

# **Economic Issues**

**Structural Change: Lessons from  
Port Augusta's Experience in  
the 1990s**



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## **Structural Change: Lessons from Port Augusta's Experience in the 1990s**

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## **Executive Director's Note**

Welcome to the forty second 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 draws from a case study of structural adjustment that Port Augusta experienced in the period 1986 to 1996. Like communities that have been dependent on the spatial concentration of the automotive industry, Port Augusta too was dependent on employment and specialisation, but in the rail and power industries. Historical experience demonstrates that adjustment pressures are on-going – how we respond to them is critical to the take-up of new opportunities, employment growth, incomes and exports. Much greater attention and investment in human capital is essential to speed up the transformation of the South Australian economy.

The author of this paper is Associate Professor Michael O'Neil (Executive Director) of the SA Centre for Economic Studies. The paper draws from a number of recent research papers prepared by SACES and our Research Associates. The views expressed in the report are the views of the authors.

**Michael O'Neil**  
**Executive Director**  
**SA Centre for Economic Studies**  
**July 2014**



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## Introduction

In the South Australian Centre for Economic Studies two most recent Economic Briefing Reports – December 2013 and June 2014 – we produced two focus articles on the question of structural adjustment:

- “Life after Holden” (December 2013);
- “The South Australian Economy in Transition” (June 2014).

Both articles made the point that structural change represents an on-going phenomenon (as in social change) where economies naturally evolve in response to, *inter alia*, changes in technology, consumer tastes and preferences, rising income, the direction of public policy and so on. With respect to the automotive sector we noted that the recent overseas experience in terms of structural change and job losses has been severe in several cities; Detroit for example is estimated to have lost 25 per cent of its population between 2000 and 2010. Unemployment in several European economies (e.g. Spain, Greece) are approximate to levels experienced in the depression. In this context, the potential impacts on the South Australian economy with the impending loss of automotive assembly jobs looks relatively small. Notwithstanding, we acknowledged the potential economic and social impacts, argued the case that the “whole economy is in transition” and considered implications for public policy (e.g. compensatory and “direction setting”).

In this article we have sought to illustrate by way of an example, and one that is close to home – the case of Port Augusta in South Australia – a city that experienced the impact of structural adjustment throughout the 1990s largely as a result of a series of public policy decisions, coupled with impacts that flowed from advances in technology, computerisation and business innovation.

What lessons can we learn from historical experience that will enhance our capacity and enrich public policy (and public policy debate) to address future waves of structural change and the opportunities that follow?

## Background

The impending closure of automotive assembly plants (not the automotive industry) has rightly stimulated considerable debate and concern regarding regional impacts, due to the spatial concentration and specialisation of the local industry and workforce. The principal concern must remain with assistance for the existing workforce to assist in the transition to other employment and for skills training to minimise the disruption and impact on families, local communities and regional economies.

Various estimates have been forthcoming regarding national, state and local impacts following the closure of the automotive assembly plants in South Australia and Victoria and SACES reviewed some of the

modelling and estimates in our Focus Article 1: Life after Holden in our December 2013 Economic Briefing report. Our view at that time, and it remains the case today that the most reliable estimates were provided by the Centre for Policy Studies (CoPS) at Monash University. They concluded that a complete “exit from automotive manufacturing in 2016 would peak at 7,300 fewer jobs in 2018 in South Australia combining direct reductions in employment in the industry and secondary job losses caused by the resulting fall in domestic demand”. The report of the Panels for the Reviews of the South Australian and Victorian Economies put job losses in South Australia at 5,000 persons.<sup>1</sup>

We maintain the view that structural adjustment assistance should first be ‘principally targeted at workers and families to help minimise the transitional costs to them of changing occupations and/or locations’, to ensure that there are no or few impediments to labour market adjustment (i.e. prioritise re-skilling, skills recognition, training, employment assistance and relocation) and that the second policy response is to provide regional development assistance focussed explicitly on building or diversifying the economic base of the region, including innovation and support for existing businesses to transition into new markets.

### **Structural Adjustment: A Historical Perspective**

It might be asked, what is the historical experience of South Australia in dealing with structural adjustment pressures and what have been the results of measures to assist workers and families and measures to strengthen the capacity of local businesses to diversify the economic base of a region? A look back at the situation facing South Australia’s Provincial Cities<sup>2</sup> in the mid-1990s is instructive.

Concerns arising from the impact of structural change in the Australian and South Australian economy are not new. The internationalisation and globalisation of the Australian economy through the 1980s and 1990s created significant challenges and issues for regional Australia and this in turn led to a number of studies to assess impacts and future prospects. Studies included:

- The Industry Commission Inquiry into Regional Adjustment (December 1993);
- Developing Australia: A Regional Perspective by the Taskforce on Regional Development (December 1993);
- McKinsey Report into Investment in Regional Australia (1994); and
- Beyond The Capitals: Urban Growth in Regional Australia (1994).

In the case of South Australia the Industry Commission’s Inquiry into Regional Adjustment noted that in the period 1991 to 1996 Whyalla experienced the twelfth largest population decline (-2,012 persons) of

all Australian cities, at an annual rate of 1.6 per cent losing six per cent of its total population and Elizabeth experienced the second largest decline (-3,389) of all Australian cities at an annual rate of 2.4 per cent.<sup>3</sup> (In the most recent inter-census period the population of the City of Playford increased by 13 per cent or some 9,000 persons.) Port Augusta experienced very significant job losses and an outflow of population, only moderated to some extent through take up of employment in the still in embryo, mining sector.

Generally it was the case that regional cities based on *rural industries*, such as in South Australia, Mount Gambier, Murray Bridge and Port Lincoln, continued to grow (on a population basis) at just below or close to the state average whereas *industrial cities* including Port Pirie and Whyalla experienced significant job losses throughout the 1990s. The *service city* of Port Augusta also experienced ongoing labour shedding at the rail workshop and the power stations.

The Industry Commission reported that whilst South Australia has lost over 9,000 jobs in the manufacturing sector over the period 1986-91 “this has affected some regions such as Whyalla badly, others such as around Murray Bridge have increased manufacturing employment”.<sup>4</sup> The lesson or observation from this period looking across the six Provincial Cities and regional centres such as Elizabeth is that the vulnerability of a region to economic cycles or changes in demand for that region's output is heightened when a downturn in the fortunes of a single industry impacts directly and decisively on total employment. In short, in absence of a more diversified employment base, then the capacity of a region to achieve countervailing growth in another sector of industry is further constrained. Regions with a low core concentration in their industrial structure in effect spread the risk through economic diversification strategies.

### **Structural Adjustment and Assistance: The Case of Port Augusta**

Port Augusta is located on the major transport crossroad for both road and rail. Port Augusta has been the hub of commercial, railroad and government services for the far north of the State since its establishment in 1852. Tourism and related services are a significant component of the economy of Port Augusta given its location and the abundance of tourist attractions, especially because of proximity of the city to the Flinders Ranges.

#### **What Happened?**

A combination of events, decisions and policies led to structural adjustment pressures on rural communities and regional centres with the most significant impacts being felt over the period 1991 to 1998.

A broad suite of government policies to promote competitive market principles, privatisation of government assets, the sell-off or wholesale shut down of underperforming government business enterprises and

deregulation of sectors of the economy contributed to adjustment pressure. At the same time business operations were installing new IT systems, banks were installing ATM networks leading to the closure of rural banking houses and new communications technologies saw manual telecommunication exchanges replaced by automated communications networks. With respect to employment in the banking sector, the Centre for Australian Financial Institutions reported that South Australia had been hardest hit by bank branch closures in non-metropolitan areas. “Worst hit has been South Australia, where a 28 per cent reduction has cut the number of rural bank branches from 165 to 119”.<sup>5</sup>

Company closures in the face of international competition or by mergers and acquisitions and the loss of supply contracts to regional businesses (as many were centralised) contributed to the downsizing of employment. State government sought to rationalise services, particularly school and health services by closing down smaller, rural schools, reducing the number of hospital beds and closed a number of health services units and programs.

The agricultural sector of the economy was not immune to change with one notable trend being mergers and amalgamations of smaller farms and horticultural enterprises into much large units of operation. The agricultural sector continued its historical long-term trend of shedding labour with the decline in rural populations mostly felt across smaller regional service towns.

Port Augusta was hard hit by the events described above and then specifically by the closure of workshops, maintenance and service support staff for the railways and very significant reductions in employment in the power plants.

Earlier reforms to the Australian railway authorities saw the establishment of the Australian National Railways Commission in 1975 (AN, headquartered in Adelaide and operating under a commercial charter) and later the National Rail Corporation (NRC, set up in 1991 as a company). Following the “Review of Australian National Railways Commission and National Rail Corporation” (Brew Report, June 1996) and acceptance of many of the recommendations including the closure of AN and sale of branch lines in South Australia to Australian Southern Rail, the Islington workshop was closed immediately and the Port Augusta workshop closed soon thereafter.<sup>6</sup> Several small private companies were able to establish rail related activities at both locations. SACES estimated that at that time AN had approximately 2,200 employees in South Australia and 200 in Tasmania. The closure of the Port Augusta workshop resulted in significant job losses in Port Augusta (estimated rail job losses were 14 per cent of jobs in the city) and occurred at the same time as other industry restructuring including rationalisation of employment by the

Commonwealth and State Public Sector (community and health services, education and government administration).

In one SACES review<sup>7</sup> including various reports on the Upper Spencer Gulf cities and Far North region we noted a range of impacts on social capital of the regional cities. For example, the centralisation of nurse training from country hospitals resulted in reduced opportunities for young people to take up nursing as a career without having to leave home. This decision limited further education opportunities in the communities and created family/peer disruption. It also removed positive role models for young people from the community with implications for social capital and communities generally.

### **The Implication: Significant Regional Job losses**

Over the period 1986 to 1996 but particularly the five years to 1996 the population of Port Augusta declined by 1,600 persons, total employment declined by 1,240 positions and the employment to population ratio fell from 40 per cent to 35.7 per cent. The male workforce participation rate declined from 76.5 per cent in 1991 to 63.9 per cent by 1996. Unemployment rose from 13.4 per cent of the labour force in 1991 (SA was 11.7) to 14.7 per cent in 1996 (SA was 10.6). The rate of unemployment in Whyalla and Port Pirie in 1996 was 13.9 per cent and 18.7 per cent respectively.

Table 1 shows the gradual path back to growth where the estimated population in 2011 was about the level of 1996 but the proportion of employed persons is 5 percentage points above the level of employment in 1996. Employment by industry shows the gains in employment in recent times (2011) when compared to 1996 have come from employment in mining, manufacturing, construction, accommodation, transport and health care and social assistance.

**Table 1: Port Augusta 1986 to 2011**

	<b>Population (Number)</b>	<b>Employed (Number)</b>	<b>Proportion Employed (Per cent)</b>
1986	15,915	6,354	39.9
1991	15,234	6,276	41.2
1996	14,315	5,114	35.7
2001	13,516	5,095	37.7
2006	14,030	5,704	40.7
2011	14,249	5,807	40.8

**Source:** ABS unpublished data requested by SACES and own calculations.

Table 2 for Whyalla in the 25 years 1986 to 2011 shows a similar pathway as in Port Augusta; a decline in the population of 4,000 persons in this period, a loss of up to 1,130 manufacturing jobs and a fall in the ratio of those employed relative to the population (37.5 per

cent) by 1996, but by 2011 the proportion of employed persons is 5 percentage points above the level of employment in 1996.

**Table 2: Whyalla 1986 to 2011**

	Population (Number)	Employed (Number)	Proportion Employed (Per cent)
1986	28,289	10,225	36.1
1991	26,382	10,722	40.6
1996	24,370	9,137	37.5
2001	21,614 <sup>a</sup>	8,062	37.3
2006	21,594 <sup>a</sup>	8,731	40.4
2011	22,196 <sup>a</sup>	9,316	42.0

**Note:** a Total persons on Census night in Whyalla City Council area (includes overseas visitors).

**Source:** ABS unpublished data requested by SACES and own calculations.

The loss of employment from AN operations from Port Augusta (originally based on 872 positions but ultimately it was more than this) was estimated to be associated 'with a further loss of \$27 million in wages and salary incomes (\$43 million in 2013 dollars) and \$36 million in value added (\$57 million in 2013 dollars).'<sup>8</sup>

The Transport and Storage sector represented 24.5 per of the employed workforce in 1986 but by 1996 had declined to 12.7 per cent. The Electricity, Gas and Water supply industry represented 11.2 per of the employed workforce in 1986 but by 1996 had declined to 4.6 per cent.

In summary job losses in Port Augusta were very significant with the loss of:

- Transport and Storage sector (1,100 job losses);
- Electricity, Gas and Water sector (500 job losses principally at power stations);
- Manufacturing (100 job losses);
- Construction (130 job losses);
- Finance and Insurance (188 job losses).

In net terms Port Augusta lost more than 20 per cent of employment positions in the city in this period with most job losses occurring in the mid-1990s. Manufacturing employment also declined as did employment in the construction industry in response to the outflow of population from Port Augusta. In combination, these changes severely depressed the local economy and reduced incomes generated in the region, slowed retail sales activity and ultimately reduced economic activity across the board. SACES recorded the fact that up to twenty small businesses closed in the central business district in 1996. Small employment gains included from Coles locating in Port Augusta (est. 66 positions) and several SME manufacturing enterprises and services

that located in Port Augusta to support the development of the Roxby Downs Township.

### **Structural Adjustment Assistance**

The Federal Government provided structural assistance through the Rail Reform Transition Program. It allocated \$20 million (\$32 million in 2013 dollars) to support measures that would create jobs, through economic development of regions most adversely affected by the sale of Australian National.

The allocation was split between South Australia (\$18.25 million), Tasmania (\$1.35 million), the Northern Territory (\$200,000) and Western Australia (\$200,000).<sup>9</sup> The allocation was further split in South Australia to assist displaced workers following the closure of AN headquarters in Adelaide and the Islington workshops.

Funding provided to Port Augusta was allocated to, *inter alia*, the upgrade of the aerodrome (\$2.5m), the Pichi Richi Railway upgrade to Stirling North and carriage refurbishment (\$2.25m), support for aquaculture developments (snapper and king fish) (\$300k), launching facilities at Point Lowly for aquaculture grow out trials (\$450k), removal of toxic waste from foreshore land that had been dumped by the railways (\$1.5m) and various business related internet development.

The level of assistance provided in 1996 following the loss of 2,200 railway worker and administrative jobs (at least 1,100 in Port Augusta) and Adelaide combined, was relatively modest compared to the \$155 million promised to 'cushion the impact' of car assembly manufacturing and flow on impacts.

### **A Realistic Perspective**

This historical background of the experience of the three Upper Spencer Gulf Provincial Cities also informs us to why the region has placed so much hope and emphasis on investment and growth in the mining industry and why the revitalisation of the Whyalla OneSteel plant through Project Magnet was so significant for that city.

It is important to place the impending closure of GMH's motor vehicle assembly plant at Elizabeth not only in a proper historical context but in a realistic assessment of the performance and outlook for employment and for the South Australian economy. There are some who have suggested that the closure of GMH's plant will lead to a 'recession in South Australia'<sup>10</sup>; others have estimated at various times employment losses in South Australia of 13,200 positions<sup>11</sup> and more recently 24,000 job losses.<sup>12</sup> These contrast with estimates by the Centre for Policy Studies (CoPS) at Monash University of 7,300 fewer jobs in 2018 in South Australia and 5,000 persons (0.7 per cent of current employment) reported by the Panels for the Reviews of the South Australian and Victorian Economies.

There are also varying estimates of firms in the supply chain with claims of up to 700-800 firms<sup>13</sup> while the Commonwealth review of two state economies refers to “134 supply chain firms with the capacity to design and manufacture the full range of parts and components ... (with) ... automotive manufacturing accounts for around 27,500 direct jobs (nationally).”<sup>14</sup>

Port Augusta lost 1,600 employment positions or more than 20 per cent of total employment in a very short space of time. In the case of Port Augusta there was relatively little offered in the way of relocation assistance, skills training and support for career advice and counselling. Elizabeth, Salisbury, Gawler and Onkaparinga will be the four council areas most affected by the closure of automotive assembly and job losses. While Elizabeth experienced the second largest decline in population of all Australian cities in the period 1991 to 1996 it is now one of the fastest growing regions in Australia but there remains the challenge of high unemployment, high youth unemployment and pockets of disadvantage.

With respect to these four Council areas where automotive employment is concentrated, what happened in the inter-census period 2006 to 2011 is instructive. In this period automotive job losses included, *inter alia*, closure of the Bridgestone plant at Salisbury with the loss of up to 600 jobs and then in 2008 the closure of Mitsubishi plant with up to 1,700 job losses. These four regions are reported as ‘displaying a sharp decline in concentration of automotive employees amongst employed residents ... (yet) even with the impact of a declining automotive sector, three of the four South Australian regions outperformed the Australian economy in reducing unemployment. Playford, Salisbury and Onkaparinga showed almost no change in the unemployment rate over the period compared to a 0.4 per cent increase in unemployment Australia wide. Salisbury saw a 0.7 per cent increase in the unemployment rate, but still saw a 7.8 per cent increase in absolute employment (a net 4,000 jobs created) over the period. Overall, a net 9,000 jobs were created across the regions over the period.’<sup>15</sup>

Contrast this experience with the fact that in the 25 years since 1986, Port Augusta and other industrially based provincial cities have yet to achieve the aggregate level of employment and population they enjoyed in 1986. Notwithstanding, they have achieved some remarkable success in the diversification of their local economies, expanding into solar energy, aquaculture (inland and offshore), mining and mining services and manufacturing.

### **Conclusion**

Some of Victoria’s and South Australia automotive component parts manufacturers have long ago recognised the ‘writing on the wall’ and taken steps to develop new markets, produce new products, enter into new supply chains and improved their internal management,

productivity and hence competitiveness. Several companies already supply to the global automotive market, the oil and gas sector, mining, defence and the food sector. Many companies have been assisted in the task of diversification through government support, funding and programs such as the Automotive Transformation Scheme and export assistance schemes. Past achievements and success by automotive supply companies point at least in one direction, that there is a role for transformation assistance and this will remain on offer under the proposed car industry assistance funding.

South Australia has had opportunities to learn from previous large scale job losses and closures with the most recent being the two Mitsubishi plants at Lonsdale and Tonsley Park, where some \$55 million was applied for structural adjustment assistance and labour adjustment assistance. One of the real challenges now for South Australia is to further develop our expertise and employment base in 'advanced manufacturing' as it is well documented that semi-skilled and skilled workers from manufacturing closures often find employment back in manufacturing where their skills are highly prized. The broader impact on the automotive sector as a whole means it is likely that finding employment in that sector will be more difficult as was previously the case with other automotive industry closures. At the other end of the 'skills pool' there are workers who will require assistance with literacy and numeracy, recognition of prior skills and further training and job search assistance. This view is supported by the Panels Review that "the skills and capabilities of the more highly qualified workers affected by the closures may be transferable to other sectors. However, some workers may need to undertake training to access alternative employment. For example, a proportion of the workforce has low language literacy and numeracy skills or have skills targeted specifically at "manufacturing processing" (p. 31).

Labour market assistance programs are available and are more comprehensive than in earlier years so that for example, intensive assistance is available for workers made redundant in the automotive manufacturing industry.<sup>16</sup> There is a specific program called the *Automotive Industry Structural Adjustment Programme* delivered through Job Services Australia with special assistance funding dedicated to each individual under an employment pathways fund and additional assistance with mortgage relief, help with language, literacy and numeracy training, English language tuition and further assistance for mature-aged job seekers.

We reiterate that assistance to workers and their families in the period of adjustment is the first responsibility of the national government, if only, and because, domestic policy reforms have played some part in the decision to cease local manufacturing. Transition assistance for displaced workers is simply the complement of transition assistance (in its many forms) designed to restructure the national economy.

The long period of decline in mass assembly and manufacturing in South Australia highlights the greater challenge facing the South Australian economy in the 21<sup>st</sup> Century – that the goal of advanced manufacturing, the goal of growth of high value added exports, further development of sophisticated design and assembly skills (e.g. at ASC) and participation in the ‘new knowledge economy’ is critically dependent on raising the education and skills profile of the workforce.<sup>17</sup>

It is imperative that the “development of, and investment in, human capital formation” becomes an overriding policy priority for South Australia. It should be the basis or reason for structural change and reform in our institutions and institutional practices that are concerned with workforce participation, industrial relations, education, skills, training and local and regional development.

South Australia has set out to reduce the number of people with no post-school qualifications – 2001 Census it was 66.4 per cent (Australia: 63.5 per cent) and by 2011 Census it was 53.8 per cent (Australia 48.3 per cent) – and has devoted additional resources to basic, generic skills including literacy and numeracy. More still needs to be done.

A recent Productivity Commission research paper on literacy and numeracy and its relationship with labour market outcomes estimated “that up to 40 per cent of the association between education and employment is attributable to literacy and numeracy skills”.<sup>18</sup> In the proposed reforms to income security and welfare programs such as work preparation through participation in ‘work for the dole’ schemes, it is imperative that a component of literacy and numeracy is included (where required for participants) so that these and other similar schemes ultimately contribute to sustainable employment. In other words, turn short-term interventions into longer-term objectives to develop the employment capacity of the workforce.

Successful local, regional and state economic development strategies – that is interventions that result in economic and employment growth rates that are higher than would occur without deliberately designed interventions – demand as a bedrock the mobilising and strengthening of all human capital assets (knowledge, skills, expertise, management). This is one of the key lessons of OECD analysis of ‘revitalised economies’ that strengthening human capital is the single most important driver of improved local economic performance with a particular emphasis on increasing the skills and capabilities of those with low skills.

## Endnotes

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- <sup>1</sup> “Growing Opportunities: South Australian and Victorian Comparative Advantages”, April 2014, p. 2.
- <sup>2</sup> SACES completed a three volume study into the Provincial South Australia: Report 1 “Provincial Cities: A Statistical Overview of Socio-Economic Trends 1986-1996”; Report 2 “Economic Development from the Regional Perspective: What the Cities Say; Report 3 Addressing the Future: Options and Strategies for Growth”, November 1997.
- <sup>3</sup> “Impediments to Regional Industry Adjustment”, Vol. 2, p. D21.
- <sup>4</sup> *ibid*, p. B7.
- <sup>5</sup> Centre for Australian Financial Institutions, University of Queensland.
- <sup>6</sup> Scafton, D et al “On the right track: railway development in South Australia 1968-1998, Australasian Transport Research Forum Sydney, September 1998.
- <sup>7</sup> “Inquiry into Regional Employment and Unemployment”, SACES, April 1998.
- <sup>8</sup> SACES (1996), “Potential Impact of the Brew Inquiry on the Economy of the Port Augusta Region”, June.
- <sup>9</sup> Personal Correspondence: Mr Richard Wood, Department of Infrastructure and Regional Development, Canberra, 23 April 2014.
- <sup>10</sup> “Act now on Holden ‘or risk recession’”, *The Australian*, 14 January 2014.
- <sup>11</sup> Barry Burgan and John Spoehr (2013), “The Contribution of GMH Elizabeth Operations to the South Australian economy and the Potential Impacts of Closure 2013”, November.
- <sup>12</sup> Bianca Barbaro, John Spoehr and NIEIR (2014), “Closing the Motor Vehicle Industry: The Impact on Australia”, April.
- <sup>13</sup> Pike B & Wills D. (2014), “Revealed: Where auto jobs will hit the skids”, *The Advertiser*, 15 April, p. 8.
- <sup>14</sup> “Growing Opportunities: South Australian and Victorian Comparative Advantages” April 2014. P. 1.
- <sup>15</sup> “Growing Opportunities: South Australian and Victorian Comparative Advantages”, April 2014, p. 13.
- <sup>16</sup> Employment assistance funding is in addition to the \$155 million allocated in the Growth Fund.
- <sup>17</sup> On a per capita basis, historically and relative to Victoria, South Australia’s lower workforce participation rate and percentage point higher unemployment rate is correlated with our lower level of workforce literacy and numeracy. In another report SACES has indicated that South Australia has higher needs in this respect but Victoria provides 46 times more hours of training for literacy and numeracy in post-school programs than does South Australia.
- <sup>18</sup> Shomos, A. and Forbes, M. (2014) “Literacy and Numeracy Skills and Labour Market Outcomes in Australia”, Productivity Staff Working Paper, Canberra.