



# Tapping the growth potential of regions for national success

*International analysis of regional performance shows that regions can be important sources of economic growth if we adopt the right policy approaches*

## Key Points

- Regional policy is not a choice between supporting high growth areas or propping up struggling regions.
- OECD evidence shows that strong economic growth is possible in all types of regions regardless of their current levels of development or previous performance.
- A broad based strategy for growth offers social and economic benefits and increases the resilience of a nation as a whole.
- To tap the potential for growth and prosperity in each region, Australia needs better regional information, integrated policy for common regional challenges and regional leadership in economic development.

## Policy Implications

Australia has experienced several decades of strong economic performance based on a national strategy of reform and engagement with the global economy.

This reform has led to significant improvement in the prosperity of the nation as a whole but it has also led to entrenched social challenges in some regions and the economy remains highly vulnerable to major shocks.

To overcome these weaknesses and provide for future success, a broad based strategy for growth in all regions should be a part of future economic policy in Australia.

Contrary to its traditional role, future regional policy should be a growth orientated economic policy rather than a mechanism for compensatory social policy.

Such an approach can be developed by adapting international experience to the Australian context and refreshing the national approach to regional issues with new information and policy initiatives.

### POLICY ISSUE

There is an on-going debate about the case for regional policy.

How can we best respond to a 'multi-speed economy'?

Should policy focus on further accelerating the performance of traditionally high growth areas or prop up struggling regions?

### ABOUT THE RESEARCH

This policy briefing is based on the findings of two pieces of research by the Organisation for Economic Co-operation and Development (OECD).

The soon to be released report 'Promoting Growth in All Regions' examines growth in less developed OECD regions and their relative contribution to national success.

This new OECD research builds on previous analysis detailed in 'How Regions Grow' which was released in 2009. This research analysed regional performance across OECD nations and identified the main determinants of regional competitiveness.

## Context

Regional policy debates in Australia and internationally have long been divided between those who advocate an efficiency approach and those who argue for equity.

A recent report by the Grattan Institute<sup>1</sup> reignited this debate by strongly advocating for an approach focused on supporting high performing regions and suggesting current policy was inefficient, ineffective and overly focused on underperforming areas.

However, pressure to provide support for regions with industries in decline on equity grounds remains a feature of national debate.

This creates a divisive discussion for regional issues. In response governments have inevitably sought to satisfy both camps.

As a result, economic policy at the national and state level remains strongly rationalist, centralised and efficiency based.

Meanwhile industry, regional and social services portfolios seek to ameliorate the problems of underperforming areas through expensive adjustment programs and social initiatives.

Most agree that this situation has not been ideal for meeting our current challenges, nor is it adequately preparing us for the challenges of the future.

## Findings

The OECD's recent research provides insights on how Australia can start to move beyond this debate and develop more effective policy solutions.

### Beyond Equity vs. Efficiency

OECD research suggests tackling regional issues does not require us to resolve whether we are prioritising efficiency or equity.

Instead, a broader based and more sophisticated national economic policy that recognises and seeks to tap the potential for growth and development in all regions is required.

The discussion then is not which areas to focus on, but how policy can be effective for different regions.

Efficiency and equity questions remain important but are resolved via factual analysis about regional needs within the commitment to a broader based growth strategy rather than being an ideological issue.

## Regional Performance in the OECD

### Multi-speed performance is inevitable

The OECD research confirms that differences in regional performance are a factor for all nations.

At any time, a large proportion of growth is will be concentrated in a small number of regions. For individual countries and the OECD as a whole, evidence shows that 4% of regions generate about one-third of economic growth.

Achieving and maintaining equal levels of growth and development is not a realistic policy goal.

### Less developed regions make a vital contribution to national growth

However, despite the concentration of growth in a small number of regions, the OECD found that traditional measures of development (higher incomes, education and innovation) which tend to be found in highly urbanised areas do not necessarily ensure a strong growth future.

70% of regions in the least advanced groups in the OECD recorded above average growth levels. This 'catch-up' growth is a significant contributor to the performance of many national economies.

The OECD analysis also shows that rural regions are often amongst the fastest growing regions in OECD nations. Overall, rural regions are highly represented in both the best and the worst performing categories of regions.

### Broad based growth has strategic advantages for a nation

Growth achieved in lower performing regions can be an essential contributor to strong aggregate growth in a nation.

Regions with very low levels of development (as indicated by their Gross Domestic Product)

compared to their national average contributed 43% of aggregate growth across the OECD between 1995 and 2007.

As well as supporting strong national economic performance, the OECD also highlights the strategic benefits of supporting all regions to tap their potential.

These include harnessing the benefits of diversity to insulate the economy against economic shocks.

Finding pathways to growth for lower performing regions will also assist national equity and avoid the long term and substantial costs that the social issues of poor performing regions impose on national budgets.

#### **Growth Drivers and Bottlenecks**

OECD analysis identifies common factors in the performance for all successful regions but less predictability in underperformance.

Strong infrastructure, education, innovation, economies of agglomeration and geographic characteristics are a feature of high performing regions.

Greater growth can also be expected when regions mobilise local assets and resources, rather than depending on support from the national government.

Case studies by the OECD show that underperforming regions exhibit different combinations of bottlenecks, driven by a regions unique characteristics and history

These may occur in infrastructure, human capital, the business environment, innovation, economic diversity, demographic factors or environmental constraints.

## **A Policy Response – Challenges for Australia**

Australia is currently considering its economic future following the inevitable decline of the mining boom.

The nation is also dealing with the side effects of not having an effective broad based growth strategy.

Our economy as a whole remains highly vulnerable to shocks and many remote and rural regions are experiencing serious social issues following decades of moribund economic performance.

Given the compelling evidence for a broader economic policy approach contained in the OECD research, an imperative is to find new ways to tap each region's growth potential.

#### **Stronger Regional Information**

To develop a broad based strategy for growth we must be able to answer some fundamental questions about regions across Australia:

- What is the current level of competitiveness for regions?
- Where is there potential for future growth in regions?
- Which high performance factors are missing in regions?
- What are the unique bottlenecks to growth faced by different regions?

However, the level of information required to answer these questions is not consistently available at the regional level.

As an example, a Senate Committee<sup>ii</sup> report on rural health services released this month listed 'prioritise the collection of robust and meaningful data on rural health' as its first recommendation.

Health and the availability of health services is an important bottleneck for many regions. This has been understood at a high level years but we still do not have a sufficient information base upon which to consider an effective response.

Similar challenges exist across many of the factors identified by the OECD as crucial to understanding and developing regional performance.

#### **Integrated strategies for common regional challenges or opportunities**

The second challenge is to develop better national strategies for common challenges or opportunities that exist in many regions.

These are the drivers of change in a broad based economic growth strategy. They enable governments to target action and investment in common barriers and opportunities in an effective way.

The strategy to support the arrival of faster broadband in regional areas provides a current example of this type of need and response.

It is well accepted that broadband has produced significant productivity gains but these are only realised where complementary factors such as population skills and technology adoption costs support widespread changes to business behaviour<sup>iii</sup>.

As a result, if access to broadband is widely taken up and used in regional areas there will be an opportunity for 'catch up' growth.

An integrated policy response has begun to be implemented for this issue. It is led by national initiatives and supported by regional strategies and investment in preparing the business community.

It is not yet clear how effective the approach taken to date will be in supporting productivity improvements.

### **Regional led action to support a comprehensive policy package**

Supporting these integrated national strategies must be regional led action to harness local resources and ensure a package of activity in a region that matches its needs and potential.

Regions need the flexibility to collaborate with state and federal governments on issues and opportunities.

The current approach to regional level decision making is complex. Many of the policy silos that are created between state and federal government portfolios are extended into the regions.

For example, Regional Development Australia committees are currently charged with regional development but they have very limited resources and decision making power.

Their ability to influence regional outcomes for education, innovation and infrastructure which underpin high performance is particularly constrained given the presence of other entities with specific responsibilities for health, education, natural resource management and other issues.

The role and capability of local governments in enabling regional development is also crucial but their role and capability varies.

The development of a broad based growth strategy requires consideration of whether Australia's current approach to decentralisation of decision making and service delivery can support the strategies recommended by the OECD research.

## **Research Approach**

### **OECD**

'Promoting Growth in All Regions' and 'How Regions Grow' examined the performance of OECD regions from 1995-2007, prior to the Global Financial Crisis.

The research involved the benchmarking of OECD regional performance and the statistical analysis of groups of regions exhibiting different levels of GDP growth compared to their national growth level.

### **Regional Australia Institute**

The Regional Australia Institute is translating the OECD insights and other knowledge about regional development into a practical strategy for broad based growth.

A competitiveness assessment of Australia's regions will help to shed light on the relative performance for regions and potential for future growth.

Combined with a range of targeted research on common regional issues and potential policy responses, RAI aims to bring together the information required to tap regional Australia's potential.

## **Contacts and Further Information**

To discuss this policy briefing and RAI's research agenda please contact RAI via:

[www.regionalaustralia.org.au/contact-us](http://www.regionalaustralia.org.au/contact-us).

Further information on the OECD's regional policy research program can be found online at the OECD website – [www.oecd.org/regional](http://www.oecd.org/regional).

A summary of the findings from 'Promoting Growth in All Regions' is available at:

<http://www.oecd.org/site/govrdpc/50138839.pdf>

The full report and supporting analysis for ‘How Regions Grow’ is available at:  
<http://www.oecd.org/regional/regionaldevelopment/howregionsgrowtrendsandanalysis.htm>

## Acknowledgements

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It is intended to assist people to think about their perspectives, assumptions and understanding of regional issues.

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<sup>i</sup> Daley J and Lancy A 2011, *Investing in Regions – Making a Difference*, Grattan Institute, copy available at <http://grattan.edu.au/publications/reports/post/investing-in-regions-making-a-difference/>

<sup>ii</sup> Community Affairs References Committee August 2012, *The factors affecting the supply of health services and medical professionals in rural areas*, The Senate, copy available at: [http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate\\_Committees?url=clac\\_ctte/rur\\_hlth/report/index.htm](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=clac_ctte/rur_hlth/report/index.htm)

<sup>iii</sup> LECG Ltd 2009 *Economic Impact of Broadband: An Empirical Study*, Connectivity Scorecard, copy available at: [http://www.connectivityscorecard.org/images/uploads/media/Report\\_BroadbandStudy\\_LECG\\_March06.pdf](http://www.connectivityscorecard.org/images/uploads/media/Report_BroadbandStudy_LECG_March06.pdf)