Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage

David Card, 1992a

The ACTU also cites the following quotation from this article to emphasise that an increase in a minimum wage may not reduce teenage employment.

> ... there is no evidence that the rise in the minimum wage significantly lowered teenage employment rates or altered school enrolment patterns. These findings, although at odds with conventional predictions, are consistent with the earlier 'case study'

> literature (Lester 1960) and with the findings of two recent studies using similar methodology. (Card 1992a, p. 36)

The increase in the Federal minimum wage affected only 25 per cent of teenagers on average across the country. It was completely non-binding in some States because of State minimum wage laws set at levels higher than the Federal minimum wage.

Employer non-compliance was as much a problem here as in the previous Katz and Kreuger study. The results are at odds with those of Katz and Kreuger.

> The estimated employment effects in the post-increase period are -2.5 per cent for the low wage States, -2.7 per cent for the medium-wage States and -2.6 per cent for the high-wage States. (Card 1992a, p. 31)

Note that the negative employment effects are reported for the teenage population as a whole, although the minimum wage increase was binding for only 25 per cent of teenagers on average. Nevertheless, the regression equations used to estimate the change in the teen employment-population ratio have R square values of the order of 0.01–0.09. This indicates a host of other factors are important, but have not been controlled for in the study.

Do Minimum Wages Reduce Unemployment? A Case Study of California, 1987-89, David Card, 1992b

The ACTU cites the following excerpt from the article to argue that raising minimum wages does not adversely affect employment.

> The minimum wage increase raised the earnings of low-wage workers by 5-10 per cent. Contrary to conventional predictions, however, there was no decline in teenage employment, or any relative loss of jobs in retail trade. (Card 1992b, p. 38)

A very small proportion of the workers (less than 10 per cent) were potentially affected by the increase in the State minimum wage. In this paper, Card also estimates the extent of non-compliance. After accounting for this factor, only 5 percent of the total teenagers were affected by the minimum wage increase.

The increase in minimum wages did not occur abruptly. Discussions took place for a year before the legislation was passed and implemented in July 1988. Employers therefore had ample opportunity to adjust employment in anticipation of the increase. Thus the employment data for 1987, which the authors use to indicate employment conditions prior to the minimum wage increase, need not represent a true pre-increase employment market.

Nevertheless, the results in the paper might indicate that the adjustment of employment to a minimum wage increase takes time. Table 2 in the paper shows that the teenage employment-population ratio was lower than its pre-

increase level (and even lower than the 1988 level) by 1990. This two-year adjustment horizon compares with the horizon of less than a year used in his previous study (Card 1992a). However, the picture is somewhat clouded by the onset of recession in 1990. It is also clouded by a rise in the Federal minimum wage on 1 April 1990 (Card 1992b, p. 43). Overall, the study suffers from a failure to control for these and other factors.

The Impact of the Minimum Wages on Earnings and Employment in France

S. Bazen and J. Martin, 1991

The ACTU cites the following excerpt from this article, again in support of the idea that minimum wages have little if any impact on employment.

> The results suggest that increases in the real value of the SMIC have exerted significant upward pressure on real youth earnings. We have not been able to establish satisfactorily, however, that increases in real youth labour costs have had a negative impact on youth employment – even though we believe this to be the case. Some estimates were found which would support this hypothesis but they are not very robust. Nevertheless, the estimated youth minimum-wage elasticities lie in a range from -0.1 - 0.2 which spans the consensus values found in the North American and British literature. The adult employment elasticity with respect to the minimum wage appears to be zero. (Bazen and Martin 1991, p. 215)

In France the minimum wage (SMIC) is revised every year. Table 1 in their paper shows that over the period 1972 to 1980, an average of 4.3 per cent of workers were receiving a wage at or below the SMIC. The authors examine the impact of the annual revisions on youth and adult employment.

Five earlier French studies (Fourcans 1980; Rosa 1981, 1985; Martin 1983 and Benhayoun 1990) had established a negative relation between the SMIC and youth employment, or a positive relation between the SMIC and youth unemployment. The authors criticise each of these earlier time series studies, mostly on the grounds of theoretical misspecification and serial correlation. They present a more satisfactory theoretical framework, but their estimation technique appears to suffer from problems similar to those noted earlier for Wither et al. (1986). The authors note the lack of robustness in their negative elasticity estimates.

H LABOUR MARKET PROGRAMS USED FOR REGIONAL ADJUSTMENT

H.1 Introduction

This appendix documents Commonwealth and State labour market programs which may affect a region's ability to adjust. Commonwealth programs are administered principally by the Department of Employment, Education and Training (DEET) as part of its 'Employment Program', details of which are outlined in Table H.1.

Table H.1: **Components and expenditure of the Employment Program**

Sub-program	*1991–92*	*1992–93*
	($m)	($m)
Employment Access	575	1133
Labour Adjustment Assistance	29	81
Aboriginal Employment and Training Assistance	111	48
Employment Services (CES)	377	457
Total	**1093**	**1720**

Note: Program expenditures include running costs (salaries and administrative expenses)
Sources: DEET 1992b, DEET 1993c

DEET also administers the Employment Services sub-program which puts into effect the Commonwealth's job-matching services through offices of the Commonwealth Employment Service (CES).

Commonwealth expenditure on labour market programs (excluding Employment Services) has almost trebled over the past three years; 1992–93 expenditure exceeded $1.1 billion, assisting around half a million persons. This increase reflects a substantial rise in unemployment since 1990. In comparison, the State expenditure on labour market programs amounted to about $80 million in 1992–93.

The remainder of this appendix examines the main components of the Commonwealth's labour market assistance, with the exception of the CES. The

appendix ends with a brief review of State labour market assistance based on what information could be obtained from the States.

H.2 Employment Access

The Employment Access sub-program, the major employment assistance mechanism used by the Commonwealth, uses vocational and job-search training, wage subsidies and mobility assistance. These measures may be implemented directly through government agencies (see Table H.2) or through community-based organisations (see Table H.4).

Table H.2: **Employment Access: government programs**

Program	*1991–92*		*1992–93*	
	Expenditure	*Number of clients*	*Expenditure*	*Number of clients*
	($m)		($m)	
Jobstart	117.2	58 217	339.0	150 559
Jobtrain	189.4	91 257	[a] 167.8	85 162
Special Intervention	16.6	18 897	80.3	37 095
Accredited Training for Youth	-	-	59.5	15 700
LEAP [b]	-	-	55.6	5530
Mobility Assistance	8.6	5081	15.1	9561
Jobsearch Assistance	16.4	35 542	13.3	34 123
Contracted Placement [c]	0.1	502	5.2	6139
Advanced English for Migrants [d]	..	..	4.8	4800
Work Experience for People with Disabilities [c]	..	52	2.6	1352
Employment Incentive Scheme	-	-	2.3	1070
Post Placement Support [c]	..	65	0.2	206
Post Placement/Training for People with Disabilities [c]	..	9	0.1	152
Total	**348.3**	**209 622**	**745.8**	**351 449**

Notes: Expenditures reported for individual programs under Employment Access (Tables H.2 and H.4) do not sum to the sub-total shown in Table H.1. This is because the expenditures shown in Tables H.2 and H.4 do not include program running costs (salaries and administrative expenses) and there is some overlap of program elements and reporting of expenditures by DEET.

na: not available

.. not significant (less than $0.1m);

a includes $86.4m Formal Training Allowance;

b Landcare and Environment Program;

c did not operate for the whole of 1991–92;

d previously reported in sub-program 3.2 'Workforce Development'

Sources: DEET 1992b, DEET 1992c and DEET 1993c

H.2.1 Programs implemented directly through Government agencies

Jobstart

The Jobstart program pays a subsidy to an employer taking on a disadvantaged job-seeker.[1] This is the largest labour market program in terms of expenditure and number of people assisted. The period of the subsidy is up to twenty-six weeks with rates varying according to age, length of unemployment and other disadvantages (see Table H.3).

Table H.3: **Jobstart duration and weekly rates paid to employers**

	Subsidy duration	*15-17 years*	*18 + years*
	(Weeks)	($)	($)
Unemployed 6 months or more	12	70	140
Unemployed 12 months or more or especially disadvantaged	16	100	200
Unemployed 24 months or more	20	na	[a] 230

na not applicable

a not applicable to persons aged under 21 years

Sources: DEET 1993c, p. 121

To qualify for a subsidy employers must pay award wages and fulfil award conditions. Normally, the position must be available for at least three months after the subsidy period. Subsidies are available on a pro-rata basis for permanent part-time work in excess of twenty hours per week.

Jobtrain

Jobtrain provides eight to ten weeks of training opportunities for the long-term unemployed and other disadvantaged job seekers. People who have been unemployed for at least six months are eligible, but preference is given to people unemployed for twelve months or more. However, those especially

[1] Defined by DEET as Aboriginal and Torres Strait Islander people, job seekers with a disability, older workers more than 50 years of age, the homeless, ex-prisoners, spouses of those receiving Newstart Allowance and youth at risk (DEET 1992a).

disadvantaged, youth at risk and those who are between 50 and 64 years old, are eligible after one month's registration with the CES.

The CES contracts for the provision of specially designed courses, or places individual job seekers in existing courses to meet the needs of clients and to meet the skill requirements of the local labour market. Training providers include TAFE institutions, community-based organisations, private training agencies and industry bodies.

Special Intervention

Special Intervention assesses difficulties faced by individual job seekers in entering employment or training, and provides assistance to help job seekers overcome these difficulties.

Especially disadvantaged job seekers are eligible immediately for the assessment phase of Special Intervention, but must be registered with the CES for one month before they can be assisted. This group includes Aboriginal and Torres Strait Islanders, job seekers aged 50 or older, spouses of Newstart Allowance recipients and youth at risk.

Three groups are eligible immediately for assistance:

- people who have been retrenched in specific areas designated by the Office of Labour Market Adjustment;
- Jobs, Education and Training (JET) clients, and;
- clients referred under the Disability Reform Package.

All other clients must be unemployed for at least three months before being eligible for assistance.

Accredited Training for Youth (ATY)

This measure was announced in the 1992–93 Budget. The program offers young people who have been unemployed for 12 months or more a place in an accredited training course of three to six months duration, followed by a Jobstart wage subsidy. Persons completing a course may directly approach the employer of their choice.

Landcare and Environment Program (LEAP)

LEAP is a joint government and community training strategy that combines formal vocational training with on-the-job work experience in environmental, conservation and cultural heritage projects. The scheme was introduced in 1992–93 to assist people aged 15 to 20 years.

'Brokers' are contracted to act as intermediaries between participants and 'Sponsors', providing an agreed training plan. Projects are selected according to their training value and the significance of the project to the local community. Each project is funded for 26 weeks.

Mobility Assistance

Mobility assistance aims to give job seekers access to jobs that are not available locally.

There are five main elements of Mobility Assistance:

- *Fares or petrol assistance* — to help job seekers meet the cost of travelling to attend interviews;
- *Relocation assistance* — (includes fares and a contribution towards the expense of moving house and family) to help job seekers move to a new region to take up an offer of permanent employment;
- *Post placement fares assistance* — is available to job seekers who have been unemployed for more than two years and who find employment that involves 'excessive fares';
- *Jobsearch relocation assistance* — is available to people who have been unemployed for 12 months or more so they can search for work in high employment opportunity areas; and
- *Immediate minor assistance* — helps people meet the cost of entering employment such as the cost of special equipment purchases.

In 1991–92, 5081 clients were provided such mobility assistance, an average of some $1700 each. In 1992–93, the number assisted grew to 9561. (DEET notes that this figure excludes a large number of clients receiving small amounts of fares assistance.)

Jobsearch Assistance

Jobsearch Assistance provides training in job search techniques. There are three elements:

- a self-help information kit available to those who register with the CES;
- short courses of 22 hours; and
- Job Clubs which provide a more intensive level of job search training. These are run for three weeks and combine training in job search techniques with job search activity in a group environment.

Contracted Placement

This scheme is aimed at those continuously unemployed for three years or more who have not been assisted by labour market programs and CES placement services. It provides for employment agencies, contracted by the CES, to place such job seekers in long-term employment.

Advanced English for Migrants Program (AEMP)

AEMP provides training in English as a second language to enable migrants to overcome barriers to further training and employment. AEMP courses aim to increase English proficiency to levels which will enable entry into vocational courses in TAFE or other post secondary institutions.

Employment Incentive Scheme

The Employment Incentive Scheme was announced on 13 November 1992 (with a sunset clause of 31 May 1993) to promote large scale recruitment through wage subsidies and arrangements allowing advanced payments. To qualify, employers needed to recruit at least an additional 100 staff for private employers and 200 additional staff for regional bodies. The allocation for this program was $39.1 million for 1992–93, but only $2.3 million was spent. The balance was used for additional Jobstart placements. Because of the poor take-up by large employers, the government has decided that Jobstart will remain the main mechanism to deliver wage subsidies to all employers (DEET 1993c).

Post Placement Support

Post Placement Support provides support services to formerly long-term unemployed persons during the first few months of returning to employment. Assistance is provided through the CES.

H.2.2 Community-based programs

Skillshare

Skillshare is the principal community-based Employment Access program; see Table H.4. It aims to assist unemployed people to obtain employment, further education or training. It uses training, employment-related assistance and enterprise activities provided by community-based organisations. Each project is administered by a 'Sponsor' community organisation which is required to secure a community contribution equal to 20 per cent of Skillshare core funding. Participants are eligible for other Commonwealth labour market programs.

Table H.4: **Employment Access: community-based programs**

Program	*1991–92*		*1992–93*	
	Expenditure	*Number of clients*	*Expenditure*	*Number of clients*
	($m)		($m)	
Skillshare [a]	136.0	112 000	176.7	117 000
Jobskills [b]	45.5	6496	144.4	17 389
NEIS [c]	28.2	2759	44.2	3349
Workplace Literacy (WELL) [d]	1.9	2000	6.0	5800
Total	**211.6**	**123 255**	**371.3**	**143 538**

a includes Formal Training Allowance

b includes a training wage

c New Enterprise Incentive Scheme – includes income support

d transferred to DEET's Sub-Program 6.3 during 1992–93

Note: Program expenditures exclude running costs (salaries and administrative expenses)

Sources: DEET 1992b and DEET 1993c

Skillshare sponsors are encouraged to establish a Project Advisory Committee for each project, including community representatives such as local education suppliers, employers and members of the business community. There are mechanisms through which DEET consults with community organisations.

Skillshare offers three types of activities and services:

- *Structured Skills Training* — all projects are required to offer 'off-the-job training';
- *Open Access Activities* — projects which offer a range of employment access services, including volunteer referral activities, job search training, motivational and personal development activities; and
- *Enterprise Activities* — projects which offer enterprise activities to help unemployed people into self-employment.

Jobskills

The Jobskills program provides disadvantaged job seekers with work experience and training. DEET contracts organisations to act as Jobskills brokers to arrange work experience placements and provide training.

Placements are primarily within government and community organisations. Participants are referred to brokers by CES 'Special Service Centres' and undertake on- and off-the-job training for twenty six weeks.

Participants receive a training wage of $280 per week and the Commonwealth pays brokers $3500 per participant (that is about $134 per week over the twenty six week period) to meet training and administrative costs. An extra $2000 per participant is available for special projects.

Work experience placements can be either within an organisation or in special projects of benefit to the community. These may include projects developing local tourism, heritage or recreational infrastructure, and conservation and environmental activities.

New Enterprise Incentive Scheme (NEIS)

This scheme helps job seekers to become self-employed while still receiving income support for up to one year. The assistance package includes assistance with business skills training and business plan development, access to (or help) in obtaining start-up capital, mentor support and business advice.

NEIS operates as a partnership between the Commonwealth and deliverers which may be either State and Territory governments or other managing agents.

In order to qualify under this program, proposed businesses must be new, independent, assessed as viable and meeting an unsatisfied demand. Participants must be registered as unemployed with the CES, receiving or depending on a social security benefit, and between 18 years of age and the age at which the aged pension is payable.

Workplace Literacy (WELL)

Through the WELL program, the Commonwealth Government provides assistance to workplaces and workers where improved literacy and English (as a second language) skills are needed for industry restructuring (DEET 1992c). The current program was introduced in 1992–93, and combines two previously separate programs, the former 'Workplace Literacy' and 'English in the Workplace'. The program is managed jointly by DEET and the Department of Immigration and Ethnic Affairs, in consultation with the Department of Industrial Relations.

Program contractors may include existing training providers like TAFE, Adult Migrant Education Service, adult and community education organisations, unions and appropriate State training infrastructure.

Disadvantaged Young People (DYP) services

This program targets unemployed young people who are not able to enter the mainstream labour market programs, enter employment or undertake further education and training. The program funds community-based organisations to

establish and operate mentor/broker services to provide personal assistance and follow-through assistance during training and transition to employment.

The DYP program is funded as part of the Commonwealth's Youth Social Justice Strategy. A large proportion of DYP services are conducted by Skillshare sponsors and share facilities with Skillshare projects. Allocations for 1992 and 1993 calendar years amounted to $2.68 million and $2.81 million respectively. Funding for this program is incorporated into the Skillshare program's appropriation.

H.3 OLMA labour adjustment assistance

The Office of Labour Market Adjustment (OLMA) — within DEET — administers assistance programs which attempt to address labour market problems arising specifically from major structural adjustment. These programs focus on friction at three levels: specific industry sectors, enterprises and regions. This is reflected in the programs' objective, which is:

> To assist the efficient and equitable functioning of the labour market by improving the skills and employment base of particular regions, industries or enterprises undergoing structural change and by assisting individuals affected by those changes (DEET 1992b, p. 149).

In 1992–93 expenditure for Labour Adjustment Assistance increased almost threefold from the previous year. Enterprise-based measures showed the greatest increase (see Table H.5). The three types of assistance measures are discussed below.

Table H.5: **Expenditure for Labour Adjustment Assistance**

	1991–92	*1992–93*	*Change*
	($m)	($m)	(%)
Enterprise-based assistance	3.3	15.5	470
Region-based assistance	8.1	21.8	270
Industry Labour Adjustment Packages (LAPs)	14.6	39.9	273
Total	**26.0**	**77.2**	**297**

Sources: DEET 1992b and DEET 1993c

H.3.1 Enterprise-based assistance

Enterprise-based measures aim to reduce unemployment by helping firms to cope with the adjustment process through new management structures, operational changes and training of workers and managers. The focus here is to assist firms experiencing difficulties due to structural change and/or cyclical downturns to expand or to retain employees.

There are three elements to Enterprise-based assistance:

- Training and Skills Program;
- Assistance to Firms Implementing Change; and
- Employee Skills Upgrade.

The rationale for assisting firms in training and restructuring is a perceived lack of information regarding the potential benefits of reskilling and enterprise restructuring. For instance, DEET reported a low take-up of these programs due to:

> ... a lack of interest among larger manufacturing firms ... (however, training) ... assisted in improving efficiencies in the enterprise and boosted employee morale. (DEET 1992b, p. 157)

Enterprise-based assistance schemes are likely to be important in non-metropolitan regional economies that have a narrow industry base where workers have limited alternative employment opportunities. Workers in such regions tend to be willing to cooperate with the restructuring process and to take up training opportunities. Successful restructuring may result in the firm continuing to operate, thereby avoiding the social and economic costs of business closures.

Expenditure on enterprise programs has been much smaller than that for the industry-based or region-based assistance. Total expenditure on Enterprise-based assistance was almost $16 million for 1992–93; most of this was spent on TASK to develop and deliver training programs. All enterprise-based programs are vocationally based and of 12 days average duration. Post-program monitoring systems are currently being developed.

Training and Skills Program (TASK)

Support under TASK, which commenced in July 1991, is available to firms facing major retrenchments or movement to short-time or down-time arrangements, due to economic downturns or structural adjustment. The program aims to raise labour productivity by upgrading the skills of workers, particularly those who face possible retrenchment. The program also aims to lessen skills shortages arising during economic upturns.

To be eligible for TASK, a firm must:

- demonstrate that formal retrenchment procedures or movement to short-time or down-time have started or are expected to start;
- allow for the payment of a TASK training rate of pay (80 per cent of the employee's normal earnings) to those receiving training; and
- have a suitable program to train employees previously targeted for retrenchment.

Assistance to Firms Implementing Change (ATFIC)

ATFIC is designed to assist firms to expand, restructure and develop effective business and human resource planning practices. The latter includes training and establishing career structures within the firm.

To be eligible for assistance firms are required to be:

- considering or undertaking expansion;
- considering or implementing new production methods or equipment;
- implementing new work practices; and
- maintaining current staff levels.

Employee Skills Upgrade

This commenced in 1991–92 as a two year pilot program to assist firms to overcome skill shortages by upgrading the skills of existing employees and, while they are being trained, backfilling their positions with suitable unemployed people. The program provides assistance for eligible firms to engage consultants to develop training plans. Assistance for the backfilling of vacated positions is provided through Jobtrain and Jobstart. The scheme will be discontinued from 1993–94.

H.3.2 Region-based assistance

Region-based assistance measures focus on the adjustment problems of regions deemed to be disadvantaged. They contain employment-creation, training and public awareness elements and are derived from strategic plans developed in consultation with community groups. The following criteria apply:

- the labour force participation rate is more than two percentage points below the State average;
- the average unemployment rate over the most recent quarter is more than two percentage points higher than the State or national average;

- the average unemployment rate for the most recent quarter has increased, over the same period for the previous year, in percentage terms by more than the State average; and/or
- industries must be undergoing significant structural change, that is, the presence of industry-based measures operating in the region.

Assistance can include funds for:

- regional employment-creation projects including small business support services and 'enterprise incubators' and business networks;
- regional OLMA committees involving the local community;
- skill surveys and industry profiles; and
- development and delivery of training.

According to DEET, the retraining focus of industry-based packages is intended to complement the job creation elements of region-based assistance. DEET also commented that, because small rural regions tend to have a narrow industry base, region-based assistance programs are more important in rural regions than in metropolitan regions.

Table H.6 shows the allocation of regional program funds by type of project between 1990–91 and 1992–93. Most of the expenditure has been provided for skills development and 'expanding the industry base'. DEET has given priority to linking the skills needs of a region with employment opportunities in the small business sector.

The region-based program has been substantially expanded over the last two years. Expenditure has increased from $8.1 million in 1991–92 to $21.8 million for 1992–93(OLMA 1993a to 1993g). The number of regions identified as needing assistance has also increased from 83 in July 1992 to 143 in July 1993 (see Box H.1).

Region-based training related projects directly assisted a total of 738 job seekers during 1991–92 (DEET 1992b). Approximately half of the expenditure was in Victoria, reflecting the extent of restructuring taking place in that State. In assessing the outcomes achieved by regional initiatives, due recognition must be given to measuring problems such as the lack of a control group and substitution effects.

Table H.6: **Allocation of regional funds by project type, 1990–91 to 1992–93** ($'000)

	Committee support	*Labour market surveys*	*Community involvement and responses*	*Skills develop-ment projects*	*Regional employment development projects*	*Small business develop-ment*	*Business incubator*	*Expanding the industry base*	*Total*
NSW	1082	862	229	736	260	745	882	2242	7038
Vic	849	1391	734	1677	794	929	540	821	7735
Qld	115	165	710	815	635	265	260	1190	4155
SA	92	95	39	474	1051	107	145	727	2730
WA	179	316	96	413	595	75	152	155	1981
Tas	25	182	4	1623	110	50	283	0	2277
NT	59	206	40	108	0	148	36	106	703
Xmas/ Cocos	0	0	0	2629	0	0	0	0	2629
Total	**2401**	**3217**	**1852**	**8475**	**3445**	**2319**	**2298**	**5241**	**29248**

Note: Excludes program support and retrenchee assistance expenditure

Source: DEET 1993e

Box H.1: **Regions designated for regional assistance in 1993–94**

New South Wales:	Brewarrina	Fairfield/Liverpool	Hunter
Albury/Wodonga	Broken Hill	Kempsey	Richmond/Tweed
Batemans Bay	Canterbury/Bankstown	Macarthur	Illawarra
Bega	Central Coast	Mid North Coast	Shoalhaven
Blacktown	Cobar	Mudgee	Walgett
Bogan	Coffs Harbour	Murrumbidgee Irrigation Area	Wagga Wagga
Bombala	Dubbo	Orange/Parkes/Cowra	Wellington
Bourke			
Victoria:	Dandenong	Knox	Preston
Ararat	Echuca	Latrobe	Sale
Bairnsdale	Euroa	Maryborough	Seymour
Ballarat	Footscray	Mid West Area	Shepparton
Bendigo	Geelong	Mildura	Springvale
Brunswick	Glenroy	North East Victoria	Swan Hill
Castlemaine	Inner Melbourne	Peninsula	Wimmera
Colac		South West Victoria	Woodend/Kyneton
Queensland:	Central Queensland	Ipswich	Mount Morgan
Atherton Tablelands	Charters Towers	Lockyer Valley	Rockhampton
Beenleigh/Albert	Gladstone/Calliope	Logan City	Redcliffe City
Bowen Basin	Gold Coast	Mackay	Stradbroke Island
Brisbane Inner City	Goodna/Inala	Mount Isa	Sunshine Coast
Burke Shire	Gulf Savannah	South West Queensland	Toowoomba
Caboolture	Innisfail	Stanthorpe/Warwick	Wide Bay/Burnett
Cairns and District			
South Australia:	Murraylands	Port Augusta	
Adelaide West	Northern Adelaide	Port Pirie	Southern Area
Eyre Peninsula	Onkaparinga	Riverland	Whyalla
Inner North Adelaide	Peterborough	Upper Yorke Peninsula	
Western Australia:	Exmouth/Carnarvon	Kimberley	
Albany	Geraldton	Peel	
Bunbury	Inner Perth	South East Metro Perth	
Christmas/Cocos Island	South West Metro Perth	Stirling	
Eastern Metro Perth	Kalgoorlie		
Tasmania:	Dorset	Kingborough	Sorell
Break O'Day	Glenorchy	Latrobe	Southern Midlands
Brighton	Huon Valley	Launceston	Tasman
Burnie	Kentish	Meander	Waratah/Wynyard
Central Coast	Flinders	New Norfolk	West Tamar
Central Highlands	Georgetown	Northern Midlands	
Clarence	Glamorgan/Spring Bay	Devonport	
Northern Territory:	Darwin	Katherine	Palmerston
Alice Springs	East Arnhem	Tennant Creek	

Source: DEET 1993c, p. 126

Regional Assistance Package (RAP)

RAP assistance targets regions experiencing large scale labour shedding by a major local employer. The measures employed are similar to the industry packages (described in Section H.3.3) which include retraining, re-employment and relocation assistance. Packages have been introduced for workers retrenched from:

- the coal mining industry in the Gunnedah, Hunter, Illawarra, Newcastle and Singleton regions of New South Wales;
- the coal mining industry in the Blackwater region of Queensland; and
- Pasminco in Broken Hill, New South Wales (500 miners) and Port Pirie, South Australia (130 employees).

Expenditure under these packages for 1992–93 included: $690 000 in New South Wales and $381 000 in Queensland for coal assistance; and $118 000 in Broken Hill under the Pasminco RAP (OLMA 1993a and OLMA 1993c). RAP funding is included in the total expenditure reported for regional initiatives included in Table H.5.

Regional Enterprise Assistance (REA)

Applied in OLMA designated regions, this aims to assist firms expand by offsetting the costs associated with recruitment and training of new employees. The assistance measures include a number of DEET programs, such as ATFIC, Jobtrain, Jobstart and OLMA regional initiatives.

Expenditure under these packages for 1992–93 included: $112 000 in New South Wales; and $353 681 in South Australia (OLMA 1993a and OLMA 1993d). REA funding is included in the total expenditure reported for regional initiatives included in Table H.5.

H.3.3 Industry-based packages

Industry-based Labour Adjustment Packages (LAPs) are administered by the Office of Labour Market Adjustment (OLMA) within the DEET portfolio. Most programs are delivered by Commonwealth agencies through regional offices. However, some packages may be coordinated via State governments, local governments or community organisations as appropriate.

The provisions of the LAPs are essentially similar to the Employment Assistance program provided for the long-term unemployed in terms of wage subsidies and training assistance, but waiting periods are waived for those covered by the LAPs. Packages are applied in a national context and address

significant labour shedding due to major restructuring in an industry. Re-employment assistance is provided to retrenched workers and can include access to formal training, relocation assistance and wage subsidies. Assistance to those still in employment may be directed to retraining workers to enable their retention in workplaces undergoing restructuring. Industry packages operating in 1992–93 were:

- Textiles, Clothing and Footwear Labour Adjustment Package (TCF LAP);
- Passenger Motor Vehicles Labour Adjustment Package (PMV LAP); and
- Australian National Labour Adjustment Package (AN LAP).

The TCF LAP provides special re-employment, retraining and relocation assistance for workers retrenched during the restructuring under the 1988–2000 TCF industry plan. The PMV LAP provides assistance to workers retrenched from the industry as a result of restructuring under the 1984–2000 Passenger Motor Vehicle Plan. The PMV LAP replaces the PMV LATA[2] (Labour Adjustment Training Arrangements). The AN LAP provides assistance for the estimated 1800 rail workers to be made redundant by Australian National over the coming three years.

The aim of these packages is to smooth friction in the labour market by providing specialised retraining and job-placement services when large numbers of displaced workers come onto the market. As stated by DEET:

> These packages provide re-employment assistance for workers retrenched from designated industries as a result of industry restructuring, changes in Government policies and/or other market factors which have a significant effect on production and employment levels. (DEET 1992b, p. 149)

When firms reduce workforce size, redundancy packages are generally provided to displaced workers. To some extent, government adjustment packages can complement the redundancy packages and reduce the private sector's liability for compensation.

The cost of industry-based LAPs varies according to the mix and duration of assistance provided. In 1991–92, the average cost per person for the PMV and TCF packages was around $2500. In 1989-90 the average cost per person ranged from $2000 under the TFC LAP to $15 000 under the PMV LATA. The PMV LATA arrangements are long standing and the high costs per person reflect participation in long duration tertiary courses. Newer packages incorporate provisions restricting duration of assistance which is reflected in the lower unit costs.

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2 This is the precursor to the current PMV LAP.

Employment outcomes also vary considerably. Surveys of participants three months after cessation of program activity showed that the proportion of participants in employment were 30 per cent for PMV LATA, and 50 per cent for TFC LAP. The variation was partly due to levels of economic activity within the individual sectors.

H.4 Aboriginal employment support schemes

Policies which affect the activities of Aboriginal communities can have a major impact on development and adjustment in some regions of Australia. This is because of the large representation of Aboriginal people in some regions, as Crough (1993 p. 39) notes:

> .... Aboriginal people are a very significant proportion of the population [in some of the northern regions of Australia]: 57 per cent in the Gulf region, 43 per cent in the Kimberley, 36 per cent in the Barkly region, and 32 per cent in the Katherine region.

The regional impact of Aboriginal employment schemes is further accentuated by the generally limited employment opportunities in Aboriginal communities; unemployment rates in these regions tend to be high by national standards.

The Commonwealth Government's Aboriginal Employment Development Policy (AEDP) has been the framework for setting policies relating to Aboriginal employment, training and regional development. The AEDP aims to achieve indigenous employment and income equity with the wider Australian community by the year 2000 (ATSIC 1993). Implementation of programs under this policy is the responsibility primarily of ATSIC and DEET. Further details are summarised in Appendices I and J which deal with adjustment assistance programs and regional development programs respectively.

DEET delivers training and employment assistance to Aboriginal and Torres Strait Islander people through its Aboriginal Employment and Training Assistance sub-program (see Table H.1). This sub-program is implemented through the Training for Aboriginals and Torres Strait Islanders Program (TAP). Expenditure for TAP, excluding running costs, amounted to $38.8 million in 1992–93 (see Table I.2). TAP comprises a Direct Assistance component which is delivered by the CES network and the Major Employment Strategies component which is administered by DEET State and Territory offices. Community Sector Activity was transferred to ATSIC following a review of TAP conducted in 1991 by Elliott Johnston QC (former Royal Commissioner into Aboriginal Deaths in Custody). The transfer of responsibilities is reflected in a reduction of total expenditure under the Aboriginal Employment and Training sub-program which decreased from $111 million in 1991–92 to $48 million in 1992–93.

The Direct Assistance component provides additional assistance to that available through the general labour market programs provided by DEET. A total of 5143 program commencements, at a cost of $22.1 million, were recorded for 1992–93 (DEET 1993c, p. 133).

The Major Employment Strategy aims to improve employment opportunities through negotiated agreements with major private and public sector employers aiming to establish recruitment and career development strategies for Aboriginal and Torres Strait Islander people. The number of agreements in operation increased from 62 in 1991–92 to 152 agreements in 1992–93. Expenditure in 1992–93 amounted to $16.7 million. An example in the public sector is the agreement with the Australian Nature Conservation Agency, where Aboriginal and Torres Strait Islander people have been extensively employed as park rangers and administrators.

In addition, ATSIC's Community Development Employment Projects (CDEP) aims to improve employment opportunities through training and regional development activities. The CDEP scheme was introduced in 1977 to provide employment in various community development projects in remote areas as an alternative to reliance on unemployment benefits. The scheme enables individuals in Aboriginal and Torres Strait Islander communities to exchange unemployment benefits for a wage in return for work on community projects, while also receiving on-the-job training. An amount equivalent to the unemployment benefits forgone by participants in the scheme and a further proportion of that for on-costs is paid to community organisations who are responsible for payment of wages. Support is also provided for expenditure on capital items and equipment required for the projects (see McCullagh 1993).

Although expenditure in 1992–93 amounted to $234.6 million, a large part of program outlays are offset against social security expenditures, resulting in a net additional cost to the Commonwealth of about $61.5 million (information supplied by ATSIC). At 1 November 1993 there were 22 300 participants in 217 CDEPs across Australia.

ATSIC also administers a number of other enterprise development schemes: Business Funding Scheme (BFS); Enterprise Employment Assistance (EEA); and the Community Economic Initiatives Scheme (CEIS). Expenditure under these schemes amounted to $29.6 million in 1992–93. The BFS provides loans, loan guarantee assistance and business advice to individuals and Aboriginal and Torres Strait Islander corporations to assist with the establishment of commercial enterprises. In exceptional circumstances grants may be made under the BFS to corporations. The CEIS provides grants to corporations for income generating enterprises which, although not commercially successful, have social and cultural benefits. Through the EEA, Aboriginal and Torres

Strait Islander corporations operating enterprises may also be eligible for wage subsidies based on JSA/NSA rates.

The Regional Development and Planning Program came into effect from 1 July 1993. The program subsumed the Community Training Program (CTP) which operated during 1992–93. Funding allocation for 1993–94 was $42.9 million. Funding is provided to assist communities to: develop regional development plans; improve skill levels in community groups through on the job training and formal training; establish traineeship schemes; improve professional skills through the Full-Time Professional Study Grants Scheme; and facilitate economic development conferences relating to local issues.

ATSIC also provides funding for a range of community and organisation training activities to support community development needs. Grants are provided for these purposes to incorporated indigenous organisations. Expenditure in 1992–93 amounted to $42 million.

H.5 State government labour market programs

The following is a brief description of the major elements of State governments' labour market programs. Expenditure on individual programs is provided in Appendix I (Tables I.3 to I.10).

H.5.1 New South Wales

A feature of New South Wales labour market assistance is the large number of programs. Extensive use is made of training and retraining programs targeting special groups, particularly young people. School leavers are assisted through the use of placement and counselling services. Wage subsidies and mobility assistance are largely confined to young people, utilising schemes such as the First Chance Initiatives which encourages on-the-job training through wage subsidies. Other programs, such as the Industry Skills Training and the Industry Training Development programs assist firms to plan and implement training programs aimed at youth (Chadwick 1992). Table H.7 indicates that expenditure on labour market programs is skewed towards non-metropolitan regions, where unemployment rates are higher.

Other target groups include Aboriginal and Torres Strait Islanders, those of non English speaking background, and older people. Assistance specific to older people include subsidised retraining and equipment and certification in trades occupations. Aboriginal employment is encouraged through the use of training

and a public sector employment strategy. Other groups are assisted through training and small business development.

Table H.7: **Regional allocation of funds for labour market programs in NSW, 1992–93[a]**

	Expenditure		*Unemployed*[b]	
	($'000)	(% composition)	('000)	(% rate)
Sydney Metropolitan:	**10 671**	**43.3**	**163.2**	**10.5**
Inner Sydney/Inner W. Sydney	2006	8.1	17.4	11.0
– Inner Sydney	1606	6.5	11.2	10.6
Eastern Suburbs	535	2.2	11.2	8.0
St. George/Sutherland	587	2.4	20.1	8.3
Cant/Bankstown	800	3.2	12.7	14.8
Fairfield/Liverpool/Outer South West	1908	7.7	21.4	15.0
– Fairfield/Liverpool	1284	5.2	12.5	18.5
Central Western Sydney	1235	5.0	9.0	16.7
Outer West Sydney	1315	5.3	12.0	7.8
Blacktown/Baulkham Hills	962	3.9	14.9	10.5
Lower Northern Sydney	540	2.2	13.2	5.4
Hornsby/Kuringai	0	0	11.2	7.2
Northern Beaches	93	0.4	11.2	4.8
Gosford/Wyong	503	2.0	8.8	13.5
Non-Metropolitan:	**13 639**	**55.3**	**88.2**	**13.6**
Hunter	3113	12.6	19.0	15.2
– Newcastle	1699	6.9	16.5	15.7
Illawarra South East	3503	14.2	23.6	12.3
– Illawarra	2490	10.1	16.0	13.7
– Wollongong	1164	4.7	12.1	14.7
Richmond/Tweed/Mid North Coast	3443	14.0	14.4	18.3
Northern/North West/Central West	2283	9.3	20.9	11.1
Murray/Murrumbidgee	1297	5.3	10.3	9.6
Total[c]	**24 665**	**100.0**	**251.5**	**11.6**

a These programs include: Workplace; Sydney City Mission Program; Mature Workers Program; Self Employment Development Program; Get Started Program; Specialist Migrant Placement Officers Program

b ABS Labour Force Regional Data – unemployment figures are average for the 3 months February to April 1993

c Total does not correspond to an aggregate of Sydney and non-metropolitan totals, since Statewide projects were included in the total without being counted in Sydney and non-metropolitan sub-totals

Source: NSW Government, Sub. 145D, Attachment 2

H.5.2 Victoria

Labour market programs in Victoria have undergone significant changes following the change of government (October 1992) in that State. The major change has been the replacement of programs with a single scheme — the Community Based Employment Initiative — launched in September 1993, with a budget allocation of $9 million for 1993–94. The program provides grants to private firms and community groups to carry out training and job placement activities which had previously been carried out by the State Government. To ensure flexibility, agreements will be limited to twelve months with future funding dependent on labour market conditions and the quality of results. In announcing the new program the Minister for Industry and Employment stated:

> The delivery of services to the unemployed is primarily a Commonwealth responsibility and the State Government's role is to assist those in the community who have escaped the Commonwealth safety net. (Gude 1993, p. 3)

The program aims to focus on regions and particularly disadvantaged groups. The Application Information Guide (DBE 1993) specifies that preference is to be given to applicants who can deliver employment services within entire regions defined by the government. The guidelines also identified three target groups for particular assistance: young people; mature-aged people; and migrants.

The role of the previous Job-Link, Skill-Link and Workstart programs was to provide job placement and training services (see Table F3). However, a significant proportion of expenditure on labour market programs targeted young people with wage/training subsidies. The Youth Traineeship package introduced in June 1992 as part of the 'Priority Victoria' package allowed employers to claim Traineeship subsidies of up to $3000 from the State Government in addition to existing Commonwealth Government subsidies. This program came to an end in August 1993 when the allocation of funds ($10 million) were fully expended. Other wage subsidy programs, some of which were part of the previous government's Priority Victoria package, ended in June 1993.

H.5.3 Queensland

A number of Queensland's State programs have links to Commonwealth funding. For instance, Employment/Economic Development Officers provide advice on access to Commonwealth programs. Feasibility study grants are used to assess projects, this assessment being a prerequisite to attracting funding from State or Commonwealth programs. The State's Employment and

Enterprise Facilitation elements have attempted to attract follow-up funding from OLMA by initiating projects.

Other State programs are designed to complement Commonwealth training programs through wage subsidies or provision of training. The traineeship and apprenticeship subsidies are provided to those that do not receive Commonwealth funding. The Self Employment Venture Scheme provides advice and loans to complement the income support component of the Commonwealth's NEIS program.

H.5.4 South Australia

The 'Kickstart' program is the only State funded employment initiative (Sub. 93). It was established to coordinate employment and training programs at the local level. Kickstart works closely with regional development boards coordinating employment activities with OLMA, local governments, training providers, community groups and local industry. It provides grants for job creation and retention of jobs at risk through provision and coordination of training activities. It is also involved in enterprise development through the provision of business services and advice.

The program relies on DSS for income support payments while clients are undertaking training. However, DSS eligibility criteria means that undertaking training activities could result in income support being withdrawn.

H.5.5 Western Australia

The State's labour market programs implemented by the Department of Employment, Vocational Education and Training (DEVET) are intended to fill in gaps left by the Commonwealth's programs and to coordinate community employment projects. DEVET's Employment Access Officers identify gaps in labour market services and assist in developing appropriate responses. For instance, the Youth Action Scheme provides counselling and referral services to school leavers. The Employment Equity Program (EEP) funds community-based employment projects to assist disadvantaged job seekers through counselling and placement services. The EEP also receives some Commonwealth funding to deliver the Commonwealth's Job Clubs, Jobsearch and Jobtrain programs.

The Aboriginal Economic and Employment Development Officer (AEEDO) Program was initiated in 1987 to assist Aboriginal communities and organisations in developing locally-based enterprise, employment and training initiatives. The Western Australian Government submitted (Sub. 55) that the

AEEDO was established as an alternative to Aboriginal employment and development programs operating at the time.

Other programs fund coordinators who are responsible for attracting funding from Commonwealth and other sources. For example, 'Step 1' employs a manager to coordinate training, counselling and job placement services targeting youth at risk in the inner city regions. The State Government also funds a coordinator for the 'Women's Economic Development Organisation' which attracted about $250 000 from private and government sources in 1992–93 to fund training and support for women establishing businesses.

A number of other programs receive funds to develop employment projects on a regional basis. It is difficult to generalise on the nature of these projects or who receives funding because of the diversity of the individual regions' response to tackling local unemployment. However, most of these have some common elements which include, training, counselling, job placement services, local enterprise development and referral to other programs. Much of the funding for these projects is through local community organisations. For instance, the Regional Initiatives Grants Program provides funds of up to $10 000 any regions. Much of this is 'seed' money used to stimulate support of employment projects. To maintain flexibility, guidelines are minimised by assessing projects individually on the basis of potential impact on employment. Through the Regional Employment Access Officers, DEVET assists organisations develop, monitor and provide support for projects under the Community Youth Link program which was allocated $2.8 million by the State's Lotteries Commission in 1992. DEVET also provides staffing support to Project Employ Youth, a program consisting of industry and community leaders which aims at finding ways to employ more youth, including the use of community-based projects.

Some programs have been overtaken by Commonwealth initiatives. The 'WA Youth Conservation Corps' was initially funded by the State Government, but is now funded under the Commonwealth's LEAP program.

H.5.6 Tasmania

Employment initiatives funded by the Tasmanian Government aim to complement Commonwealth programs in two areas considered to be inadequately covered by existing Commonwealth programs. The Tasmanian Government considers the duration of assistance under Jobstart to be too short to effectively stimulate youth employment. The State government funds the 'Tas Jobs for Youth' program which is a wage subsidy for youth (16 to 25 years of age) paying up to $8000 to employers over two years. It is intended to

complement the Commonwealth's Jobstart program by kicking in when the Jobstart wage subsidy period is completed.

The 'Local Employment Initiatives' (LEI) commenced in January 1990 to complement the Commonwealth's OLMA regional assistance programs (Regional Economic Development Grants). The LEIs target regions not covered by the OLMA programs. Under this program the State provides up to $40 000 per project per year to establish community groups which assist local people develop self-employment projects and to improve existing businesses. Projects are operated by local committees, who employ a 'facilitator' to act as manager and adviser for the projects.

H.5.7 Northern Territory

Because of its sparse population and few students, it is very expensive to run TAFE modules in the Northern Territory. The State government provides students an accommodation allowance and pays for travel costs (not covered by the Commonwealth's Mobility Assistance program) to undertake studies wherever provided. The Department of Education (NT) paid about $604 000 in 1992–93 for such expenses from its 'Program Support' budget.

The Northern Territory Government makes extensive use of liaison officers and training coordinators to monitor training needs of industry and special groups. This system aims to avoid duplication of Commonwealth training programs and identify gaps within the Commonwealth programs. The Territory's programs have a strong focus on youth training with some use of wage/training subsidies. Other target groups include women and Aboriginal groups.

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I ADJUSTMENT ASSISTANCE PROGRAMS

This appendix provides information on a range of major adjustment assistance programs provided by Commonwealth and State Governments, which have various impacts on regions. It is divided into three sections:

- labour market adjustment assistance programs provided by the Commonwealth and each State Government (Tables I.1 to I.9). Appendix H provided more detailed descriptions of these schemes;
- major sector and industry specific adjustment assistance provided by the Commonwealth and each State Government (Tables I.10 to I.17);
- regional adjustment assistance provided by the Commonwealth Government (Table I.18); and
- adjustment assistance to land provided by the Commonwealth (Table I.19).

The focus here is on programs which assist people and firms who are changing productive activities, or upgrading existing activities. This definition does not include general training schemes, including those for school leavers. General labour market training programs are discussed in Appendix H.

The Commission has attempted to make these tables as comprehensive as possible, but information (particularly at the State and Territory level) has been difficult to come by. Some schemes may have been omitted. The information recorded here may already be outdated, since adjustment assistance programs are constantly subject to change particularly where there is a change in government.

The tables describe the objectives of each program, eligible recipients, the nature of the assistance provided and program expenditure. They also attempt to categorise the effect each program has on the flows of labour, capital or land (ie resources). For example, some adjustment assistance encourages occupational or locational mobility, while others encourage quality (or productivity) improvements, influence the price of the resource (often by compensating for risk), or guarantee employment of the resource.

Table I.1: **Commonwealth labour market programs**

Program	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
				1991–92	*1992–93*
				($m)	($m)
Jobstart	Wage subsidy	Employers and unemployed persons	Price of labour	117.2	339.0
Jobtrain	Training	Long term unemployed, unemployed youth at risk, unemployed aged 50-64 years	Quality, occupational mobility, locational mobility	189.4	167.8
Special Intervention	Information, counselling	Disadvantaged job seekers[a]	Occupational mobility, locational mobility	16.6	80.3
Accredited Training for Youth	Training	Long term unemployed young people	Quality, occupational mobility, locational mobility	-	59.5
Jobsearch	Training	Persons registered with CES as unemployed for more than 3 months	Quality, occupational mobility, locational mobility	16.4	13.3
Job Clubs	Information, training	As above	Quality	Funded through Jobsearch	
Mobility Assistance	Fares or petrol subsidy, relocation assistance, post placement fares assistance, immediate minor assistance	Unemployed job seekers travelling to an interview or taking up an offer of permanent employment	Locational mobility	8.6	15.1

Table I.1: **Commonwealth labour market programs** (continued)

Program	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
				1991–92	*1992–93*
				($m)	($m)
New Enterprise Incentive Scheme (NEIS)	Self employment assistance, includes provision of information, job placement, training subsidy, capital subsidy and income support	Unemployed over 18. Business proposal subject to a number of criteria	Employment opportunity, occupational mobility	28.2	44.2
Contracted Placement	Job placement by employment agencies contracted by the CES	Persons unemployed for 3 years or more	Employment opportunity	0.1	5.2
Post Placement Support	Counselling	Formerly long term unemployed persons		–	0.2
Disadvantaged Young People Services	Training subsidy	Unemployed young persons	Quality, occupational mobility, locational mobility	Funded through Skillshare	
Landcare and Environment Program	Training, capital subsidy	Unemployed persons	Quality	0	55.6
Skillshare	Training, information	Long term unemployed (12 months +) and other disadvantaged job seekers	Quality, Occupational mobility	136	176.7
Workplace Literacy	Training grants	Employers	Quality	1.9	6.0
Jobskills	Training and work experience, usually within government & community organisations	Long term unemployed (12 months +)	Quality, occupational mobility, locational mobility	45.5	144.4

a Defined by DEET as Aboriginal and Torres Strait Islander people, job seekers with a disability, older workers more than 50 years of age, the homeless, ex-prisoners, spouses of those receiving Newstart Allowance and youth at risk (DEET 1992a). For more details see Appendix H.

Sources: DEET 1992b; 1993c

Table I.2: **Aboriginal employment support programs (DEET)**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
Training for Aboriginals and Torres Strait Islanders Program (TAP):						
Community Sector Activity	To improve employment outcomes and encourage enterprise development	Provision of training	Aboriginal and Torres Strait Islander communities and individuals	Quality	53.3	. .[a]
Direct Assistance	To improve employment outcomes	Provision of training and wage subsidies	Aboriginal and Torres Strait Islander people in employment as well as those who are unemployed	Price of labour, quality	26.7	22.1
Major Employment Strategies	To establish recruitment and career development strategies for Aboriginal and Torres Strait Islander people	Funding may be provided to an agency to assist with establishment of strategies and agreements	Private firms and public sector agencies	Employment	16.4	16.7

a These activities transferred to ATSIC from 1 July 1992.
Sources: DEET 1992b; 1993c

Table I.3: **State labour market programs: New South Wales**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
Australian Traineeship System	To improve training outcomes	Provision of 12 month traineeships (4000 placements in 1992– 93); funding of wages for trainees taken on by government departments; payroll tax rebates; payment of workers compensation premium.	Unemployed trainees and the Government departments & authorities and private firms which employ them	Price of labour, quality	7.04	5.76
Skills Gap Program	To improve employment outcomes	Provision of short courses	Sponsor organisations	Quality	na	1.15
Workplace Community Based Employment and Training (Youth)	To improve employment and training outcomes	Provision of placement, counselling, training, referral and post-placement support services	Community organisations	Quality	5.89	6.72
'First Chance' Enterprise Training for Youth	Improve employment and training outcomes	12 month on-the-job training and retail skill centre providing off-the-job training	Young unemployed	Quality	na	1.18
Group Training Program	To increase training and skills within small firms	Provision of grants to offset the cost of on-the-job training	Small firms	Quality	1.37	1.13
Intensive Training for Out of Trade Apprentices	To encourage out-of-work apprentices to complete their training	Training through 'Intensive Training Centres' and work-based training projects	Unemployed apprentices	Quality	0.63	0.41

Table I.3: **State labour market programs: New South Wales** (continued)

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
Vocational Training Assistance Scheme	To encourage young people to take up apprenticeships in country areas	Payment of accommodation subsidy ($10.50 per day) and travel allowance (8 cents per km)	Young people	Locational mobility	2.37	2.19
Government Group Apprenticeship Program[a]	To provide apprenticeship positions in government departments and authorities	Payment of 50% wage subsidy	Retrenched apprentices and government employers	Price of labour	na	0.69
Training Opportunities Placement Services	To find apprenticeship positions for out-of-work apprentices	Provision of placement services	Unemployed apprentices	Employment	na	0.50
Self Employment Development Program	To maintain employment in existing small firms and create employment through start up of new firms	Provision of 'Business Enterprise Centres' which provide advice and counselling services to small businesses. Also includes a six week full-time small business training course	Small businesses and unemployed people	Quality	5.97	6.36
Community Based Employment and Training (Mature Workers)	Improve employment prospects of unemployed mature workers	Training, counselling, job placement and post-placement services	Unemployed people over 40 years of age	Quality	2.69	3.20

Table I.3: **State labour market programs: New South Wales** (continued)

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
Sydney City Mission	To improve employment prospects of unemployed people through training	'Employment orientation', job skills, work experience, and vocational training services	Unemployed people in Sydney, Hunter, Illawarra and Riverina areas	Quality	1.48	2.65
Industry Skills Training Program	To improve training outcomes	Provision of financial assistance for industry-based training infrastructure such as skill training centres and aids	Firms	Price of capital	na	0.56
Industry Training Development	To promote improved industry training	Funding of projects which assist implementation of training and modernisation of training administration especially of apprentices	Firms	Price of capital	na	0.65
Outplacement and Retraining Assistance Scheme	To improve employment and training outcomes of ex-public sector employees	Provision of retraining and placement services	Retrenched public sector staff	Quality, employment	1.16	1.70
Aboriginal Employment and Training Schemes	To improve employment and training outcomes	Public sector employment strategy, local government employment strategy, placement, vocational training, counselling and post placement support services	Aboriginal unemployed	Quality, employment	2.35	4.43

Table I.3: **State labour market programs: New South Wales** (continued)

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
Migrant Employment and Training Schemes	To improve employment and training outcomes	Development, coordination and promotion of information and counselling services, training, retraining, bridging and employment programs	Migrant unemployed	Quality	2.40	2.03
Retrenched Workers Retraining Project	To improve employment opportunities through training	Up to 12 months assistance in vocational counselling, payment of training fees, trade tools, trade/skill certification and licensing	Retrenched public sector workers	Quality, Price of labour	na	0.22

a No new apprentices will commence under the Government Group Apprenticeship Program after 30 June 1993. A new program, the NSW Public Sector Trade Training, has been introduced along similar but more stringent guidelines.

Sources: Chadwick 1992; New South Wales, Department of Treasury, 1992b and information provided by NSW Department of Employment and Training.

Table I.4: **State labour market programs: Victoria**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure 1991–92*	*1992–93*
					($m)	($m)
Job-Link	To increase employment prospects of long term unemployed adults	Job and training placements	Long term unemployed adults	Quality, employment	3.48	2.98
Skill-Link	To improve employment prospects of workers retrenched from private industry	Skills identification, job placement and training services	Retrenched workers	Quality, employment	0.36	0.47
Workstart Victoria	To increase employment prospects of unemployed youth	Job and training placements and subsidies (Targeted Apprenticeship Access Program and Local Authorities Traineeships)	Long term unemployed aged 15-24 years	Quality, employment	6.41	7.62
Traineeship[a]	To improve training outcomes	Wage subsidies of up to $3000 for 12 month traineeships	Young unemployed aged 16-19 years and the firms which employ them	Price of labour	. .	7.50
Restaurant and Catering Project[a]	To improve training outcomes in the restaurant and catering industries	Wage subsidies	Unemployed young people and the firms which employ them	Price of labour	. .	0.16

a Programs under the previous 'Priority Victoria' package.

Sources: Victoria, Dept of Treasury 1992a and information provided by the Victorian Department of Business and Employment.

Table I.5: **State labour market programs: Queensland**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
Funded Training Program	To improve employment outcomes	Includes 'employment orientation'; skill training; and placement assistance for disadvantaged youth	Unemployed 15-21 year olds	Quality	0.92	0.62
Public Sector Apprenticeships and Traineeship Subsides	To increase the number of young trainees	Wage subsidies for disadvantaged young job seekers	Young job seekers and the firms which employ them	Price of labour	1.50	2.85
Job Training and Placement Projects	To improve employment outcomes	Community-based projects, provides advice and grants up to $45 000	Community groups	Price of labour, quality	0.78	1.75
Employment and Enterprise Facilitation[a] (under review)	To tackle local unemployment problems	Provides a sliding scale of grant assistance over 3 years (80%, 50%, 20%) with grants of up to $40 000 in the first year	Enterprise development agencies and local government authorities	Price of labour, quality	0.45	0.58
Self-Employment Venture Scheme	Job creation by encouraging the establishment of small enterprise developments and self employment	Provides advice and loans of up to $6000 per participant; complemented by the Commonwealth NEIS program which offers training and income support over a 12 month period	Unemployed persons	Price of capital, quality	1.44	2.30

a This program also provides grants for enterprise development.

Sources: Information provided by Queensland Department of Labour, Vocational Education, Training and Industrial Relations.

Table I.6: **State labour market programs: South Australia**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
Kickstart Program	Employment retention (in firms experiencing cyclical downturns); employment creation in existing firms and new enterprises; and encouragement of training in small firms	Training, provision of information, supporting new enterprise initiatives and small business support services	Community groups and individuals	Employment, quality	3.44	3.51

Sources: Sub. 93 and information provided by South Australian Department of Employment and Technical and Further Education.

Table I.7: **State labour market programs: Western Australia**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
Employment Equity Program	To assist disadvantaged job seekers into employment or training	Through community-based projects: work experience placements, job placement, job search training, counselling, mentor support, and links to other agencies	Community groups and disadvantaged job seekers	Quality	2.22	2.30
Youth Action Scheme	To assist young people into training or employment	School leaver support, access to information and referral services, identification and response to gaps in youth programs and services	Unemployed young people (15–20 years of age)	Quality	0.74 (calendar year)	0.74 (calendar year)
Aboriginal Economic and Employment Development Officer Program	To improve Aboriginal community access to existing employment resources; develop and coordinate training for Aboriginal people at a local level; and develop enterprise opportunities	Coordination of resources and provision of information	Unemployed Aboriginal people	Quality	0.23 (calendar year)	0.30 (calendar year)

Sources: Sub. 55 and information provided by WA Department of Employment, Vocational Education and Training.

Table I.8: **State labour market programs: Tasmania**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
EOP Tas Jobs for Youth	To improve employment outcomes of unemployed youth (16-25 years of age)	Wage subsidies	Unemployed youth and employers	Price of labour	–	0.15
EOP Employment Tasmania	To improve employment outcomes of unemployed people	Wage subsidies	Unemployed people and employers	Price of labour	1.46	0.33

EOP: Employment Opportunities Program

Note: Local Employment Initiatives are reported by Department of Employment, Industrial Relations & Training (DEIRT) as part of the Employment Opportunities Program , but are considered development assistance in this inquiry and therefore treated in Chapter 12.

Sources: Parliament of Tasmania, 1992b and information provided by the DEIRT.

Table I.9: **Territory labour market programs: Northern Territory**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
Private Sector Workstart	To improve employment outcomes	A three month on and off-the-job training (includes wage subsidies)	Long term unemployed persons	Price of labour, quality	0.11	0.15
Private Sector Cadets/Trainees	To encourage training in areas of skill shortages (in engineering and architectural drafting)	A four year cadetship in the private sector, includes a $5 000 grant per position	Engineering and architecture trainees and the firms which employ them	Price of labour, occupational mobility, quality	0.01	0.03
Innovative Programs	Improve employment outcomes	Training in job search techniques and general employment skills	Unemployed persons	Quality	0.04	0.29
YWCA Work Preparation Course	To improve employment outcomes	Three week work experience (includes wage subsidies)	Disadvantaged unemployed youth and eligible employers	Price of labour, quality	0.03	na
Aboriginal Training	On-site training run by TAFE to provide skill training and enhance employment opportunities in areas of need identified by Aboriginal communities	Training	Unemployed Aboriginal people	Quality	0.41	0.88

Source: Information provided by the Northern Territory Department of Education.

Table I.10: **Major Commonwealth Government sector and industry-specific adjustment assistance programs**

Program	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
				1991–92	*1992–93*
SECTOR SPECIFIC				($m)	($m)
Agriculture sector					
Rural Adjustment Scheme	Interest subsidies and grants to modernise, rationalise	Farm households	Price of capital, risk reduction	124.1	169.1
Farm Household Support Scheme[a]	Subsidy to exit	Farm households	Occupational mobility, locational mobility	18.8	6.9
Primary Industries Marketing Skills Program	Education, training, provision of information	Primary producers	Quality	na	1.2
Business Advice for Rural Areas	Funding of community-based facilitators to assist rural communities to diversify, stabilise and expand employment opportunities	Rural enterprises	Quality	1.8	1.8
INDUSTRY SPECIFIC					
Agriculture industries					
Wool interest subsidy	Interest subsidy	Wool producers	Price, risk reduction	22.5	22.5[c]
Wool supplementary payments scheme	Price subsidy	Wool producers	Price, risk reduction	44.2	-
Bovine brucellosis & tuberculosis eradication campaign	Monitoring services and compensation payments. This scheme is financed jointly by industry (50%), States & Territories (30%) and the Commonwealth (20%)	State governments	Quality, price of capital, risk reduction	7.5	5.5

Table I.10: **Major Commonwealth Government sector and industry-specific adjustment assistance programs** (continued)

Program	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
				1991–92	*1992–93*
				($m)	($m)
National Fisheries Adjustment Program	Subsidy to exit/downsize	Buying out excess fishing effort in managed fisheries under stress	Price of capital, occupational mobility	1.3	0
Forestry Packages[b]	Subsidy to restructure, training	State governments	Price of capital, occupational mobility	9.4	13.9
Tasmanian wheat freight subsidy	Subsidised transport costs	Tasmanian wheat growers	Price	3.2	2.9[c]
Manufacturing industries					
TCF Industries Development Strategy[b]	Subsidy to restructure, training, provision of information	Firms and employees under various schemes	Price, quality	16.0	81.4
Textile Bounty Capitalisation Scheme	Increases options to firms facing reductions in bounty assistance	Textile firms		51.4	25.7[c]
TCF Labour Adjustment Package	Training, income support	Retrenched workers	Quality, occupational mobility	10.4	26.5
PMV Labour Adjustment Package	Training, income support	Retrenched workers	Quality, occupational mobility	3.5	11.2

Table I.10: **Major Commonwealth Government sector and industry-specific adjustment assistance programs** (continued)

Program	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
				1991–92	*1992–93*
				($m)	($m)
Metals-Based Engineering program[b]	Subsidy to re-tool, training	Engineering firms	Employment, quality, price of capital	5.6	1.7[c]
Heavy Engineering Adjustment and Development Program[b]	Training	Engineering firms	Quality	1.2	0
Mining industries					
Joint Coal Board Redundancies	Subsidy to exit	Redundant workers	Occupational mobility	0	0.5[c]
Service industries					
Ships capital grants scheme	Taxable grant of 7 percent of the capital cost of an eligible ship, encourages downsizing	Ship builders contingent upon lower crewing levels	Occupational mobility	15.9	20.1
Shipping Industry Reform Package	Training, subsidy to exit	Redundant seafarers	Quality, occupational mobility	12.5	-
Towage industry Reform Package	Training, subsidy to exit	Redundant towage workers	Quality, occupational mobility	5.3	-
Waterfront industry reform	Training, subsidy to exit	Stevedoring firms	Quality, occupational mobility	121.5	27.1[c]

a Previous to 1 January 1993, this scheme was known as Part C of the RAS. The FHSS is now administered by the Department of Social Security.

b Not all of the monies budgeted under this program go towards adjustment assistance, much of it is development assistance.

c Budget estimates.

Sources: IC 1993a; DEET 1993c and information provided by the Department of Primary Industries and Energy (DPIE).

Table I.11: **Major State government sector and industry-specific adjustment assistance programs: New South Wales**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
SECTOR SPECIFIC					($m)	($m)
Agriculture industries						
Rural Assistance Scheme	As per Commonwealth	Grants and interest subsidies	Farmers	Price of capital	4.35	0.32
Agricultural Resource Management	To ensure adoption of efficient and environmentally sustainable agricultural practices and policies	Provision of advice, including land use and resource planning services	Farmers	Quality	14.93	14.52
INDUSTRY SPECIFIC						
Agriculture industries						
Cattle tick control & Tuberculosis & Brucellosis Eradication campaigns	To improve productivity of the cattle industry	Monitoring services and compensation payments	Affected stock owners	Quality	0.36	0.37
Management of contaminated cattle tick sites in North-Eastern New South Wales	To remove chemical contamination of land	Clean up services and monitoring	Affected land owners	Quality	–	0.12
Mining industries						
Rehabilitation of mined areas	To remove safety hazards and restore the productivity of land	Rehabilitation services	Affected local community	Quality	0.12	0.12
Service industries						
State Rail Authority redundancies	Rationalisation of workforce	Subsidies to exit	Retrenchees	Occupational mobility	139.7	150.00
State Transit Authority redundancies	Rationalisation of workforce	Subsidies to exit	Retrenchees	Occupational mobility	34.80	-

Source: New South Wales, Dept of Treasury 1992c

Table I.12: **Major State government sector and industry specific adjustment assistance programs: Victoria**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991-92	*1992-93*
					($m)	($m)
SECTOR SPECIFIC						
Agriculture sector						
Rural Adjustment Scheme	As per Commonwealth	Interest subsidies and grants	Farmers	Price	0.50	0.22
INDUSTRY SPECIFIC						
Agriculture industries						
Brucellosis & Tuberculosis Eradication Campaign	To improve productivity of the cattle industry	Monitoring services and compensation payments	Affected stock owners	Quality, risk reduction	0.44	0.14
Livestock Industry and Products	To improve productivity of livestock and related product industries	Research, marketing and diagnostic services	Livestock producers	Quality	16.12	16.30
Grains Industry and Products	To encourage diversification of agricultural activities, productivity and crop protection	Research, marketing and diagnostic services	Grain producers	Quality	5.64	5.80
Commercial Horticulture	To encourage diversification of agricultural activities, productivity and crop protection	Research, marketing, and diagnostic services	Horticultural producers	Quality	6.24	6.40
Special Industries and Services	To improve productivity of selected industries	Advisory services, through the State Chemical laboratory	Selected primary producers	Quality	5.39	6.95

Sources: Victoria, Dept of Treasury, 1992b, 1992c, 1992d and information provided by DPIE and the Victorian Dept of Treasury.

Table I.13: **Major State government sector and industry specific adjustment assistance programs: Queensland**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
SECTOR SPECIFIC						
Agriculture sector						
Rural Adjustment Scheme	As per Commonwealth	Interest subsidies and grants	Farmers	Price	3.18	0.44
INDUSTRY SPECIFIC						
Agriculture industries						
Brucellosis and Tuberculosis Eradication Campaign	Improve the productivity of the cattle industry	Monitoring services and compensation payments	Affected stock owners	Quality	2.19	2.14
Mining industries						
Rehabilitation of old mine sites	Environmental clean up and public safety	Provision of services related to decommissioning and rehabilitation of abandoned mine sites and capping and repair of old gold mine shafts	Land owners and rural communities	Quality	0.40	0.24

Sources: Information provided by DPIE and the Queensland Department of Minerals and Energy.

Table I.14: **Major State government sector and industry specific adjustment assistance programs: South Australia**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
SECTOR SPECIFIC						
Agriculture sector						
Rural Adjustment Scheme	As per Commonwealth	Interest subsidies and grants	Farmers	Price	0.88	0.63
State Disaster Planning, Control and Relief	Reduce impact of natural disasters	Disaster preparation, planning, training, and assistance to disaster victims	Landholders and rural communities	Risk reduction, quality, price of capital	0.16	0.16
Farm Management and Rural Community Support	Improve the economic efficiency of individual farms and facilitate adjustment	Counselling and financial assistance. Industry groups also contribute	Landholders and rural communities	Quality	2.93	2.86
Agricultural Resource Management Program[a]	Encourage the most efficient use and conservation of State natural resources used in agricultural and pastoral production	Development and dissemination of appropriate management practices	Landowners and rural community	Quality	14.68	16.96
INDUSTRY SPECIFIC						
Agriculture industries						
Brucellosis and Tuberculosis Eradication Campaign	Improve productivity of cattle industry	Monitoring services and compensation payments	Affected stock owners	Quality, risk reduction	0.23	0.06

a Excludes Quarantine sub-program

Sources: South Australia , Dept of Treasury, 1992b and information provided by DPIE.

Table I.15: **Major State government sector and industry specific adjustment assistance programs: Western Australia**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
SECTOR SPECIFIC						
Agriculture sector						
Rural Adjustment Scheme	As per Commonwealth	Interest subsidies and grants	Farmers	Price	0.50	0.10
Rural Adjustment and Finance Corporation of Western Australia		Concessional loans and grants	Farmers	Quality, price	3.48	3.59
Industry Support and Assistance	To help rural industries to improve strategies for managing risk arising from natural disasters, disease and commodity price collapses	Funds a range of activities that assist farmers and pastoralists to manage risk	Farmers	Risk, quality, price	1.80	1.64
INDUSTRY SPECIFIC						
Agriculture industries						
Brucellosis and Tuberculosis Eradication Campaign	Freedom from Tuberculosis and Brucellosis	Monitoring services and compensation payments	Affected stock owners	Quality, price, risk reduction	2.22	1.70

Sources: Western Australia 1992c, 1992d and information provided by DPIE.

Table I.16: **Major State government sector and industry specific adjustment assistance programs: Tasmania**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
SECTOR SPECIFIC						
Agriculture sector						
Rural Adjustment Scheme	As per Commonwealth	Interest subsidies and grants	Farmers	Price	0.14	0.04
INDUSTRY SPECIFIC						
Agriculture industries						
Social Responsibility in Primary Industry	Encourage sustainable land use practices, to monitor chemical contamination in the community	Education and management services	Local communities	Quality	5.98	6.02
Brucellosis and Tuberculosis Eradication Campaign	Freedom from Brucellosis and Tuberculosis	Monitoring services and compensation payments	Stock owners	Quality	0.03	0.03
Service industries						
Tasmanian Redundancy Agreement Program	Improve public sector productivity	Payment of entitlements and other related costs	Retrenchees	Quality	35.88	48.20

Sources: Parliament of Tasmania, 1991b, 1992 and information provided by DPIE and the Commonwealth Employment Rationalisation Program Task Force.

Table I.17: **Major Territory government sector and industry specific adjustment assistance programs: Northern Territory**

Program	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	*1992–93*
					($m)	($m)
SECTOR SPECIFIC						
Agriculture Sector						
Rural Adjustment Scheme	As per Commonwealth	Interest subsidies	Farmers	Price	..	0.01
INDUSTRY SPECIFIC						
Agriculture industries						
Brucellosis and Tuberculosis Eradication Campaign.	Freedom from Brucellosis and Tuberculosis	Monitoring services and compensation payments	Stock owners	Quality	5.85	4.24

Sources: Northern Territory, 1993 and information provided by DPIE.

Table I.18: **Regional specific adjustment assistance schemes provided by the Commonwealth**

Program	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
				1991–92	*1992–93*
				($m)	($m)
OLMA regional labour adjustment packages (regional LAPs)[a]	Employment creation, training, provision of information, job matching	Region-based community groups around Australia	Occupational mobility, quality	8.1	21.8
Remote Air Services Subsidy	subsidy	Air service operators flying to remote regions	Price	1.1	1.1
Office of the Supervising Scientist of the Alligator Rivers Region Research Institute	Provision of land protection services and wage subsidies	Alligator Rivers region	Price, quality	7.3	7.4
Rehabilitation of former Uranium Mine Sites	Grants for hazard reduction works	NT Government for rehabilitation of NT Crown land, private land, Aboriginal land and in the former Conservation Zone and Stage 3 of Kakadu National Park	Quality	0.7	0.4
Tasmanian Freight Equalisation Scheme	Transport subsidy	Producers of specified goods	Price	32.8	34.0

a A list of the regions receiving OLMA assistance is provided in the labour market adjustment assistance Appendix H, Box H.1.

Sources: DEET 1992b; IC 1993a; Commonwealth of Australia 1992d and information provided by DPIE.

Table I.19: **Commonwealth adjustment assistance to land: National Landcare Program**

Programs	*Objective*	*Nature of assistance*	*Eligible recipient*	*Effect on resource flows*	*Expenditure*	
					1991–92	1992–93
					($m)	($m)
Save the Bush Remnant Native Vegetation Program	To encourage and facilitate activities associated with the protection, management and investigation of remnant native vegetation	Community grants for projects, Public information, Research grants to agencies, Purchase of land for conservation, Policy development	Community groups, farmers, industry and government agencies	Quality	2.48	1.46
One Billion Trees Program	To encourage the re-establishment of native trees for the maintenance of biological diversity and prevention of land degradation	Provision of advice and trees for planting	Greening Australia Ltd – a non-profit community organisation	Quality	5.20	4.42
National Landcare Program (formerly the National Soil Conservation Program and the Federal Water Resources Assistance Program)	To enhance the long term productivity of Australia's natural resources	Grants for community projects and management of integrated land and water management projects	Community groups, State and local governments, industry, educational institutions and interest groups	Quality	52.93 (983 projects)	60.96 (1081 projects)
Murray-Darling Basin Initiative	To promote and coordinate effective planning and management of land, water and environmental resources of the Murray-Darling Basin	Grants for on-ground works, research, investigations, monitoring and community education	As above	Quality	16.77	17.44

Sources: Australian National Parks and Wildlife Service 1992 and information provided by DPIE.

J REGIONAL DEVELOPMENT PROGRAMS

J.1 Introduction

This appendix provides a summary of regional development programs used by Commonwealth, State and Territory governments in Australia. Notably, it canvasses programs which have a specific regional development focus, rather than those programs designed to facilitate industry adjustment or assist businesses generally.

However, in practice the distinction between regional development policy and regional adjustment or general industry assistance is somewhat blurred. For example, a program designed to assist a region adjust to structural change may also influence regional development. Similarly, the distinction between a regional development program assisting local enterprises and an industry assistance scheme which would help the same firms is not entirely clear.

A distinction is also drawn between improvements in government service delivery, leading to lower utility prices, and concessional pricing practices. For example, reducing utility costs through efficiency improvements may not be viewed as regional development policy, whereas offering concessional charges to new firms relocating within a State or region would. Similarly, 'fast-track' approvals processes — while beneficial to the development of many regions — may not be considered part of regional development policy. Yet, granting exemptions from existing development assessment procedures to ensure rapid progress of a development application would be viewed as regional development.

This appendix is divided into sections dealing with Commonwealth schemes (Section J.2) and State schemes (Section J.3). Tables provided in each section outline a range of schemes available and provide expenditure estimates where appropriate. The Commission has attempted to make these tables as comprehensive as possible. However, the rapid evolution of development policies (particularly at the State level) has meant that more recent changes may not be reflected in the presented data.

J.2 Commonwealth regional development programs

The Commonwealth has influenced regional development outcomes through industry policy and the provision and pricing of infrastructure. However, direct

involvement by the Commonwealth Government in policies with specific regional (either State of sub-State level) objectives is less common.

This section details those programs operated by the Commonwealth Government which have a specific regional focus, or those which have significantly different effects on different regions. The plethora of Commonwealth research and development schemes (being examined in a concurrent Commission inquiry) and export assistance schemes are omitted on these criteria.

The Commonwealth Office of Regional Development (ORD), within the recently created Department of Industry, Technology and Regional Development (DITARD), is the main avenue through which specific Commonwealth regional development objectives are pursued. The ORD has inherited several schemes previously operated by the Office of Local Government (OLG). In particular, the ORD administers the Regional Employment and Economic Development Program and the Regional Development Program (see Table J.1).

The OLG still operates several schemes to promote development in specific regions or local government areas. For example, the Local Capital Works program provides funding for the construction of economic and social infrastructure in regions where the unemployment rate has been above average for prolonged periods. In 1992–93 funding for this program totalled over $297 million, and is estimated to be approximately $50 million in 1993–94 (Commonwealth of Australia 1993c).

The Strengthening Local Economic Capacity program is also run through the OLG, in coordination with individual States. This program aims to enhance local and regional long term economic and employment growth. Funding of $608 000 was provided in 1992–93 to undertake strategic plans for each State, with appropriations estimated at $4.4 million for 1993–94 allowing for the identification and commencement of demonstration infrastructure projects in individual local government areas (DHHLGCS 1993).

The OLG was also responsible for administering Commonwealth Government contributions to the Albury-Wodonga Development Corporation (AWDC). These contributions were recently phased out, with the final payment of $150 000 delivered in 1991–92 (DILGEA 1992). Contributions from the New South Wales and Victorian Governments ceased in 1992–93. The AWDC was originally established in the early 1970s as part of the Growth Centres Project. It remains today with a major role in the identification and attraction of industries that might invest in the region. The AWDC also develops and sells land for both residential and commercial ventures.

Local governments themselves receive direct funding from the Commonwealth Government, estimated at $300 million for 1993–94 (Commonwealth of Australia 1993c). This funding is in addition to the financial assistance grants and identified local road grants that local governments receive through State and Territory governments, which amounted to $1.1 billion in 1992–93 (Commonwealth of Australia 1993a).

The Office of Labour Market Adjustment (OLMA) administers programs which directly influence the process of regional development. OLMA's region-based labour adjustment schemes include provisions for funding of small business services or for 'enterprise incubators' in specific regions. Its enterprise-based assistance programs also contain elements of development assistance (see Appendix H for details).

Lastly, the Commonwealth provides direct assistance for regional development through the regionalisation of Commonwealth departmental offices. In particular, this has occurred with the decentralisation of offices for the Departments of Social Security, and Employment, Education and Training.

A summary of the various Commonwealth regional development schemes is provided in Table J.1.

Other Commonwealth programs, while not designed with a specific regional development objective, do have a high regional incidence making them an important influence on regional development outcomes. The largest group of these Commonwealth schemes are the numerous agricultural and mining assistance programs, run primarily by the Department of Primary Industries and Energy (DPIE). Expenditure on these schemes amounted to nearly $800 million in 1992–93, including all outlays providing assistance to agricultural, livestock, forestry, fisheries, mining and energy industries[1] (Commonwealth of Australia 1993a).

DPIE programs provide assistance through marketing subsidies, business advice, grants, marketing boards, promotional services and rebates on diesel fuel excise for certain 'off-road' uses.[2] Marketing schemes are often administered by bodies such as the Australian Wool Corporation, which operates the Wool Industry International Promotion Scheme. By providing assistance exclusively to the rural industry sector, these programs provide an

[1] This figure includes expenditure on development and adjustment type assistance, but excludes expenditure on the diesel fuel rebate scheme.

[2] The Commission usually regards fuel excise rebates as the removal of a tax on certain industries, rather than a form of industry assistance. However, from a regional perspective, it is apparent that the diesel fuel rebate scheme does have a strong non-metropolitan incidence and can therefore affect regional development.

element of regional development assistance to those regions where rural industries are prevalent — notably, non-metropolitan areas.

Commonwealth assistance is also provided to the textile, clothing and footwear (TCF) industries and the Australian automotive industry. (This assistance is in addition to support afforded through tariff assistance). While not specifically regionally focussed, this assistance does have a high regional incidence in those regions where TCF or motor vehicle industries are concentrated (eg parts of South Australia and Victoria).

The TCF Development Authority coordinates the TCF Industries Development Strategy, providing grants of up to 70 per cent of the costs of projects designed to improve the international competitiveness of the Australian TCF industries. In 1992–93, funding for this scheme was approximately $66 million, with expenditure estimated at just over $50 million for 1993–94 (DITARD 1993).

The Automotive Industry Authority administers the Motor Vehicle and Component Grants Scheme to assist with the design and development of locally produced motor vehicles and components. Under this scheme, grants of $2.3 million were provided in 1991–92, although allocations were only $126 000 for 1992–93 (DITAC 1992c, Commonwealth of Australia 1993b). Appendix I contains further information regarding adjustment assistance available for TCF and automotive industries.

Table J.1: **Commonwealth regional development programs**

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1992–93*	*1993–94*
Multi-Function Polis	Enhance Australia's capacity to meet the technological, environmental and lifestyle challenges in the 21st century.	Application of policies and programs to assist the development of the project, in addition to financial assistance for the establishment and marketing of the MFP Adelaide Development Corporation.	MFP Adelaide Development Corporation, South Australia	1 500	1 650
Local Capital Works Program	Provide funding for social and economic infrastructure in regions with sustained above average unemployment.	Grants.	Local governments	297 200	50 500
Strengthening Local Economic Capacity	Enhance local and regional capacity to generate long term employment and economic development.	Grants to undertake strategic plans for each State, and for the commencement of demonstration infrastructure projects.	State and local governments	608	4 392
Regional Employment and Economic Development Program	Provide direct and indirect employment opportunities in regions affected by the restructuring of the Australian National Railways in South Australia.	Funding for the establishment of a regional development organisation, data collection, market assessment and for the development of opportunities based on private investment.	Individual regions, through the South Australia Government	500	1 850
Regional Development Program	Improve the competitiveness of Australia's regional economies.	The program has four integrated elements: • Research projects into determinants of international competitiveness for regions. • Demonstration projects to address key regional development activities and needs. • Joint projects with States on access to venture capital and enterprise networking. • Local enterprise program to facilitate the development of specific regions.		261	1 467

Notes: Expenditure figures for 1993-94 are estimates only.
Source: DITARD 1993; DHHLGCS 1993

J.3 State regional development programs

The majority of programs with a regional development objective are administered by State and Territory governments. Indeed, most States place regional development policies high on the policy agenda, and have departments responsible for administering a range of regional development schemes. The following sections outline the different approaches.

J.3.1 New South Wales

Within New South Wales, regional development programs are administered by the Department of Business and Regional Development. The Department assumed responsibility for industry and regional development programs run by the former Department of State Development (abolished in June 1993). At present, the New South Wales Government is revising and developing its regional policy, with a Ministerial Statement expected to be released by the end of 1993.

Current programs pursue regional and State development objectives through programs aimed predominantly at small and medium sized businesses in non-metropolitan New South Wales. For example, the Regional Business Development Scheme (RBDS) offers assistance exclusively to projects in non-metropolitan areas.[3] Decentralisation objectives are pursued through the Country Industries (Payroll Tax Rebate) Scheme and the Country Industries Preference Scheme; although these programs are progressively being phased out with the emphasis being switched to the RBDS.

Development within non-metropolitan areas is also promoted through the network of regional departmental offices, and the nine Regional Development Boards (RDBs) established in 1990 (see Box J.1). RDBs attempt to facilitate local projects, coordinate cases for infrastructure provision and undertake some direct promotional activities. The boards also draw-up individual regional strategy documents aimed at identifying each region's competitive strengths.

Additionally, the former Department of State Development has overseen the establishment of Regional Economic Development Councils in some of the State's key economic regions (see Box J.1). To date, three councils have been set up, each completing (or in the process of preparing) an economic development strategy for its region.

[3] Metropolitan areas ineligible for RBDS assistance include: Sydney, Newcastle, Wollongong, Cumberland, Liverpool, Penrith, Camden, Campbelltown, Hawkesbury and the Blue Mountains.

Box J.1: **Regional development organisations in New South Wales**

Regional Development Boards	**Regional Economic Development Councils**
Far Western (Broken Hill)	Illawarra (Wollongong)
Riverina (Wagga Wagga)	Hunter (Newcastle)
Orana (Dubbo)	South East (Canberra)
South-Eastern (Goulburn)	
New England / North-West (Armidale)	
Northern Rivers (Grafton)	
Mid-North Coast (Port Macquarie)	
Murray (Albury)	
Central Western (Orange)	

Source: New South Wales Department of State Development 1992

The former Department of State Development also encouraged development within the Sate as a whole. It modified or designed incentive programs to attract major projects to New South Wales. Each project was assessed on a case-by-case basis, with key criteria being the potential to create jobs and the likelihood of the project proceeding without government assistance. The new Department of Business and Regional Development currently incorporates an Investment Promotion Unit which provides facilitation, information and referral services to business contemplating substantial new investment in New South Wales.

Table J.2 summarises programs offered by the New South Wales Government to encourage development. It encompasses programs that promote development within the State as a whole, as well as those designed to foster activity in particular areas of New South Wales.

Table J.2: **Regional development programs in New South Wales**

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1991–92*	*1992–93*
Industries Assistance Fund	Promote, encourage or stimulate the establishment, expansion or development of industries in NSW.	The Industries Assistance Fund is used to finance a range of different activities, including: • marketing and development; • technology development activities; and • other industry assistance.	Firms	2 045	8 400
Regional Business Development Scheme	Promote industrial and commercial development in non-metropolitan NSW.	Subsidies for capital and labour relocation; infrastructure and local government charges; business planning, feasibility studies and consultancies; export development; payroll tax, land tax and stamp duty concessions.	Firms	3 951	5 837
Country Industries (Payroll Tax Rebate) Scheme[a]	Promote the development of non-metropolitan business activity.	50 or 100 per cent rebates of payroll tax paid. Assistance is phased out over a period of five years.	Firms	639	1 500
Country Industries Preference Scheme	Promote the development of non-metropolitan manufacturing industries.	2.5 to 5 per cent preference in tendering for NSW Government contracts.	Firms	na	na
Albury-Wodonga Development Corporation	Oversee and promote the development and planning of the Albury-Wodonga growth area.	Contributions towards running expenses.	AWDC	150	..
Regional Development Boards and Economic Councils	Promote country NSW regions as viable locations for business activity, facilitate local projects, coordinate cases for infrastructure and provide advice to governments.	Contributions towards running expenses.	RDBs and Regional Economic Development Councils	126	120

Table J.2: **Regional development programs in New South Wales** (continued)

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1991–92*	*1992–93*
Strategic Economic Development Package	This scheme was abolished in 1991/92; funding outlays represent remaining program commitments.	Various forms of direct financial assistance to eligible firms.	Firms	628	455
Resource Assessment Program	Encourage exploration in NSW	Information on potential mineral deposits.	Mineral explorers	5 139	4 606

a includes assistance afforded through the Country Industries Preference Scheme; AWDC Albury-Wodonga Development Corporation; RDB Regional Development Board; na not available; .. not applicable (scheme not in operation).

Notes: Expenditure figures for 1992-93 are estimates only.

Source: New South Wales Treasury 1992a, 1992b, 1992c; New South Wales Department of State Development 1992

J.3.2 Victoria

Regional development in Victoria is administered by the State Office of Regional Development (ORD), within the portfolio of Business and Employment. The Victorian ORD coordinates a number of development programs for the State as well as non-metropolitan areas within the State. It is also responsible for the identification of public sector authorities and government departments suitable for relocation to non-metropolitan areas. The State Data Centre, for example, relocated to Ballarat from Melbourne in mid-1992 after a recommendation by the Victorian ORD. The Australian Securities Commission also received cooperation and assistance from the Victorian ORD for its move to Traralgon in the Latrobe Valley.

The recently released *Investing in Country Victoria* policy document outlines the government's proposed approach to developing non-metropolitan areas of the State. The document details a nine point plan for increasing investment and employment in regional Victoria. Available assistance measures includes:

- Investment incentives — generally in the form of grants to offset payroll and land tax, for the provision of infrastructure, or to assist with training (assistance is available to metropolitan based firms as well);
- Targeted financial assistance — at the discretion of the Minister, more regionally targeted assistance is available to assist with relocation, establishment or expansion costs (non-metropolitan areas only);
- Investment facilitation — generally in the form of fast-tracking infrastructure requirements and planning approvals;
- Greenfields studies — contributions towards the costs of engaging a consultant to do a feasibility study of a business proposal;
- Enterprise improvement — advice, assistance and subsidies towards the costs of engaging a business consultant; and
- Export promotion — numerous export related initiatives including market entry programs, trade fair assistance, strategic partnering and joint ventures (Hallam 1993).

A network of Regional Development Business Centres (RDBCs) has been established to ensure that non-metropolitan firms have access to all available government services and programs. Based around the existing network of Victorian ORD regional offices (see Box J.2), the RDBCs act as a referral point for schemes such as the National Industry Extension Service, the Rural Enterprise Victoria Scheme and the Local Enterprise Development Initiative Scheme (as well as other sub-programs incorporated within the nine point plan). The RDBCs also provide technical advice to non-government regional

development organisations relating to the preparation of submissions to attract investment, and other information and advisory services.

Box J.2: Victorian ORD and regional development organisations

Office of Regional Development	**Regional Development Organisations**
Metropolitan offices	*Level One*
East Melbourne	Albury-Wodonga Development Corporation
Footscray	Latrobe Regional Commission
Dandenong	Geelong Regional Commission (recently abolished)
Doncaster East	*Level Two*
Country offices	Ballarat Regional Board
Bendigo	Bendigo Regional Development Board
Mildura	Shepparton/Kyabram/Rodney Development Corporation
Wangaratta	
(sub-offices)	*Level Three*
Wodonga	Ararat Regional Development Board
Shepparton	Bairnsdale/East Gippsland Regional Development Board
Ballarat	
Geelong	Benalla Development Committee
Traralgon	Castlemaine and District Development Committee
	Colac Economic Development Committee
	Echuca Economic Development Committee
	Hamilton Regional Development Board
	Horsham/Wimmera Development Association
	Maryborough and District Development Committee
	Portland Development Committee
	Stawell and Grampians Development Association
	Sunraysia Development Corporation
	Swan Hill/Sun Centre Corporation
	Wangaratta Regional Development Corporation
	Warrnambool Regional Development Board

Source: Victorian Regional Development Agency 1990

State government funding for these regional development organisations is determined on the basis of levels. Organisations within regions defined by statutory authorities are classed as level one organisations, level two bodies refer to larger provincial cities or centres, while level three bodies are generally located in smaller provincial centres. Level one organisations receive the most funding and level three the least. The role of each body, regardless of level, is essentially the same: to encourage regional development by attracting

investment to country Victoria as well as assisting existing businesses to expand and become more competitive.

The State government may provide additional funding for these organisations to conduct individual projects; for example, in 1991–92 the Echuca Economic Development Committee received a grant of $9600 to conduct an economic profile of a proposed convention centre in the region (Victorian Department of Manufacturing and Industry Development 1992).

Table J.3: **Regional development programs in Victoria**

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1991–92*	*1992–93*
Investing in Country Victoria (nine point plan)	Promote balanced development for the entire State by boosting business development and investment in country Victoria.	Assistance measures include: grants to offset State taxes, infrastructure/training costs, and relocation, establishment and expansion expenses; investment facilitation services, subsidies for consultancies; and export promotion schemes.	Firms	..	na
Rural Enterprise Victoria	Help local communities in small rural towns to develop new enterprises and expand existing firms.	Provides small businesses with training in business skills and other information services.	Firms	na	830
Local Enterprise Development Initiative	Improve the economic performance of small businesses and increase their employment capacity.	Funding and other support for community organisations to provide referral, information and counselling services to new and existing small businesses.	Community organisations and regional development bodies	na	295
Rural Counselling Program	Assist farmers survive economic hardship.	Joint funding from the Commonwealth, State and local community for counselling services for farmers faced with economic hardship.	Farmers	na	206
Regional Infrastructure Support Program	Provide assistance with infrastructure development in advance of demand.	Once-only grants to councils and other government agencies for the provision of infrastructure necessary to service industrial and commercial sites.	Councils	na	2 395
Strategic Regional Firms Assistance Program	Provide financial assistance to firms which are strategically important to their regional economies.	Grants to assist firms increase exporting or import replacement activities; undertake additional investment; adopt new technologies; enhance their research and development programs and train personnel.	Firms	1 780	225

Table J.3: **Regional development programs in Victoria** (continued)

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1991–92*	*1992–93*
Rural Finance Corporation[b]	Provide concessional finance to farmers and other rural enterprises.	Concessional finance	Farmers and other rural firms	70 055	na
Regional Development Organisations:					
• Albury-Wodonga Development Corporation	Oversee and promote the development and planning of the Albury-Wodonga growth area.	Contribution towards running expenses.		150	..
• Geelong Regional Commission	Oversee and promote the development and planning of the Geelong region.	Contribution towards running expenses.		2 241	2 212
• Latrobe Regional Commission	Oversee and promote the development and planning of the Latrobe region.	Contribution towards running expenses.		1 502	1 571
• Other Regional Development Organisations	Assist regional centres to adopt a coordinated approach to industry attraction and development.	Contribution towards running expenses.		1 520	1 755

.. not applicable (scheme not in operation); na not available.

b refers to additional loans approved during 1991-92. The total loan portfolio of the Rural Finance Corporation up to the end of 1991-92 amounted to approximately $472 million.

Notes: Expenditure figures for 1992-93 are estimates only.

Source: Victorian Treasury 1992a, 1992b, 1992c, 1992d; Department of Manufacturing and Industry Development 1992

J.3.3 Queensland

Within Queensland, economic and regional development is coordinated through the Department of Business, Industry and Regional Development (DBIRD) and the Department of the Premier, Economic and Trade Development. These departments administer a mix of schemes encouraging development within non-metropolitan areas of Queensland, as well as in the State overall.

The largest 'general' development package is the Major Projects Incentive Scheme (MPIS). This scheme offers a range of incentives and assistance measures to manufacturing, secondary processing or tradeable service industries (excluding tourism) with either an exporting or import replacement orientation. Importantly, projects must be able to demonstrate that without assistance they would not proceed in Queensland. Other eligibility conditions include the capacity to create at least 25 permanent full-time jobs, an initial capital outlay of at least $2.5 million and a feasibility plan to indicate that the project will remain commercially viable over the longer term without State government assistance.

Table J.4 details the types of assistance offered through the MPIS, as well as other schemes available to encourage development within Queensland.

DBIRD is also responsible for coordinating programs aimed at promoting activity in the State's non-metropolitan regions. This objective is pursued through the Regional and Project Development Program (RPDP), or more specifically, through the sub-programs available under this scheme. Prominent amongst these sub-programs is the Regional Economic Development (RED) scheme.

The RED sub-program provides dollar-for-dollar grants to regional development organisations, tertiary education associations, business groups, companies and investors to undertake 'economic development' projects. These projects may involve activities such as organisational development; the development of an economic development strategy; the identification of regional development opportunities; and regional business promotion.

Funding of 50 per cent of total eligible costs may be provided through the RED scheme, with support limited to projects outside the Brisbane area. Individual projects are assessed on the extent to which they enhance regional income, output and employment; the degree to which any information produced is not replicated in another study; and the percentage of project costs covered by the local community (Queensland Department of Business, Industry and Regional Development 1992a).

To administer these (and other) programs, the DBIRD has thirteen regional offices, grouped into three administrative areas — northern, central and southern. The northern and central areas each have three regional offices, and the southern area seven. These regional offices also work in conjunction with the 35 regional development organisations to promote development throughout Queensland (see Box J.3).

Box J.3: **Regional development organisations in Queensland**

DBIRD Offices	Regional Development Organisations
Brisbane	Atherton Tableland Promotion Bureau
Mackay	Beaudesert Development Association
Townsville	Bundaberg District Tourism and Development Board
Cairns	Cape York Peninsula Development Association
Mount Isa	Capricorn Tourism and Development Organisation
Ipswich	Cassowary Coast Development Bureau
Surfers Paradise	Central Highlands Promotions and Development Organisation
Rockhampton	Central Western Remote Area Planning and Development Board
Bundaberg	Charters Towers/Dalrymple Development Association
Maryborough	Chinchilla Tourism and Development Board
Mooloolaba	Cooktown Regional Action Group
Toowoomba	Cooloola Regional Development Bureau
Gladstone	Dalby Wambo Tourism and Development Board
	Development Bureau of Hinchinbrook and Cardwell Shires
	Far North Queensland Promotion Bureau
	Gladstone Area Promotion and Development
	Gold Coast/Albert Regional Development Committee
	Goondiwindi District Promotions
	Gulf Local Authorities Development Association
	Inland Queensland Tourism and Development Board
	Ipswich Region Development Corporation
	Kingaroy District Development Board
	Logan City Economic Development Board
	Mackay Regional Development Bureau
	Maranoa Economic and Tourism Development Association
	Maryborough and District Promotions Bureau
	Mission Beach Tourism and Regional Development Association
	Murgon and District Development Bureau
	Rockhampton and District Promotion and Development Association
	Southern Downs Regional Development Group
	South West Regional Development Association
	Sunshine Coast Economic Development Board
	Toowoomba Regional Development Corporation
	Townsville Enterprise
	Whitsunday Tourism Association

Source: Queensland Department of Business, Industry and Regional Development

Table J.4: **Regional development programs in Queensland**

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1991–92*	*1992–93*
Major Projects Incentive Scheme	Encourage the establishment of significant business and investment in Queensland.	Two types of assistance:	Firms		
		• Refunding of certain State taxes for a limited period (payroll tax, land tax and stamp duty).		10 332	na
		• Direct financial assistance for establishment and relocation expenses (capital and labour relocation; research and development consultancies; freight, mineral royalties and utility charge concessions; marketing assistance and trade finance).		1 368	2 000
Major Projects Pre-Feasibility Studies Fund	Increase the level of productive overseas investment into targeted industries in Queensland by increasing the quality of investment proposals.	Discretionary funding assistance to fully or jointly fund pre-feasibility studies on potential investment projects.	Firms	30	78
Investment Promotion Program	Attract new productive investment to Queensland.	Advice, information services relating to pre-feasibility studies conducted by interstate and international investors.	Firms	na	na
Industrial Estates Program	Encourage the establishment of business and investment in Queensland.	Appropriately zoned and fully serviced industrial land to firms on either a leasehold or freehold basis.	Firms		
		• maintenance;		14 123	14 306
		• construction.		615	4 277
Technology and Research Parks	Encourage the establishment of technology based industries and businesses and to establish research and development facilities in Queensland.	Fully serviced, appropriately zoned land through the Industrial Estates Program. A building may be provided where there is 'net benefit' to Queensland.	Firms	na	na

Table J.4: **Regional development programs in Queensland** (continued)

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1991–92*	*1992–93*
Regional and Project Development Program	Promote sustainable regional economic development with an emphasis on improving the international competitiveness of firms throughout the State.	Assistance delivered through the Regional Economic Development program, the Regional Projects Investment Program and other programs such as the National Industry Extension Service.	Firms and regional development organisations	13 229	18 692
Regional Economic Development Program	Assist regional communities realise their sustainable economic potential.	Non-repayable grants for organisational development, completion of regional economic development strategies, identification of development opportunities and project support and promotion (up to 50 per cent of costs).	Regional development organisations and firms	1 100	777
Queensland Venture Capital Fund	Provide development finance on behalf of the Queensland Government to technically and commercially significant projects.	Loan or equity finance for amounts between $250 000 and $2 million.	Firms	1 500	na

Notes: Expenditure figures for 1992-93 are estimates only; na not available

Source: Queensland Treasury 1992a, 1992b; Department of Business, Industry and Regional Development 1992a; Department of the Premier, Economic and Trade Development 1992

J.3.4 South Australia

Regional development in South Australia was previously the domain of the now defunct Department of Industry, Trade and Technology (DITT). To encourage regional development, the DITT provided financial assistance, guidance, project support and data. Legislation was recently passed that places explicit regional development policies under the responsibility of the South Australian Economic Development Authority (EDA). The EDA operates under the portfolio of the Ministry of Business and Regional Development.

Support for regional and general industry development in South Australia is provided through the South Australian Economic Development Fund (SAEDF). This fund provides finance for several industry development programs, and for the regional development programs run by the South Australian Government. Table J.5 details the breakdown of funding provided through the SAEDF.

Table J.5: **South Australian Economic Development Fund, industry support programs, 1992–93** ($'000)

Scheme	*Assistance loans*			*Grants*	*Total Assistance*
	Interest free[a]	*Interest bearing*	*Total loans*		
Industry development	1 332	475	1 807	552	2 399
International business initiatives	-	-	-	65	65
National procurement development	-	-	-	5	5
Structural adjustment	300	-	300	43	343
Technology and innovation	50	-	50	66	116
Regional industry development	700	95	795	1 341	2 136
Regional industry	-	-	-	1 418	1 418
Special development payments	286	-	286	526	812
Export development	-	-	-	68	68
Payroll tax reimbursement	-	-	-	526	526
Total	2 668	570	3 238	4 650	7 888

a includes loans given on a 99 year interest free basis.

Source: South Australian Department of Industry, Trade and Technology 1993

An integral part of the SAEDF's contribution to general industry development is the provision of government sourced financial incentives and industry support. This support is designed to assist local industries to attain world competitiveness by helping to create the commercial environment and necessary infrastructure for sustained business growth (South Australian Department of Industry, Trade and Technology 1992).

The fund also offers non-repayable grants to promote the adoption of new technology, to undertake feasibility studies and to assist with relocation costs for enterprises moving to South Australia.

To promote development objectives in non-metropolitan regions of South Australia, the EDA provides support to a network of 10 regional development boards, each located in a region with a population of at least 25 000. These boards receive financial support of between $40 000 and $50 000, committed for a minimum of five years. The State government also will provide $3 for each $1 of local funding (up to a ceiling of $150 000) under the Regional Support Program. Additional dollar-for-dollar assistance may be granted for consultancies or other special projects through the Regional Industry Program (South Australian Department of Industry, Trade and Technology 1992).

Investment in regional areas of South Australia is also encouraged through the Regional Industry Development Payments Program. This program provides financial assistance where investments are tailored towards improving the competitiveness of the firms, or the creation or retention of long-term employment for more than five persons. The manner in which assistance is paid is open to negotiation.

Within South Australia, development is specifically encouraged in several designated business enterprise zones, where newly establishing firms may be eligible for a range of State government incentives. The enterprise zones incentive scheme was announced in the South Australian Premier's 'Meeting the Challenge' Economic Statement in April 1993. One zone will be at Whyalla, with the other zone incorporating the approved Multifunction Polis sites at Gillman, Science Park and Technology Park. Businesses establishing within the zones will receive exemptions from State taxes (including payroll tax, financial institutions duty, bank account debits tax, land tax and stamp duty), fast-tracking of development applications, and concessional water and electricity charges for ten years. The Whyalla zone, based upon the area set aside for the Whyalla Resource Development Estate, will include the additional incentive of free industrial land to approved new applicants.

J.3.5 Western Australia

Regional and State development in Western Australia is administered through the Commerce and Trade portfolio (formerly the Department of State Development).

Regional development programs predominantly are conducted through Regional Development Authorities or Commissions in each of the State's nine 'regions' (defined on the basis of geography, economic and social unity, containing at

least one major town and local government area). The authorities and commissions have undertaken to:

- identify regional economic growth opportunities and impediments to development, with the specific aim of attracting investment to their region;
- identify trade, export and downstream processing opportunities;
- conduct studies of social/economic infrastructure requirements;
- examine methods to retain/create employment;
- enhance Western Australia's regional purchasing policy;
- coordinate government service provision; and
- assist in regional tourism promotion and marketing.

Box J.4: **Regional development authorities and commissions**

Development authorities	**Development commissions**
Geraldton Mid-West Development Authority	Pilbara Development Commission
Goldfields Esperance Development Authority	Kimberley Development Commission
Great Southern Development Authority	Gascoyne Development Commission
South West Development Authority	Wheatbelt Development Commission
	Peel Development Commission

In practice, there is little to distinguish between development authorities and commissions — both are administered by the Department of Commerce and Trade with funding to promote economic development within their respective regions (see Box J.4). Funding for these commissions and authorities varies significantly between regions — in both absolute and per capita terms (see Table J.6). The Commission heard that often these differences could be attributed to the age of the organisation, as not all were established at the same time. Until recently the responsibility for the development of specific regions was allocated between portfolios — for instance, the Minister for Mines and Fisheries was also responsible for the development of the Mid-West region — and funding allocations to authorities and commissions were determined on an individual basis.

Under the Regional Development Commissions Bill, currently before State Parliament, all existing regional bodies will be known as regional development commissions and have their own Boards of Management. They will be responsible to the one minister — the Minister for Commerce and Trade.

The Department of Commerce and Trade currently operates a network of 26 Local Enterprise Centres, designed to assist businesses to establish and expand throughout the State. Several more centres are due to commence operation in the future. These centres provide advice and business planning services for regional enterprises and act as agents for State and Commonwealth schemes. Funding is provided jointly by Commonwealth, State and local governments, with some 20 business organisations also providing direct support.

Financial assistance for regional enterprise development is available through the Regional Enterprise Development Initiative Scheme (REDIS). This scheme provides financial support to encourage businesses to establish or remain in regional Western Australia (Western Australian Department of Commerce and Trade 1992). Under REDIS, grants of up to 50 per cent of funds needed to develop a business proposal are available.

The Western Australian Government is also actively involved in encouraging development within the State overall, through the Project Development Program, the Industry Attraction Program and the Competitive Industry Program. These schemes provide a number of different types of assistance (for example, subsidies to cover payroll tax and industry grants) to encourage major projects to locate in Western Australia, increase business investment, and enhance the competitiveness of the State's industries.

Table J.6 details the range of schemes available to encourage regional and State development within Western Australia.

Table J.6: **Regional development programs in Western Australia**

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* 1991–92	1992–93
Project Development Program	Secure development projects of major economic significance.	Several forms of assistance, including subsidies for payroll tax.	Firms	5 524	4 705
Industry Attraction Program	Provide assistance to encourage businesses to locate in Western Australia.	Assistance may include capital establishment grants, concessionally priced land, payroll tax and royalty rebates and stamp duty exemptions.	Firms	na	na
Competitive Industry Program	Improve the competitiveness of Western Australian industry.	There are several types of assistance under this program including: • Industry assistance grants, subsidies and transfer payments. • Research and development grants. • Export promotion assistance.	Firms	25 668	27 272
Regional and Community Development Program	Assist non-metropolitan regions and communities to maximise the benefits from development.	Assistance through the Regional Enterprise Development Initiative Scheme, the Local Enterprise Centres Scheme and other assistance with the completion of regional strategies.		3 525	4 429
Regional Enterprise Development Initiative Scheme	Encourage businesses to establish of remain in regional Western Australia.	Grants of up to 15 per cent of the costs of developing a business proposal.	Firms	na	289
Local Enterprise Centres Program	Assist regional communities translate ideas into practical business ventures.	Grants to Local Enterprise Centres.	Local Enterprise Centres	906	1 350
Exploration and Development of Natural Resources	Encourage the exploration and development of mineral resources	Geological data collection, metallurgical and analytical services, and geotechnical and engineering advice.	Mineral explorers	12 790	12 302
Rural Adjustment and Finance Corporation		Concessional finance.	Farmers and other rural enterprises	3 481	3 594

Table J.6: **Regional development programs in Western Australia** (continued)

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1991–92*	*1992–93*
Regional Development Authorities and Commissions	Provide information and advice to firms seeking to locate, expand or diversify in the region. Assist with the planning, coordination and promotion of the economic and social development of their region.	State government contributions towards operating expenses for authorities and commissions.	Geraldton-Midwest Development Authority	836	813
			Goldfields-Esperance Development Authority	627	669
			Great Southern Development Authority	757	1 183
			South West Development Authority	5 413	5 698
			Pilbara Development Commission	..	820
			Kimberley Development Commission	..	230
			Gascoyne Development Commission	..	158
			Wheatbelt Development Commission	..	178
			Peel Development Commission	..	425

.. not applicable (program not in operation); na not available.

Notes: Expenditure figures for 1992-93 are estimates only.

Source: Western Australian Treasury 1992a, 1992b, 1992c, 1992d; Western Australian Department of State Development 1992

J.3.6 Tasmania

The Tasmanian Development Authority (TDA), was established in 1984 with the objective of fostering and encouraging economic development within the State. In February 1993, the Tasmanian Government announced that the TDA would be included in an amalgamation of departments to form a new Department of Development and Resources (TDR), responsible for regional development within Tasmania.

TDR's charter is to encourage the long term growth of Tasmania's economy by encouraging expansion in those industries in which the State enjoys identified sustainable comparative advantage. In establishing the TDR, the Tasmanian Government has created a mechanism whereby all policy advice on aspects of industry and resource development can be integrated.

Within the Department of Development and Resources, economic development is primarily the responsibility of the Development Division (incorporating small business services). This division facilitates the expansion of existing industries and the establishment of new industries within the State. Typically, support will include:

- assistance in preparing requests for finance;
- project analysis and financial advice;
- assistance in accessing State and Federal Government support;
- management of approvals processes; and
- tailored financial packages, where appropriate.

The Tasmanian Local Employment Initiative program is currently administered by the Department of Employment, Industrial Relations and Training. This program, in addition to its adjustment objectives noted in Appendix I, is designed to enhance job creation through local community business advice centres. In 1991–92, expenditure totalled $214 000, with allocations increasing to $246 000 in 1992–93.

J.3.7 Northern Territory

Regional and Territory development in the Northern Territory is the responsibility of the Department of Industries and Development, Ministry of Asian Relations and Trade.

The ministry has overseen the establishment of several regional economic development committees, comprising mostly of local private and public sector representatives. The primary role of these committees is to complete regional economic development strategies for their respective regions. These strategies

are designed to recognise the inherent differences between regions which can be overlooked in a broad Territory-wide approach (Northern Territory Department of Industries and Development 1992).

At this stage, the Katherine, Barkly and Central Australian regions have completed strategies, with work in progress on a strategy for the East Arnhem region. Strategy preparation for the Darwin region will commence in early 1994. Funding for regional economic development committees is provided by organisations such as the local Chamber of Commerce and Industry, with the ministry providing supplementary funds to cover expenses such as the publishing of documents.

Development in the Northern Territory is also pursued by the Trade Development Zone Authority (TDZA) — a statutory authority governed by an independent board — which operates a large industrial estate in Darwin. The 200 hectare site was established in 1985 to encourage inbound investment and to help manufacturing industries with either an export or import replacement orientation. The *Trade Development Zone Act* exempts operators on the estate from Territory Government charges (including stamp duty and payroll tax), municipal rates, and provides assistance to companies by paying duties on inputs to manufactured exports.

The Ministry for Asian Relations and Trade offers a range of general industry development and assistance programs, including financial guidance and planning assistance to new and establishing Territory firms. The ministry may also provide tailored financial assistance in some cases. In assessing eligibility, consideration is given to the:

- value adding component of the development or project;
- extent to which the new product/service would fill a gap in the market;
- capacity for the project to introduce new technology;
- exporting or import replacement potential;
- likelihood of the project/development proceeding without Northern Territory Government assistance;
- potential for employment creation;
- ability of the management team, including past track record;
- current solvency/cash flow situation of the business;
- security offered to cover loan funding assistance;
- effects on existing businesses of any ‘unfair’ competitive advantage conferred by government assistance; and

- the asset backing of the project/development directors (Northern Territory Department of Industries and Development 1992).

Table J.7 provides a summary of industry assistance and support given to Northern Territory businesses in 1992–93. The table includes assistance available through the business services program, usually business advice and related information services.

Table J.7: **Northern Territory industry development assistance**

Assistance type	*Number of projects*	*Amount*
Industry development program		($'000)
Existing businesses		
Subsidies (including interest assistance)	8	191
TDZ rental assistance	8	205
Grants	19	223
Loans	3	147
Extraordinary items	3	273
New businesses		
Subsidies	2	182
Grants	16	263
Industry research		
Grants	4	32
Financial assistance total	63	1 519
Business services program total	8	3 282
Industry development/assistance total[a]	**71**	**4 801**

a Amount of assistance column does not add up to total due to rounding of figures.

Source: Northern Territory Department of Industries and Development 1993

Table J.8: **Regional and Territory development programs in the Northern Territory**

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1992–93*	*1993–94*
Business Services Program	Interact with established and prospective ventures in the NT to assist in their development.	Business advisory and referral services as well as administering Commonwealth programs such as NIES and NEIS to the business community	Firms	4 125	4 651
Financial Services Program	Tailor-made financial packages to encourage the development or attraction of targeted sectors, such as 'sunrise' industries, and a wide range of other industries	Industry assistance loans.	Firms	2 208	4 672
Strategic Services Program	Provide industry and economic data and assist with the formulation of policies for economic and industry development in the Northern Territory.	Assist in the preparation of regional economic development strategies for respective NT regions, collate data on economic and business issues and promote the development of the Crocodile, Manufacturing and Solar Energy industries in the NT.	Regional Economic Development Committees and Firms	535	795
Defence industry program	Promote, attract and assist the establishment of new defence industries in the Northern Territory. Increase the depth and breadth of existing industry involvement in the local and regional defence market.	Identify opportunities in current defence projects and provide associated firms with advice, education and assistance.	Firms	127	364

Table J.8: **Regional and Territory development programs in the Northern Territory** (continued)

Program	*Objective*	*Nature of assistance*	*Recipient*	*Expenditure ($'000)* *1992–93*	*1993–94*
Darwin Trade Development Zone	Foster the development of manufacturing industries in the Northern Territory with either an export or import replacement orientation.	Priority development application handling; bonded warehouse and freight forwarding facilities; recruitment and training assistance; industrial design assistance; marketing support and short term loans to cover drawback duty.	Firms	1 141	1 613
Public relations and marketing program	Promotion of the Northern Territory as a business destination.	Marketing promotion services.	Firms	3 002	3 456

Notes: Expenditure figures for 1993-94 are estimates only.

Source: Northern Territory Treasury 1992a, 1992b, 1992c, 1993; Northern Territory Department of Industries and Development 1993

J.3.8 Australian Capital Territory

Government involvement in the economic development of the Australian Capital Territory is the responsibility of the Chief Minister's Department. Recently, this department commissioned a study on the appropriate form of business development strategy for the Territory. This study was conducted by the Economic Priorities Advisory Committee of the Australian Capital Territory (EPACT). It provides numerous recommendations that would allow the Territory Government to move to a more proactive role in the promotion of development within the Territory.

At present, though, the Australian Capital Territory Government is not heavily involved in business development within the Territory, or in the attraction of new investment to the region. The assistance that is available to prospective and existing Territory businesses is generally in the form of Commonwealth (or joint Commonwealth/Territory) programs delivered through the recently established Business Services Centre, such as NIES.

The Chief Minister's Department has been involved in the preparation and completion of a South East Economic Development Strategy (covering a region much larger than the Australian Capital Territory), which attempts to identify the key issues affecting industry development opportunities in the region.

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