ASSISTING REGIONS AND COMMUNITIES TO COPE WITH CHANGE: CONTEXT, PRINCIPLES AND GOOD PRACTICE

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A discussion paper based on, and extending, a presentation made at Workshop 4 in the series “It’s Obvious, Isn’t It?” jointly sponsored by PIRSA, the University of Adelaide’s School of Economics and the SA Centre for Economic Studies.

12 September 2010
Author’s Note

This paper presents a somewhat expanded version of the presentation I made on 2 September 2010. It also includes some additional material I mentioned on the day. The main difference in content from my presentation is the development (in Section 3) of a set of general objectives and principles for the provision of region-specific structural adjustment assistance.

In what follows:

- **Section 1** sets out the broad purposes of the paper and provides a brief statement of some basic premises underlying the perspectives developed in later sections;
- **Section 2** looks at the context within which regions “operate” and sets out some framework issues relevant to shaping decisions about whether and when to provide regional structural adjustment assistance;
- **Section 3** provides a brief statement of the overarching objectives of providing regional structural adjustment assistance and general principles for the design and delivery of adjustment assistance measures; and
- **Section 4** presents a more detailed discussion of good-practice design and implementation.

An Attachment, for those interested, provides a brief explanation of the concepts of market failure, government failure and systemic failure that underpin economists’ approaches to public policy analysis and design, and puts them into a broader context of social and political considerations which also influence policy choices.

Some issues raised at the Workshop—in particular, the meaning and nature of capacity-building (resilience-building)—are beyond the scope of this paper. I am considering them in what eventually will become, in effect, a “companion” paper on regional development strategies.

In all respects, the paper needs further thought and development, especially in relation to good-practice in the design and delivery of adjustment assistance measures. Feedback would be gratefully received.

Cliff Walsh, 12 September 2010
1. **OBJECTIVES AND AN OVERVIEW OF SOME BASIC PREMISES**

The purpose of this paper is to develop:

- an overarching framework and statement of general principles for guiding whether, when and how it is appropriate for governments to assist regions to cope with structural adjustment pressures, whatever their source; and

- a set of good-practice principles to appropriately shape the practical design and implementation of regional structural adjustment assistance, where it is offered.

It is not necessary for present purposes to grapple with the question of how regions appropriately should be defined *spatially*. However, it is worth emphasising that the term “region” is shorthand for a group of businesses and workers (its economy) and of people and communities (its society) and of natural assets (its environment and ecosystem). It is the consequences for them, individually and collectively, of structural adjustment pressures that is the central issue. While changes in regional aggregate indicators, such as a region’s income or its employment level, are important high-level signals about what is likely to be happening among the region’s workers, businesses, people and communities, they can hide as much as they reveal of economic and social policy relevance.

The basic premises underlying the proposed framework and principles are that:

(i) continual changes in underlying economic forces and the policy environment facing all regions, and other external forces impacting on them, are unavoidable facts of their economic, social and political life;

(ii) regions have no choice but to adapt to the external forces and it is a fundamental principle that regional communities themselves should take primary responsibility for adapting to pressures leading to structural change;

(iii) while structural adjustment is often seen as having negative connotations for businesses, workers and communities, it is through businesses and workers adjusting to changed circumstances that economic growth and prosperity are maximised.

(iv) regions already, in effect, receive “adjustment assistance” through generally available on-going programs which support people facing changed circumstances wherever they live – particularly through the social security safety net and job-search, employment and training programs available to all who meet universally applied eligibility criteria;

(v) there may be some circumstances in which it is appropriate and desirable for governments and/or the national government to provide additional targeted assistance (*regional structural adjustment assistance*) to regions to help them manage the process of adapting to change;

(vi) the need for and desirability of providing regional structural adjustment assistance should be assessed on a case-by-case basis and is likely to be strongest where adjustment pressures occur abruptly, are of unusually substantial magnitude and disproportionately impact on some regions compared to others; and

(vii) while regional structural adjustment policies and programs need to be developed in the context of broader regional development objectives that all spheres of government pursue, it would be neither economically nor fiscally sustainable for regional development assistance to be directly and deliberately targeted at
attempting to neutralise the ultimate consequences of structural adjustment pressures for particular economic activities.

Although regional structural adjustment assistance is most often thought of as being provided to help regions cope with adverse consequences of abrupt or unusually substantial changes, the principles are intended to also apply where changes in regions’ economic environments are potentially beneficial to them, but fully capturing the potential benefits is challenging for a variety of reasons.

2. CONTEXT AND FRAMEWORK ISSUES

It is an inconvenient but unavoidable reality that pressures arising from forces beyond their control are continually experienced by regions and eventually lead to changes to their economic structure — in the magnitude and composition of economic activity within them and the consequent workforce size and skills required. It is essential that regions accept those pressures as an ongoing fact of economic, social and political life and adapt to them in order to maintain their economic and social vitality.

Adjustment pressures can arise from a number of sources, of greater or lesser significance at different points in time. They include especially:

- changes in underlying market forces faced by businesses and workers in them – for example, changing consumer demands or production costs, national and international competitive pressures, and technological or workplace innovations;

- population growth or decline, or changes in its composition — arising variously from, for example: the consequences of changes in the level or composition of a region’s economic activity; progressive changes in the age structure of its population; and changes in people’s preferences about where they want to live, work or do business (including sea change or tree change preferences);

- changes to the economic, social or environmental policy context in which regions operate — such as those caused in recent decades by tariff reductions, economic and financial deregulation, National Competition Policy and reforms to State infrastructure and service provision, and also those now in prospect through the COAG Reform Agenda, through developments in water policy at State and national level and through the application of mandatory renewable energy targets and, eventually, a carbon price; and

- other external factors — such as the consequences of prolonged drought, increased climate variability, reduced security of urban and rural water supplies or the potential long-run consequences of climate change.

Some sources of adjustment pressures might be capable of being offset by (some) regional communities and organisations, including in particular local governments, to some extent: this is the case, for example, with attracting or retaining people and business investment, in some circumstances. However, most of the adjustment pressures — and all of them to a substantial extent — are beyond the capacity of regions themselves (their organisations, communities, businesses and workers) to influence: they are predominantly and inherently exogenous to affected regions and inexorably lead to changes in the structure of regional economies and societies over time.
Importantly, some sources of adjustment pressures — especially those arising from changes to economic policy — will, by their very nature, initially produce both ‘losers’ and ‘winners’ among businesses, industries and sectors, and hence among regions in which they are particularly concentrated. In the longer-run, however, there can be “benefits almost all-round”. For example, while water trading in Victoria has resulted in employment in Agriculture, Forestry and Fisheries falling in all irrigation areas except Sunraysia (which has been the only net-purchaser region of permanent water entitlements), all but one significant other irrigation area have eventually achieved a net increase in total employment through expansion of other economic activities. Similarly, the Productivity Commission estimated that National Competition Policy had, after initial adjustments, resulted in negative economic impacts in only a few regions across Australia. This reflects the fact that policy changes most often are directed at increasing national output and productivity, in which, in principle, all regions can share. The net national consequences of changes in market forces, however, are less predictable.

Most sources of adjustment pressures, especially those that are market-driven, are what might be termed “evolutionary”. That is, they most often have progressive on-going effects (positive or negative) which are, to some degree, predictable. Even some substantial, abrupt changes, such as the closure of a significant regional business, will most often have been foreseeable, though possibly not seen as inevitable. For most evolutionary changes, the required adjustments are rarely so sudden and substantial that regions could not, in principle, be expected to be able to cope with them with no more adjustment assistance from governments than is available on an on-going basis. This on-going adjustment assistance supports people facing changed circumstances, whatever the cause and wherever they live and it especially includes: social security income support available to displaced workers wherever they live; and job search, employment and training programs provided (variously) by the Commonwealth and State governments that are available to all who meet universally applied eligibility criteria. These forms of support are neither region-specific nor, generally, regionally-differentiated, but their regional incidence differs according to regional economic circumstances. There also often are programs, primarily at State level, designed to provide light-handed support for the development of regional capacity to better anticipate and cope with adjustment pressures over time. While these capacity-building (resilience-building) activities might be enhanced during periods of particularly strong adjustment pressures, they are largely “background” programs delivered as part of regional development assistance strategies, not adjustment assistance per se.

As a general rule, where adjustment pressures are moderate and evolutionary, no more adjustment assistance than is generally available should be necessary, nor would it be desirable: the development of regional resilience in the face of adjustment pressures is an important objective in its own right and is most likely to be developed by having regions learn how to cope with and adapt to at least the predictable consequences of change.

It is when pressures for structural change are abrupt, and their potential impacts on regional economies very substantial, regionally differentiated and highly likely to persist, that a case arises for considering the provision of additional, time-limited, targeted, circumstance and location-specific regional structural adjustment assistance. Its purpose, when it is provided, is not to attempt to ‘interfere’ with the direction of change but rather to help minimise the transitional costs inevitably borne by people and communities when the structural changes are occurring. This most often will involve helping to smooth the time-path of adjustment and facilitating occupational and/or locational change by workers and families (and sometimes businesses).
In addition to changed underlying market forces which might tip regionally concentrated businesses into rapid decline (or rapid growth), the impacts on regional economies arising from policy changes sometimes can be abrupt and substantial. However, it is only where policy changes are in response to crises that they could be said to have been essentially unpredictable (though the 2010 proposed introduction of a “super-profits” tax on mining was something of an exception). Most often, likely changes in the “policy environment” will have been evident for some time before the policy changes actually occur, giving regional businesses and communities signals about what might be likely to impact on them and at least some time to develop strategies to adapt to them. Nonetheless, the limited time between recognition of likely policy changes and their actual implementation, and the magnitude of the impact of the policy changes when they are made, can pose serious challenges for business and regional adaption and adjustment, just as can be true for recognition lags when market conditions change. It is these circumstances that are appropriately the central focus of the principles for designing and implementing regional structural adjustment assistance programs and initiatives.

The National Water Initiative provides an interesting case in which issues about who should bear risks of “market” and policy changes have been pre-considered and set-out for industry participants. The Commonwealth-State Agreement indicates that any reduction in the size or reliability of a water allocation will be borne:

- by water entitlement holders if the reduction is the result of seasonal or long-term changes in climate, or of periodic natural events such as bushfires and drought;
- by a government if the reduction is the result of changes in that government’s policy;
- by water entitlement holders and governments (according to a specific formula) if the reduction results from improvements in knowledge about the environmentally sustainable level of take of water.

Among the many sources of policy changes that can have substantial, regionally concentrated and differentiated impacts are those deliberately promoting industry structural adjustments. These include the consequences of tariff reductions for the size and structure of both the Motor Vehicles and the Textiles, Clothing and Footwear industries, or of deregulation in the case of, for example, the Dairy industry, usually accompanied by measures designed to facilitate restructuring of them, wherever they are located. Like for most other policy changes, any differential regional structural impacts are incidental to, not targets of, the industry structural impacts. The case for industry structural adjustment assistance and that for regional structural adjustment assistance rest on conceptually different foundations.

From an economic perspective, the principal factor appropriate to choosing how to approach the provision of regional structural adjustment assistance is the identification of policy-relevant market failures, which hinder the adjustment process and raise transitional costs for workers, businesses and communities. An Attachment to this paper provides an explanation of the concept of “market failure” and other related concepts such as government failure and systemic failure, and puts them into the context of other influences on policy development, such as equity, and community sustainability. Most of the market failures generally identified as likely to be especially relevant to regional development and adjustment exist on an ongoing basis and either are assessed as not policy-relevant (the costs of attempting to correct them exceed the potential benefits) or are addressed, to some extent, in generic policies and programs. Unusually abrupt or substantial changes in adjustment pressures can often make a strong case for location-targeted additional measures because the costs of on-going market failures (i.e. the benefits of reducing them) are sharply increased.
Theory, logic and past experiences point to impediments to labour market adjustment as the most policy-relevant and most substantial sources of market failure likely to be intensified by significant structural adjustment episodes. Limited information by displaced workers about alternative employment opportunities, especially beyond their current locations, and the potential costs of moving if that is necessary or desirable, are a source of stickiness in adjustment that can be reduced by appropriately designed and targeted job-search and/or mobility-support programs above and beyond those generally available. Where displaced workers are also particularly occupationally immobile because their skills have been made obsolete or redundant, this problem is intensified, including because potential new employers are likely to under-invest in retraining where retrained workers have the potential to be mobile between employers. And there is also the related problem that displaced workers can become increasingly difficult/costly to re-employ the longer they are out of the labour market, if their skills continue to further depreciate. Providing more diverse education and skills training to help regions grasp new opportunities, or to assist workers to relocate, is also a desirable response.

On the flip-side of the labour market information issue is the fact that businesses outside a region generally have limited information about business opportunities in it – including of labour available that is appropriately skilled, or cheap to re-skill. This clearly can cut two ways in relation to adversely affected regions – it can hinder both in-migration and out-migration of businesses. Lack of information about, for example, new technologies or better management practices and about effective business planning can also be hindrances to the (re)development of business opportunities.

A number of what often are termed government failures also can be relevant to adjustment issues. Stamp duties on real estate transfers which increase the costs of mobility for home-owners and businesses, zoning regulations which limit flexibility in attracting new business investment, institutional inertia in the Vocational Education and Training system and inflexibilities and lags in decision-making processes in relation to public sector infrastructure or service provision, are commonly cited examples of a wider array of ‘imposed’ obstacles that need be recognised and, where possible, eliminated, or at least ameliorated, especially where adjustment pressures are particularly intense.

Additional to these fairly generic examples of government failures is the fact that there can be particular inflexibilities in public sector decision-making about regional service delivery. For example, application of ‘routine’ formulas for deciding when a school should be closed or a police station shut-down can lead to an escalation in the rate of decline of a community, adding to the hurdles they face in attempting to recover following a period of adjustment. There might sometimes be a case for allowing a degree of flexibility in applying standard formulas until it becomes clearer whether “community sustainability” is, or is not, capable of being restored.

A further source of inadequacy in the capacity of regions to smoothly adjust to structural pressures is what might be termed systemic failure. This arises where institutions or relationships between key stakeholders in regional communities are not sufficiently well developed to ease the strains caused by adjustment pressures: the system is flawed. Like government failures, this is an endemic problem which regional adjustment strategies have to work around where it exists. Its ultimate resolution is a matter for on-going regional development strategies.
All of the sources of market, government and systemic failures relevant to adjustment to adverse circumstances, it should be noted, can also act as impediments to enhanced economic activity in areas potentially favourably affected by structural change. Inadequacies in public sector responses to increased pressure on infrastructure and public sector services and difficulties in attracting appropriately skilled labour are likely to be particularly pertinent in such circumstances.

A number of newly emerging (inter-related) sources of adjustment pressures—in particular, a higher degree of climate variability, reduced security of water supplies and the longer term consequences of climate change—are taking people, businesses and governments into relatively unfamiliar circumstances. They raise particular challenges for the design of adjustment assistance policies and programs which require special attention, including the need to recognise interdependencies between them. It is important that there be consistency in policies and initiatives aimed at addressing their particular consequences.

Of course, ultimately, there are factors at play which hinder regional adjustment which may not be amenable to influence (to any great degree) by adjustment assistance initiatives. These include, for example, family and social ties, housing costs, children’s schooling and partners’ employment. For these (and other) reasons, governments sometimes might supplement adjustment assistance measures with others directed at a broader array of policy objectives, some of which are themselves inherently regional in their consequences.

The relevance of other regional policy objectives

Regions that cannot cope with on-going pressures for structural change or, more broadly, would have their economic prosperity, social vitality and community sustainability substantially diminished, despite both general adjustment assistance and additional targeted, context-specific forms of structural adjustment assistance available to them, typically will have more intractable problems such as a disproportionate reliance on a narrow and fragile economic base, especially one based on a declining industry or sector. Where it would be consistent with State and national policies to do so, such regions might be provided with more fundamental pro-active regional development assistance, focused explicitly on building and/or diversifying their economic base. Many rural and remote regions are particularly likely to be candidates for this form of additional assistance: among other things, they are most often regions with both narrow and fragile economic bases, local governments and regional development organisations within them often have limited capacity to contribute to facilitation of adjustment, their residents typically have particularly strong attachments to them, and there may be more-than-usually limited information readily-accessible about employment, housing and/or business opportunities elsewhere.

However, the issues involved and the nature of the regional development assistance potentially to be provided are conceptually different from those involved in the provision of regional structural adjustment assistance.

- **Regional structural adjustment assistance** aims to manage the process of change while not interfering with resources (labour and capital) ultimately being (re)allocated to their most productive uses, wherever that might ultimately lead them to be located.

- **Regional development assistance** aims to influence the allocation of resources between locations, and within them, so as (to the extent possible) to underpin the economic prosperity, social vitality and community sustainability of regions.
In short, regional structural adjustment assistance is essentially about promoting economic efficiency whereas regional development assistance also encompasses equity considerations and other broader social and political objectives.

Nonetheless, it would appear unlikely that pursuit of regional development objectives sustainably could, in the long-run, seek to completely neutralise the effects of structural adjustment pressures on potentially adversely affected economic activities: to do so would be to encourage businesses to try to go on operating where they have a competitive disadvantage (and possibly increasingly so over time) and would commit governments to providing continuing (and probably increasing) support to enable them to attempt to do so. Fiscally and economically sustainable regional economic development strategies would, rather, focus on economic activities in which a region has, or could be assisted to develop, competitive advantages — which might (but only might) include some sub-sectors of an otherwise declining industry or business activity. Time-limited and context-specific support to temporarily slow the decline of adversely affected sources of regional economic activity more than might otherwise be chosen as optimal might be considered—on equity grounds or to meet wider political objectives—as part of managing the structural adjustment process. However, the short-run benefits desirably should be assessed against the long-run costs and policy-makers clearly informed about the trade-offs involved. In the longer-run, the other regional development objectives are likely to be most effectively promoted by other, broader strategies.

Another context in which other regional policies might be considered to potentially be in conflict with first-best regional structural adjustment assistance policies and strategies relates to the fact that governments also respond to cyclical downturns in regional economic activity (whether, for example, the results of some regions being (disproportionately) adversely affected by periods of drought or by macroeconomic instability) by providing regional cyclical adjustment assistance. However, as with regional structural adjustment assistance, there is a general presumption that cyclical adjustment assistance should be targeted principally at workers and families and that, as with regional development assistance, any trade-offs with the objectives of structural adjustment assistance should be temporary in nature and not such as to distort the ultimate path of structural adjustment.

From a long-run perspective, feasible-best design of regional structural adjustment assistance strategies—that is, as they would be designed in the absence of other regional policy objectives—is likely to also be economically, fiscally and politically preferred, even when other objectives are also recognised. In the short-run, some moderation of the regional impacts of structural adjustment might be economically and/or politically rational, but not so as to distort the direction and pattern of structural changes in regions’ economic activities that would result from simply facilitating efficient outcomes.

3. **OBJECTIVES AND GENERAL PRINCIPLES FOR THE PROVISION OF REGIONAL STRUCTURAL ADJUSTMENT ASSISTANCE**

*It is to be (re)emphasised that where pressures leading to structural change are progressive and moderate, it should be expected that a region’s businesses, workers and communities can (and should) adapt to the changes without the need for tailored, region-specific structural adjustment assistance initiatives.* Inappropriately providing region-specific
assistance can lead to a region’s adaptive-capacity being weakened: it should be reserved for “exceptional circumstances”. As further discussed in Section 4 below, although there are no self-evident hard-and-fast criteria for determining what is to be considered “exceptional”, the speed, magnitude and likely longevity of adjustment pressures are important considerations in forming what inevitably will be judgements about whether providing adjustment assistance is appropriate/desirable in particular circumstances as they arise.

It is equally as important that, in circumstances where the provision of region-specific structural assistance is being considered, there should be clarity about the objectives of doing so and about core principles that should guide the design and implementation of assistance initiatives, including because:

- agreement at both political and bureaucratic levels about when it is appropriate to provide region-specific adjustment assistance, and how best to provide it, can help to minimise the risk of knee-jerk, “unprincipled” and inconsistent reactions to regional community agitation about adjustment stresses they face; and
- consistency over time in decisions about when and how to provide adjustment assistance gives regions some degree of predictability and clarity about circumstances in which they might, and might not, reasonably expect to receive assistance—making clear, among other things, that in most circumstances they will be expected to have the capacity to adjust to structural changes unaided, other than by the on-going universally-available adjustment support available to workers and families adversely affected by changes in their economic circumstances why ever and wherever they occur.

OVERARCHING OBJECTIVES OF REGIONAL STRUCTURAL ADJUSTMENT ASSISTANCE

The provision of regional structural adjustment assistance should aim to help regions to manage the process of change in circumstances where there otherwise would be exceptionally abrupt, substantial and sustained disruption to regional economic activity, and hence to the viability of businesses, the employment prospects of workers, the lives of people and the vitality and sustainability of communities within them. More specifically, it should help to ensure that change occurs as smoothly as possible, at a manageable pace and with least (avoidable) transitional costs, while not interfering with resources (workers and business investment) being( re)allocated to their most productive uses wherever that might ultimately lead them to be (re)located. In short, it can be said that:

- The central objective of governments in providing regional structural adjustment assistance should be to help to minimise the transitional costs inevitably borne by people and communities when they experience unusually abrupt, substantial and sustained structural adjustment pressures.
- This most often will involve helping to smooth the time-path of adjustment and facilitate occupational and/or locational change by workers, families and businesses.
- Adjustment assistance initiatives should not involve attempting to resist or distort the scale and direction of structural change.
- They should be designed so as to avoid undermining the incentives for regions to develop and maintain their on-going capacity to manage change themselves in less exceptional circumstances.

GENERAL PRINCIPLES FOR THE PROVISION OF STRUCTURAL ADJUSTMENT ASSISTANCE

Where the provision of regional structural adjustment assistance is being considered:
1. it should be assessed on a case-by-case basis, and provided only where the pace and magnitude of required adjustments by businesses, workers and communities are beyond any reasonable expectation of their capacity to adapt to them unaided;

2. it should aim to remove any impediments which exist to regions achieving smooth adjustment within manageable time-frames;

3. it should include measures designed to strengthen the capacity of regional businesses and organisations to anticipate and adapt to adjustment pressures in order to build on-going regional resilience;

4. it should be context and location-specific, reflecting the particular nature of the adjustment pressures and where they are likely to have disproportionately large impacts;

5. it should be adaptable and flexible enough to enable it to meet particular local circumstances, including those reflecting differences in the economic structure or circumstances of different regions;

6. it should principally be targeted at workers, especially those with skills made obsolete or redundant by structural changes;

7. it should be provided on a time-limited basis, with clear, rigorously applied criteria for determining when initiatives should be wound-down and terminated;

8. examination of the case for and the design of adjustment assistance programs and initiatives, where they result from policy changes, should pre-date the policy change announcements and their availability should be announced at the same time as the policy change wherever possible;

9. eligibility for assistance should be based on clearly specified, transparently applied criteria, established at the outset of an assistance program or initiative;

10. there should be regular reporting of the financial costs of adjustment assistance measures, transparent processes for on-going monitoring of the outcomes for target groups and regions, and regular reviews of the cost-effectiveness of the measures implemented;

11. design and delivery should be consistent with Regional Development Council’s Framework for Cooperation on Regional Development, especially to ensure that interventions by each sphere of government do not work against those of other spheres;

12. where policy changes are the source of adjustment pressures, as a general rule the government(s) responsible for the policy changes should be primarily responsible for funding any required regional structural adjustment assistance initiatives;

13. in the case of policy initiatives in primarily State areas of responsibility promoted through COAG or other cooperative interjurisdictional mechanisms, facilitation or reward payments should be made available to the States as a means of cost-sharing by the national government; and

14. whatever the causes of, or responsibility for, regional structural adjustment pressures, State government agencies generally should have principal carriage of the design and delivery of regionally-differentiated structural adjustment assistance programs, in consultation with other governments, and with affected communities, through local Regional Development Australia committees.
4. MORE ON DESIGN AND IMPLEMENTATION ISSUES

Within the context of the overarching objectives and broad principles identified in the previous section as the core elements of a framework for the provision of regional structural adjustment assistance, there is potentially substantial flexibility in the design and implementation of adjustment assistance programs and initiatives. However, a number of more detailed principles and practices can usefully be identified. [Drafting Note: There is scope for some rationalisation of what follows yet to be undertaken. Nonetheless, it would appear worthwhile presenting them 'as is' for now].

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<td>1. A clear distinction should be maintained between policies, programs and initiatives designed to provide regional structural adjustment assistance and those designed to provide structural adjustment compensation or to give regional development assistance.</td>
<td>• Adjustment compensation policies aim to offset the consequences of structural change for household incomes or business profits (asset values) and are generally to be considered of dubious merit other than when the changes involve, in effect, “expropriation” of property rights. • regional development assistance is generally explicitly designed to attract business investment and people to locations they otherwise would not, or might not, have chosen: that is, it seeks to achieve specific outcomes rather than to simply “oil the wheels of change” whatever outcomes that might lead to.</td>
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<td>2. Regional structural adjustment assistance programs should consist of time-limited, circumstance- and location-specific measures designed to help manage and facilitate — not to resist or neutralise — adjustments by businesses, workers, households and communities, necessitated by forces that lead to changes in the sustainable long-run structure of regional economies.</td>
<td>• Reference to “... sustainable long-run ...” reflects the fact that the policies at issue are focussed on transitional support for coping with circumstances that inherently involve changes to the size, composition and/or location of economic activity across regions, as opposed to transitory support in circumstances that lead to temporary changes, such as droughts or economic cycles (though both of the latter can have structural consequences, too — such as driving marginal farms or firms permanently out of business).</td>
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<td>3. Decisions about whether to implement regional structural adjustment assistance policies and programs should take full account of the existence of on-going policies and programs at national and State levels of government which, in effect, support individuals and businesses adversely affected by structural change irrespective of their location: the key policy issue is whether additional, targeted, region-specific structural adjustment assistance is warranted.</td>
<td>• The national social security and tax system, and a variety of job-search, employment, training and retraining programs, all of which are generally available, help to facilitate and smooth the consequences of structural change in regional economies everywhere, whether market-induced or policy-induced. The case for additional assistance requires a demonstration that this base level of support is “inadequate”, in the sense that further, targeted assistance would have benefits greater than its costs.</td>
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<td>4. Relying on the social safety net and generally available adjustment support measures should be regarded as likely to be the most appropriate vehicle for assisting the process of adjustment and moderating adverse distributional impacts in most cases (“the default option”), especially in the context of market-driven evolutionary structural change.</td>
<td>• While they can not handle all circumstances and their design might be capable of being improved, generally available adjustment support mechanisms have the advantages of, for example: treating individuals in similar circumstances equally, wherever they live or work; addressing the net effects of varying influences on the circumstances of individuals and families; and supporting individuals and families rather than particular sectors, industries or businesses.</td>
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<td>5. While both market-driven evolutionary forces and economic policy changes implemented by governments impact on the efficient and sustainable size, composition and location of economic activity in regional areas across Australia, the case for governments providing targeted structural adjustment assistance should be regarded as likely to be strongest in the context of substantial changes to economic, social or environmental policies.</td>
<td>• “Evolutionary” structural change arising from on-going changes in underlying market forces and government policies external to individual regions is simply a (generally desirable) fact of economic, social and political life. Resilience to change is learned by the process of coping with it, not by being sheltered from it. • Only in (likely limited) cases — where, for example market-driven changes are unexpectedly rapid and large relative to the economic base of a region — is a strong case likely to exist for additional structural adjustment assistance when underlying market forces change.</td>
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<td>6. Initiatives designed to assist regional businesses and organisations to strengthen their capacity to anticipate and adapt to adjustment pressures should be available on an on-going basis.</td>
<td>• Capacity-building underpins the development of regional resilience in the face of change. It can be a relatively inexpensive way of avoiding having to design and implement other initiatives in many cases.</td>
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<td>7. Regional structural adjustment assistance policies and programs should be targeted at assisting the process of adjustment — helping to smooth and manage the magnitude and time-path of impacts on workers and communities in particular — not at achieving particular outcomes in terms of patterns and locations of economic activity</td>
<td>• Adjustment to changed economic circumstances unavoidably involves transitional production losses and disemployment as resources are released from existing uses to enable them to flow into alternative uses which have become relatively more productive. The released resources typically will have to adapt, or be adapted, to meet the requirements of their potential new roles.</td>
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<td>8. Policy-relevant sources of market distortions (market failures) which (avoidably) increase transitional adjustment costs should be regarded as the principal determinants of the nature and design of additional, targeted structural adjustment assistance.</td>
<td>• This is not to say that equity and other considerations (such as threats to community viability or other political objectives) are not also relevant. However, ensuring that resources move to more highly productive uses is the ultimate purpose of providing adjustment assistance since this maximises community income.</td>
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<td>9. Market failures associated with labour market adjustment should be regarded as likely to be particularly pertinent sources of transitional costs that can be reduced by appropriate targeted initiatives.</td>
<td>• Theory, logic and previous experiences suggest that addressing labour market adjustment failures is the single most effective adjustment assistance strategy. A lack of occupational mobility when specific skills become redundant and/or a lack of knowledge about employment opportunities elsewhere, for example, act as obstacles to smooth, timely adjustments by workers in the face of structural change: they increase transitional costs.</td>
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<td>10. While addressing policy-relevant market failures should be the principal determinant of additional, targeted, regional structural adjustment assistance measures, equity in adjustment processes and outcomes and issues concerning community sustainability, for example, should also be considered potentially policy-relevant since the ultimate objective of public policy is to maximise social well-being, not just “economic well-being”. However, addressing these considerations is usually appropriately the concern of regional development policies and programs.</td>
<td>• While equity and other considerations are clearly potentially policy-pertinent, whether and how to address them is often difficult to determine or get agreement about, given their subjective nature. • These sorts of considerations are most likely to bulk-large where regions have relatively narrow economic bases and their principal source of economic activity is the one adversely affected. Whether and how regions should be assisted to diversify their economic bases is a matter for regional development policy, not structural adjustment strategies.</td>
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<td>11. The desirability of providing (additional) targeted regional structural adjustment assistance should be assessed on a case-by-case basis. However, there are some broad indicators of the likelihood of a case existing such as where: the structural change is policy-induced; the change occurs abruptly or rapidly; the likely effects are large relative to the size of the economic base of a region; alternative employment opportunities are limited because the region has a narrow economic base; or workers adversely affected do not have readily transferable skills.</td>
<td>• It might be possible to devise some rough rules of thumb around some of these indicators — for example, what is considered a ‘large’ effect relative to a region’s economic base, and what constitutes a ‘narrow’ economic base. However, a substantial degree of discretion will need to be built-in, including because the criteria are somewhat interdependent and “tipping points” for regions typically are variable and not easily identified.</td>
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<td>12. Consideration should be given to whether pre-existing policies or regulations incidentally act as impediments to regional adjustment and to whether their impacts can be eliminated or at least ameliorated</td>
<td>• Stamp duties on real estate transactions; land use zoning regulations; and institutional inertia in the TAFE system are often mentioned examples.</td>
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| 13. Although the initial impact of structural adjustment pressures is experienced by businesses, as a general rule regionally-targeted structural adjustment assistance should be concentrated on workers, families and communities, not businesses directly. | • The principal argument favouring concentration of assistance on workers, their families and communities is because their “capital” (human, such as skills, or physical, such as houses) is often industry and/or location-specific. Business investors (especially shareholders) have a greater capacity to hold a diversified portfolio of assets (although small business owners might be less able to do so, especially in the start-up phase) and better able to understand and take account of the risk of future policy changes.  
• This is not to say that desirable policies will not bring benefits to businesses — for example, information about alternative business and employment opportunities and training subsidies indirectly benefit businesses, though their principal objectives are to ease transition costs for workers, families and communities. |
| 14. Decisions about whether to provide structural adjustment assistance, the choice of measures and the design of their implementation should be subject to rigorous and transparent evaluation of the costs as well as the benefits of providing assistance and subject to regular, rigorous review of the continuing appropriateness and effectiveness of, and need for, them. | • Evaluation processes, both at the design and implementation stages, should be mandated so that a recurring cycle of ‘design, test, re-design, and re-test’ is applied. Key questions include: whether the proposed measures are less costly in their implementation and flow-on consequences than the transitional costs they are intended to reduce; whether the measure(s) effectively target the source(s) of avoidable or reducible transitional costs and appropriately facilitate the adjustment process; whether they constitute the most cost-effective and cost-efficient way(s) of addressing the perceived adjustment problems; and whether they can and should be adjusted over time.  
• Both ex ante and ex post evaluations involve significant methodological and data collection challenges. Failure to collect appropriate baseline data and continuously monitor emerging outcomes as best as that can be done is a common weakness in the design and implementation of evaluation strategies. |
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| 15. Proposed adjustment assistance strategies and programs preferably should be developed prior to implementation of policy changes which are likely to result in significant structural change, and preferably should be unveiled at the time of the announcement of the policy change itself: it often is good politics as well as good policy to pre-announce both the content of the proposed strategies and the processes by which they will be reassessed over time. | • Pre-announcement of measures that will have the effect of ameliorating how, or managing the rates at which, structural changes impact on people and businesses facilitates forward planning for adaptation to new circumstances by those likely to be most affected. Partly as a result, it can diffuse political resistance to the changes or a backlash against the policy changes after their implementation. This does not mean that the pre-announced strategies are thereby set in stone, however.  
• The alternative view — that reactive development of adjustment assistance strategies has the advantage of the consequences being known with somewhat greater certainty — involves a significant risk of knee-jerk reactions by policy-makers in response to community angst, rather than leading to the development of considered responses. |
| 16. As a general rule, governments responsible for developing and implementing policy changes which give rise to the need for structural adjustment assistance should be responsible for funding the required assistance programs. | • This reflects the obvious point that otherwise there would be perverse ‘cost-shifting’ incentives in decisions about whether to undertake policy reforms. Nonetheless, there may be circumstances in which national well-being would be enhanced by the Commonwealth offering to share the transitional costs to State governments of policy reforms within State spheres of responsibility. The new National Partnership agreements and payments arrangements provide a vehicle through which incentive payments could be made to the States where policy changes are initiated through COAG processes. |
| 17. Even where national policy reforms appropriately require regional structural adjustment assistance funded by the Commonwealth, State governments, in consultation with regional organisations, should have the principal role in the design and delivery of any location-specific adjustment assistance programs — applying nationally agreed design principles so as to, among other things, ensure equitable treatment of people in similar circumstances in different States. | • There are two inter-related points wrapped-up in this principle. The first is that only State governments — including through regional development organisations and local governments — have the effective administrative capacity to deliver location-specific programs. The other is that the most effective capacity to design adjustment assistance programs reflecting regional differences also lies with State governments, with input from regional communities  
• This is not to deny the case for design principles to be nationally agreed. |

As noted earlier, these principles doubtless could be rationalised—a task yet to be completed.

The Attachment which follows examines Market Failures and other pertinent policy issues in some detail for those who might be interested in an exposition of the concepts involved.
ATTACHMENT

NOTES ON MARKET FAILURE, GOVERNMENT FAILURE, SYSTEMIC FAILURE AND OTHER POLICY CONSIDERATIONS RELEVANT TO THE DESIGN OF REGIONAL DEVELOPMENT AND STRUCTURAL ADJUSTMENT POLICIES AND PROGRAMS
MARKET FAILURES AND OTHER POLICY CONSIDERATIONS

A. Introduction

In this Attachment, the principal focus is on market failures — their nature and their implications for regional development and regional adjustment assistance policies. However, it begins, in this Section, with a general discussion not just of the role efficiency considerations in policy-making but also of equity, community sustainability and political considerations. In Section B sources of market failures are identified, along with some of their implications for adjustment assistance. Section C discusses systemic failure in regional development and adjustment.

Efficiency

Fundamental to economists’ approaches to (good) public policy is the concept of market failures which result in distorted market outcomes compared to those which would be economically efficient. The design of good policy, on this account, is to take corrective action — or, in some cases, pre-emptive action — using instruments available to governments to do so. Typically, the instruments considered include one or more of: appropriately targeted taxes, subsidies, regulations, and information provision or, in more extreme cases of market failure, government provision of a good or service.

A few general points to be made include

• the selection of the appropriate instruments, and the policy design itself, needs to be appropriate, if they are to achieve the intended outcomes: poor design can result in unintended, and possibly perverse, consequences;

• most often the selection and design of the corrective action is made under conditions of uncertainty: a recurring cycle of design, implementation, evaluation and adjustment/refinement is highly desirable, although market participants need a degree of predictability about what adjustments, and when, might subsequently be involved; and

• in contexts where there are multiple sources of market failure, efficient design can be particularly complex: the effects of different sources of market failure can be offsetting or, alternatively, reinforcing, requiring both perceptiveness and caution in policy responses.

Clearly, on all these counts, evaluation of proposed policies and of implementation processes, both ex ante and (recurringly) ex post, is essential to good policy formulation and implementation. In many circumstances, taking action where distortions are evident may not be worth the costs of implementation of, and compliance with, programs of corrective action or of the likely distributional consequences.

Where substantial, systemic reforms are being contemplated, ex ante evaluation poses particular challenges and even ex post evaluation is challenging because of uncertainties about the counterfactual (what would have happened otherwise, including if different policies had been applied).
The sources and nature of market failures pertinent to regional adjustment, and appropriate responses to them, are further discussed in Section B.

**Equity**

Important as efficiency issues might be, equity issues have equal claim to consideration in policy development: they are at least as important to achieving the highest possible level of social well-being, which is, or ought to be, the ultimate aim of good policy. However, equity considerations involve issues in which economists have no comparative advantage and they tend to get limited treatment in economic policy discussion — on the (usually implicit) assumption that efficiency and equity considerations can be treated separately and equitable outcomes achieved through the tax-transfer system.

Not only is this a logically dubious proposition — virtually all forms of both taxes and transfers distort decisions of both taxpayers and beneficiaries — but also, in the context of different region-specific adjustment pressures, there are consequential region-specific impacts that can lead to inequities: the people and communities in some of them will bear a greater burden of adjustment than others. This fact warrants a focus beyond addressing market failures to include offsetting, or at least assisting with, the costs of adjustment, or the consequences of reduced opportunities or diminished access to services, for those disproportionately adversely affected.

These considerations add greater complexity to policy design. Policies designed to offset inequities in impacts (for example income support for families) can distort decisions about location or work-seeking behaviour. It is to be re-emphasised, however, that equity has as substantial a claim to policy-relevance as efficiency — maximising social well-being will often require making a trade-off between equity and efficiency implications. At a minimum, policy advisors should identify the distributional effects and the trade-offs involved in addressing them.

There are no general design-principles for dealing with equity issues, other than that, as a general rule, any compensation or additional adjustment assistance made available should be to people, families and communities, not businesses. This is, in part, because investors in businesses can spread risks by holding a diverse portfolio of assets whereas, for workers, their assets in the forms of skills and training are most often tied up in a particular industry and location, and their investment in home-ownership (where relevant) is location-specific too.

Small business owners might sometimes be an exception to the general rule because they often (have to) commit all or most of their assets to their businesses, at least at start-up. However, they know (or should know) the risks they are accepting and compensating them for the effects of policy changes could be seen as akin to repaying bets on losing horses. The predictability of policy changes, and the magnitude of their effects, however, might be considerations in deciding whether assistance might appropriately be given to small businesses.

**Community Sustainability**

Closely related to the equity component of social well-being is the question of community sustainability (or critical mass). In current context, this has two policy-relevant components. The first is the generic issue arising from the fact that people have attachment to locations for
many reasons relevant to their well-being and are willing to trade-off income and even, to some degree, local amenity, to remain. While the optimally efficient response to structural adjustment pressures might be to let communities decline, those that choose to remain face the risk that the quality and quantity of local economic and social infrastructure, and of social capital, will at some point fall below a critical mass necessary for community sustainability, significantly reducing their well-being. The question for policy-makers is whether it would be appropriate to let the relevant community go into (possibly spiralling) decline and, if not, what to do about it. Again, there are no general policy principles. Decisions are likely to be built around a mixture of assessments of fairness and of prospects for new economic opportunities eventuating. They will also appropriately be shaped by other policies close to governments’ hearts — particularly their broader regional policies.

The second component is that communities most likely to be at risk from particular policy changes could enjoy a revival in future if technological developments or other changes restore, to some extent, their economic viability and vitality. This involves hard-to-anticipate issues. For example, if carbon capture and storage technologies prove to be feasible and commercially viable, regions initially adversely affected by introduction of a carbon-price (where coal-fired electricity generation is a significant source of employment, for example) might eventually recover their economic vitality—but how this can and should be taken into account in regional adjustment assistance policy development is not obvious. While policy approaches to adjustment assistance appropriately might adopt a no (or low) regrets principle, the reality is that unknowns are unknowable—and even known possibilities are uncertain of being realised. How much is too much when it comes to supporting communities (and workers) just in case the prospects of future ‘revival’ prove to turn-out to be confirmed?

The politics of economic policy
The economic theory of public policy, with its particular emphasis on achieving efficiency in outcomes from economic institutions, self-evidently ignores the role of political institutions. In much of the relevant literature, the position taken (at least implicitly) is that the economist’s role is to inform policy-makers about what good economic policy consists of and leave them to deal with the politics of implementing it, including deciding on what trade-offs between, among other things, efficiency and equity are to be made. Even where economists have attempted to put their analysis into frameworks that include models of political institutions (so-called public choice theory), the implications for policy advice are not often the focus. However, as policy-advisors are well aware, an understanding of political dynamics is essential to shaping policy advice — at least to try to minimise the risk of unambiguously bad policy.

A particularly pertinent requirement clearly is consistency with other established policies and strategies. In Victorian context, the Government’s regional development policies have been articulated by the Premier as involving: “investing in vital initiatives and programs to support communities, develop new industries, attract more people and create new jobs in regional and rural areas.”

Presumably, this would not be taken to mean supporting declining communities whatever the cost, but it at least implicitly recognises that Governments will not always choose to do what is most efficient from a purely economic perspective. Within this framework, there are some things that can be done to better match where people want to live with where they might most productively be employed given that constraint — most obviously improving transport connections between regional communities and employment opportunities.
Also pertinent is the fact that, because of the way political processes work, there is always a risk of government failures in policy making and/or program design. In some circumstances, government failures can be greater than the market failures the policies are intended to address. If so, the best advice would be to do nothing.

While not complete government failures, some pre-existing policy settings or agency performance issues can act as impediments to regional adjustment. For example, stamp duties on property transfers act as an impediment to mobility; land-use zoning and development approvals processes can affect whether new business development occurs and when; and education and training systems (e.g., TAFE) can be slow to recognise changing needs and opportunities. In these cases, first-best policy would be to eliminate, or at least modify, the constraints. However, if this is not possible, it might sometimes be appropriate to make temporary concessions, especially in the context of regions adjusting to decline. For example, location-specific stamp-duty concessions would help to facilitate desirable mobility and reconsideration of zoning and related regulations might take into account the more pressing need to enhance business attraction. Circumstance-specific training (or retraining) initiatives also can play an important role in getting around the inertia evident in mainstream training institutions.

B. Market Failures

As noted earlier, redressing market failures (where they are policy-relevant) is at the heart of economist’s approaches to ‘good policy’ — promoting the efficient use of resources and, as a consequence, enhancing social as well as economic well-being. There is a well-established list of sources of market failure which have relevance to economic policy generally, not just to regional economic development policy. In what follows, the focus is on how they might hinder specifically regional economic development and inform good regional policy development.

It is important to recognise that market failure analysis is most pertinent to the formulation of regional development policies. While it also can contribute to informing whether and how context-specific regional adjustment assistance should be given, the case for adjustment assistance most often is about “easing” or “facilitating” inevitable changes. In that context, the consequences of pre-existing market failures which provide part of the conceptual foundations of regional development policies and strategies are likely to be magnified. Indeed, some sources of market failure generally regarded as not policy-relevant or best dealt with through general rather than region-specific programs might be magnified so much as to make them policy-relevant in the design of structural adjustment programs. A more complete analysis would put the discussion of market failures in the framework of an economic growth “model”, with the analysis of market failures directed at identifying likely sources of distortions to, or unnecessary limitations on, regional economic growth.

If regional policy is good practice, including having addressed the relevant market failures, then the case and need for circumstance-specific adjustment assistance should be less than otherwise. However, where adjustment pressures on a region are particularly intense, there is likely to be a case for putting greater location-specific effort and resources into the policies which address market failures because the benefits, relative to the costs, are likely to be greater. By the same token, additional measures might also be justified, if they assist to ease particularly significant adjustment costs, on grounds of equity and sustainability as well as efficiency. These might include, among others: compensation; subsidies to meet relocation
costs; or targeted infrastructure provision which would underpin new employment opportunities in the affected region. These are not considered in detail here.

(i) Information Asymmetries

Asymmetric Information exists when one party to a potential economic transaction has less information than another. This can lead to missed opportunities and, in extreme circumstances, exploitation of the “information deficient” party. Augmenting and rebalancing information can reduce the risks.

In the context of regional economic development and adjustment, there are likely to be two-way asymmetries.

• Workers and families have limited knowledge about employment and training opportunities outside their proximate region, and employers in other regions have little incentive to provide that information other than when they face labour shortages.

• Businesses in any one region have limited knowledge of business opportunities in others and many have limited capacity or inclination to get it for themselves.

This leads to the standard recipe of regional development agencies — and often State governments — preparing information packages for distribution elsewhere, including in other States, especially targeted at businesses. Transmission of information, other than through job ads, is more problematic in getting the attention of workers and families: as a result, this activity tends to be concentrated around significant change events through enhanced job search and training programs — whether because of the relevant region being in decline or another region facing acute scarcity of workers.

(ii) Public Goods

Public goods are goods for which their consumption or use by one user/consumer does not reduce the amount available to others (they are “joint in consumption”) and it is not possible to exclude anyone from consuming them irrespective of whether or not they offer to pay (they are non-excludable). Because everyone has an incentive to try to benefit without offering to pay, markets will fail to provide efficient quantities, and possibly fail completely. Government subsidies to production, or government provision, would be required to correct the failure.

Information has some characteristics of a public good, especially generic information (such as about a region’s lifestyle, employment or business opportunities, and social infrastructure, for example). If produced, it can be consumed by many without one person’s use of it reducing the amount available to others. Moreover, if it’s produced by one business, say, its benefits will accrue to all in that region: all businesses have an incentive to hold-off in the hope that others will provide it. Unless government or regional agencies support the production of generic information about regions, it will be undersupplied. This, of course, is not the case for business-specific information, for which the returns are essentially private to the relevant business.

The results of R&D also have public goods characteristics and, absent patents, copyright and so on, too little will be undertaken but, with them, use of their advances will be inefficiently restricted. There is, consequently, a case for governments to support innovators, with the quid pro quo that licensing of the use of innovation (whether product or process) will be relatively...
low-cost. Alternatively, governments can support businesses wanting to acquire user rights, especially small businesses.

**Some infrastructure** — especially roads — also have these public good characteristics: at least until congested, roads can be used by many without reducing use by others. Where charging for road use is not possible or too costly, roads (unlike railways) will not attract private investment (other than for special purposes of direct benefit to the investor) and hence have to be public sector funded. Road systems are an essential element in regional development in all dimensions, and the fact that, in budgets, funds for roads are in competition with other political priorities can result in under-investment, or undesirably delayed investment, in some regions compared to others (i.e., there can be government, as well as market, failure).

Even where access to infrastructure with substantial capacity can be charged for, and hence privately provided, there can be policy-relevant considerations concerning not only efficient access pricing but also “first-user” issues. For example, new electricity transmission infrastructure that would be needed to connect remote wind-farms might (at least initially) have few other potential users over which to spread the costs and might delay investment in the potential generation facility. In some circumstances, government support for funding the infrastructure might be warranted, where doing so would meet other policy objectives — such as meeting an MRET or attracting new economic activity to a struggling region.

(iii) **External effects (spillovers)**

Externalities or “spillovers” exist when the decisions of an economic agent have impacts on others — positive or negative — which they have no incentive to take into account. If the externality involves a benefit to others, the agent’s decisions will result in too low a level of output, investment or activity — and conversely where the externality involves costs to others. Subsidies and taxes, respectively, would be needed to correct market outcomes. In some circumstances, regulations might be the most efficient and effective policy tool.

The classic example of spillovers in regional development context is education and training. Because they generate substantial external benefits, subsidies are provided to encourage higher levels of education and training (especially for schooling and TAFE) than individuals would choose on their own account. However, where training programs are regionally supported, the fact that other regions might benefit because of the potential for trained workers to “migrate” is likely to result in under-investment in the provision of training. Similarly for on-the-job training provided by businesses: the potential mobility of trained workers reduces the incentives of employers to provide it, which public provision or training subsidies can overcome. A focus on education and training is part of the standard recipe for regional economic development — and a stronger focus on it at times of regional stress (positive or negative) can ease the burden of adjustment and smooth its path.

Besides positive spillovers between regions (or States, for that matter), there can be negative spillovers associated with regional development. For example, the establishment in one region of a business activity that pours effluents into rivers up-stream of other regions calls for appropriate effluent clean-up charges or appropriate regulations. Some of these responsibilities might lie with local governments which have incentives not to enforce them to an ideal extent. Corrective action at State level might be required.
(iv) **Irreversibilities**

Irreversibilities exist where a decision taken today has consequences that cannot be undone (reversed) in future. These circumstances call for an approach of limiting potential regrets.

The most clear-cut cases of irreversibilities lie in ecological context where species of flora and fauna can be, in effect, wiped-out. This can have regional dimensions when decision-makers subjugate environmental consequences to economic progress.

It might also have some application to the community sustainability issue. When a community’s population and economic and social infrastructure fall below a (hard to define) “tipping point”, it can spiral into sustained decline. While not literally irreversible, to reverse the decline, if warranted, could involve very substantial new investments in infrastructure and attracting people. As discussed earlier, where a structural adjustment event threatens to push a community over the tipping point, there is a serious policy challenge for governments about whether to intervene in some way to prevent this happening.

This issue has sometimes been categorised as involving a form of market failure known as merit goods. The idea is that some outcomes have an “intrinsic” value to society not reflected in decisions of individuals in a market economy. The sustainability of communities has been argued to be a merit good. The argument goes that the preferences of society can only be reflected through political processes and it is certainly true that political decisions appear to attribute values to outcomes that do not appear to be reflected in citizens’ private behaviour. However, the merit good concept is a very slippery and contentious one which can be wheeled in to reflect the personal preferences of analysts or observers. It would seem safer to attribute political decisions in the context of community sustainability to social well-being considerations or electoral politics rather than to “intrinsic value” attached to it.

(v) **Market Power (monopolistic elements)**

Where businesses have market power — that is, unlike in competitive markets, they can be price-setters, at least to some extent — prices will be set above marginal costs to earn profits, and output or activity levels will be lower than is socially optimal. Policies that limit the potential for the emergence of excess market power are contained in “Trade Practices” legislation. In Australia context, this does not include the power to break-up (“bust”) monopolies that have become established.

Regional or community monopolies — such as supermarkets or equipment suppliers — can have adverse consequences, such as by pushing up prices to regional communities. The (potential) capacity of people to travel elsewhere to shop or buy petrol or buy business equipment acts as a constraint on the degree of market power that can be exercised, but doesn’t generally eliminate it entirely.

However, while communities themselves, perhaps aided by governments, can help to overcome this situation in some cases — such as by offering inducements to other suppliers to set-up — the most likely reason for the market power being able to be exercised is the small size of regional markets: two or more suppliers might be commercially unsustainable. Nothing short of price regulation could address the problem, and that is not a likely outcome. In short, regional monopolies may often be simply a fact of regional life.
C. Systemic Failure

In addition to market failures, the sources of which are well-known and which are amenable to corrective action of more or less known nature, there can be systemic failures — that often are difficult to fully diagnose and resistant to change — that can hamper adjustment in regional economies. Regional development and adjustment to change happens within a “system” with a multiplicity of parts and stakeholders. A flaw in any part of the system can hamper adjustment to change, whatever its source.

While the system is complex, some of its component parts can be readily identified, even though some might not be easily observed. For one thing, regional development occurs within a policy framework consisting of both overall economic policy settings and regional policy settings at both national and State level. At regional level, there are usually institutions which help to shape regional strategies — for example, local governments and/or specialised regional development agencies — which interact with State agencies and personnel and sometimes national agencies. All of these are connected to a network of stakeholders — businesses and workers, and also the whole community to some extent — whose actions deliver adjustments to change and who must be connected to the formulation of regional development and adjustment strategies if they are to be successful. Through these institutions and networks, information is gathered and used to develop strategies and implementation plans to roll out the activities necessary to ensure both on-going development and adjustment to change. And there are many more dimensions of the “system” besides.

A weak link anywhere has the potential to seriously hamper development and change. This could be because policy settings or programs are inconsistent with what is required — for example education and training systems slow to respond to different and changing regional needs, or zoning laws that prevent adaptation to new business opportunities. Or it could be because strategies and implementation plans misunderstand stakeholders needs or their inter-relationships with activities in other regions or how globalisation has changed the nature of regional development — or that there is conflict about future directions between institutions and/or key stakeholders and conflict resolution processes are inadequate. Or it might be that a key element of effective policy and program development, such as monitoring, evaluation and adaption to the results, is missing.

Any of these flaws can lead to the system as a whole being inadequate for its intended purposes. Some flaws might be easy to identify, if there’s a will to do so, and might, or might not, be easy to fix. Others aren’t so easy to identify, or there is resistance to changing the causes of them, resulting in sustained dysfunction in the system, and in the region’s capacity to adapt to ongoing change. The issues surrounding leadership, governance and participation are bedrock issues for sustainable development and responsiveness to change. Without them being recognised and responded to, the system of regional development and adjustment can “fail” even if all else for effectively and efficiently promoting regional development is in place.