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Re-Thinking the Approach to Regional Development in South Australia

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Director's Note

Welcome to the twenty eighth issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of its Corporate Membership Program. The scope of Economic Issues is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within the scope, the intention is to focus on key issues – public policy issues, economic trends, economic events – and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

This paper is one of three papers on regional issues with two further papers exploring first, the "rejuvenation" of the Provincial Cities following a protracted period of decline through the 1990s (EIP No. 29) and second, assisting regions and communities to cope with change based on good practice in the design and delivery of structural adjustment assistance measures (EIP No. 30).

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The authors of this paper are Michael O'Neil, Executive Director of the Centre and Cliff Walsh, Emeritus Professor of Economics and Visiting Research Fellow in the School of Economics, University of Adelaide. The views expressed in the report are the views of the authors.

Michael O'Neil
Executive Director
SA Centre for Economic Studies
December 2010

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Re-Thinking the Approach to Regional Development in South Australia

Key Points

- South Australia's economic progress, its social cohesion and the development of its natural resources depend ***entirely*** on the economic performance, social vitality and natural resource management of ***all*** of its regions.
  - There is no meaningful sense in which "the State" transcends the sum of its regional component parts, taking into account interdependencies between them.
- Despite this, the SA government has no official regional development policy or consistent strategies for regional engagement, much less empowerment, notwithstanding that there is a designated Minister for Regional Development.
- This is clearly reflected in a ***State*** Strategic Plan that has only one region-specific target and then only for rural and remote regions.
  - Moreover, a Regionalised State Plan (at last) in preparation is not being embedded in ***visions*** for the regions reflecting their different economic, social and environmental characteristics: despite regional consultations, it looks like a largely tops-down process of "scaling" the State Plan to a regional level and language.
- Moreover, most of the public sector activities that currently pass for support of regions reflect long outdated approaches to regional development in which central governments do things ***to*** regions rather than ***for*** them.
- This is all the more disappointing given that more than a decade ago a Task Force on Regional Development in SA proposed strategies that were at the forefront of modern thinking about promoting regional development.
- South Australia urgently needs a new commitment to regional development and a new strategy in which the State government facilitates and supports regions to develop aspirations and plans for themselves for their economic, social and environmental development and also develops partnerships which "democratise" decision-making through engagement, consultation and negotiation with regional communities.
  - This is the approach now being strongly advocated by the OECD, and being applied in many OECD countries and by Victoria.
- Making this transformation can be done in an evolutionary rather than revolutionary way, beginning with a long-term commitment by the State government to supporting ***all*** regions within an integrated regional development strategy developed with the robust participation of the regions themselves in genuine partnership with the State government.
  - Some of preconditions for doing so appear now to be at hand, including the Economic Development Board's recent advocacy for greater attention to regional development, the implementation of uniform State regional boundaries and, especially, the advent of SA Committees of Regional Development Australia which have guidelines for the development of regional plans consistent with contemporary thinking about regional development strategies.
  - The next step is to turn rhetoric into reality, with the State government engaged.

Introduction and Overview

Regional development in South Australia is an agenda without a policy framework or strategy.

A State's economy and its society are neither less nor more than the sum of the economies and societies of its constituent regions and their communities. Given this truism, it is surprising how often – how persistently – State governments appear to think and act as if the State's overall economy and society, somehow, "transcend" those of the regions, rather than being mere statistical artefacts, and behave as if attention to the economic performance and social well-being of regions is almost an optional extra – important for political reasons perhaps (because of the shape of electoral boundaries, if nothing else), but otherwise of limited relevance to the development of State policies and the assessment of their effects.

The fact that a substantial proportion – some 40 per cent – of South Australia's overseas export income and a larger proportion of its interstate export income are generated by regions outside the Adelaide metropolitan area (especially tourism, food, wine and minerals) has not gone unnoticed but has principally led to the development of *sectoral* policies with little broader regional content as such. And where regions have captured priority attention, it most often has been sporadic and largely in response to regionally-concentrated crises – in recent times, the effects of the closure of Mitsubishi on southern Adelaide and the consequences of reduced water availability on the Riverland, for example. Similarly, the fact that about 30 per cent of South Australia's population live outside the Adelaide metropolitan area and the vast preponderance of the State's environmental assets are in rural and remote regions has led to "regionalisation" of service delivery and management of the natural environment by State public sector agencies but this reflects top-down perspectives based on administrative convenience and efficiency, with little input from regional communities into policies and programs.

In South Australia, all of this is graphically illustrated by the fact that only now, more than six years since its initial launch and more like eight years since its conception, is attention being given to a Regionalised version of the State Strategic Plan. Moreover, early indications are that, regional consultations notwithstanding, the exercise has been conceptualised as, in effect, "scaling" the pre-determined State-level targets, at best to fit the different realities of different regions and, in fact, for the most-part simply mirroring the State targets in language that converts whole-of-State concepts into regional equivalents. It is entirely unclear to us how regional realities are going to be able to be shoe-horned into ensuring that regional-level targets "add-up" to the current State level targets which were determined without serious consideration having been given to *either* whether aspirational but realistic targets at regional level support the State-level targets as being within the bounds of "aspirational feasibility" *or* what regional policies would be required to make the State-level targets plausibly feasible/conceivable. Putting it this way makes clear that, just like the regionalisation of State government service-delivery, the original formulation of the State Plan was, in effect, tops-down without involving even so much as cross-checking whether conceivable regional outcomes would "add-up" to State-level aspirations.

The likely source of this deficiency in the initial process of formulation of the State Strategic Plan – and one that will infect the process of developing a regionalised version of the Strategic Plan – is that there was not, and still is not, an official overarching State regional development policy within which a regionalised Plan could have been, or can now be, coherently and consistently developed. To the extent that there have, nonetheless, been regional development *initiatives*, they have been narrowly conceived and, at best, pragmatic rather than principled – and this despite the fact that, more than a decade ago, the Report of a South Australian Regional Development Task Force (1999) set-out how a contemporary and good-practice model of regional development should be developed and implemented.

Over the last decade (and in decades before) South Australian governments' approaches to regional development have largely been articulated as about regional *economic* development only, with the twin objectives of increasing investment attraction and employment growth. Regional development in South Australia has long been based on the premise that regional structures (e.g., Regional Development Boards) could provide a regional focus for the South Australian Government in partnership with local councils in economic development. The Boards were funded to promote and support business development in the regions including, *inter alia*, to act as a focal point for the three tiers of government, investors and developers. Quantitative performance indicators were largely designed to record the volume of investment attracted to the region (including government capital works) and "jobs created and jobs retained". Over time, the Boards assumed additional roles including business advisory services, providing information on government programs, workforce development including through skilled migration and acting as grantees/hosts of funding to support local labour market initiatives.

Notwithstanding the many successes of regional development boards, the narrow focus on 'economic development' limited the effectiveness of these structures and constrained regional capabilities (e.g., limited coordination of government agencies at a regional level for place-based initiatives). Indeed, it would seem altogether plausible to argue that while the establishment of the RDBs gave the *appearance* of "inclusive partnerships", the reality was largely quite different. Through the eyes of those who made, advised on and implemented what was presented as regional development policy, regions appear to have been seen as agencies of the State government through which the government could drive its aims and ambitions when it suited it to do so, but otherwise were left to cope by themselves with the help of poorly resources RDBs, the

CEO's of which were hobbled by excessive red-tape and subject to multiple accountabilities.

While policy makers have moved a considerable way from subsidy-based interventions to attract business investment, they continue a largely top-down, narrow approach to regional development that reflects little integration of policy and planning, excessive concern with centralised public sector micro-management and an approach that lacks a real focus on strengthening or building regional capabilities. This is illustrated by political announcements of the supposed benefits of the 'next big project' (i.e., exogenous investment) such as a mining development or a pulp mill, rather than any serious analysis of opportunities for growth within a region, including how best to build on its existing assets. There is little evidence of a recognition, less still adoption, of a community-driven approach to regional development in South Australia that reflects contemporary thinking about what constitutes good-practice regional development policy and which has been adopted in other jurisdictions, internationally and in at least Victoria in Australia. In this model, regional communities themselves take the lead role in "configuring" and enhancing the existing (endogenous) resources available to them (and which define them as a region) – their human capital (knowledge and skills), their financial capital, their social and cultural assets and their natural assets –to create competitive advantages which enable them to effectively pursue their shared economic, social and environmental goals.

The role of governments in this model is not as a *doer* – other than its core role as a (place and circumstance appropriate) provider of services and infrastructure (hard and soft) – but, rather, essentially as an *enabler*, helping regions to build their capacity to choose and implement their preferred development path and their resilience in the face of continuing changes to their external environment, and a *negotiator* about, for example, how public sector service delivery and infrastructure provision should be configured to support the region's development strategy.

Although precisely how it is described and how it can be developed and implemented can differ in numerous respects, it is this type of approach that was proposed for adoption in South Australia by the Regional Development Task Force as long ago as 1999; that subsequently has been endorsed by the OECD and implemented in various ways in a number of OECD countries; and that, in Australia, was adopted and has been successfully implemented in Victoria several years ago.

The reasons why there has been high-level enthusiasm and support for genuinely community-based and community-led regional development models in genuine partnership with central governments is because they have the potential:

- to encourage regions to better understand what they are, what shared goals they have for their future economic, social and environmental development and what resources and capabilities they have to enable them to pursue those goals effectively;

- to unleash and enhance the capacity of regions to mobilise their region's assets, knowledge and capabilities to promote regional innovation, business development, investment attraction and export participation;
- to help regions to build the capacity to understand, anticipate and adapt to continual, sometimes rapid, changes in their external environment that ultimately inevitably require structural adjustment by them, whether the changes are market-induced, policy-induced or nature-induced;
- to do all this without the need for subsidies or concessions from central governments, so avoiding potential distortions in how regions use their endogenous resources (and which subsidies and concessions are likely to eventually prove to be either wasted or fiscally and economically unsustainable anyway).

Importantly in South Australia's context, a community-based and community-led approach to regional development is what regional communities have made clear is what they want during the recent first-round regional community consultations about the development of a regionalised version of the State Strategic Plan. In almost all of the 20 regional forums, the importance of "local decision-making", "local delivery/ regional governance" and/or "decentralised government" was particularly stressed.

In our view, it is essential to enhancing South Australia's future economic performance, its social cohesion and inclusion and the sustainable development of its natural resources the State government develops and adopts a model of community-based regional development that is based on inclusiveness of, and genuine partnerships with, regional communities. Doing so would make the link between having a regional development agenda (as is at least *implied* by the fact that a regionalised version of the State Strategic Plan is being attempted) and having a regional development policy framework and strategy (which would give a genuine purpose and coherence to the development of a regionalised Plan). To achieve this would require a change of mind set at State government level about the role and importance of regions and their communities and the development by public sector agencies of more flexible and integrated – place-based and place-responsive – approaches to service delivery and the provision of both hard and soft infrastructure. Experience elsewhere suggests that it is not as difficult to achieve as it initially might appear to be, once the process is appropriately conceptualised and initial progress made. Moreover, there are changes occurring – in part cooperatively – at national and state level in both the organisation of regional development processes and the priority given to them that likely (or at least hopefully) will be conducive to and supportive of a change of approach.

To further explain and develop these lines of thought about what changes are needed in South Australia's approach to regional development and how, we proceed in four steps. First, we briefly review how the literature about, and in at least some jurisdictions the practice of, regional development policy has evolved over time. Second, we then revisit the Report of the SA Regional Development Task Force, including to identify where the regional development model it proposed for South Australia fits in relation to both contemporary literature about regional development and growth and contemporary ideas about good-practice regional development strategies, policies and programs. This naturally leads on, third, to a proposed rethinking of the way regional development is practiced in South Australia and, fourth, to an identification of what might desirably constitute a new model for the future and how it might be achieved. A final section provides a short statement of our overall conclusions.

The Evolution of Thinking About Regional Development

In this section, we provide a brief overview of what have been the predominant theories of regional economic development and key characteristics of their application in regional development policy over the period since World War II. A more extensive coverage is contained in Appendix A and elements of the latest thinking and practice are more fully developed in later sections.

Over the period since the middle of the last Century, the literature based on economists' ways of thinking about regional development, blended with perspectives drawn from other disciplines, has evolved through two distinguishable phases. Correspondingly, though with lags, what are regarded as best-practice regional development policies strategies and initiatives have been shaped by them. However, within each phase there was a continuity in the dominant "philosophy", in both there were progressive shifts in emphasis on the design of mechanisms for the promotion of regional development, the most decisive of which is reflected in the latest thinking which the academic literature refers to as "new federalism" and the OECD terms a "new paradigm".

Phase One: Exogenously-Driven Development and Growth

In the post World War II years at least until the 1970s, the principal way of thinking about – and applying – regional economic development policy involved central government interventions. There was broadly strong economic growth and low unemployment but regional disparities, and policy focused on lagging regions. Based on Keynesian thinking, and associated theoretical growth models, it was considered that central government policies could increase demand in lagging regions through public sector spending. Regional interventions consisted of a mix of public sector investments, especially in infrastructure and government business enterprises, and support for strategies to build lagging regions' economic bases focused on exploiting their *comparative* advantages, reflected in their factor endowments.

There was at that time no theory of innovation and technical progress, and, unlike in more recent thinking and associated theoretical growth models, technical progress was treated as occurring exogenously. The principal regional economic policy emphasis derived from the conclusions of conceptual models of growth that emphasised growth of the capital stock as a key driver of growth. Regional development thinking and practice largely consisted of tops-down and centralised strategies to attract manufacturing businesses that would, it was argued, build and sustain regional economic activity both directly through the businesses themselves and indirectly through the growth of related businesses and the stimulus to economic activity more broadly. Within this framework of thinking, a variety of related theories, but with different emphases, informed practice, including growth pole theory, agglomeration growth theories and export-base theories. In all of them, the drivers of growth were treated as exogenous to the regions.

Beginning in the 1970s, there was a shift in emphasis from stimulating regional economic development by operating on the demand side, to one with a greater focus on the supply side. The oil shocks of the 1970s, and greater macroeconomic instability then and through the 1980s, led to higher levels of unemployment in general and greater regional disparities in unemployment rates. In this phase, the focus shifted to a significant extent (but not exclusively) to reducing business costs for local firms or to attract new businesses through production subsidies and incentives. In a sense, this represented the beginning of approaches that could be seen as about building regions' *competitive* advantages (instead of or as well as building on their *comparative* advantages), but crudely applied through financial incentives and subsidies to firms. The approach remained essentially tops-down and centrally driven. It also remained concentrated on lagging regions and, indeed, could be more clearly seen as involving cross-subsidies from successful regions to those that were less successful.

Phase Two: More and More Endogenously-Driven Approaches

Evidence of a general lack of success, or of sustained success, of exogenously-driven approaches to regional economic development, recognition of the challenges posed by globalisation and the emergence of new thinking about the sources of business and regional competitive advantages, led to the beginnings of Phase Two. This has progressively evolved into an approach in some nations and some States but not South Australia which can be said to be essentially about bottoms-up, endogenously-driven regional development, with a focus of regional development policies and strategies on all regions, not just those lagging.

The work of Michael Porter (1990) on the Competitive Advantage of Nations together with new growth theories that were evolving around that time (see Paul Romer 1986, 1990) led to thinking about regional development, and approaches to its achievement, more comprehensively based on building business and regional competitive advantages.

Porter’s approach stressed the role of industry clusters and networks leading to mutually reinforcing competitive advantages, with *local* factors, including demand, institutional and regulatory factors and collaboration by networks of suppliers contributing to growth. He also emphasised that innovation depends on knowledge and skills embodied in people and regions, and that skills creation and their influence on innovation are intensely local.

Romer’s (endogenous/new) growth theory also emphasised local knowledge and its consequences for regional growth. In regions with relatively high levels of knowledge creation, learning (including tacit) tended to reinforce the process of new knowledge creation, dissemination and use, he argued.

While these theories and empirical studies based on them emphasised the significance of factors endogenous to regions they initially had a strong focus on innovation and technological change, including the importance of local culture, entrepreneurship and leadership networks and collaboration in stimulating and sustaining it. This led to “technology-based” approaches to regional development and spawned centrally-driven regional development strategies designed to try to build the basis for “innovative regions” by trying to replicate the conditions found in regions that already were innovative such as establishing technology parks, networks and business clusters.

However, unsurprisingly, not all regions have comparative and competitive advantages conducive to technology-based growth and the subsequent, most recent, stage in thinking about regional development, built-still on a recognition that local factors play a significant role in the development of competitive advantages, broadened thinking to how local resources in a broader sense might lead to different regional patterns and paths of development and growth.

Appropriately termed models of endogenously-led growth, as explained in the Introduction and Overview earlier and further developed later, they emphasise mobilising and strengthening ***all*** local resources, human, financial, social and natural resources, to create competitive regions. Moreover, there has been increasing recognition that this is likely to be most effectively achieved by regions and localities themselves playing the lead role. The role of central governments in this way of thinking is to facilitate local decision-making, network building and skills formation, not to try to lead and drive regional development. This is the model now advocated by the OECD (see OECD 2001 and 2001a) and a recent study of its application in OECD countries (OECD 2010) indicates its widespread adoption in principle, but with varying degrees of progress.

Clearly, the latest thinking and policy development represents a very substantial transformation of regional economic development policy from that evident in the 1950s through to the 1980s, and even of the models in the 1990s. Instead of tops-down, centrally-driven and subsidy-based development policies and strategies focused almost exclusively on lagging regions the approach is now one that advocates a bottoms-up approach, with local leadership and central government facilitation, encompassing ***all*** regions.

Revisiting the Report of the Regional Development Task Force

As noted in the Introduction and Overview section, our reading of where the South Australia government's practice of regional development assistance is located in this evolution of thinking is that it is essentially stuck in the 1990s, with elements that reflect even earlier thinking. More broadly, South Australia continues to practice *regionalisation* rather than *regionalism* (Campbell 1996, McDonald et al, undated). That is, regional service delivery by public sector agencies is decentralised in ways that suit the administrative convenience of public sector, with funding and (hence) policy decision-making retained at head-office; and regional development initiatives are either determined and pursued centrally (major business attraction) or through regional development organisations established and substantially under the control of centralised public sector agencies.

This state of regional development strategy is regrettable – to the disadvantage of South Australia's regions *and* the State's overall performance – and particularly because it reflects a failure of the government to adopt some of the most important recommendations of the Report of the SA Regional Development Task Force (1999).

The Task Force, which was established in August 1998 and reported in April 1999, set out a regional development strategy (an Integrated Regional Development System) "which tied policies, processes and plans together" and, it was argued, should provide:

> "... services and support **for** regions and **not to** them, and which consults with regional leaders to set realistic and agreed targets to help regions achieve their goals" (Task Force, p. ix).

The Task Force considered there to be the need for a "strengthened, clear coherent policy framework for regional development ... to better integrate the strategic directions of regions with the State's overall development objectives" (p. viii). That is to say, the strategic directions of individual regions and the opportunities for each region needed to be identified and encompassed in a State-wide plan.

The Task Force identified a failure to consult with regions, with "limited examples of collaboration across agencies reflecting an inward looking and agency focused culture and approach to service delivery" (p. vii) and a need for a new strategy, including for service delivery, to empower and shape the future of regions.

The Task Force argued for a new approach – essentially to strengthen the capacity of regions to help themselves – which required a change in approach and attitude from central agencies, as well as a soundly formulated regional development strategy. The strategy would be based on a “smaller number of strategic planning regions for the State” (p. ix). Arguably this, at last, has been achieved (more than ten years later) with the creation of twelve uniform state government regions (SGRs) – 4 metropolitan and 8 non-metropolitan and, more recently, Regional Development Australia (RDA) establishing (almost) co-terminus South Australian regional committees

With the establishment of Regional Development Australia (RDA), which has led to the amalgamation (or incorporation) of RDBs with RDA, South Australia now has fewer and potentially stronger regional strategic governance arrangements. This is precisely what was envisaged by the Task Force. At that time they urged the following:

> “Strategies be adopted to develop a coordinated approach to regional economic development with State and Commonwealth governments and ... the State and Commonwealth governments form a partnership relationship to regional development in South Australia, in collaboration with Local Government” (4.12.1; p. xxvi).

The Task Force had consulted widely with regional representatives and reported on the need that those representatives had expressed to involve regional leaders in decision making

> “... the emphasis was on genuine involvement in decision making processes in their region ... plea for empowerment and involvement in setting and implementing the future directions of regions ...” (p. viii).

Governance arrangements needed to be established, the Task Force emphasised, to help regions “shape their own futures”, to identify opportunities and to collectively set a pathway to achieve the growth potential of each region.

The Task Force argued for a “change in attitude of government and agencies” by which it meant developing a “shared vision and the creation of a culture of commitment to regional development within government” (p. ix).

The emphasis of the Task Force was that regional development is about regional communities “improving their economic, social, cultural and environmental wellbeing, by fully developing the potential of a region and its people” (p. x). These objectives would be achieved by

- improving regional competitiveness and encouraging private investment;
- building social and human capital;
- developing strategic partnerships and alliances; and
- promoting and fostering innovation.

This emphasis not only fits the model of endogenously-driven development and growth but also fits squarely with the objective of building regional capability to respond to policy and market-induced change and to take-up new opportunities (e.g., respond to drought, initiatives to support the mining sector, response to new energy sources, etc.) and it defines "development" more broadly than just dollar terms.

The objectives and approach recommended by the Task Force relate closely to the endogenous growth theory including a significant emphasis on training, skill development and social capital, encouragement for firms and business to innovate, and the pursuit of pro-competitive policies to support productivity improvement and competitiveness. The involvement of regional leaders in setting future directions and building a shared commitment was regarded as essential to the achievement of these objectives. The Task Force argued that a culture of commitment to regional development, the involvement of regional leaders and new governance structures were necessary to meet the demands and opportunities of the knowledge economy.

The analysis and recommendations of the Task Force were far reaching, but were not always appropriately acted on. For example, one response following on the Task Force Report was the establishment of a Regional Communities Consultative Council (RCCC)., However, contrary to the Task Force's intentions, it has effectively operated (albeit independently) upwards – "to make recommendations to the Minister; to advise the Minister about the broad impacts of decisions **on** regional communities; advise the Minister **on** the challenges and opportunities in the provision of government services and programs **to** regional communities" (what about the effectiveness and outcomes thereof!). Information flow is upwards and centralist, advice is about policies and issues that **impact upon** or **do to** regions. It is not a strategic, planning body capable of articulating a vision or developing a shared commitment to a vision for any region. It effectively filters individual member opinions, views and perspectives to a Minister and is an arrangement that has few links to existing regional governance structures and decision making bodies.

In fact, despite the then South Australian government being broadly supportive of the conclusions and recommendations of the Task Force, it has mainly been the top-level institutional structures recommended by the Task Force that have been implemented and maintained, and even then not always as they envisaged. In addition to establishment of the Regional Communities Consultative Council, a Minister has been given designated responsibility for Regional Development issues; an Office for Regional Development was established and continues; and a Regional Development Infrastructure Fund was established (but is now under threat of closure as a result of the conclusions of the Sustainable Budget Commission). However, policy and strategy has not reflected the model proposed by the Task Force. Indeed, as already noted, currently the South Australian government does not have an official regional development policy, and it is only now, significantly influenced by the Commonwealth's restructuring of its engagement with the regions nationally through RDA, that a smaller number of strategically-focused regional development organisations have been established as recommended by the Task Force. The Task Force's conclusions also included that, for example:

- there was a need for a new vision for regional development in South Australia and for an integrated planning and development framework;
- there needed to be fundamental changes in the way State public sector agencies interact with regions and a change in the culture of engagement; and
- there needed to be genuine empowerment and participation of regional leaders and organisations in decision-making for their regions.

These recommendations have not been adopted, notwithstanding that the Task Force forcefully argued that they were critical to enhancing the economic performance and social wellbeing of regions – and hence of the State – and that it emphasised that they could be achieved by evolutionary rather than revolutionary change.

As we noted at the outset, not even in the development of the so-called ***State*** Strategic Plan was consideration given to a vision and plan for the regions. Only one target in the current version of the Plan is specifically regional in its content – Target T5.9: *maintain regional South Australia's share of the State's population (18 per cent)* – which is not only downright vision-free but also implicitly equates the term "regions" with "rural and remote", quite the opposite of approaches adopted internationally and promoted by the OECD which see all regions, including major cities, as appropriately and desirably included in good-practice regional development strategies. While the current process of "Regionalising the Plan" is including all regions, the current drafts of the regional plans appear not in the least bit inspiring.

This opportunity missed in South Australia since the 1999 Task Force Report can be gauged from developments elsewhere. The Task Force's recommendations **preceded by three years** the OECD's publication on Cities and Regions in the New Learning Economy which recommended an almost exactly similar approach. And they **preceded by six years** the reorganisation of the public sector regional development agenda in Victoria which focussed strongly on strengthening regional capability, building regional leadership, investment in physical infrastructure and human capital, innovation, new partnership and devolution of decision making and resources to local communities. Large scale programs involving a number of State government agencies have been designed and implemented in response to the drought, structural adjustment, climate change, water capture and re-use, industry competitiveness, education, training and skills development, health/community/disability services and neighbourhood renewal.

Borrowing from the ideas and many publications of the OECD, the Victorian Government released a series of statements with a "focus on investment in human capital and promoting innovation to address spatial inequalities and build competitiveness."

Victoria has adopted this

> "new approach to local and regional development based around investment in education and training, encouraging firms to innovate through working together; letting regions take an entrepreneurial approach to development based on their existing assets [endogenous assets] and promoting social and economic inclusion.
>
> ... government has reorganised at a regional level to join-up different agencies, business, educational institutions and communities and strengthened ties between them through building social capital."[1]

The emphasis on human capital and innovation is well placed because a number of OECD reports consider the importance of, particularly, secondary education for innovation, productivity and regional economic performance (see Appendix B for a review of empirical findings about factors contributing to regional growth).

The Victorian Government also reorganised

> "public administration arrangements and introduced new policy instruments to invest in the capabilities of local communities and regions ... including establishing eight Regional Management Forums across the state to coordinate work between State and Local Government, introducing project teams to deliver place based initiatives, creating a single on-line entry for community grants and introducing inter-departmental Task Forces to work in collaboration with intermediaries at regional and local levels."[2]

Rethinking Regional Development

The opportunity missed by South Australian governments' failure to adopt the evolutionary approach proposed by the Regional Development Task Force, and the opportunity still being missed by failing to have any sort of vision for the regions within which a coherent regional development strategy could be developed, is no small matter. It matters to regional communities whose economic performance, social wellbeing and environmental sustainability could be enhanced by a supportive approach by the State government. And it matters to the State as a whole: as a matter of logic, it is impossible to have meaningful aspirational economic, social and environmental objectives for "the State" without implicitly having aspirational targets for the regions. A regional development strategy is needed to help understand and promote achievement of regional, and hence State, aspirations.

As we have explained previously, current thinking and to some degree practice, certainly in some countries and Australian States, emphasises the importance to regional development and growth of effective mobilisation and strengthening of regions' endogenous resources. This way of thinking and a renewed interest in regional development and regional development policies, programs and strategies in recent times has emerged in response to the "new economy" or knowledge based learning economy as described by the OECD, and greater emphasis has been given to specialisation and innovation and clustering of industries, including value-chain connections, as described by Porter. The term "new regionalism" reflects this renewed interest and desire to achieve real outcomes and improvements in regional planning and development. New regionalism conveys the

> "... importance of location to economic and industrial activity, and associated theories concerning learning and innovation in the regional setting. The essential tenets of the New Regionalism body of theory are that the region has become the new face for economic activity, innovation and transfer of learning and knowledge; that it is at the regional level that tacit knowledge is transferred, and that face-to-face interaction occurs. The literature on trust and cooperation suggest that these are more likely to occur where there is a strong possibility that the agents will meet again."[3]

The priority given to human capital, knowledge and skills is then reflected in building a skilled workforce and steps to address the loss of skills through an ageing population.

In the decade preceding the global financial crisis, modern economies and newly industrialising economies experienced very strong demand for skilled labour particularly in fast growing regions (e.g., mining localities and high technology centres), including competition for skilled labour in national migration programs. The demand for a more highly skilled workforce was also evident in the renewed interest in the quality and outcomes from labour market training and employment assistance programs.

A number of responses can be observed to labour shortages. The first has involved the design of policies to create mutually reinforcing linkages between income security arrangements and workforce participation (e.g., "Flexicurity" largely in the Nordic countries in the EU: pro-active labour market policies combined with flexible labour markets and income security systems)[4] and, in Australia, a continuation of policies and programs to reinforce 'mutual obligation' and the introduction of training entitlements such as the Youth Compact. There has also been a recognition of the importance of literacy and numeracy in the workplace and the impact of inadequate foundation skills on workforce productivity.

The second response has reflected the scale of demographic change being experienced or in prospect in most western economies and, in particular, the need to respond to the loss of skills from an ageing workforce. Responding to an ageing workforce has given rise to new strategies to retain and retrain workers, new ways of assisting injured workers return to work, more intensive assistance for job seekers with a disability, legislation to increase the retirement age and a range of other initiatives.

Along with these responses, there has also been an acknowledgment that labour market programs, income security policies and economic development policies are inextricably intertwined and that skills in the local or regional economy exert an influence on investment, productivity and economic development decisions. Endogenous or new growth theories emphasise the role of innovation and creativity through investment in human capital but the critical point is that the theory suggests policy initiatives (and they are essentially pro-competitive policies) can impact on the long run growth rate of economies.

In addition, a set of 'external' issues, which include that globalisation, growth in world trade, climate change, food, water and energy security, the challenge of sustainable development and the new knowledge economy, contain challenges and require strategic initiatives at national, state and regional levels.

For example, the Upper Spencer Gulf Provincial Cities are soon likely to experience "resource based economic growth" along with growth from "knowledge based activities" – that is to say, knowledge based employment and development and use of technology, *inter alia*, energy from hot rocks, a desalination plant, wind power, solar generation on a large scale, inland aquaculture, expansion of dryland farming, etc. Each of these industries is knowledge intensive and combined with the expansion of the resource intensive mining sector, it is imperative that the region captures the benefits of technologies and technological progress and knowledge based activities. Knowledge and ideas are critical to growth, they are subject to increasing returns to scale and offer opportunities for further growth.

Capturing the benefits of knowledge associated with new industries and technology should be "a vision of the regional agency", whether it is the Upper Spencer Gulf Common Purpose Group or Regional Development Australia (RDA). Enabling that vision to be realised will be part of the strategy that the regional agency and community endorses – for example, it may include higher school retention rates (including monitoring outcomes to ensure that this is achieved), expansion of certain trades, new courses at TAFE/VET and regional university, partnerships with local companies, local government, and education providers, re-designed unemployment assistance programs, and so on.

This constitutes "new regionalism" in action – recognising the importance of location and devolving strategy, planning and delivery to the region to meet the demands from the bottom-up and this runs counter to the process of regionalisation of the State Strategic Plan, which is pushing from above.

> "Regional policies crafted through the new regionalism framework broaden the substantive goals of local and regional development into areas such as natural resource management, education and training, liveability and land use planning, and health and nutrition. These are policy areas that move beyond the immediate boosting of employment and are concerned with a variety of endogenous factors that underpin regional growth such as infrastructure, knowledge and skills and social capital" (McDonald, undated, p. 12).

Acknowledging the importance of endogenous factors and endowments is a critical starting point for regional development policy and strategy. This is one reason why the Regional Plans cannot simply be an extrapolation of the State Strategic Plan. The State Strategic Plan is inappropriate to rural, agricultural and industrial based regional economies. In fact, it is inappropriate in a number of respects, including, for example, industry structures and performance characteristics vary across regions; population profiles are different to urban Adelaide; education profiles are different and reflect the specialisation of a region or limited diversification; the relative importance of water for agriculture or skills/training for mining are different for each region; path dependent growth opportunities and characteristics of regions are very different. [5] This last point is well illustrated in the indicator "employment in the defence industry" – it is relevant to the Far North Region, which includes the defence establishments at Cultana and Woomera but no other region and, in any event, regional agencies have no decision making or control over defence industry establishment or location. It is arguable that even measures of "building communities" will be very different in non-metropolitan regional locations than the urban centre of Adelaide.

It is important to ask in regional development planning whether regions are locked into path dependent historical growth patterns or might, for example, the Eyre and Western region and the Far North region become the "energy innovators" through wind, solar and wave energy industries? How best to facilitate new opportunities to diversify the economic base of any region?

The question then is how government should approach the need for strengthened regional structures, how it thinks about regions, and how it transfers roles and responsibilities to new forms of regional partnerships (i.e., new forms of public administration).

In short, of what should a "regional development" strategy consist?

The first point is the need to recognise the constraints which exist in terms of governments' ability to 'drive growth', but governments can assist regions with meeting framework conditions, including, *inter alia*, (i) skills and workforce development, (ii) infrastructure that enhances competitiveness",[6] (iii) awareness; (iv) the ability and capacity to tap into relevant State/Commonwealth programs; and (v) pro-competitive policies that promote rising levels of productivity.

Second, a determined response to address regional capacity building is necessary, including:

- supporting and strengthening local organisations which can engage effectively with other levels of government to take advantage of opportunities;
- ensuring central policy is informed by regional needs and characteristics;
- delivering Commonwealth and State services in regionally appropriate ways; and
- providing a local guide to steer residents/businesses in regions to the appropriate area of government to meet their needs.

Third, the framework should support research and development relevant to regional needs and provide support to enable regional stakeholders to engage with research/development activities and take advantage of them.

Towards A New Approach to Regional Development in SA

A new approach to regional economic development in South Australia is unquestionably needed. While, to prove effective and sustainable, it will need to adopt key principles and practices of the new thinking about regional development policies and strategies, this does not, necessitate a revolutionary shake-up. As the Regional Development Task Force recognised more than a decade ago, an evolutionary approach is more likely to succeed. Some recent developments in SA suggest that there may be emerging a basis on which the evolution can begin.

The South Australian Economic Development Board (EDB) noted in their recent Economic Statement that "for South Australia to achieve its full potential it is imperative that our regions fulfil their potential". A new approach to regional development was argued by the EDB, with two reforms said to provide the foundations for a new approach to regional development:

- the adoption of uniform regional boundaries by the public sector; and
- the "regionalisation" of the South Australian Strategic Plan.

The first of these provides an opportunity to rethink how and why government needs to reorganise to strengthen regional capacity and delivery systems; the second, as we have just indicated, must be much more than simply extrapolating and scaling down from the State Strategic Plan.

The new RDA network builds on the decision of the State Government to set uniform regional boundaries, about which the Economic Development Board argued:

> The adoption of uniform regional boundaries for the provision of State Government services promises better collaboration across government agencies through developing shared understandings of commonly defined regions and the challenges and opportunities they face. There also exists a unique opportunity to develop a new regional development structure which will align and integrate regional development activities and structures across the three levels of government. The EDB encourages this cooperative development which would reduce duplication and increase the efficiency of regional development service delivery.

What might this "cooperative development" imply?

There are potential opportunities:

- to involve regional communities in the delivery of services;
- to better integrate Commonwealth and State funding, programs and local services;

- to formulate comprehensive and accurate regional profiles to facilitate investment, encourage population growth, address skill gaps and shortages, etc;
- for collaborative effort among agencies and joined-up funding (or pooled funding) to achieve agreed social and economic outcomes such as raising school retention rates, increasing enrolments in VET/TAFE, opportunities to develop generic skills, etc; and
- to set in place consistent actions to take advantage of market opportunities, support local innovation, diversify production into high value-added export markets and strengthen regional identity.

The adoption and use of uniform regional boundaries provides an opportunity for inter-governmental cooperation in addressing region-specific or location-specific issues as well as a unique opportunity to establish closer relationship between economic development, and natural resource management and environmental sustainability, and between regional policy and education, training and labour market policies and programs.

The Sustainable Budget Commission reiterated the same theme in recommending that the Government consider the long term reform direction of regional natural resource management service delivery, and explore opportunities to improve coordination between agencies to improve service delivery and realise efficiencies (REC.21).

Unfortunately, the Commission, disappointingly, then recommended that the State government cease grants and funding to the State's regional development role (by 2013/14) because the Commonwealth had funded Regional Development Australia. This recommendation is opposite to the direction suggested by the Economic Development Board (based on state uniform boundaries) and developments in other states. In contrast, the Victorian Government has promised an additional $2 million to RDA Committees to "pursue economic development priorities" including for regional strategic plans, strategies to respond to regional economic and industry development issues, environmental adaption, sustainable development and place-based initiatives in disadvantaged locations. You might reasonably expect that South Australia's regions be invited to respond to a similar agenda! The Commission also recommended alternative delivery methods for regional tourism – regional visitor information centres – specifically that they be located with "regional local councils" (presumably they meant non-metropolitan councils) and regional development boards (which they advised should not continue to be funded!).

It would have been more strategic to recommend specific actions designed to achieve cost savings, administrative efficiencies and the promotion of regions based around the use of state uniform regional boundaries – e.g., co-location of RDAs, NRM, regional tourism bodies, labour market programs, welfare support programs, etc.

This would have been more consistent with the views of the Economic Development Board and the OECD (2008) that argue the need, for example, to harmonise economic development and labour market policies "which are often delivered in silos". The OECD consider that:

- "labour market institutions need to become major economic players, not just at national level but also at local level, through interacting with economic development ..." (p. 18);
- "the responsibility of labour market policy and training is to help generate skills that are adapted to the local economy and to be responsive to investment and economic development decisions that may have an impact on future skill needs" (p. 19);
- "labour market policy and training needs to have a strong demand dimension, in which information and training are geared to meet the needs of local business while balancing the needs of local people for decent jobs" (p. 25).

South Australia is uniquely placed at this time to draw together initiatives of the Commonwealth in regional development, labour market and employment placement programs through the new state-based regional development structures, RDA(SA), and labour market training programs and policies.

Table 1 shows the concordance between the agreed Regional Development Australia (RDA) regions, the South Australian Government uniform regional boundaries (SGRs) and the Employment and Skill Formation Networks (ESFNs) established by the Department of Further Education, Employment, Science and Technology (DFEEST) to plan and implement regionally designed labour market training and pre-vocational skill development initiatives.

New governance arrangements are required and it is necessary that they are more responsive to regional needs, employer labour requirements and student demand and must be devised on the basis of a deep and factual understanding of trends and "drivers of change and growth" at a regional level. It is self-evident that government agencies need to utilise consistent regional boundary frameworks when developing regional profiles for land use planning, social and environmental policies and economic development strategy. This evidently is the intent of the EDB when it concluded that the "adoption of uniform regional boundaries" provided the foundation for a new approach to regional development.

For the Commonwealth's part, they have reformed job placement agencies through Job Services Australia and, as noted above, established Regional Development Australia (RDA), a network of state-based regional development bodies. South Australia's long established Regional Development Boards (RDBs) were effectively amalgamated into the new RDA structure of seven non-metropolitan boards and one metropolitan board. The new regional structures are based on the State uniform regional boundaries.

Table 1
Concordance between RDAs, SGRs and ESFNs

Regional Development Australia (RDAs)[(1)(2)]	SA Government Uniform Regional Boundaries (SGRs)	Employment and Skill Formation Network (ESFNs)
Metro		
• Adelaide Metropolitan Advisory Committee	• Northern Adelaide • Southern Australia • Eastern Adelaide • Western Adelaide	• Northern Adelaide • Southern Australia • Eastern Adelaide • Western Adelaide
Non-Metro		
• Eyre & Western Region	• Eyre & Western	• Eyre • Whyalla
• Far North Region	• Far North	• Flinders Ranges & Outback
• Yorke & Mid-North Region	• Yorke & Mid North	• Mid North • Southern Flinders • Yorke
• Barossa Region	• Barossa	• Barossa
• Murray & Mallee Region	• Murray & Mallee	• Murrayland • Riverland
• Limestone Coast Region	• Limestone Coast	• Limestone Coast
• Adelaide Hills, Fleurieu and Kangaroo Island	• Adelaide Hills • Fleurieu & Kangaroo Island	• Adelaide Hills • Fleurieu • Kangaroo Island
Metro = 1 Non-Metro = 7	Metro = 4 Non-Metro = 8	Metro = 4 Non-Metro = 13

Note: (1) Integrate 13 RDBs and 4 ACCs in regional South Australia to create 7 new RDA (SA) Bodies based on South Australia Government regions.
(2) Establish one new RDA (SA) Advisory Committee based on the four Metropolitan Adelaide South Australian Government regions to be known as the Adelaide Metropolitan Advisory Committee.

According to a Memorandum of Understanding between the Commonwealth, the State government and the Local Government Association, RDA (SA) aims are to:

- improve the coordination and delivery of regional development initiatives;
- deliver local input into national programs and help co-ordinate development initiatives at the regional and local level;
- work with the three spheres of government as a key linking organisation to empower communities in regional development activity;
- provide advisory and support services to business, State Government and Local Government Bodies and the Commonwealth in the regions;
- provide local input to governments on the effectiveness and delivery of policies and programs in the regions;

- consult and provide advice on local issues confronting the regions; and
- provide a shop front for business development services.

South Australia, through the initiative of DFEEST, has in place some 17 Employment and Skill Formation Networks (ESFNs) that are responsible for planning and implementing state-based labour market skills and training programs to assist those with the greatest labour market disadvantage find and retain employment and assist employers with their training and recruitment needs.

While more can be done to strengthen the relationship between economic development programs and labour market programs within a regional uniform boundary context, it is important to acknowledge that some of the fundamentals are in place.

For example, DFEEST delivers state-based labour market assistance programs through *South Australia Works* in the Regions, which has been an effective delivery mechanism in large part because it has been able to customise programs to meet local demand, to leverage financial resources, and develop a relationship between labour market programs, the needs of local employers and local economic development strategies. One of the strengths of *South Australia Works* in the Regions has been the delivery of the Program through the 17 ESFNs which are supported by local economic development boards and have expertise in:

- the availability and interpretation of data;
- knowledge of the changing trends in regions and their impact on industry demand for labour and skills;
- knowledge and understanding of state/regional/local industry workforce planning;
- resourcing of local projects from a variety of sources and achieving value for money; and
- partnerships with industry to identify and resource regional priorities.

The second "major player" in State regional development is the Department of Trade and Economic Development (DTED), largely through the now defunct Regional Development Boards and the investment/infrastructure program, the Regional Development Infrastructure Fund (RDIF). The RDIF program was traditionally justified on the basis of different infrastructure costs between metropolitan and non-metropolitan South Australia. Given the diversity of regional economies, their different growth rates and different other 'regional issues' such as water availability and security, climate change, population trends, changing patterns in land use, industry development, attracting business investment and dealing with a host of social inclusion issues, a single program response such as the RDIF is no longer sufficient to assist regions.[7] Individual programs that "come and go" have proved incapable of dealing with systemic, intractable challenges that many regions need to address. In any event, following the Report of the Sustainable Budget Commission, and its reflection in the 2010-2011 State Budget, it is not clear what role DTED will have in regional development in the future. Given that it is being gutted of financial resources and strategic person-power, even the limited role it played in coordinating regional development through the Office for Regional Development would appear unsustainable.

What is required in future is not central government agencies deciding that targeted or regionally tailored initiatives are required (because regions exhibit different growth rates or that “one size does not fit all”) but an understanding that new approaches to harnessing the capacity of regional stakeholders are necessary, precisely because the issues and challenges facing regions are regionally specific and those best placed to act reside in the regions. And a new approach would recognise that there is no start or end point to the process of structural adjustment so that regions need to be able to constantly respond to local, regional and global trends.

For example, the responsibility for understanding and responding to regionally specific characteristics of the labour market and employer requirements needs to be squarely placed (and funded) at the regional or local level. This is ultimately the only sustainable strategy. The role of a central agency is to inform and assist but it is not to *do*.

Whether or not Regional Development Australia comes to represent a new governance structure (i.e., site or location for decision making) which motivates individuals to contribute by empowering them to do so is unclear at this time, but, what is clear is that new “network governance” arrangements are necessary to achieve policy solutions. Such arrangements will include government, business, community service organisations, not-for-profit organisations and other local associations to join-up resources and activities to achieve agreed outcomes. This can only be done at the local/regional level.

Conclusion

Regional development in South Australia is an agenda without a policy framework. Current practices in South Australia have barely advanced from before the recommendations of the Regional Development Task Force (1999). Statements of good intentions by the then government on receipt of the Task Force Report, and implementation of recommendations concerning “top-level” institutional arrangements notwithstanding, the approach proposed by the Task Force has not been developed and implemented. There is no overarching regional development strategy and the South Australian public sector has tended to engage in tops-down “regionalisation” not “regionalism”. Regionalisation versus regionalism “... is not an academic distinction as the values, assumptions and aspirations underpinning regionalism are quite different from those driving regionalisation ...” (Campbell 1996, p. i).

The advent of the knowledge/high learning economy, the continual process of adjustment and innovation in response to market driven opportunities and the need for greater involvement of regional communities requires new approaches and new policies for regional partnerships.

The regionalisation of the State Strategic Plan is not a sufficient response to the challenge of regional development as it reflects central government continuing to adopt a "top-down" perspective with respect to programs, funding, services and policy development. New approaches are required – such as "new regionalism" advocated by the Regional Development Task Force – which build regional autonomy and capacity/resilience, enable local responses to emerging opportunities/challenges/threats and build upon local assets.

The requirement for RDAs to develop regional plans captures the spirit of new regionalism – a regional, local approach to identify endogenous assets on which to build, reflecting community aspirations and visions, and building commitment and ownership to identify actions and strategies to grow the region. As set out in RDA's guidance (RDA 2009),

> "... Regional Plans should set out the economic, environmental and social vision for the region, articulate the drivers of change, identify strengths and opportunities, weaknesses and list priorities for action. The Regional Plan should be driven by a knowledge of government policies and initiatives with which the community can engage. A key focus of the Regional Plan should be outcomes that can be delivered by and for the community, as well as a strategy to ensure this.
>
> Successful regional planning depends on working closely with stakeholders to identify the economic, environmental and social factors which define the region. Regional Plans should be developed in consultation with key stakeholders, so that they reflect the community that they are intended to support and give a strong sense of ownership and value."

The role of central government is to assist regions to achieve their goals, to facilitate regional governance decisions and support local initiatives that improve regional competitiveness and advance the quality of life.

A new approach is required based on state uniform regional boundaries (and support to the RDA network) to support inter-governmental programs and cooperation, to address location specific issues and to integrate economic, environmental and social development objectives.

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Appendix A

Literature Overview: Approaches to Regional and Economic Growth

In this Appendix, we provide an overview of the policy approaches to regional ***economic*** development that have predominated at different times over the period since the 1950s and of the economic circumstances and economic theories that have influenced the choices between alternative policy approaches.

Approaches to regional development continue to evolve in response to "new economic models", insights into the competitive advantage of regions (and nations!), the emergence of fast growing regions and the revitalisation of industrial centres.

Regional areas have some similar but also many different, sometimes unique, characteristics, which give rise to significant challenges for policy makers. The second half of the 20th Century saw several distinct approaches to regional development which had their origins in a mixture of changes in the economic forces acting on nations and regions; changes in the views of economists about the role and nature of economic policies in promoting increased living standards; and changes in broader understandings about the influence of the different characteristics of different regions on their growth potential. They have also reflected shifts in confidence about each approach as a result of observed failures and/or successes. The timing of the shifts in confidence between approaches has been relatively simultaneous across developed economies.

Although in the main text we categorised the changing approaches to regional development and growth into two main phases, for this more extended discussion it is useful to divide the second, more contemporary phase, into two. The three approaches are summarised as: the Exogenous Approach, the Endogenous Approach and the combined Exogenous/Endogenous Approach. They each see different regional characteristics to be important and infer different policy implications.

In what follows, we outline each of the three approaches, including the theoretical basis of each, and identify implications for government policies.

The Exogenous Approach

> The exogenous approach argued that potential stimulants to regional economic growth should be introduced to regions through an externally-determined, top-down process.

The exogenous approach dominated regional economics literature and practice from the 1950s until the 1970s in Australia and Europe and to more like the mid-1980s in the United States. It was considered that, through a centralised, top-down approach, economic development stimulants could be transplanted to regional locations to foster long-term economic growth in them.

Following the second World War until the early 1970s, Keynesian approaches to economic policies dominated. Although Keynes' theories applied principally to using (cyclical) aggregate demand-management to reduce macroeconomic instability, thinking about approaches to regional economic development considered that (systemic) demand-management at regional level also could help to reduce disparities between the economic performance of leading and lagging regions.

The focus on regional economic development at that time almost entirely concerned lagging regions. This was the golden age of post-war growth with low national average unemployment rates. The relatively lower growth and higher unemployment in some regions stimulated the formulation of regional development policies and strategies principally for reasons of equity and social stability and they, in effect, involved cross-subsidisation of lagging regions from the relatively higher income and business tax revenues derived from leading regions.

The practical application of Keynesian-era regional economic theories involved two components – both devised externally to regions and "imposed" on them. The first, the most strictly Keynesian, was to stimulate demand in lagging regions through public sector funded investment (capital works) in them, especially in infrastructure. The second, also Keynesian and interventionist in that it was designed to stimulate local demand and growth, involved attempting to build on lagging regions' comparative advantages, including their unemployed labour resources.

The focus of the second component tended to be on investment in the development of large and specialised manufacturing industries providing scale economies, such as the steel industry, automotive industry and defence manufacturing. Population growth follows, it was argued, as labour would be attracted to the region with a resultant expansion in non-basic, non-tradeable activities especially services, but also residential construction and leisure/recreation amenity. The development, expansion and subsequent contraction of Whyalla represents a fairly typical example of the exogenous approach. The subsidised location of the automotive sector is another example.

Growth Theories from which the Exogenous Approach Draws

The Keynesian theory that underlay the nature of the regional development initiatives implemented in post-war period was supplemented by theories of economic growth to explain why stimulating demand would also stimulate growth. The exogenous approach combined neo-classical growth theory and agglomeration growth models.

The neo-classical (exogenous) growth theories were those, initially, of the Harrod-Domar model (Harrod 1939, Domar 1946) and subsequently the significant extension of their analysis in the Solow-Swan model

(Solow 1956, Swan 1956). Those models emphasised the growth of the capital stock – specifically the growth of capital relative to that of labour – as providing the basis for growth, hence a rationalisation for the emphasis on attraction of relatively capital-intensive manufacturing industries as a platform for increased economic development and growth in lagging regions.

The role of technological change was recognised in the growth models as being important – ***crucial***, in fact, since otherwise diminishing returns to capital would imply that economies (national and regional) would reach a point at which there was no further growth. However, having no theory of how technological change came about, it was treated as exogenous to the model, seen as resulting in a continual series of "shocks" which raised the productivity of capital and stimulated further investment and growth. Empirical analyses, both over time for particular countries and across countries, based on the Solow/Swan model consistently resulted in the finding that a significant proportion of growth (more than 50 per cent in some cases) could ***not*** be explained by increased inputs of labour and capital. However, there was no way of discovering to what extent the "unexplained residual" came from different potential efficiency-increasing factors (e.g., improved quality of labour inputs from education and training, technical change, increased knowledge, entrepreneurship and so on). To that extent, the neo-classical growth theories left a "knowledge deficit" of substantial potential significance to the design of regional development strategies.

An important prediction derived from the Solow-Swan model was that regional growth rates would tend to converge ***in the long run.*** Diminishing returns to capital in leading regions, it was argued, would lead to relatively higher returns to capital in lagging regions and attract greater capital flows to them. Lagging regions would, as a result, begin to grow faster until they caught-up with leading regions when marginal returns to capital were equalised. However, both scepticism about this prediction and a sense of urgency about closing the gap between leading and lagging regions gave precedence in the application of regional development policies to more pragmatic theories of how to stimulate economic development and growth with economic geography foundations.

The *growth pole* theory (Myrdal, 1957; Hirshman, 1958) assumed a leading industry or firm would motivate a perpetuating economic growth cycle in the region, whereby multiplier effects from the initial stimulus would cause the region to grow, associated with an increased labour and capital supply, stimulating further economic growth. The essential idea is that the dominant industry would be the primary catalyst for growth.

Agglomeration growth models, a variant of growth pole theory, focus on the spatial concentration of labour and capital in a region. The agglomeration growth model posited that the potential for economies of scale increases as the concentration of labour and/or capital in a region expands.

The *Keynesian 'export base theory'* "divides economic activities into basic activities for export and non-basic activities for internal consumption". Growth in the basic activities enlarges the flows of money into the region, increases the demand for goods and services within it, and causes a corresponding increase in the volume of non-basic activities (Terluin, 2003). Keynesian ideas more broadly supported the investment in infrastructure to induce demand in "lagging regions" and extended to policy instruments such as preferential subsidies and tariffs to encourage industry location. Exogenous investment and industry attraction were seen as the key to promoting job growth.

During the 1970s, largely as a result of changing economic circumstances, there was at least a partial shift from the main emphasis of regional development policies operating on the demand-side to include ***supply-side initiatives***. Particularly beginning with the first oil-shock, and continuing beyond it, all developed economies became less economically stable and unemployment increased at the same time as inflation rates were rising. Regional disparities increased substantially, too, but given rising inflation rates, policies to try to reduce the disparities shifted, to a significant extent (but not exclusively), further in the direction of reducing business costs to local firms, or to attract new businesses, through the provision of financial incentives, including subsidies and tax concessions. The approaches, however, remained top-down and centralised, albeit arguably based more on building regions' ***competitive*** advantages than relying solely on their ***comparative*** advantages, but doing so by contrived means that had no surety of achieving sustained success.

Implications for Government Intervention

Initially, interventions stemming from the exogenous approach centred around modernising the agricultural centre (Terluin, 2003), often the largest component of economic activity in rural and regional areas particularly in the early 20th Century. The emphasis was on capital accumulation. However, intervention did not stimulate economic growth as projected, and therefore strategies based on the growth pole theory were implemented. Implementation of the strategies for business location based on growth poles implied a high degree of centralised planning. A large, usually industrial, firm was attracted to a regional area through subsidised overhead expenditures, low taxes and tariff protection. Many developed economies persisted with this strategy until the mid-1970s, and through to the mid-1980s in some areas of the United States.

However, evaluations of strategy based on growth pole theory concluded that it did not foster long term economic growth, and proved detrimental to local values in some cases. Interaction between local businesses and a leading firm or industry did not usually eventuate, a crucial failure undermining the growth pole theory. Criticisms included that a regional centre's service capacity was overloaded, tariff protection and subsidies bred uncompetitive and inefficient industries and social cohesion suffered. In addition, when location subsidies and other financial incentives were reduced or removed, firms relocated elsewhere, illustrating the temporary or transient nature of businesses initially attracted by locational incentives (Stephens et al, 2003).

Enterprise zones could be said to originate from the exogenous development approach. Zones were proposed to be created in regional areas offering lower taxes, subsidised overhead costs and improved access to capital markets. This strategy continued until the 1990s in Europe and the United States, until it was recognised that the cost of business and job creation in these zones per job created was very high (Gunther and Leathers, 1987; Stephens et al, 2003), as well as producing significant displacement and deadweight effects. In addition, it was estimated that 85 per cent of all firms would have operated in the region without the enterprise zone incentives, and were likely to have displaced local competition (Stephens et al, 2003).

In South Australia, even in relatively recent times, a variant of the growth pole theory was practiced using a variety of subsidies, tax-offsets and location incentives to attract back-office operations, call centres and firms such as EDS and Motorola. In almost all cases there were claims of poor interaction between local firms and the new business, and most relocated or shifted the bulk of their business interstate when the subsidies/incentives were reduced.

The lack of sustained success of exogenous-based intervention strategies led to new approaches recognising "new" economic realities and drawing from a new body of regional development theory, namely more endogenous-focussed approaches.

The Endogenous Approach

> The endogenous approach (or new growth theory) sought to take advantage of local *competitive* advantage, develop knowledge economies and clusters, and support local initiatives, collaborations and entrepreneurialism in a bottom-up fashion.

During the 1980s, it was being increasingly recognised by governments that globalisation of economic activities and relationships made increasing national – and hence regional – competitiveness an important objective if their countries were to attract mobile financial capital and maintain, let alone improve, their position in export markets. This particularly shone a light on increased productivity growth as a pre-condition for increased competitiveness. From a regional development policy perspective, the search began for strategies that increased their competitiveness not only nationally but also internationally.

Observation of the characteristics of successful regions and logical thought processes led to the conclusion that it was largely exploitation and enhancement of regions' endogenous resources – their human and financial capital and their natural resources – that would increase their competitiveness and growth. The focus of the resultant new approach – the (largely) endogenous approach – to regional economic development was on pro-competitive policies in the broad and on fostering and supporting local initiatives based on their competitive, not just comparative, advantages.

Growth theories from which the Endogenous approach draws

The two most influential theorists/writers on the endogenous approach were Paul Romer (1986, 1990) and Michael Porter (1990). Romer was a leading proponent of “endogenous growth theory” or “new growth theory” which essentially argued that policies which facilitate openness to ideas, technology, trade and market oriented competition can stimulate innovation and hence the rate of growth. Support for research and development and education can contribute to sustained innovation and growth. It follows that policies that restrict competition or that are designed to protect industries (e.g., tariffs, import quotas, etc.), will act to reduce competition and hence slow down the pace of innovation and hence economic growth.

Romer’s endogenous growth theory (to which both Lucas, 1988, and Barro, 1995, also were significant contributors) reflected work done by economists during the 1980s to try to “endogenise” technological change in economic growth models to overcome the weakness in the Solow-Swan model of treating it as an exogenous factor driving growth. This was achieved largely by including an R&D sector in a two-sector growth model, where the other sector consisted of producers of final products. Equally importantly – and essential to the inclusion of an R&D sector – ***human capital*** was included as a factor of production reflecting the skills and knowledge that make workers productive, including those engaged in research and development and in the implementation and use of new ideas.

The important point about this is that unlike physical capital, which has diminishing returns to its expansion, technology unchanged, expanding human capital generates increasing rates of return, not only as the source of innovation that increases returns to physical capital, but also because through leaning from new ideas (tacitly as well as formally) further new knowledge is created. This reflects a key characteristics of knowledge – that it is non-rival in consumption. That is, once produced it can be consumed (used) by many without diminishing its availability to others. Even if the dissemination of new knowledge is initially limited by copyrights, patents and the like, it can be extensively used for a price, it will eventually come off patent and, in the meantime, others can learn from the ideas behind it and adapt and build on them.

Moreover, knowledge in this context does not simply refer to ideas leading to technical or technological advances, but extends to ideas about new ways of organisation and governance of businesses that can contribute to process innovation. So while some early interpretations of the implication of endogenous growth theory saw it as favouring regions specialised around technical knowledge, it has applications, in principle across ***all*** regions that mobilise and augment their stock of knowledge and skills whatever their principal economic base might be. However, what types and mixes of capital – human and physical – a region chooses to invest in alongside its other resource endowments is likely to influence the growth rate it achieves.

A direct policy implication of the endogenous growth models is that, since knowledge-creation, and innovation and its adoption, most productively occur where there is rivalry, pro-competitive policies are required at national and sub-national levels. Protection or other forms of preferencing of particular industry sectors or businesses is likely to stifle knowledge-creation and innovation in them and in the regions in which they operate. Also, the importance of human capital to regional growth emphasises the importance of regions mobilising and enhancing local knowledge and skills – a process they appropriately could be supported in by central governments.

The other important strand of literature that stressed endogenous sources of competitive advantage as a basis for regional development and growth grew out thinking about strategies to create competitive advantages for businesses and applying them to a wider canvas of both national and regional growth. Michael Porter (1990) stressed the role of industry clusters and networks which were mutually reinforcing of competitive advantage and also that local factors, including demand, institutional and regulatory practices and collaboration of networks of suppliers contributed to growth. Ideas and innovations were quickly adopted by industry further reinforcing the competitive advantage of a region. Porter asked why some firms and industries in particular nations achieve success – and sustain that success over time – noting that “competition is dynamic and evolving”. He concluded that strong business and social networks aided specialisation; and that information and knowledge flows, and entrepreneurship, supported innovation that sustained success in export markets.

And on the question of innovation, Porter stressed the importance of knowledge and skills embodied in people and organisations, concluding that the “process of creating skills and the important influences on the rate of improvement and innovation are intensely local”. This is not a trivial observation in the South Australian regional context, because the major non-metropolitan centres possess either a cluster of specialist firms around a dominant industry sector or a single large employer. In addition, we know that large firms are more likely to be able to afford to engage in innovation and firms in sectoral clusters support business and social networks and high rates of knowledge and information flows.

The *community-led rural development theory* emphasised “growth from within” and the need to strengthen local actors in their ability to organise, resolve conflicts, network, mediate and lead, as well as enhancing education in understanding business and government and the importance of creating a shared vision (Murray and Dunn, 1995). Developing the leadership capacity of individuals and community groups was supported through “new leadership programs”, programs to “build local entrepreneurs”, and so on.

The *Bryden theory* argues that, in the face of increasing globalisation, the mobility of labour and the mobility of capital and information, immobile and underutilised resources in a region should be harnessed to create competitive advantage, as these resources are not subject to competition (Bryden 1998; as quoted in Terluin 2003). Local immobile resources may comprise both tangible and intangible resources, including a region's natural resources (and expansion thereof) and social capital, cultural capital, environmental capital and/or local knowledge capital.

Implications for government intervention

Both new growth theory and the Porter analysis of the competitive advantage of firms and industries (in particular regions/locations) stress the role of innovation in regional development, where innovation derives from knowledge, information, and investment in education, training and skills development. In the face of adjustment pressures (however the pressures may arise, including from global competition in trade, technological change, drought, reductions in water allocations, higher energy costs, etc), regional growth will emanate from a community or industry responding to, or developing, new opportunities such as changes in land use, technology, new products or implementing changes that lead to productivity gains.

The history of South Australia's rural sector illustrates all of the above – response to competitive pressures, response to drought, technology improvements, crop improvements, expanding and diversifying horticultural production, investment in research and development and local innovation based on local knowledge.

Interventions should therefore focus on building physical, human, natural and social capital internal to a community. This can be through devolution of administration to the lowest appropriate level of government, as has occurred in the European Union (Stephens et al, 2003), promotion of partnerships and alliances between industry, government and the community through formal committees and/or administrative processes and provision of education and training. In addition, policies to support the development of local immobile and underutilised resources, particularly through education, training and skills development, and knowledge and know-how to build and strengthen cluster-industries should consistently reflect pro-competitive, market oriented outcomes.

The challenge for government in regional development policy and governance is how to encourage regions to innovate faster, "improve and upgrade", acquire information and develop the human, physical, knowledge, capital and infrastructure resources to build competitive advantages from endogenous assets and characteristics (i.e., sector specialisation) of a region.

The role of central government (and all its agencies) is to set the framework conditions including reorganising government, to promote competition and innovation, thereby contributing to "high and rising levels of productivity" and it should be single minded and strategically focussed to this goal (i.e., to act as a "pusher rather than a doer").

Combined Exogenous/Endogenous approach

The combined exogenous/endogenous approach reinforces the requirement for local development to be in the context of external conditions – 'think global, act local'.

The exogenous/endogenous approach gained popularity in recent decades, and has been aggressively implemented in Europe, has thus far with much success. It draws heavily from the endogenous approach, but in addition emphasises the requirement for external players to support the development process, as well as local players to be aware of this requirement. The perspective of local players, especially in those cases where autonomy for major decisions has been transferred to the local level, must be global and forward-thinking, in order to be *pro*active rather than *re*active in policy formulation.

EU policies on regional development have been influenced by relative differences in growth rates of regions and nation-states, a desire to assist "lagging regions" (if only to ensure social cohesion) and EU wide policies on innovation, technology transfer and adaptation to a knowledge-based economy.

The McKinsey and Co (1994) report stressed the development of regions through expanding economic and export activities (i.e., "focus on markets beyond the region") suggesting that regions should "act locally while thinking globally" (i.e., increase their competitiveness), promote investment to achieve employment growth, build leaders at the regional level to manage and respond to change and establish a vision for the region. A guiding principle underpinning the report (and others, e.g., The Kelty Report, 1993 and the Industry Commission Report on Impediments to Regional Industry Adjustment, 1993) was that regions should be facilitated and encouraged to help themselves.

Growth theories from which combined Exogenous/Endogenous approach draws

Related theories from which this approach derives draw from those encompassed in both the exogenous and endogenous approaches.

So far as theories of economic growth are concerned, it is clearly the "new" endogenous growth theories associated with Paul Romer and further developed by others that are most complete. By stressing the importance of human capital as the source of growth-promoting innovations, it emphasises that mobilising and enhancing a region's human capital – its knowledge and skills – is a potent force, adding competitive advantages to its development of its other resources.

The *export base theory* provided encouragement for local actors to search for market and export opportunities in a global context, and to compete on a global scale (i.e., focus on competitiveness) based on a region's resources and regional innovation.

The *growth-pole theory* was adapted to include knowledge and service industries rather than just manufacturing, mining and other secondary industries. The 'growth pole' might be a grouping or cluster of vertically integrated, knowledge sharing small and medium enterprises, rather than one large firm. In addition, it is argued that small and medium enterprises emerge from within a community (e.g., Silicon Valley and Boston's Route 128), rather than being 'transplanted' as with traditional growth-pole theory interventions.

Both the *community-led rural development* and *Bryden theories* are captured by the exogenous/endogenous approach; however it is recognised that the internal capacity of local communities with respect to funding and leadership and business knowledge, may be limited. Partnerships and alliances between external actors and the community are therefore promoted and encouraged, as well as partnerships between two or more geographically separate communities in order to share experiences, coordinate industry development and increase funding, marketing and bargaining powers.

Implications for government "intervention"

A major implication for government's approaches to developing regional development strategies and policy is the recognition of unique regional area characteristics and therefore the requirement for individualised and tailored strategies. That is to say, there is no "one size fits all" but regional and innovation policy must be adapted to region and sector specialisation. While a government may make funding and other resources available, the emphasis is on local actors, as well as pairings of communities to present a vision and set priorities and targets for the region. In an important sense, the word "intervention" in relation to the role of central governments is entirely inappropriate in this context.

The role of government is to facilitate regional governance decision-making and provide support for local initiatives, create formal, and facilitate informal, cross-community communication in fostering a 'learning-from-experience' mentality, and partner with regions to strengthen their endogenous factors that underpin regional growth such as infrastructure, knowledge and skills and social capital.

The European Union has implemented the exogenous/endogenous approach in a coordinated, whole-of-government way, specifically to assist disadvantaged regions or "lagging regions" and with some considerable success as measured by the convergence of regions in the rate of economic growth.

It is critical to appreciate that regional development policies, whether broad or narrowly based, industry/sector or labour market, whether targeted at “lagging regions” or “leading regions” have borrowed heavily from the endogenous approach, specifically to address regional competitiveness through new governance structures capable of building local skills and knowledge, capable of orchestrating high rates of educational achievement, able to integrate education and labour market programs and build and support business and community networks and partnerships.

The intent is to achieve much more effective and efficient outcomes through supporting greater regional autonomy and influence across government programs, policies and funding.

Appendix B provides a discussion, through a review of empirical findings, of those factors said to contribute to regional growth. They include population growth and the labour force participation rate, human capital development, strategies to diversify the industry base of a region, local taxes, transport and communication infrastructure, local amenities, the role of innovation and entrepreneurialism, social capital development, and marketing.

Appendix B

Factors Contributing to Regional Growth: Review of Empirical Findings

Population

Early regional development theory (1920s to 1970s) asserted that a region must have a certain minimum population if it were to achieve economic growth. Theories promoting rapid population expansion such as the growth pole and agglomeration theories were widely accepted. It was argued that population growth would increase a region's labour force and hence local consumption and investment.[8] While population growth is recognised as a possible contributing factor to economic growth, cases exist of rapid economic growth despite population stagnation.

Positive population growth through in-migration and/or low out-migration implies sufficient labour and business markets, adequate services and infrastructure and/or an attractive environment. Terluin (2003) confirms a positive empirical relationship between in-migration to regional areas and economic growth, in a study of data derived from regions of the European Union. A critical review of this research suggests that other variables simultaneously contributed to driving economic and population growth.

Monchuk et al (2005) showed population level to be a statistically significant variable in the regression of GDP growth on a number of variables, from data collected from 8 states in the U.S.'s mid-west. While these areas differ significantly in scale and population to South Australia's regional areas, the study provides support for the hypothesis that population growth contributes to economic growth.

The South Australian Centre for Economic Studies (2008) indicated that there is no significant relationship between population and GDP growth across OECD countries, as well as presenting two cases – Finland (5.3 million) and South Korea (48.6 million), where rapid economic growth was experienced in the period 1980-2007, despite virtually stagnating population growth. In both cases, high levels of R&D expenditure in export-oriented fields relative to past expenditure as well as OECD averages, was the main determinant of economic growth. Finland had a high workforce participation rate throughout the study period, while Korea's participation rate rose over the study period. Both countries have high secondary education completion rates and participation in tertiary university and the technical education system.

On balance, it is reasonable to conclude that while population growth in regional areas no doubt supports the economy, economic growth may be attainable in its absence.

Participation rate

A population with a large concentration of people of main working age (16-64 years) is likely to have a higher participation rate and be more productive than a very youthful or elderly population. Finland and South Korea (as above) illustrate how high participation rates and labour force growth can mitigate the adverse effects of a stagnating population in the pursuit of economic growth (SACES, 2008).

This was also found to be the case in the mid-west states of the U.S., with the variable 'proportion of population aged 34 – 65' having a statistically significant positive coefficient (Monchuk, 2005). Butler and Madenville (1981) hypothesised this to be the case, by indicating that in-migration of working age immigrants may be a key determinant in regional development.

Skilled migration of those people of working age and raising the workforce participation rate of those who are unemployed or not in the labour force can assist to raise productivity, offset an ageing population and potentially contribute to innovation by individuals and organisations. Regional organisations have considerable scope in partnership with local government and local business to provide and promote attractive locational packages for new migrants and their families.

Human Capital Development

A highly skilled labour force contributes to productivity growth as well as fostering innovation in management practices, production processes and technology. The presence of a highly skilled workforce may have an agglomeration effect in attracting similarly skilled or innovative people to a region. A workforce may be skilled in a specific industry as a result of clustering policies or tendencies thus contributing to economies of scale and competitiveness in a global context. A challenge arising from a skilled labour force is to provide adequate employment to reduce out-migration of skilled workers.

The South Australian Centre for Economic Studies (2008) observed that in a period of strong economic growth in Finland (1980-2007), the proportion of secondary school students going on to attain higher level qualifications rapidly increased from 50 to 85 per cent. This is possibly a driver, as well as result of economic growth. Illeris (1993) observed training and education to be a crucial success factor in the development of Western European regions but observed that economic growth may be adversely affected if training is too narrow (concentrated too heavily on one industry).

An OECD study of 180 regions in the European Union concluded that "while tertiary education remains important, secondary education appears as the most important for regional economic performance" (OECD, 2001).

Diversified Industry Base

When one industry dominates a region's employment and income, the region's economic fortunes are closely aligned to the fortunes of that industry. In contrast, a diversified industry base provides flexibility to adapt to changing market conditions which are most often externally determined. The impact of global economic conditions on regional areas is well illustrated by trade liberalisation and even the recent global financial crisis; however numerous examples exist where "rise and decline" is a response to changes in technology, new forms of energy, product innovation and policy decisions of government.

The industrial revolution of the 18^{th} Century moved traditionally southern-concentrated populations in the United Kingdom north and west, to Glasgow, Newcastle, Leeds, Sheffield, Manchester, Liverpool, Cardiff, and later Birmingham. These became leading industrial centres of the 19^{th} Century, based on coal mines, steel mills, shipyards, and ports. Between the world wars, and particularly following the end of World War II, these industrial centres continued a path of slow decline due to the slow exhaustion of natural resources and the growth in international competition in ship-building and steel production. Similar trends have been observed in the French mining and steel districts of Lorraine and Nord-Pas-de-Calais, the agricultural and steel-dominated south-eastern regions of Austria, the northern mining and industry cities of Germany (Illeris, 1993) and the mountain energy-boom states of America (Markusen, Noponen and Driessen, 1991).

In addition, (Illeris, 1993) hypothesised that the emerging dominant family structure to a 'two bread-winner' household renders industry diversification increasingly important in order to provide job opportunities for both partners. Terluin (2003) found there to be a positive correlation between diversification of the industrial base and economic growth. However, it was noted that in some cases specialisation has been successful, but only when the reliance is on tacit knowledge, specific societal and institutional settings, vertical differentiation and a high rate of product and process innovation rather than a local physical resource.

It follows that regional organisations need to be encouraged and supported to scan for opportunities to diversify the production and employment base of a region, principally based on existing endogenous assets.

Local Taxes

In the context of non-metropolitan regions in South Australia "local taxes" take the form of industrial or commercial rates for property, building and land values and the cost and time for approval of projects or setting of production activity. There is some empirical evidence that higher "local taxes" can have an adverse effect on economic growth. In addition, it has been observed that a tax structure encouraging entrepreneurialism, labour supply and accumulation is supportive of economic growth (SACES, 2008).

The allocation and development of industrial land, supporting co-location of suppliers, efficient land use planning and site amenities including waste disposal, water capture, storage and re-use can reduce operating costs and act as an incentive to location.

Monchuk et al (2005) found local property taxes to have a negative statistically significant coefficient in the regression of GDP growth on various regional development factors, in 734 mid-west counties of the United States.

Evaluations of enterprise zones in the European Union, though overall determined to be ineffective in efficient business and job creation, found one of the two most effective measures in attracting and retaining enterprise to be 'relief from property taxes' (Stephens et al, 2003).

Transport and communication infrastructure

Historically, business relocation to rural and regional areas has been impaired by the distance from suppliers, buyers, competitors, complementary businesses and services. Business risks include lost opportunities for knowledge sharing, partnership opportunity, observation of competitors and market responsiveness. Improvements in transport and communication technology has contributed to diminishing these risks. However, to conduct business in a regional area these services must be efficient and available at an advanced level. Illeris (1993) noted a trend towards greater business specialisation as an outcome of globalisation. He hypothesised that "as firms specialise more, their need to exchange information, goods and services with other firms increases. Cities more easily facilitate these exchanges, therefore highly developed transport and communication facilities must be adopted (in regional areas)".

In addition, a highly integrated and efficient transport system may facilitate a greater commuting population. Monchuk (2005) showed in his study that the proportion of commuters has a statistically significant positive coefficient in the regression of GDP growth on various regional development factors.

The importance of physical infrastructure has been promoted in Canada and Europe particularly through the implementation of federal fiscal equalisation principles, the aim of which is to equalise the quality and availability of all publicly provided services across regional areas (Stephens, 2003). Similar principles apply in Australia at a federal level.

Illeris (1993) observed hard infrastructure, particularly the provision of transport and communication technology, to be a crucial factor in economic development in Western Europe. Terluin (2003) confirms a strong correlation between economic growth and transport infrastructure in an empirical study of EU data.

Amenities

Various studies hypothesise that employers will site businesses near recreational amenities in order to attract families who make location decisions based in part on proximity to these amenities (Monchuk, 2005). Unpleasant scenery, climate or environment may present a challenge to be overcome (Illeris, 1993). It is possible also that demand for outdoor recreation is relatively income elastic and therefore will grow as a response to income growth (Monchuk, 2005). Provision of amenities may be particularly important if a region's goal is to attract a demographic wanting a particular quality of life, for example retirees and couples with young children.

Monchuk (2005) found amenities (measured by a national amenity index) and numbers of publicly-provided swimming pools (as signalling recreational facilities) to both have statistically significant positive coefficients in the regression of GDP growth on various regional growth characteristics.

Innovation

There is a considerable body of literature in support of innovation (new ideas and their application in new products, processes and management organisation) and technology as determinants of long term economic growth. While additional physical inputs, specified as labour and capital in the traditional **Solow** Growth model, may stimulate economic growth in the short run, "on a per capita basis, the long run GDP growth rate will equal the rate of change in technology" (SACES, 2008). This relationship between innovation as a determinant of productivity growth and hence economic growth is strongly supported empirically.

Stephens et al (2003) observed that the European Union's encouragement of knowledge-based regional economies is fostering an appreciation for learning and innovation. Designated 'learning regions' are dense networks of firms interacting with higher education institutions and research facilities to encourage economic growth to originate within a region.

Illeris (1993) observed "technology centres and development agencies to promote and achieve technological innovation" to be crucial factors in the economic development in regional Western Europe.

Terluin (2003) found there to be a strong empirical correlation between soft infrastructure, measured by number of research centres, universities, secondary and tertiary facilities, and economic growth in regional areas of the European Union.

SACES (2008) observed that both Finland and South Korea spent heavily on research staff and facilities, contributing to rapid economic growth despite stagnating populations.

Entrepreneurialism

Entrepreneurialism may be an outcome as well as stimulant of economic growth. It is often measured by number of business entries. Growth in business entry indicates there to be excess demand for goods and services, a possible result of population and economic growth. More businesses increase competition, which in turn provides incentives to improve efficiency. The entry of new businesses is also likely to diversify the industry base, facilitating vertical partnerships and opportunities for industry to further specialise and benefit from economies of scale. A diverse industry base reduces the risk for external investors as the region becomes less vulnerable to adverse external economic events. A spirit of entrepreneurialism may have an agglomeration effect in attracting other entrepreneurs to the region with the perception of ease of funding, streamlined administrative processes, business opportunities, growing markets and knowledge sharing.

Terluin (2003) found a strong positive empirical relationship between entrepreneurialism, as measured by new small business start-ups, and economic growth in a study of regional areas in the European Union. In addition, the extent to which the industry base is diversified was also found to have a strong positive correlation with economic growth.

Illeris (1993) observed a crucial factor of economic development over time in Western Europe was a diversified industry structure to allow flexibility and accommodate changing national and international economic events and trends.

Social capital development

Since the mid-1980s, developed economies have increasingly recognised social capital (i.e., density of social, community and business networks; connection and relationships) as contributing to regional economic growth. The European Union goes as far as to label it a necessary precondition for economic growth (Stephens et al, 2006). Social capital is also defined as ‘the stock of accumulated resources that one can access based on the relationships that can aid or be leveraged in accomplishing an end or furthering a pursuit’ (Tymon and Stumpf, 2002). A distinction is often made between bonding and bridging social capital. ‘Bonding social capital refers to the social capital generated and shared by members of a relatively homogenous group. Bridging social capital refers to the social capital generated and shared through interconnections between heterogeneous groups’ (Woodhouse, 2006). In this sense, bonding social capital may be interpreted as relationships between actors internal to a regional community such as local government, local businesses, community groups and other governing bodies. Bridging social capital may be interpreted as relationships between actors external to the regional community, and the regional community itself such as state and federal government, regional development authorities and potential investors. High levels of social capital may foster streamlined administrative processes, partnerships, trust and reciprocity in the community.

Terluin (2003) discovered a positive empirical relationship between the strength of internal networks, measured by concentration of local actors involved, and economic growth. In addition, a positive empirical relationship was evident between number of external relationships and economic growth. It was noted that the majority of external relationships were for the purposes of financing, exporting and contact with multinational firms.

Marketing

Rural and regional areas frequently offer increased affordability (i.e., housing, cost of living), a cohesive social environment, attractive scenery and enhanced small business prospects, in comparison with city areas. However, the marketing of these opportunities is as important as their development in attracting tourism and newcomers to the country, state or wider regional area.

Illeris (1993) observed that dynamism, a characteristic used to describe areas experiencing economic growth, was typically observed in areas of Western Europe where the region's image was aggressively marketed, particularly for tourist areas. It was observed that since the 1970s in Western Europe migrants, often qualified and highly skilled, have been attracted not only to urban centres and large cities, but also "pleasant landscapes or climates, prestigious suburbs or pretty old towns, … interesting professional milieux or an exciting cultural life …. The crucial factor is to create and spread an image" (Illeris, 1993).

End Notes

[1] Cited in McDonald, C. et al, (undated).

[2] Op. cit. See also Victorian Government (2005a), (2005b) and (2010).

[3] See Grant (2004).

[4] European Parliament Document Reference COM (2007) 0359.

[5] More generally, a number of SASP targets conflict with each other, they require tradeoffs which are not highlighted (e.g., impact of minerals production and processing and the potential impact on greenhouse gas emissions; the funding of a number of programs and impact on state taxes/charges and credit rating).

[6] Infrastructure includes “hard” infrastructure such as telecommunications, water supply, energy, transport and land use provided in Council development plans and “soft” infrastructure such as skills, training, labour supply program, reductions in red tape and regulation.

[7] And in any case, the fund failed to establish priority investment objectives, it was not subject to rigorous cost-benefit assessment, did not demonstrate net economic benefits and where appropriate implement cost recovery schedules.

[8] Endogenous growth models took this further in hypothesising innovation to be a positive function of labour quantity (implied by greater numbers of research staff) and long-run economic growth to be a function of innovation. Lack of empirical support caused declining belief in this theory.