

Shifting Deckchairs on the Titanic?

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Introduction

After being in a state of perpetual metamorphosis for the last 40 years (see, for example, Beer *et al*, 2003), regional development policy is yet again under review in Canberra¹ and some state capitals in perhaps an elusive attempt to discover the *magic pudding* of sustainable local development. The Commonwealth and the states are well aware that this vibrant and prickly issue has been an uncomfortable and long-running thorn in their side, especially in non-metropolitan Australia. Decentralisation, new cities, working nation, a variety of summits, and a raft of consultative committees have come and gone with so little evident success that political revolt is enduring, whether in the form of One Nation (Grant, 1997; Grant and Sorensen, 2000) or the rise of increasingly successful political independents. On the other hand, there is mounting evidence that regional development is one of Pressman and Wildavsky's (1973) wicked problems where central government has neither the tool-kit nor the understanding and competence nor sufficient money to steer regional economic fortunes in any measurable degree (Head and Alford, 2008).

This paper further develops this theme, which I have explored since the early 1990s (Sorensen, 2000, 2002, forthcoming; Sorensen and Epps, 2005; Sorensen *et al*, 2007), but in four specific regards. First, it summarises what we now know about the processes shaping rural conditions. Secondly, we must examine briefly the regional policy environment in terms of the political – bureaucratic processes at work shaping policy responses. Thirdly, it estimates two forms of economic development assistance offered rural Australia: farm assistance and regional development relative to rural GRP. And, if financial support is lacking, it poses an obvious question: does regional policy have any constructive purpose? In practice, it appears that it functions substantially in the realms of psychology.

Development Processes

The economy of rural Australia is awash in a sea of tempestuous forces (shown in Table 1) whose number, individual strength, internal complexity and inter-connections are steadily expanding (Sorensen, forthcoming). For example, the last 40 years have witnessed:

- the corporatisation of the countryside, in both primary production and services;
- rising diversity of commodities and services produced and intensified domestic regional competition in their supply;
- burgeoning global competition among both suppliers and markets;
- the identification of new, and expiry or deterioration of existing, resources;
- many large infrastructure project capable of re-writing regional competitive advantage;
- a huge diversification of consumer tastes and preference - in respect of goods and services or personal lifestyles – and backed by fast rising household incomes;
- re-conceptualisation of people's attachment to place;
- the explosion of environmental concerns and associated management techniques;

¹ The Commonwealth House of Representatives sought submissions to *An Inquiry into a new Regional Development Program* in June 2008.

- enormous progress in technology, be it in telecommunications, energy supply, animal and crop genetics, mineral extraction, transportation, medicine and health, and education;
- fast changing demographic profiles;
- economic deregulation, privatisation, and increased reliance on market forces;
- increasing importance and complexity of financial instruments;
- the paring back of the welfare state, with increased personal responsibility for one's wellbeing; and
- increased scope for inter-personal conflict over the form and speed of development and rising personal ability to campaign for one's beliefs or preferences.

Each item has contributed much to the evolution of Australia's rural economy both separately and as part of interwoven skeins, often in ways difficult to anticipate because of numerous inter-connections and feedback loops. Simultaneously, these forces are becoming more systemically unstable in two interconnected respects: the speed and amplitude of change (Sorensen, forthcoming). The former is largely the product of accelerating technological invention and innovation on the one hand and the growth in society's adaptive capacity on the other. Put simply, the ever rising flood of technologies, widely defined to include such soft inventions as management approaches, financial instruments and even lifestyle preferences, is amplified by falling lapsed times between discovery and widespread application. For example, market adoption of mobile telephony and the internet was four to five times faster than the earlier generation of fixed telephones. Simultaneously, rural Australia appears to be undergoing rising swings in system instability. It has long witnessed regular rises and falls in prosperity triggered by fluctuating commodity prices interleaved with the periodic incidence of drought, but there are now several additional uncertainties contributing to precarious net income for many rural producers. Five current examples include:

1. large-scale movements in exchange rates, interest charges and financial liquidity like those occurring in September-October 2008 [one of the consequences of rising globalisation];
2. swift adoption of far-reaching environmental strategies dealing with water pricing and carbon trading [mirroring alarm at rising atmospheric CO², global warming, and downstream climate change];
3. the sudden removal of protected trading environments, as occurred with dairy deregulation and the removal of import quotas shielding pork producers [reflecting market ideology and the global reduction in artificial trade barriers];
4. concerted attempts to rein in farmers' traditional freedom to develop their properties with a relatively free hand, especially land clearing; and
5. sudden rises in grain prices occasioned by the diversion of considerable output to ethanol production [in response to rising liquid fuel prices and other environmental concerns].

In short, accelerating diversity, complexity, conflict and turbulence are endemic to our age, and seemingly unavoidable. Such environments place a management premium on personal and organisational adaptability. This, in turn, requires high quality business and civic leaderships who are (i) knowledgeable about their operating environments and the processes shaping them, (ii) quick to perceive opportunity and seize it, (iii) strong motivators of their workforces or communities, (iv) attentive to detail and performance evaluation, and (v) able to change tack rapidly in response to evolving operating environment. Such people are akin to Nietzsche's Übermensch (Sorensen and Epps, 2005).

Political – Bureaucratic Environment

Public policy for regional development therefore has to cope with a difficult operating environment in its target communities. However, it is further constrained by important dimensions of its own political-bureaucratic operating environment. To start with, it is subordinate to other much stronger policy arms. These include foreign policy; macro-economic settings influenced by such powerful agencies as Treasury, the Reserve Bank and Productivity Commission; a large environmental agenda partly mandated by international treaty; infrastructure supply and regulatory Qangos, and a national research and development agenda generously funded by governments (Sorensen, 2000).

Regional policy's room to manoeuvre is further proscribed by a set of ideological, constitutional, and management rules which collectively represent our national public culture. First, markets are preferred to government resource allocation, except in narrow cases where market failure can be demonstrated and public action is likely to deliver better outcomes. Secondly, effective macro-economic management requires a strong balance-sheet – widely interpreted to mean budget surpluses, low taxation, the direction of scarce state financial resources to high-yielding investments, and low tolerance of inflation. Thirdly, the well-being of the collective (nation or state) is more important than the well-being of the individual parts. Fourthly, public outlays should be transparent and justifiable in the sense that outlays demonstrably achieve worthwhile goals in the eyes of public accounts committees. Finally, Australia is a federation and it has been an article of national faith for over 70 years that financially stronger states should support weaker state economies to reduce horizontal fiscal imbalance. Thus, public regional development is entangled in a growing culture of demonstrable value-for-money at a time when public spending is being held in check by fear of budget deficits and political unwillingness to increase governments' shares of GDP.

This, in turn, brings us to a set of political-bureaucratic hurdles militating against affective regional policy. For example, the huge diversity of regional conditions and underlying processes logically requires bespoke policy approaches. Yet central governments lack of detailed knowledge of regional resources and opportunities and are far more fixed on big-picture issues connected with national and global competition or environmental regulation. One might also hypothesise that bureaucratic assessment of conditions, processes and appropriate responses may be far too slow for regions' extremely fluid market conditions. Worse still are the long lead times of up to 20 years for policies to take effect in rapidly changing and open systems – conditions designed to prevent effective benefit-cost appraisal of policy outcomes. This violates the first four principles just stated. On many occasions it is also difficult to define policy goals where there is considerable regional conflict over needs and aspirations. Contrary to public perception of harmonious and cohesive rural communities, they are often riven by disagreement over environmental management and resource use (especially water), ethnic tensions, inter-town rivalries, and fights over infrastructure supply (Sorensen, 2002). Even in the absence of such conflicts, few communities have realistic expectations of their lifestyle and development preferences and how to realise them. We have instead an ever expanding phalanx of regional actors, diagnoses of regional conditions, preferable outcomes, preferred strategies to attain them, and disparate self-motivated action. Figure 1 brings together the many strands in the first part of this paper to illustrate how they collectively conspire to make regional development a *wicked* policy arena.

We have, therefore, quite a vibrant market place of development information, ideas and action in many regions, which is sometimes given over-arching shape and impetus by exceptional leadership talent. Leadership's crucial role has been discussed on many previous occasions (Sorensen and Epps, 1996) and need not detain us except to emphasise its central role in shaping *place psychology* and galvanising action. Individual and community survival in turbulent and uncertain times requires high quality adaptive capacity. This flows from a set of behaviours including several popularised by Florida (2002, 2004):

- tolerance and open mindedness ;
- willingness to learn, and indeed create new knowledge though experimentation and invention;
- active innovation and the ability to accept risk acceptance;
- dedication to these tasks and the application of drive, energy and focus; and
- capacity to evaluate the effectiveness of action and revise plans accordingly where it appears to have failed.

The sum total of such attitudes in a community defines *place psychology* and the community's capacity to deal with challenging circumstances. Almost certainly, places with an abundance of these traits have a developmental edge, and we might hypothesise further that they are the likely outcome of strong local leadership.

Several conclusions emerge from this analysis. The capacity for central government to mastermind local development will be greatly hindered in at least two simultaneous directions: (i) the difficulty of policy formulation tailored to regional circumstance in a timely way and (ii) the likelihood of insufficient or mis-directed funding for its implementation. The first of these observations augments my previous arguments

about the capacity of governments to control and influence the raft of variables shaping regional economy and society. Both observations help explain the apparent acute mismatch between the demand for, and supply of, regional services and economic development and the decision by many local communities to do-it-themselves. Not that local action is likely to be altogether effective, for what we have is a giant market-place of often uncoordinated (or disjointed) ideas and action which is rarely assessed effectively on benefit-cost grounds.

The Funding of Rural Development

There is little literature on the extent to which public funding of regional development is either sufficient or well-directed. The sufficiency issue has no definitive answer because it hinges on a slate of largely political questions harbouring a wide range of possible responses depending on the analyst's ideologies and values. For example:

1. Do regions, wherever located and at whatever spatial scale, have an inalienable right to a specified minimum standard of economic and social services, or should the cost of accessing those services be built into businesses' production functions in certain specified cases ... in, say, remote locations?
2. To what extent should public investment in infrastructure and services be allocated on efficiency grounds? What constitutes *efficiency*? Is it return on investment in excess of a defined threshold over a specified time horizon? Is it the greatest possible return in the total volume of services provided for a given outlay and time period? In what degree are the answers to these questions contingent on the spatial scale of investigation or population density?
3. What level of business financial support is necessary to trigger the creation of new businesses (including farm enterprises) or the expansion of existing ones? Does this vary inter-regionally? If so, should governments seek minimum returns on their outlays and cap assistance to some localities so that total returns on public investments are maximised?
4. Indeed, what are the relative responsibilities of private and government capital in supporting private enterprise and does the answer to that vary according to the degree of risk involved? For example, large and well-capitalised corporations might have little difficulty in sourcing finance from the private sector, while we suspect that venture capital for small enterprises is weak outside of the state capitals.
5. Do some business types, industry sectors, clusters of enterprises, or degrees of inventiveness and innovation yield higher returns than others and deserve a greater share of available funding?
6. Does a plot of outlays versus returns on investment trace an S-shaped logistic curve where substantial returns occur only after a given level of expenditure? If so, what threshold outlay generates acceptable returns, and does that threshold vary regionally? If a region cannot generate good returns with its share of financial support, should it be excluded from receiving funds?
7. In the light of 1 to 6, what level of spatial discrimination is tolerable in terms of national and regional well-being and the ballot box?

Let's face it. The answers to these questions have a large unknown element. The equity and efficiency yardsticks are unquantified, and analytical data giving us returns on investment under different spatial economic and social circumstances are missing. It is therefore unsurprising that public sector outlays on regional development policy are trivial. It is difficult to justify considerable regional development expenditure in a fog, no matter the strength of regional sentiment. We know that NSW Department of State and Regional Development spent \$60.35 million on regional development strategy in 2007-08. Assuming that this was representative of Australian state governments and acknowledging that NSW has about 30% of Australia's population, the states collectively would have spent a little over \$200 million on regional development in that year. According to the Commonwealth public accounts committee, Canberra spent \$330 million on regional support in the three years up to 2007, or roughly \$110 million per annum (Australian National Audit Office, 2007). The two sectors together therefore spent in the order of \$310 million regional development programs. According to Reserve Bank statistics, Australia had a \$1 trillion economy in 2007, of which we can estimate about 30% or \$300 billion as being non-metropolitan. We can

conclude, therefore, that regional support amounts to about 0.1% of non-metropolitan GDP – a tiny share. In comparison, we may assume that farm financial support ran at about 4.5% of gross farm product in 2007-08, close to the average level of the last few years calculated by the Productivity Commission. This adds another \$870 million of crucial support to rural communities, or 2.8 times the level allocated to regional policy. Taken together, these two heads of expenditure amount to \$1180 million, or 0.39% of non-metropolitan gross regional product. These numbers are again tiny in absolute terms and small relative to most OECD countries.

If we accept this analysis in ball-park terms, one obvious conclusion is that Commonwealth and state government support for regional communities is unlikely to have any large direct effects. This is certainly so for general community support and may even be true when we include overall farm subsidies, except for the few regions specialising in commodities receiving high levels of public support. The word *direct* is used advisedly, because it is increasingly clear to me that regional policy increasingly operates in a complex psychological realm whose outcomes are essentially non-quantifiable, although maybe substantial, and largely *indirect*.

The Psychology of Place

Place psychology of the kind noted earlier has several important interwoven dimensions, as shown in Figure 2. One is individual adaptive capacity: the ability of people to adapt personally to the swirl of economic and social circumstance in which they are embedded. Adaptive people tend to be educated, forward thinking, economically comfortable, imaginative, politically and/or socially active, and risk takers in the sense of being willing to try new lifestyles and social arrangements. Secondly, few adaptive persons operate alone. Rather, they rely on, and contribute to, adaptive communities characterised by dynamic social capital and institutions designed to further change and adjustment. Effective social capital is not static, but changes organically and rapidly to meet evolving economic and social circumstances and emerging opportunities, and institutions interplay with social capital to deliver similar effects. Then, thirdly, come Florida-style creative people engaged in research, invention and innovation, and who deliver transforming technologies to which the rest of economy and society adapt. Fourthly, all three interact with the private sector which is largely driven by the gales of creative destruction unleashed by the application of technology, widely defined, which the key to business competitive advantage in a dominant market economy. Finally, but definitely not least, is government which sets the psychological rules within which the other dimensions operate. For example, governments regulate markets in an attempt to create certainty, stability, transparency and enforceability in market behaviour.

These psychological (or behavioural) attributes are the *sine qua non* of productive investment leading to accelerated change. Governments also help fund the research and development providing the catalyst for new goods, services, and even environmental management strategies to be seized by the private sector and community institutions alike. They provide the education, social security, and inclusiveness which are hallmarks of individual and community adaptability. Furthermore, governments mediate the institutions and the rules of social and business interaction which facilitate open and civilised discussion of the benefits and costs of alternative action. In fact, both governments and private business occupy the centre of a spider's web of economic and social evolution. Both, moreover, employ a vast battery of psychological techniques to galvanise the forces of change and to assist society to adapt to the gathering storm created.

Much of this work is, of course, aspatial. Among governments, the set of rules applies more or less nationally or even globally, with small scale variations at state government level or at even less coarse spatial scales. However, all three tiers of governments are discovering that they can monitor and steer people's attitudes, outlooks and behaviours at the regional or local level and that they each have a different role in this process. They can demonstrate concern for localities adversely impacted by change with small grants or subsidies designed to change people's thinking and behaviours in ways conducive to accelerated change and adaptation. They can enhance leadership skills; improve educational opportunities; facilitate strategic infrastructure; advise businesses so that can come up to speed with changing circumstances; beef-up research and development; provide a social safety net for those unable or unwilling to adapt; help the

creation of social capital; and mediate local conflicts made inevitable by the clash of the new and old. None of this is remarkable, and much of it is not expensive. Collectively, however, it is mutually reinforcing and I would be willing to bet that it is cumulatively much more important than one off small gifts of money to this that or the other facility. Given this diagnosis, it seems that governments, at all levels, can play an important role at all stages of economic and social evolution and at all spatial scales. There also appears no clear separation of roles among the tiers in this intensely psychological game, and next to no prospect right now of quantifying the outcomes of policy or calibrating optimal inputs of capital and other resources both in terms of aggregate level or allocation across policy strands.

In fact, governments – and one might add business – deal with an immense array of feelings, beliefs and behaviours. The list is long:

- fear, confidence, ambition and competitive drive
- happiness and contentment
- anger and satisfaction
- certainty, uncertainty and risk
- self doubt and feelings of (in)adequacy
- willingness to gamble or conservatively stick to the tried and tested
- ability to discover, create, innovate and adapt
- leadership, followership and entrepreneurship
- conflict resolution and mediation
- engender feelings of stability and control, however illusory
- demonstrate caring for the less able and adaptable
- defining and pursuing equity and tolerance

Each and every one of these should be stock in trade to regional policy, but few have been thought through in the sense of defining appropriate strategies to enhance beneficial behaviours and reduce those impeding local development. Nor have we thought carefully about the optimal allocation of these tasks between the tiers of government and the necessary financial and intellectual resources. Indeed, we have no idea how such strategy stacks up in benefit-cost terms against other strands of regional policy. There is a large research agenda buried here, and it is a long way from Marxist conceptions of regional policy behaviour advocated by Gore (1984) and others. He saw regional policy as a capitalist conspiracy in which declining regions were thrown an illusory lifeline to buy compliance in their own destruction.

In Conclusion

In the light of these observations, the paper's title may be more eye-catching than accurate. In one respect, Australia's regions are out there alone and whether they sink or swim depends on some combination of local resources, focused and considered action, leadership, and native skills. Some, like the Titanic, will the proverbial iceberg and go under, but others will stay afloat as long as the community and its backers bail out. It has always been thus. But the raft of players in the regional development game can set the rules of engagement and promote place development in a myriad of ways, many of which do not fall in the realm of traditional regional policy. So it is rash to conclude that the participants in this activity are merely shuffling deck chairs around. More realistically, they are engaged in a delicate tango designed to help communities facing development problems realise their options, seize opportunity, and mitigate the adverse consequences of change. It's a game of *disjointed incrementalism* (Lindblom, 1968) embodying a steep do-it-yourself learning curve. Perhaps it doesn't even matter much what is done as long as something happens to convince the public large that there's a fairy godmother out there that cares and some semblance of progress manifests itself. Oh, there goes another analogy!

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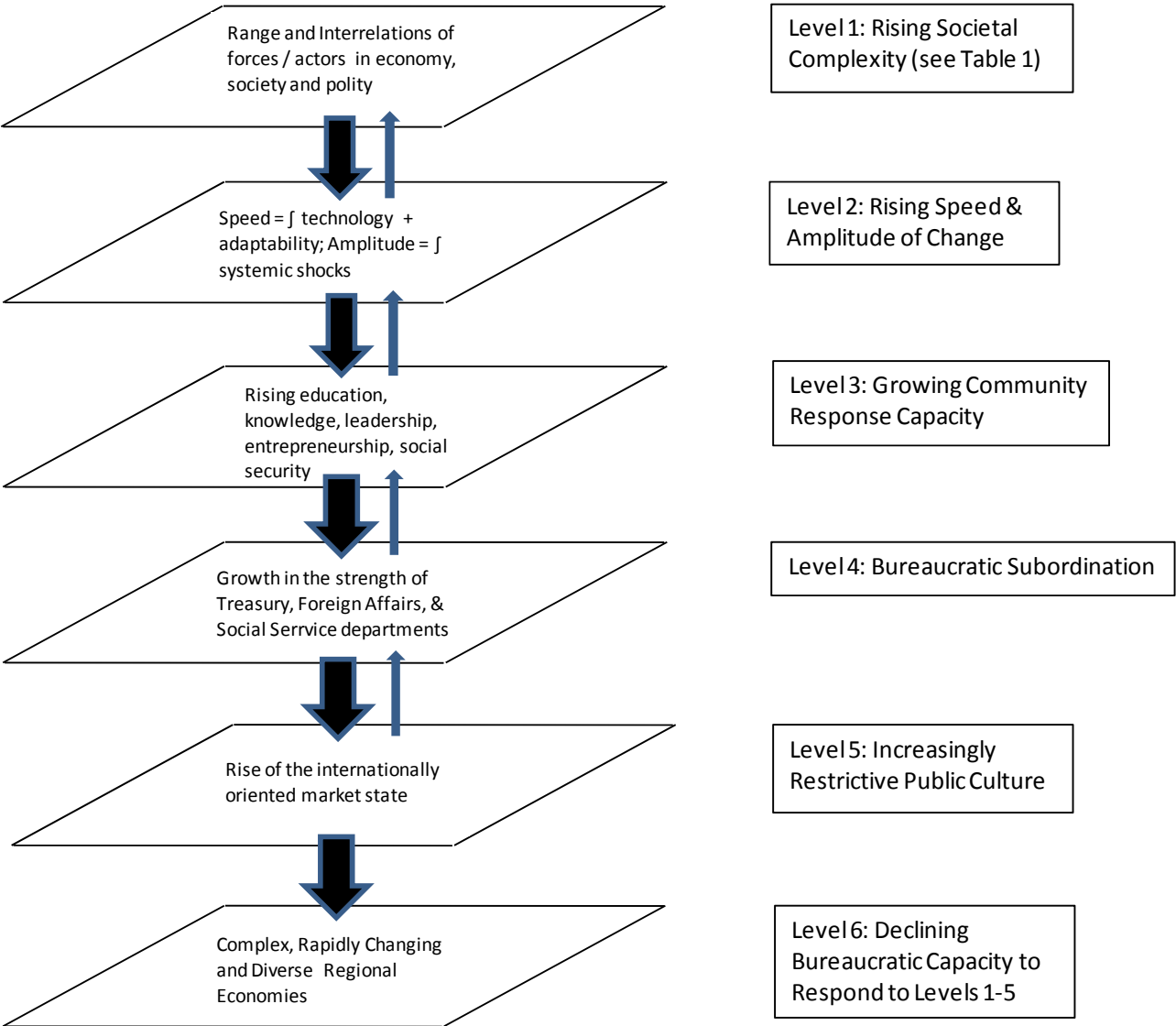
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Table 1: Factors Shaping the Economy of Rural Australia

Item Number	Major Category	Item	Linked to Item #	Item Number	Major Category	Item	Linked to Item #	
1	Macro Economic	Demand	Complexly and delicately interrelated, with domestic and international dimensions recursively connected.	36	Political	International Trade Settings (freedom of trade)	International relations and trade dimensions are mutually interrelated and feed directly into macro- and micro-events. So does the efficient and effective delivery of public services.	
2		Supply		37		International Trade Settings (bi- or multi-lateral)		
3		Tax Rates		38		Free Trade - Protectionism Balance		
4		Tax Distortions		39		International Cartels		
5		Budget Outcome		40		State of International Relations		
6		Subsidies / Distortions		41		Effectiveness of International Regulatory Agencies		
7		Investment Level		42		Efficiency in Inter-State Resource Allocation		
8		Savings Rate		43		Efficiency in Service Delivery		
9		Interest Rates		44		Efficiency in Resource Allocation		
10		Debt Servicing as Share of Income		45		[across all tiers of government]		
11		Returns to Capital						
12		Relative GDP Shares: Wages-Capital						
13		Labour Market Flexibility		46		Attitude to Risk		These dimensions are strongly interlinked and feed directly into both long-range economic prosperity and political capacity to operate effectively.
14		Labour Force Participation Rates		47		Future Orientation		
15		Efficiency of Capital Markets		48		Adaptive Capacity		
16		Economic Openness - Public Sector Control		49	Adherence to Tradition			
17		Infrastructure Supply, Cost and Quality		50	Institutional Depth			
18		Business Compliance Costs		51	Institutional Effectiveness			
19		R & D Share GDP		52	Interest Group Power			
20		Regional / National Comparative Advantage		53	Interest Group Membership			
21		Regional / National Competitive Advantage		54	Social Diversity			
		55	Social Harmony					
22	Micro Economic	Entrepreneurship	Complexly and delicately interrelated, with domestic and international dimensions recursively connected. Regional / national / international cultural dimension important in comparative and competitive advantage. Operates within macro context, but feedback loop influences macro settings.	56	Environment	Climatic Conditions	These dimensions are also strongly interlinked and directly affect the four previous heads of consideration.	
23		Ease of Market Entry		57		Incidence of Severe Events		
24		Level of Competition		58		Effectiveness in Resource Discovery		
25		Extent of Market Power / Domination		59		Effectiveness in Resource Conservation		
26		Effort - Dedication		60		Efficiency in Resource Allocation		
27		Industry R & D Effort		61		Efficiency in Resource Extraction		
28		Innovation Capacity		62		Level of Resource Depletion		
29		Adaptive Capacity		63		Level of Resource Enhancement		
30		Access to and Cost of, Capital						
31		Access to, and Cost of, Business Inputs						
32		Labour Market Cost / Knowledge / Skills						
33		Cost and Quality of Infrastructure						
34		Cost and Quality of Business Premises						
35		Company Profitability						

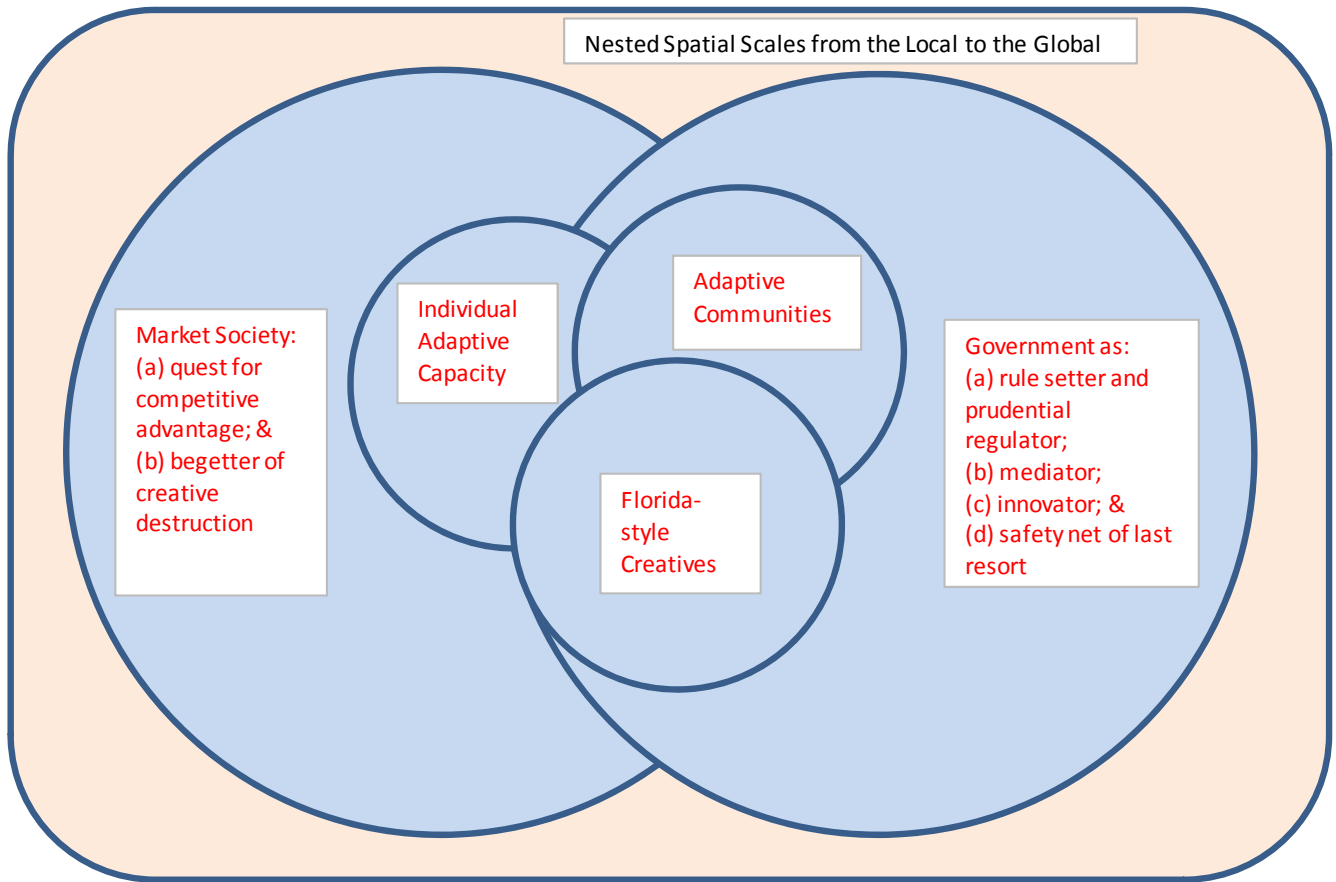
Source: The Author

FIGURE 1: Wickedness of the Regional Policy Arena



Source: The Author

FIGURE 2: Dimensions of Place Psychology



Source: The Author