



A New Deal for Northern Australia?

Interim Report of Working group 4, September 2009

Infrastructure for Northern Australia.

Contact Paul Barratt

paulbarratt@ceoadvising.com

Mobile 0411276996

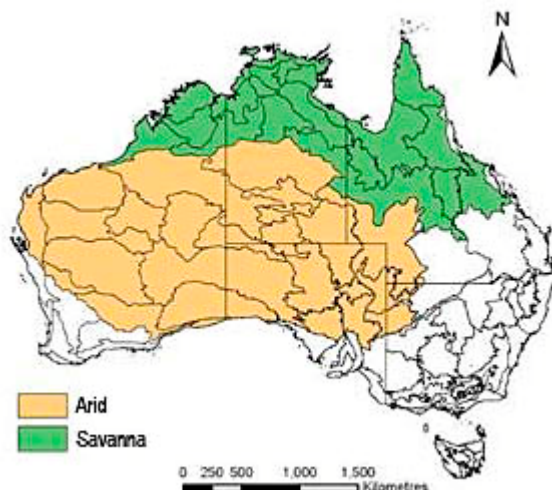
Infrastructure for Northern Australia

This paper seeks to analyse the issues involved in Principle 6 of the Australia 21 Northern Australia Workshop, namely, that:

Government provided services should be at least as supportive to people and communities living in the North as they are to people and communities of equivalent size and remoteness in the south.

In considering infrastructure issues relevant to northern Australia we take a broad definition of infrastructure – both the physical infrastructure and the services they deliver. This means that we consider not only roads, bridges, airports, power supplies, water and gas, but also the fixed infrastructure and delivery systems for education, research, health, social welfare, policing and law enforcement, etc – the whole social and physical fabric which makes it possible for people and public or private organisations to go about their business.

This concept can take on a very special meaning in tropical Australia, because it can only meaningfully be addressed in the context of climate – the wet season, and the fact that about thirteen cyclones will form in the Australian region each year. In regions like the Gulf country, all the roads are closed in the wet season and the air service is intermittent at best and non-existent at best. This has a big impact on basic health services, and makes it an unattractive place to live (or even visit periodically) for health/education/ social service etc professionals. There are clearly huge costs involved in delivering even basic levels of infrastructure and service to remote areas with extreme climate and few people.



We need also to bear in mind that there are several distinct northern Australias to think about. The Commonwealth Government, in setting up its Office of Northern Australia defines the region as all the territory to the north of the Tropic of Capricorn. This is as good a working definition as any, but as the chart at left (published by the Tropical Savannas CRC) shows, it embraces two large tracts of distinct bio-geographic regions – the Savanna region and the arid zone, much of which lies within temperate Australia.

Within these regions we have important coastal cities like Darwin, Townsville and Rockhampton, smaller centres often based on mining, regional service centres, pastoral properties of enormous size, and indigenous settlements, many of them very remote.

Some characteristics of Northern Australia as published in the Bureau of Industry, Transport and Regional Economics's *Northern Australia statistical compendium 2009* include:

- Northern Australians represented 4.7 per cent of the total Australian population in 2006.
- A relatively large proportion of the Northern Australian population is indigenous (14.3 per cent) compared to that of the whole of Australia (2.3 per cent).
- Many Statistical Local Areas (SLA) have a high number of people earning a low income.
- The proportion of people who had completed Year 12 or equivalent in Northern Australia in 2006 (27.3 per cent) was well below the Australian figures (33.9 per cent).
- In 2006, there were lower proportions of people at university in Northern Australia (3.0 per cent) compared to the rest of Australia (4.7 per cent), with particularly low proportions seen in northern Western Australia (1.4 per cent).
- Between 1995–96 and 2000–01 dependence on government benefits increased in Northern Australia, more than it did across Australia as a whole.
- The breakdown of nine key health professions indicated that there are smaller proportions of nurses, medical workers, dentists, pharmacists, optometrists, physiotherapists, chiropractors and psychologists within Northern Australia than across Australia generally.

Clearly Northern Australia is rich in resources and has enormous capacity to expand. But in considering that potential expansion we need to address some fundamental questions, in a detached and analytical manner:

- Do we *want* people to live in northern Australia? If yes, they must be supported.
- Are we prepared to support them living anywhere or only in certain defined “towns” or small areas?
- Do we *need* people living in north Australia? Almost certainly yes, but can we afford it, or at least, how much are we prepared to afford?
- Are we prepared to take action to *stimulate* growth, or are we content to rest on the current ideology of waiting for it to happen. If the former, what action(s) are we prepared to take? If the latter, why do we think that it will happen in the manner we want (if you always do what you’ve always done, you’ll always get what you’ve always got).
- To what extent should mining companies pay for the social facilities adjacent to their minesites, and the related question of the extent to which the ‘fly-in fly-out’ model is satisfactory from a wider point of view of what best suits the companies’ commercial interests. Companies exploiting mineral resources provide services in their areas because it is economically worth their while. But in times of economic downturn, the services are diminished and the local people suffer. Also, mining companies are rapidly heading towards remote operation of mine sites (eg from Perth) with no (or extremely few) employees on site. The economic need for them to provide services will rapidly diminish.

- *Pathway to Possibilities: A Blueprint for Regional Development Across Northern Australia* (Report of the North Australia Economic Forum (NAEDF), Cairns 2008, downloadable from [here](#)) states (page 14) that the Northern Queensland Mayors' Alliance was established as a result of concern that decision making was not being undertaken by the region generating the funds; that there was more resource flowing out of the north than was being returned. If we want to be proactive in stimulating growth, do we think that there ought to be a net inflow of resources into the region? If not, what do we mean by stimulating growth?
- What are we prepared to do to strengthen local government, described in *Pathways to Possibilities* (page 15) in the following terms:
 - Under-resourced with a limited rates base (often further reduced with the creation of national parks) and the victim of cost-shifting over many years from both state and federal governments
 - Vulnerable position as local government is not mentioned in the Constitution and exists at the behest of State and Territory Governments
 - Coordination between groups of councils will need resourcing
 - If local government is to have a stronger and more effective service delivery role it will need far more resourcing than is currently available.

In approaching the development of Northern Australia from a resilience viewpoint we need to bear in mind the important aspect of resilience thinking that it is necessary to consider not only the scale that is our main focus (the whole of northern Australia, however defined), but what is happening at the scale above (national, and Southeast Asian regional) and what is happening at the scale below (regions within northern Australia).

An important part of the scale above is to consider national policy in relation to regional and remote Australia generally, i.e., to set the northern development issue into the more general context of infrastructure policy for non-metropolitan Australia.

One important part of that general context is the actual decline of population in many parts of regional Australia, and a continuing national conversation (somewhat overtaken by the Global Financial Crisis) about whether a two-speed Australia is emerging. We have rising levels of exasperation in our largest cities, Sydney and Melbourne, about desperate levels of traffic congestion and the inadequacy of the public transport systems, while in much of the countryside we are wrestling with long term stagnation and decline.

As an indication of what is happening in our most populous state, between the 2001 and the 2006 census Sydney grew at a faster rate than non-metropolitan New South Wales. 47% of Local Government Areas (LGAs) outside Sydney had declining population from 2001 to 2006. For inland LGAs the figure was 57%. So for all of the decentralisation policies that governments have professed over the years, the growth is highly concentrated in the metropolitan areas and becoming more so. We express great concern about what congestion and urban sprawl are doing to the quality of life in the cities (and to the cities' environmental footprint) but it is highly relevant to scaling the task that confronts us in northern Australia to consider the fact that we do not even manage to achieve policy settings that lead to investment and growth in the "easy" parts of non-metropolitan Australia such as inland New South Wales.

The situation in more remote regions like Northern Australia is even more difficult. *Pathways to Possibilities* notes:

Across remote northern Australia there is a high level of social disadvantage, attested to by the need for the NT intervention and the high level of dysfunction in remote indigenous settlements [that] is well documented. Marginalised from the mainstream economy and governance they are characterised by a peripatetic professional population with flyin-flyout mining operations and short term government placements. Professor [Rolf] Gerritsen [in a paper presented to NAEDF 2008] paints a gloomy picture of a dual economy developing in remote Australia.

In that regard, it is instructive to review the speakers' presentations at the Bureau of Infrastructure, Transport and Regional Economics's 2009 [Infrastructure Colloquium](#), subtitled Infrastructure for the Nation's Future. This would more appropriately have been entitled Urban Infrastructure for the Nation's Future, because the focus is almost exclusively on metropolitan infrastructure and associated issues in urban planning. There are nevertheless some interesting ideas and data from the colloquium:

- Keynote speaker [Michael Blythe](#), Chief Economist of the Commonwealth Bank, observes that economic growth theory provides a way to estimate the optimal level for the capital stock, and says that Robert Solow's growth theory (see below) defines a "golden rule" for capital accumulation that allows consumption to be maximised. His bottom line is that we need more infrastructure but we also need to use the existing infrastructure more efficiently.
- [Brian Watters](#), Director, Major Infrastructure, Roads and Traffic Authority NSW, makes the point that cost benefit analysis for roads will focus on travel time savings, vehicle operating savings, accident savings – always leading to a priority for projects which reduce urban congestion. He goes on to make the point that this does not adequately represent political priorities, and to ask the question how we can help politicians to select the right projects.
- [Dr Karen Wade](#), Senior Economist at BITRE, threw up an interesting map showing the population growth rates of Local Government Areas around the country. This shows that a lot of the high growth rate LGAs are in northern Australia.
- [Cliff Walsh](#) of the School of Economics, University of Adelaide, notes that under a sophisticated form of benchmarking undertaken by the Productivity Commission, rural and remote LGAs raise above the hypothetical benchmarks for their revenue raising effort, urban fringe and CBDs raise the lowest proportion of their own expenditure against their hypothetical benchmarks.

Pathways to Possibilities contains a lot of valuable information and insights and aligns with Australia 21's Darwin outcome in a number of important respects. For example, it advocates that decisions affecting the north should be made in the north. There is a strong and commendable focus on what local government can do, and the need to strengthen local government, but it also recognises the need to see "the big picture" and seeks partnership between the three tiers of government. Where it is less strong is in defining what should be done by each tier of government. The solution to this is to develop a tight and workable definition of the "Subsidiarity" concept (the notion that every function should be performed at the lowest political level that is capable of performing it) and stating how it would work in the northern Australian context.

Michael Blythe's reference to Solow's (Nobel Prize-winning contribution to) growth theory provides an important perspective from which to view the development of Northern Australia. Roughly speaking, prior to the publication of Solow's seminal paper in 1958, the long-run growth potential of the economy was considered to be a function of the supply of labour, matched by a supply of capital in proportion to the labour supply. Production of any good was held to require a certain amount of capital and a certain amount of labour, in fixed proportions. Solow delved into the issues that determine the actual productivity of labour and capital, which led to the introduction into the picture, in a rigorous analytical manner, of labour related issues such as education, skill-formation, health and well-being, and of capital related issues such as technological change (leading to R&D as a factor) and the contribution of infrastructure.

A very important consequence of this line of thinking is the insight that investments made do not subtract from the opportunities to invest (as if there were a finite list) – rather, they create opportunities for new investment. That (aside from governance issues) is why there is much more interest in developing in the most highly developed regions on the planet, rather than the least highly developed. The United States Government recognised this in the nineteenth century when it financed the development of the Union Pacific Railroad by making land grants to the railroad company in the areas adjacent to the railway line. The significance for Northern Australia is that we need to avoid a tautological situation in which the least developed areas of the country remain under-developed (whatever that means) because they are under-developed.

Solow's line of thinking suggests a need to connect indigenous education, health and wellbeing to the rest of the story, on grounds **additional to** equity grounds; it also provides a platform for linking the need to do more science in an about the region, including that which avoids degradation of the landscape. All of these can be viewed as investments in the productivity of the region, rather than simply as costs.

Paul Romer's TED presentation on Charter Cities, available as streaming video [here](#), contains a number of striking ideas. His central theme is that successful politico-economic entities need both good rules, and good rules for changing the rules. The village is too small, he argues, and for many purposes the nation is too large. He advocates, as an economic development model, the establishment of "charter cities" which have good rules (market economies, good governance etc.) but by being new give people the opportunity to opt in or not as they choose – they can go and live and work there if they choose, or stay at home and live the way they now live if they prefer. He makes the powerful point that this approach avoids "coercion and condescension". In Northern Australia we are not going to be talking about cities on the scale he has in mind, but a "charter communities" concept might offer an alternative approach to either the Intervention or the mandatory concentration of indigenous communities into larger regional centres.

These interesting ideas of such highly regarded economists as Solow and Romer give us an opportunity to weld our disparate themes about northern Australia into a coherent whole, but teasing out all of the ramifications of their ideas in a suitably rigorous manner will be quite a substantial undertaking.

In *Pathways to Possibilities* NAEDF identified (pp. 3-4) a number of criteria as being crucial to enabling the full potential of Northern Australia to be realised:

- *Formal collaborative arrangements transcending political allegiances to ensure that there is real and long term commitment of State, Territory and Australian Governments to Northern Australia. This will need a bipartisan approach of collaboration in the national interest. This commitment must also survive the 3 or 4 year political cycle what was identified as a real barrier to sustainable economic development by NAEDF 2008 delegates.*
- *Formal establishment of effective long-term cooperative arrangements between all 3 levels of government and adequate resourcing of the local government tier. Recognition of the significance of local government to the community should be formalised, placing local government under the aegis of the federal sphere.*

It is essential to ensure there is capacity of local government to:

- *Develop collaborative partnerships and networks*
 - *Maximise opportunities and develop economies of scale through collaborative arrangements*
 - *Effectively and efficiently deliver services and manage funding*
 - *Build capacity of their communities to take advantage of opportunities.*
- *The Office of Northern Australia to be structured and recognised within the state and federal ministries and bureaucracies to provide an accurate and effective voice for North Australia in order to overcome the lack of political representation in Canberra. In alliance with the Regional Development Australia committees, there would be capacity to streamline the regional planning and development process. A well oiled conduit needs to exist between local government and federal government to be provided by the ONA and the RDA network.*

The Office or offices of North Australia to be located in northern Australia, not Canberra or Brisbane.

On the face of it these recommendations of NAEDF are governance rather than infrastructure issues, but perhaps the “infrastructure of governance” is one of the first things we need to get right in order to ensure effective planning, establishment and sustainment of the services that need to be delivered throughout the region.

Pathways to Possibilities also provides an insight into the problem identified by Brian Watters – how to get the political questions addressed, in addition to the cost-benefit calculus, in ranking our investment priorities:

Political representation in federal Parliament has always been concentrated in the eastern and south eastern parts of Australia, they being the areas with the majority population and of that representation, a significant percentage of federal parliamentarians hail from metropolitan centres. In fact only 8 seats represent north Australia in federal parliament. Political representation in state governments is again focussed on the high population centres of the capital cities and surrounds. Concern is now being voiced that the democratic process has not worked in the best interests of remote and regional Australia.

In grappling with these difficult issues we could perhaps adopt as *leitmotif* the following observations attributed to Solow in Wikipedia, which seem to capture something of what we are trying to get across in relation to northern Australia:

- Over the long term, places with strong, distinctive identities are more likely to prosper than places without them. Every place must identify its strongest most distinctive features and develop them or run the risk of being all things to all persons and nothing special to any.
- Livability is not a middle-class luxury. It is an economic imperative.
- If it is very easy to substitute other factors for natural resources, then there is, in principle, no problem. The world can, in effect, get along without natural resources.