



# HC COOMBS POLICY FORUM FINDINGS

## Visioning Australia's Future

### Characteristics of economic sustainability in regional Australia

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This paper identifies characteristics of long-term economic sustainability in regional Australia. It explores the journeys that regional communities make, focusing on the impact of population movements, economic growth and investment cycles, and how communities respond to external drivers, such as commodity and resource prices and consumer/resident preferences.

#### Key points

- > Population levels, employment diversity, commodity prices and adaption (a community's ability to transition from one state to another) play important roles in economic sustainability in regional Australia.
- > Population is commonly thought to be a key driver of regional economies. This analysis shows that while population levels will determine the level of services available in a region, per capita income has only a weak relationship with population size, and higher levels of population do not bring higher levels of per capita income. The 19th and 20th century notions of 'populate or perish' would seem to have no real basis in Australia's current economy.
- > Quantitative analysis suggests that a critical mass for a sustainable population is around 15,000 people. A population of that size can support a broad enough mix of businesses and jobs to sustain a vibrant local servicing economy and be more resilient to external shocks.
- > In all the case studies examined, there have been major cycles of population growth and decline. Economic sustainability in regional Australia appears to be more dependent on adaption and capacity for regional transitions, than on population growth.
- > Australia's regions are still highly vulnerable to changes in commodity prices, exchange rates and consumer preferences. There are no mechanisms to help regions to invest gains from boom times to use in lean times. In fact, recent history shows the opposite, that regions will reap and expend all they can from a boom in the expectation that government assistance will help bail them out of the next bust.
- > A key issue for policy makers is how to assist with transitions more effectively. How can adaption be facilitated in a more strategic way? How do you build the likelihood that a community will be able to adapt?

#### For further information

The *Visioning Australia's Future* initiative is a program of work examining major challenges facing Australia. The full set of summaries, papers and a synthesis report can be found at [crawford.anu.edu.au/hc-coombs/](http://crawford.anu.edu.au/hc-coombs/)

## Background

Concepts of sustainability are central to analysing the future of regional Australia. White settlement of regional Australia has often followed a path of dynamic transition. This typically involves a pattern of rapid growth, associated with exploitation of a natural resource base, followed by a long tail of adjustment (shrinkage) to a level of population and economic activity that makes a settlement more sustainable (or not) in the long-term.

This paper is based on the premise that economic sustainability is underpinned by three factors:

- > population size and change
- > the ability of communities to adapt and
- > economic diversity.

Several pieces of analysis were undertaken, examining:

- > the link between population growth and incomes and whether there is a population tipping point for a town or region above which a sustainable future is guaranteed
- > socio-economic histories of eight regions to explore approaches to adaption in regional economies since Federation and
- > the degree of economic diversity and the extent to which natural resources endowment drives economic development (the 'staples thesis') but might also expose the regional economy to external shocks. The pros and cons of diversity are also considered in this context.

To explore the diversity of regional Australia, eight case studies have been selected which represent four drivers of economic policy:

- > Mining-dependent regions (Mt Isa and Whyalla)
- > Tourism-dependent regions (Blue Mountains and Gold Coast)
- > Population-dependent regions (Bussleton and Ballarat)
- > Agriculture-dependent regions (Richmond River – Northern NSW, and St George – Southwest Qld).

## Summary of findings

### Population and GDP

The potential link between population growth and economic growth is an important one for many regional areas in Australia, many of which struggle to maintain their population base. Local population drift is detrimental for the places losing residents, with many small towns and villages deeply concerned with their long-term viability. Conversely, communities that see high population growth are often concerned with the negative impact on their social infrastructure.

While both population growth and population decline can pose challenges for individual regional communities, the economic literature shows that, at the national scale at least, the rate of population growth is not important in increasing per capita incomes. There is increased recognition that the key ingredients to sustainable per capita income growth, and thus increased economic welfare, are investment in physical and human capital.

### Sustainable populations for towns

The overall resilience of a region can be expressed as a ratio of 'other', flow-on (FO) employment to employment levels exploiting the Natural Resource Base (NRB) i.e. the ratio of employment in transport and energy, community services, business and finance services to the level of employment in agriculture, mining, manufacturing and accommodation. A higher ratio of FO employment to NRB employment indicates greater overall resilience. It means there is less sensitivity in the region to economic shocks, such as a manufacturing plant closing, and that any new positive economic initiative undertaken in the region will have greater multiplier effects. As population increases towards 15,000, the FO/NRB ratio increases rapidly and after 15,000 the ratio stabilises. It is also the case that a large population has a smaller change in population compared to any given change in employment. Again, population size of 10,000 to 15,000 is critical; for populations above 15,000 the induced population change for a given change in employment is very small.

The implication for regional sustainability is that a population of around 15,000 represents a 'critical mass' which significantly enhances a community's capacity to adapt to economic shocks. That is, the region is resilient.

## Mining regions

Both of the mining case-studies have seen major boom-bust cycles, driven by changing prices. In Mt Isa's case the volatility in metal prices contributed to a scaling back of operations, while for Whyalla it was the loss of competitiveness of Australian shipbuilding. Both regions are now looking at another boom.

The specialisations of the economies of Mt Isa and Whyalla have been a boon and a source of hardship for residents. The challenge for such communities is to ensure that growth during the boom times is sustainable (or that rewards are 'banked'/invested in some way), taking into account the likelihood of decline in the future. Many businesses in both towns nowadays rely on the influx of 'fly in, fly out' workers needing goods and services, and this creates a difficult business environment. This requires increased diversification and a strategic approach to economic development which factors in and financially prepares for the prospect of decline in resident population. Part of the resilience of regional mining communities in the face of major uncertainty and economic shocks has been the strength of the local community and their capacity to adapt to change.

## Tourism regions

Both the Blue Mountains and the Gold Coast have seen quite dramatic changes in the nature of their visitors.

Despite the growth and strength of its tourism industry, the Gold Coast City faces significant challenges in fostering a sustainable community. For example, it is characterised by high rates of population mobility and high rates of building development. It also has higher levels of socio-economic disadvantage relative to other parts of Australia due to lower income levels (associated with an older population), higher levels of unemployment, lower levels of tertiary qualifications, and higher proportions of people in lower paid and casual work. The Blue Mountains also faces the challenge of maintaining a vibrant and sustainable community within likely growth constraints. The environmental sensitivity of the area limits the sorts of economic activity that can be carried out in the mountains, and as the population ages, it will be a challenge to retain a balanced profile of young, middle aged and older people.

## Population-driven regions

Bussleton, a relatively young coastal town, has grown steadily since the mid 1970s, and as a new development area, its economy looks to have been 'born diverse'. Ballarat's steady population growth extends back to its successful re-emergence from the post-gold slump, from the early 1900s. The two regions represent two different drivers – lifestyle seeking population in the case of Bussleton, and job-seeking population in the case of Ballarat.

Bussleton shows some of the characteristics of 'typical' sea-change areas, such as a high proportion of low paid workers in retail, restaurants, tourism and care work, more single parents and problems of housing affordability. The overall economic impact is reduced in Bussleton's case by a high percentage of well-paid workers in construction, mining and manufacturing, but social disadvantage is still evident. In contrast to Bussleton's reliance on jobs in other regions to support incomes and population diversity, Ballarat's steady population growth and employment diversity are home grown. The impact of Ballarat's early economic, cultural and political prominence is highly significant, and has given the town a strong sense of self-confidence, political vision and community activism. The capital from Ballarat's mining boom was also well invested in economic activities that brought alternative income streams to the city. As Ballarat continues to diversify, the balance between its 'knowledge economy' and manufacturing sector is likely to be a key part of its future resilience.

## Agricultural regions

The town of St George in Balonne Shire and the Richmond River valley region in Northern NSW are different in size and scale, but similar in their experiences of transition and adaptation. In St George, the exposure to the peaks and troughs of wool and dryland cropping production has been softened by the capital works and the productive capacity of irrigated cotton farming. However, the recent environmental constraints from water availability have injected further vulnerability, particularly given the dependence of St George and its surrounding region on irrigated agriculture. In the Richmond River valley, the richer agricultural lands have seen several transitions already – from timber to dairy to beef to vegetables to macadamias, coffee and other niche crops. The ingenuity and tenacity of local landowners has been an important factor in the region's ability to continue to adapt. However, reflecting its status as a 'lifestyle' area (a rural sea-change region), the area also has high unemployment and significant social disadvantage.

The key challenge for St George and Richmond River valley regions is to diversify their economies and associated income bases in ways that allow them to thrive in the future.

## Population and jobs

Australia's economic history has much in common with the Canadian-derived 'staples thesis', which puts resource exploitation as the driver of economic activity, with population movements following.

The case-studies show that, for resources or commodity-based regions, the drive of economic viability is jobs, and jobs follow capital investment. Recent experience also shows that high wages are required to attract labour to regional locations, especially mining regions. Movement of people alone does not lead to sustainable economies, often creating areas with lower levels of local employment and/or higher unemployment. This interpretation suggests that incentives provided by some small towns to attract residents, in the hope that this will lead to higher levels of business activity and more local jobs, may be misguided or a short-term solution.

Current resources sector practice that relies on a 'fly in, fly out' model is a break from the past and presents new challenges for regional communities. 'Muscle towns' where miners and their families live – the staging posts for shift rotations – experience strong population growth with accompanying price distortions (for housing etc) and significant lags in matching social and community infrastructure. There is the expectation that local or state government is responsible for funding this infrastructure, whereby in a classic mining town, it was the mining company itself or local wealthy individuals who seeded the wider community infrastructure. A further economic challenge at the end of a mine's life is the capital cost of scaling down operations. Current practice is for the transition to be paid for by the wider community (local, state and federal governments), allowing mining firms to more effectively privatise the profits and socialise the losses of their operations. This is different strategy to the post-war relocatable town approach, where the costs of transition were borne by the mine owners.

## Resource price impacts and diversity

Australia has weathered external price shocks well compared to other resource and agricultural exporting countries, with economic diversity key to this relative success.

Many regional economies have become more diverse as they have weathered external shocks, such as shifts in commodity prices and tourist numbers. Some have maintained specialisations which leave them vulnerable to future price shocks. The case studies suggest that whilst economic diversity adds to sustainability, a lack of diversity (or building on strengths) can be an asset if boom/bust cycles are well managed.

The research found a weak link between population size and diversity, which suggests that older economies are more likely to become diverse over time, while regions of new population growth are 'born with diversity'. New population centres bring with them the contemporary mix of businesses servicing the new residents, usually without the legacy of a foundation natural-resource based industry.

## Dynamics of adaption

In all eight case studies examined, there have been major cycles of growth and population decline. The directions of population change and employment diversity can provide a useful typology to understand regional dynamics. For example, growth in population and diversity marks a region as thriving or reviving from a period of change. Where population is increasing but economic diversity is not, a region is experiencing a dominant-industry driven growth phase, such as currently occurring in 'muscle towns'. A third dimension is prices. In the current economic environment, the high exchange rate is an important external price signal affecting international prices for agricultural and other commodities, manufactured goods and tourist flows.

Historically, community adaption seems to have been helped by a mix of regulatory factors (such as supporting producer prices, for example), which have worked in the short-term, and through the fortunate circumstances and tenacity (or wealth) of local populations. The analysis also shows that the depth of local social and financial capital is a vital ingredient in adaption.

## Policy implications and avenues for future work

A key issue for policy makers is how to assist with transitions more effectively. How can adaption be facilitated in a more strategic way? How do you build the likelihood that a community will be able to adapt? Should 'muscle towns' even be trying to diversify?

Clear goals will help determine the most suitable tools. For example, a goal that no resident or worker is displaced from a transition will require one set of responses, whilst an alternative goal that no one leaves in difficulty would require another.

Predicting and preparing for boom-bust cycles and assisting regions with the consequent transitions is a more forward-looking and effective policy goal than using short term assistance measures to preserve the recent status quo. This is even more important when many communities are finding their growth constrained by external environmental factors, which may prove much more difficult to adapt to or diversify around.

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