The challenge of rebalancing national and regional economies: human capital, natural assets and environmental sustainability in Australia

Professor Andrew Beer
The University of Adelaide
Agenda

• The Australian Economic Miracle and the Resource Curse
• The Patchwork Economy and Structural Adjustment in the Manufacturing Sector
• Rebalancing Agriculture and the Environment
• Governance, community and politics
  – Beyond the ‘technical fix’
Iron Ore Prices into Australia, 2000-12

* Month average; iron ore fines; free on board basis
** RBA estimate of quarterly contract from 2010 onward
Sources: ABARES; ABS; Bloomberg; RBA
Bulk Commodity Prices Received in Australia, 2006-12

Bulk Commodity Prices
Free on board basis

Iron ore
Spot*
Average Australian export price
Coking coal

* Iron ore fines and premium hard coking coal
Sources: ABS; Bloomberg; Citigroup; Energy Publishing; Macquarie Bank; RBA
Australian Exports by Sector: 1979-80 to 2009-10

Contribution to Australia’s Total Exports by Sector
Real value as a percentage of total exports

Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), Australian Commodity Statistics 2010, Australian Ec- Table 7, (Released 2 December 2010); Austrade
And an appreciating currency....

Exchange rates: USD and Euro against AUD

Axis Title


USD
Euro
A Patchwork Nation

- Growth in minerals production in remote and regional Australia
  - The Pilbara
  - Central Queensland etc

- Decline of manufacturing and retail in the major centres of SE Australia
A Patchwork Nation

• First wave response – simple structural adjustment funding
  – Mitsubishi, 2004 and 2008
  – Bridgestone, 2010
  – Hoover, 2006
  – Kimberley Clark 2005
  – Kodak, 2003
  – Bluescope Steel, 2011
  – Ford, 2009
  – NW Tasmania Forestry Industry, 2012
  – SPC, 2010
A Patchwork Nation

Industry adjustment measures in Australia typically provide the following areas of support:

• The offer of skills assessment of retrenched workers, as well as training opportunities in order to acquire the skills needed to gain a job;
• Support for apprentices made redundant to remain in training while they find another employer;
• Career and financial counselling from Centrelink;
• Access to support from Job Services Australia for eligible job seekers;
• Advice and support services from AusIndustry and Enterprise Connect brokers to identify new business opportunities;
• Job Expos to bring employers and potential employees together; and,
• Innovation Investment Funds to support investment by companies leading to economic development and jobs in the region.
A Patchwork Nation

• First wave structural adjustment funds carried negative impacts:
  – Applied in conjunction with redundancy payments resulting in loss of skilled labour during a period of skills shortages in many industries, including resources
  – Daley and Lancy (2011) noted the high cost of such programs $20,000 to $60,000 per job
  – Redundant workers did not acquire additional skills
    • High rates of unemployment and under employment
    • Remain concentrated in vulnerable industries
  – Limited investment in growth industries
  – No change to the structural conditions of the economy, infrastructure provision or the settlement system
A Patchwork Nation

• Second Wave
  – Royalties for Regions
    • WA Government
      – $1bn per year
      – Forced by politics
      – Investment in social and economic infrastructure
    • Qld Government
      – $495m per year announced in 2012
  – The Green Car Fund
    • Toyota in Melbourne
    • Holden in Adelaide
Rebalancing Agriculture and the Environment

• Murray Darling Basin
  – Australia’s food bowl
    • 7% of land area,
    • 45 per cent of production

• Small population
  – Reliance on agricultural production, especially irrigated agriculture
    • Few alternative industries

• Drought as a ‘scale jumping’ challenge
The Murray Darling Basin
Drought and Over Allocation in the Murray Darling Basin
Murray Darling Basin

• Over allocation of water
  – Murray Darling Basin Authority seeking to reduce surface water diversions by 2,750 gl per annum on 2009 baseline flows (and cap diversions at 10,783gl)
    • Greens sought 4,000 gl reductions
    • Basin plan sparked political outrage in affected communities
      – Loss of support politically
Declining Agricultural Communities - Waikerie

- Immigrant community, low levels of education
- Western most town in South Australia’s Riverland
- Developed in the 1960s for citrus production and dried fruit
- Moved into bulk wine production in the 1990s
  - Affected by
  - increased global competition
  - Strength of the $Aus
- Structural Adjustment package – Riverland Futures
  - But low take up
- Leadership deficits
Governance, Community and Politics

• The interplay between Australian Federalism and Australian neoliberalism
  – Absence of a strategic approach to territorial issues because of the tier of government with responsibility lacks the resources and vice versa
  – Results in short term solutions to long term challenges
  – Wasteful of human capital and national development opportunities

• Simple structural adjustment measures
  – In some respects represent an attempt to ‘buy’ a solution
  – Ignore regional conditionalities (OECD 2005) in seeking to address market circumstances only
    • Ignore underlying structural challenges and shifting
Governance, Community and Politics

• More recent approaches to the rebalancing of the economy have begun to recognise the need to build capacity
  – Green car plan
  – Royalties for region

• But also speaks to a new role for governments and a new set of strategic engagements with business and labour/communities
Conclusions

• Market based approaches to questions of economy and society in Australia have challenged the development of effective measures for rebalancing growth
  – Made more complex by Australia’s federation

• Open economies, however, do benefit from the elasticities of markets
  – Self correction may already be in train