



THREE ECONOMIC ISSUES OF
IMPORTANCE TO
DECISION-MAKERS IN REGIONAL
AUSTRALIA

Mark Giddings and Richard Monypenny

Overview

- Regional Australia is passing with the rest of Australia through a period of tumult
- How to maintain employment, economic growth and create opportunities is of import
- This presentation is to consider three areas of importance to decision makers
- One of the solutions to maximise efficiency is to explore social and human capital



Introduction

- Australia has been embroiled in an international economic crisis
- This period of turmoil has struck at the tail end of a period of growth
- This was aided by changes to the labour market, trade liberalization and privatization
- Fiscal & monetary management, debt, human and social capital and their relevance to regional Australia



The Three Areas of Concern

I – Monetary or Fiscal Management?

- Examines monetary policy and fiscal policy and the shifting emphasis in the literature
- Merits and shortcomings of their use as economic stabilization tools
- Possible impact of either on business function
- The level of government management of the economy and the effect this has on business



II – Debt and our Balance of Payments History

- Examine Australia's balance of payments history & relevance to regional Australia
- The question of persistent deficits and their levity will also be explored
- Whether the recent government spending sprees will exacerbate this unduly
- Review of the comparative balance of payment history of some of our major trading partners



III – Social and Human Capital

- Concluding area of concern is of untapped import – Social and Human capital
- Area of increasing relevance to economics and importance for regional areas
- It could add an extra dimension of cooperation between research and industry
- Opportunity for regional business to increase survivability and performance



Part I

Monetary and fiscal policy as tools of economic management

- Decisions to use either can affect private access to cash, interest rates and government burdens
- Fiscal – direct government intervention to manipulate the economy
- Main disadvantages being that it can be quite difficult to predict outcomes and slower to act
- Monetary – manipulation of the economy through the means of interest rate adjustment; less cumbersome and faster acting



The transition from fiscal to monetary and back again

- The government can be called on to stimulate economic growth
- Over short term times of strife it has shown to work well
- Historically however, large degrees or extended durations of central planning is inefficient
- We should focus on reduced government spending and back to business as usual



Relevance to regional Australia

- Whether government used as the primary means of economic stimulus OR
- Regional Australia left to its own devices to attract investment and economic growth?
- Develop social and human capital to reduce government reliance improving business survival
- To improve export prospects for regional producers also important in reducing BOP debt



Conclusion

- We should stem the flow of fiscal management
- Working to reduce debt burden induced by government spending is a priority
- Compared to CAP, US or Japanese agricultural markets, consumers stand to benefit though issues for producers
- Importantly, the deployment of differing tools of economic policy may have a large impact on areas of regional Australia



Part II

Government deficits and our balance of payments record

- Following is the question of government debt and our balance of payments history
- It will be argued that a leaner government is correlated with a healthy economy
- Though a cause for concern, history shows it does its job and/if it is paid back promptly
- Private debt and its impact will also be touched on



Impact and relevance of fiscal spending

- Australia's government generally generates a significant deficit
- For short term economic stimulus it is an acceptable means
- Historically, government run industry has been inefficient but still fill necessary roles
- Comparatively our balance of payments is consistently poorer than our trading partners but our government debt is within acceptable limits



From government debt to the broader picture

- We are active generators of BOP debts; private debt far outweighs gov deficit
- This, when combined with government debt can contribute to the twin deficit hypothesis
- In practice reduced government spending sometimes paradoxically correlated with private blowouts
- The moral of the story is it seems to be self correcting in its way (interest rates, dollar fluctuations)



What this means for regional Australia

- Australia relies heavily on regional Australia to bolster it's export performance
- Need to explore ways to reduce our reliance on this by diversifying regional industry
- With drought or commodity slumps, our BOP suffers and increasingly exposed markets exacerbate this
- Ways to improve the situation?
Social/human capital is an under-researched area



Part III

Social and Human capital – An introduction

- Social and human capital is an integral part of the economy
- The latter describes the labour expected of a nation's economy, along with its earning power, making it an essential, fundamental component of any economic study
- The former is a concept that influences the potential human capital of an economy
- Or human capital a quality of individuals, social between them



Human capital

- Human capital is extensively studied, known quantity proven to improve economic performance
- Australia possesses a large proportion of higher educated citizens, proportion of scientists, contributing writers & a strong skills base
- The fact that we are lacking in human capital areas (innovation) and not others (papers published) means we can improve
- Better integration and understanding of these qualities promises much for business



HUMAN CAPITAL

- Australia also has generally good employment and productivity factors
- Includes the constituent education, training, experience and so on that constitutes the stock of human capital
- We are well placed to take advantage of these resources and plans to better utilize our human capital should be explored
- Better utilisation of human capital with better understanding of social capital is important



HUMAN CAPITAL SUGGESTIONS

- Human capital is a relatively well studied and understood phenomenon.
- Continued emphasis on human capital, especially education and training, shown to reduce wage inequality and improve wage outcomes remain a priority
- However more emphasis needs to be applied to the study of social capital
- Balance it against the necessity of better utilizing other forms of capital.



Human capital – concluding remarks

- Much more clearly defined and has a more quantifiable and concrete position within economic theory
- Does improve outcomes but easy to overindulge or misdirect input
- Historical evidence to positively correlate increased concentrations of human capital with superior economic performance
- There is room to improve regarding human capital but we mustn't over allocate resources to it



Introducing social capital

- Under-researched in economic circles though extensively propounded sociologically
- Its role is as a potentiator of human capital and stand alone component of economic performance
- Studies done find a very important role for social capital in business, particularly under start up
- We will examine some of its possibilities as well as reasons it may be of use to regional Australia



Why social capital

- Networking, business opportunities, the advantages it can confer to isolated businesspeople are numerous
- This is of particular relevance to regional Australia over its metropolitan counterparts
- Ability to better link research and industry is another promise of improving social capital
- It's role in business will be discussed next



Social Capital experimental results

- Importance of social capital was critical from the gestation as well as the promotion and development
- Outperformed knowledge and human capital in several areas
- Entrepreneurs with close family and friend ties and networking abilities increased probability of entry and chances of sustaining the business
- For small and business with limited support, this could be the difference between thriving and failing.



SOCIAL CAPITAL - POSSIBILITIES

- This should be an area of huge attention for policy makers aiding small business start ups and a great means to improve regional outcomes.
- As regional Australia increasingly tries to compete in a challenging, exposed environment finding new avenues of investment to aid in business growth is important.
- Better utilisation of our existing resources through better networking, reduced obstruction and cost, better implementation and capitalisation of human capital
- All proposed under improved social capital. How best to achieve it is another matter for discussion.



Social Capital Concluding remarks

- It is one thing to have an economy well endowed in human capital (which Australia does)
- Another entirely to have the social and institutional measures in place to encourage investment, small business growth and job creation
- Positive, supportive and increasingly developed social capital will become increasingly critical to the survival of business in regional Australia
- Necessary to squeeze what we can out of the known factors of economic growth



SOCIAL AND HUMAN CAPITAL – WHERE TO FROM HERE

- Better integration of scientific research with innovation and business, better funded business and research development and
- Better utilization of local funds are all priorities to improve economic outlook of rural Australia over the next five to ten years.
- This should help to maintain competitiveness and aid regional business
- Provide better tools to survive increasingly difficult and exposed economic environments.



Social and human capital – concluding remarks

- Both of these components are very important economic players especially social capital
- Also important it is not to forget how central human capital is to the economic framework.
- We cannot ignore the possible implications for regional Australia
- Continue the work such as the department of industry innovation science and research



EPILOGUE

- Better cooperation between the disciplines to better elucidate where we can improve our social capital
- For human capital, increased utilization of our skilled workforce
- Crucially, the relationships required to do this require increased cooperation between disparate areas of research, industry and policy-makers.
- As such, improving the ability to network and cooperate, particularly between the former two are vital to better exploit our human capital.



CONCLUSION

ECONOMIC MANAGEMENT

- A return to minimalist fiscal intervention with monetary management as the economic tool of choice is ideal.
- An emergent issue for government and private sector is that the outlook for Australia is positive
- This is just as well a factor completely reliant on economic growth is our level of debt
- For the former, a return to balanced budgets and relinquishing business to private hands is imperative



QUESTION OF DEBT

- Australia's situation seems sustainable but that shouldn't belittle efforts to further reduce foreign borrowing and debt.
- Better utilization of our own resources is crucial to better economic function
- As mentioned, mounting debt reinforces our ability to pay it back
- Due to the reliance we have on regional Australia for exports, it is critical it thrives



Concluding human and social capital

- Sudden growths or resuscitations mediated by revelations in economic study and new cornerstones of knowledge – social capital can be one
- Better study of this and its outcomes exploited could be a valuable aid to thrive over the next decade
- It promises much to business and government alike
- Tied to a wealth of human capital, it could increase business survivability and improve productivity



QUESTIONS?

- Thank You

