

TRANSCRIPT

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into local economic development initiatives in Victoria

Melbourne — 16 October 2012

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Professor R. Stimson, Director, Australian Urban Research Infrastructure Network, Faculty of Architecture, Building and Planning, University of Melbourne (affirmed).

The CHAIR — This committee is an all-party parliamentary committee and it is hearing evidence on the Inquiry into local economic development initiatives in Victoria. Welcome to this public hearing of the Economic Development and Infrastructure Committee. All evidence taken at this hearing is protected by parliamentary privilege. However, comments made outside this forum will not be granted that privilege. Could you state your name and the position you hold?

Prof. STIMSON — Yes. I am Professor Robert Stimson; people call me Bob. I am the Director of the Australian Urban Research Infrastructure Network at the University of Melbourne.

The CHAIR — Are you appearing on your own behalf or on behalf of your organisation?

Prof. STIMSON — I am appearing on my own behalf.

The CHAIR — That is a little safer, isn't it? The evidence you give is being recorded and will become public in due course. I invite you to make a brief verbal presentation.

Prof. STIMSON — I gather from talking to the people in your committee's secretariat that you wanted to have the benefit my experience as a person who has worked in the regional economic development field for a long, long time.

Overheads shown.

Prof. STIMSON — This slide is just about me and my background. I have been conducting research, analysis and policy work in the area of urban and regional development planning since the mid-1960s. In that time I have seen a lot of changes in approaches and all those sorts of things.

The CHAIR — I bet you have.

Prof. STIMSON — In the last 10 years I have been working very closely with colleagues in various parts of the world. We have published a series of books addressing issues of regional economic development and planning strategy. We have looked at areas of leadership in institutions in regional development, and a big focus on work that is going on in the world of regional science these days is on endogenous regional development. I will talk a little bit about that.

There are lots of different perspectives you can take on regional or local economic development. There is a very well-used approach of Edward Blakely, who is actually an emeritus professor at the University of Sydney now, but he has lived in the United States for most of his life. He says that regional economic development is a function of all of sorts of things. It is not as though local regional economic development is about one or two things — it encompasses a very broad range of things. You have got to see it both as a product and process. Typically in the public policy field economic development is approached in terms of, 'Does it create jobs? Is it creating wealth? Is it creating investment? Does it affect the standard of living?', and those sorts of things. The process of getting to achieving those outcomes is usually neglected. I think it would be true to say that, certainly in the way regional economic development practice occurs in Australia, the focus is very much on trying to get some sort of product without a great deal of attention to the processes. It is a very complex and often convoluted process that you need to go through in order to put in place strategies that might deliver those desired products.

You can think of it, too, in terms of quantitative and qualitative ways of measuring or evaluating regional economic development. One of the problems is that we do not have a lot of very good systemic data in Australia that enables you at the local or regional level to get a really good understanding, particularly over time, of what the measurable dynamics and outcomes are in terms of local regional economic performance. There has been a lot of interest, particularly in the last couple of decades, in the qualitative issues involved that might relate to regional development. People talk a lot about social capital, equity, sustainable development and so on. These are all very good and laudable things but they are fuzzy. What do they mean? It is very difficult to measure those things.

In the work that we have done over the last decade or so we have put forward this definition of regional economic development. That could have been almost anything. What does that really mean? It is really a statement, I guess, of an intent. Most areas would like to achieve the intent of that, but we have found that over the last two decades the way in which regional economic development is being practised in the world is very

much more and more concerned with focusing on what are called endogenous factors — factors that relate to the characteristics of the region in addition to the big focus — increasingly on them, but also taking into account exogenous factors. Exogenous factors are still incredibly important, and they relate to things like trade opportunities and exchange rate variations. No local area has much control over those sorts of things — natural disasters and so on. But the focus, increasingly, in terms of approaches to regional development is on looking at regions having a reliance on what are the endogenous processes that can be harnessed to try to develop a sustainable future for regions.

There has been a huge growth in the literature on what all this might mean over the last 20 to 30 years. A new paradigm has evolved. In the postwar years it used to be about how we had big tariff barriers in Australia and how you picked winners and gave subsidies to firms to go and locate in a depressed area, and then when the subsidy ran out they upped and moved.

The CHAIR — Or fell over.

Prof. STIMSON — Yes. But there has been a real shift away from that. That sort of new growth area focusing on endogeneity encompasses things like looking at technology and technological progress and how that is captured at the local level; the industrial structure and the diversification, as against specialisation; the big focus on the role of human capital skills and income generation; and the power of urban scale agglomeration. That latter one is really an increasingly important issue. Endogenous processes are also about local leadership and continuity in that. It is about local institutions, it is about trying to encourage entrepreneurship, and it is about innovation in learning and so on.

Certainly we do not want to exclude those exogenous factors because they often represent risk — really big risk factors — and if you look at an area that is dependent on an export market, that can change very dramatically over time. Oil commodity prices can change and exchange rates can change. We are seeing that with this two-speed economy thing in Australia at the moment. We have suggested that if you want to conceptualise what local economic development is about, we want to have some sort of measurable outcome that might relate to the degree to which an economy is sustainable at a local level — it is competitive, it creates entrepreneurial activity and so on.

There is absolutely no doubt that this will be impacted by a whole lot of factors that relate to the resource endowments of that local region, and they are incredibly important. It is a matter of how they are harnessed and how our local area can tap into the markets that are conserved not just within the region but in particular outside of it. It is the export out, and that does not necessarily mean export overseas, but export out to other regions. This can be affected and enhanced. The way in which those things are captured and expanded on can be enhanced by local institutional factors, entrepreneurship and leadership, and you can actually set up models to see how these play out. I will come back and show you how that can work in Australia.

The notion here is that you can try with your local economic development strategy to create this virtuous circle of the goal being a sustainable development future for a region — and there is no magic formula for this, and there is not a one-size-fits-all approach — but leadership, institutional factors, governance issues and those sorts of things can enhance the process that might lead to that.

What might be a way of measuring success? It is very difficult to put a qualitative value on what might be endogenous success in a region, but regional economists have developed methods in terms of where you can get good proxy measures there. Typically what you do is try to measure things in terms of focusing on employment, because you create jobs and then expenditure occurs through salaries and all that sort of thing. This of course is fundamental in any local or regional context.

It is not the growth over time in the number of jobs that is important, because over time most places generate new jobs. But if you measure just success of the local region in terms of new job creation, that can give you a very misleading understanding of how local factors and the region inherently within itself is creating that, as against what is happening nationally. We have a technique called shift share analysis which decomposes the change in job growth or job creation over a period of time, and you can do it in Australia quite easily over a decade or so or even longer, but you want to take out of that what the national shift is anyhow, and you want to take out of it what the effect of an industry shift effect mixer is, because those things are happening around the whole of the economy anyhow. You want to isolate those out, and you are left with a residual that is called a

regional shift component, and that can be positive or negative. You might have actual growth in the total number of jobs in an area, but once you take out what is happening nationally, so what? That is happening everywhere. It is whether you can go beyond that at the local level where you have endogenous processes that relate to a comparative or competitive advantage of that region. It gives you more than that, so that is very important.

When you look in terms of things like resource endowments, you can see these are the sorts of things that you can actually measure, look at and see how the local resources of a region are being used in terms of market fit. It is very difficult to get information on this, but these are some of the ways you can get some sort of proxy measures on those sorts of things. If you look at leadership, you can see there is no national database on leadership — it is a concept — but you can actually develop some proxies for looking at those sorts of things. We are talking about both business leadership and public sector leadership and the interface between those in leadership terms. Institutions — again it is not just government but it is governance as well. There are all sorts of players that are responsible there. Also you have institutional factors that relate to the dynamics and organisational strengths and so on of the local business community, and there are big differences in the capabilities in those sorts of ways. Of course in the end a lot of economic development is the outcome of entrepreneurship, creation of new business, innovation, taking risks and those sorts of things.

There are various processes, and the world literature says that, in terms of best practice, undertaking a local regional economic development strategy and implementing it is not a simple task. There are some benchmark ways of going about this; there are some best practice sorts of ways. Government can play a big role in terms of things like the Australian Bureau of Statistics, state government agencies and so on making the data available and readily accessible so that local areas can actually measure what is going on, do an audit of what is happening in their region, get measurable outcomes, benchmark themselves against other areas and so on. You want to be able to analyse and appraise the economic performance and the competitiveness of a region using benchmarks. You also want to be able to establish a strategic platform for regional change and development, because the world is dynamic — it does not stand still. The performance of a region can be absolutely outstanding at one point in time but in a later era it may be a cot case. That might be because, as we have seen in some regions of Australia, we have dismantled tariff barriers and that has had a profound regional impact on some areas.

Export markets can change et cetera. We want to be able to develop and implement strategies that will enhance the support and development of established industry clusters and create the potential for new industry clusters to develop. That needs to build on what we call the core competencies of a region. We also very carefully need to take into account — and most economic development strategies in Australia that I look at do not even contemplate this — they do not undertake a systematic analysis and evaluation of regional risk factors that relate to base exogenous and endogenous factors. You want to be able to have ways of monitoring performance.

The CHAIR — Is that prior to implementation of the policy?

Prof. STIMSON — Absolutely, because if you do not do that, you might go down a path — —

The CHAIR — That you should not go down.

Prof. STIMSON — Yes, without really having a good appraisal of what those real risk factors are. In the regional economic development literature, including the work I have been involved in over the years, there are well-established frameworks, methodologies and processes for how you go about doing a regional economic development strategy. In many ways I think one of the most powerful things that central government — state government — can do would be to resource local regions with the capability to actually implement practices in terms of undertaking a regional development strategy that is using best practice. That is not happening. There is not the capability necessarily within a region. Places like Melbourne might have it, but most local governments — —

Mr FOLEY — The West Wimmera is struggling.

Prof. STIMSON — They do not.

Mr FOLEY — Fine people, but they just do not have the base.

Prof. STIMSON — I would also say that a lot of private sector organisations that are involved in working in this field use methodologies that are not particularly impressive. Some are quite up to speed, but a lot are not. There are a lot of what you might call ‘snake oil merchants’ out there peddling their wares. However, that is life.

The CHAIR — Ugly for snakes.

Prof. STIMSON — The idea is that through your development strategy you want to do two things: you want to stretch your existing competencies — the things you are really good at and that you have got a track record on in your region — and you want to leverage those and look at what the opportunities are in terms of building on the linkages that occur between various sectors and activities within your region and then do combinations of that.

When you look at regional economic development and what the sort of drivers are, this schematic here is giving you an indication of the sorts of things that need to be addressed in developing a strategy. This is not super comprehensive, but it is getting pretty comprehensive. This takes time and effort and has to be well planned, and it involves partnerships and collaboration. You have to bring the local community with you; you have to bring them in and have them involved in the process. You have to engage the business sectors and the business organisations, because if you do not get ownership of it, there is not much point in implementing a strategy that is not developed from within — that is, not endogenously developed from within a region.

Everyone talks about sustainable development these days. It is an hackneyed, overused term, and it is not very precise in what it all means. But of course you have to address some of these sorts of issues, and your strategy needs to take account of these sustainability-type issues that cut across economic, environmental, social and governance principles.

Let us move on and look at what we can say about the existing performance of non-metropolitan regions in Australia.

The CHAIR — That should be fun.

Mrs PEULICH — Non-metro?

Prof. STIMSON — Non-metro. I have done a lot of work with my colleagues on this for decades now but particularly the last 10 years or so, looking over the period from the mid-1990s to mid-2006. We are only just starting to get data through from the census for 2011 and other data, so no-one has done the analyses for this yet. That is all about to happen.

Mrs PEULICH — Is this Australia wide?

Prof. STIMSON — This is Australia wide, and it is based on local government areas outside the metropolitan areas. We find that on that measure that I had, endogenous performance, it is negative in 60 per cent of non-metropolitan local government areas. It is highly negative in 149 LGAs out of the 298 across Australia. They have negative performance — that is, in terms of growing jobs over that decade they are going backwards, once you take — —

Mr FOLEY — On all those measures?

Prof. STIMSON — Yes, once you take out the national growth trends and all that. There is not much going on in those areas that endogenously — from the processes or whatever the mix of things might be — would give a positive outcome; it is giving a negative outcome. However, the good news is that 40 per cent of them are showing positive performance, and indeed 97 of them have very strong performance in that way. If we map them, this is what it looks like.

The CHAIR — They are all in your electorate, Ben.

Mr CARROLL — Yes.

Prof. STIMSON — We could put these things down, and then we could put electoral boundaries over them! Absolutely. We do all that actually.

The CHAIR — Not everybody is going to be happy with that.

Prof. STIMSON — But here you see that blue is good. The dark blue is really good. When you go down to the more reddish sorts of colours, they are the ones that are going backwards, if you like, where there is negative growth occurring.

The CHAIR — I do not know what that says about Mornington — it has gone completely.

Prof. STIMSON — This is interesting.

The CHAIR — The peninsula has disappeared.

Prof. STIMSON — What we see is that the visual pattern allows you to draw just a few general conclusions, and here proximity to the big city seems to be important in terms of having positive performance: the further away you are, the more remote you are, the more likely it is to be negative and so forth. But it is not like it is all positive on the coast either or inland. You have a mixture on the coast, and inland there is both positive and negative performance.

Then, if we look at when you do all the whizz-bang econometric analysis that people like me and my colleagues do — it is all pretty boring — it is kind of interesting. What can we say are the factors that are related to this that might have a positive impact on this positive endogenous regional economic employment performance over that decade? Here they are.

Mr FOLEY — Is the first one an increase in specialisation, or a decrease?

Prof. STIMSON — A decrease.

Mr FOLEY — So generalist, spread your risk, wider skills?

Prof. STIMSON — Yes. If you have a broader economy, that helps. That is not really surprising. A lot of this is not really surprising, but it is giving statistical validation to things. These sorts of factors explain a lot of the variability in that performance across those hundreds of non-metropolitan LGAs. Population growth is important, but then you have the incidence of an increase in people with a higher level of qualification. That is a human capital factor coming through, but there is a funny side to that which I will show you a little later on.

The CHAIR — Can I just ask you to explain that one, Professor? Is that in proportion as opposed to technical qualifications?

Prof. STIMSON — No.

Mrs PEULICH — So they are not separate?

Prof. STIMSON — No.

The CHAIR — They are together?

Prof. STIMSON — They are together, yes, but you measure them separately. Both of them are sort of important there. On the symbolic analyst occupations, Robert Reich, who was a previous Minister for Labor in the old Clinton government — —

Mr FOLEY — Did a study on bowling alone.

Prof. STIMSON — No, that is a different guy. That is Putnam, the social capital guy. But these are the professionals. These are your leaders, your highly skilled professional managerial people and those sorts of things. So it is a term that is widely used there.

But then there are factors might have a negative impact there. There are areas that have negative performance on this outcome measure. You have high levels of unemployment, and if it is going up over time, that is pretty self-evident as well. That is kind of interesting. This is a bit counterintuitive: in places with very high concentrations of workers in professional, scientific or technical industries in some of these places, that is

associated, but not terribly; but when you look at those places, you see they have a very narrow economy and might have a government lab in them. So that in itself is good, but you get some funny things coming out.

Then, on the incidence of workers, places with an initial higher incidence of these better qualified people did not necessarily do so well, but if you got a big increase in the number, it is the increase over time that is important, not necessarily the beginning situation.

One important point that I would like to stress is that regional economic development should be looked at in the context of local governments. They are a player.

The CHAIR — Do you think we will be able to conclude by 5.45 pm, with questions?

Prof. STIMSON — Yes, I will be a couple of minutes.

What you want to do is focus on what are called functional economic regions. Bill Mitchell from the University of Newcastle and I have created a new framework for Australia — that is, ‘functional economic regions’. They are building blocks of statistical local areas, so they can add up through local governments. But one thing I want to emphasise here is that when you look at Melbourne and the metropolitan areas, Melbourne is comprised of six functional economic regions; six labour markets.

Mrs PEULICH — Are you able to define them?

Prof. STIMSON — Yes. I will show you on a map.

The CHAIR — Beautiful.

Prof. STIMSON — You look at the map, and I will come to that in a minute. These are the functional economic regions. They cross over state borders. That is the point I wanted to make here.

The CHAIR — Including desert.

Prof. STIMSON — Yes, and particularly along the New South Wales–Victoria border — the border is an administrative thing.

Mr FOLEY — A colonial relic.

Prof. STIMSON — Absolutely. It does nothing functional at all. Here are the functional economic regions in Victoria and around Melbourne. You can see along the Murray it crosses over them all. You can see that these ones are quite elongated. Guess what? They go along the main arterial highways and so on. So they do meet up. You have local government areas that are joined up. Undertaking regional economic development strategies out in regional areas in Australia should not be done on a local government–by–local government area basis but on regions that are functional. These functional regions are based on self-containment of commuting.

The CHAIR — Of commuting?

Prof. STIMSON — Commuting, yes. It is all derived from Australian Bureau of Statistics census data on the journey to work. What it does is draws the boundaries; it demarcates areas where 70 per cent or more people who live there, work there, and within those six metropolitan regions. This might come as a surprise for you. It does not for me because this is happening all around the world. Big cities have regional labour markets, and they evolve over time and change over time. But everyone does not come from out of Melbourne to work in central Melbourne. They just do not do it.

I guess I question quite a lot of the things I heard the previous speaker say; I would say he is sort of half-or-better right. But things are more complicated than the popular rhetoric. If you look at that within the metropolitan area, you have a core that is well and truly established. This does not mean that, say, a lot of people from out of Melbourne do not still commute to the city to work, but it is not many of the people who live in Melbourne. They work in that western — they see that huge, big western region —

The CHAIR — I think we have to say, ‘Thank God’, for that, don’t we, because it would be — —

Prof. STIMSON — Absolutely, and we have to increase that. So when you actually get in and dirty your hands with the data and do a lot of analysis you can start to uncover a few things that become a little important. The two messages I would make to the Committee would be: if you are going to undertake local economic development and enhance the capability for local economic development strategy and planning and implementation to occur, do it on the basis of working on functional regions, not individual LGAs.

Mrs PEULICH — I do not think we were ever actually contemplating that, but I think what the terms of reference are about is looking at also how we can get local government to lift its game.

Prof. STIMSON — To do it.

Mrs PEULICH — To lift its game.

Prof. STIMSON — Yes.

Mr FOLEY — That is one. What is the other?

Prof. STIMSON — The second one would be: you have to have decent frameworks for implementing in terms of the process of developing a strategy.

Mr FOLEY — All those multiple factors of leadership and institutions and skills and human capital and resources.

The CHAIR — Professor, it does change the emphasis of how regional economic development would be implemented then, because if you are not looking at local government areas and you are looking at functional regions, how do you implement? Do you implement through the state government?

Prof. STIMSON — The state government has to take a role here.

The CHAIR — It has to be a leadership role.

Prof. STIMSON — Of course, and a data provision role.

Mrs PEULICH — Or should it have the three levels of government?

Prof. STIMSON — Yes, it should. Getting the national government in Australia to focus on regions and cities in a systematic way is a bit of a hard road. We have had little forays into it over time, and I would agree with the comment Rob Adams made: that regions and cities are too important not to be on the national agenda. That is for sure. When you look at the performance of these functional economic regions, and this is a map showing them — the blue is good, and the red — —

Mrs PEULICH — Not a lot of blue.

Prof. STIMSON — That is sort of true, but that is what the data comes out at. Actually Melbourne is doing pretty well. If you look at the regions around Sydney, Sydney has not been performing very well, particularly after the Olympic Games. When you split this into 1996 to 2001, and 2001 to 2006, Sydney really tanks. You can see that here on most of those functional economic regions. The Sydney region got negative performance on this endogenous growth performance. Fortunately Melbourne is mainly positive, as you can see there. There is only one functional economic region in Adelaide. South-east Queensland and Western Australia — Perth — are doing well. A lot of regional Victoria has picked up — the blue there — and that is positive. It is a bit negative in some parts — in the Western District and over in East Gippsland.

Mr FOLEY — The broadacre areas — those that do not have a diversified economic base.

Prof. STIMSON — So there is some positive stuff to build on in many of these regions.

Mrs PEULICH — Would the scene have changed at all from that 10-year data?

Prof. STIMSON — I will know when we do the analysis in a few months.

Mrs PEULICH — Is that right? When is that likely to be done?

Prof. STIMSON — All the data we need is not yet released by the Australian Bureau of Statistics, but it will be probably early during the first half of next year.

Mrs PEULICH — Before we table our report?

The CHAIR — Professor, is that the finish of your — —

Prof. STIMSON — Yes. I am sorry I have taken so long.

The CHAIR — No, you have not. You have been great. Deputy Chair, would you like to ask a question?

Mr FOLEY — There is a lot to contemplate, Professor.

Prof. STIMSON — I will leave these — there is more that I did not cover.

Mr FOLEY — At this early stage of the Inquiry we are looking for a framework in which to approach the issues. We will have all the normal rent seekers and people tapping on the door, saying the government has to do this, this and this. It is how we can come up with a framework of — given the executive side of government — a long-term, serious proposition. You have given us plenty to think about.

The CHAIR — Absolutely. It is really fortuitous that you have been at our first day of hearings.

Prof. STIMSON — Yes, sorry. I will be in America, actually, on the next two dates you sent me.

The CHAIR — No, we are very pleased because it has given us a stark contrast with our first two presentations in terms of the way it is placed, but it also gives us some really good groundwork and a firmer understanding of what we are talking about, I would have to say. I am very grateful. I do not have any questions.

Mr CARROLL — A lot of intellectual rigour, I think, was in there.

The CHAIR — How long are you away for?

Prof. STIMSON — Just a week. The first week of November.

Mr FOLEY — I suppose this is more a comment than a question. The multiplicity of factors that feed into the complex equation of it on that sort of econometrics number crunching — skills, resources, environment. All those factors are going to give us a lot to approach an enormous number of people who have put submissions in to us around how we come up with a framework.

The CHAIR — It may be worthwhile at some stage — I do not know at the moment, but we may ask you to come back again.

Prof. STIMSON — Sure, I would be delighted to.

The CHAIR — Maybe not necessarily a public hearing, it might be somewhere we can run some things through.

Prof. STIMSON — I live just across the road on Spring Street.

Mr FOLEY — You can come across for dinner one sitting night!

Prof. STIMSON — Do you want to keep a copy of my presentation?

The CHAIR — Yes, please. Do you have that electronically?

Prof. STIMSON — Yes, just copy it on. I will let you.

The CHAIR — You will receive a copy of this in about two weeks. Feel free to make typographical error changes but obviously not to the substance of the document. On behalf of the Committee, I would like to thank you sincerely for your contribution today. It has certainly been educational for me. I think I am probably at about slide 3 still but am slowly working through it. A great deal of thanks for being here today.

Prof. STIMSON — There is a guy at Monash you should try to talk to.

The CHAIR — Who is that?

Prof. STIMSON — John Madden.

The CHAIR — We have enough Maddens here, seriously.

Mrs PEULICH — John Madden?

The CHAIR — M-A-D-D-E-N?

Prof. STIMSON — He runs an economic analysis unit at Monash. They do really good stuff.

The CHAIR — That might be worthwhile. Thank you very much, Professor. We really appreciate the suggestion as well.

Mr FOLEY — Thanks very much for your time, Professor.

Committee adjourned.