

DECENTRALISATION: FOUR LOST DECADES

Geoff Edwards
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*Dedicated to the late Dr Phil Day,
One of Queensland's foremost advocates of decentralisation*

SEGRA Geelong
Spotlight Session:

Regional Cities: challenges, opportunities and transformation

Themes

Three themes in this presentation:

1. Business cannot continue as usual.
2. Current economic policy settings are dysfunctional.
3. A new theory is required.

Definitions

Decentralisation – means a deliberate strategy by governments to encourage development in rural and regional locations.

- is it even possible?
- is it justified?
- what would one do under such a strategy?

Economic rationalism – a fusion of neoclassical economics and pro-business political ideology.

A decentralisation strategy needs...

- a realistic *vision* (but visions are not scarce or difficult to write so won't be dealt with here);
- a foundation of sensible *theory* linking causes and effects and explaining the forces at work.

(If the theory is faulty, either the strategy will fail or success will be coincidental);

- a map *of feasible paths* for achieving vision by mustering powers and resources of stakeholders (usually scattered - separated by distance or level of government). (Subject for a different presentation).

Theory in 1970s

In the 1970s there was a significant body of research by geographers and others about the merits and methods of regional development.

This scholarship lost salience in the 1980s primarily because nobody in the policy elite was listening: seduced by the siren song of economic rationalism.

Failures of some previous prop-up schemes, subsidies and growth centres like Monarto has led economists to sneer at “government intervention” and to argue for “market forces”.

An aside about “intervention”

The belief that anything a government does to facilitate a regional centre is "intervention" is bizarre. Government creates or shapes markets continually, by:

- building schools, hospitals and hard and soft infrastructure in regional towns or the capital;
- passing or revoking taxes on consumables such as petrol that favour growth in regional towns or the capital;
- granting Medicare provider numbers for regions or city;
- dispatching public servants to regions or the capital;
- ...

A theory by Dr Phil Day....

“There’s no particular magic about it – commerce and industry and population are attracted to centres where public decisions are made”.

The Courier-Mail, 11 October 2005.

But:

1. Decentralising government employment costs \$ to line departments; as Treasury tightens budgets, they withdraw.
2. Won’t work for those functions at risk of siphoning offshore – e.g. data management, professional services. Even policy advice can be outsourced, e.g. neoliberal advice can be modelled on a computer anywhere without knowing local circumstances.
3. NBN may facilitate invasion of foreign service providers.

A new theory is required

Phil Day's theory **can be revived**, as many public service functions cannot be outsourced to China, but it will require a conscious reversal of current policy by governments.

Other regional development theories of the 1970s and 1980s cannot be so easily revived, given the environmental limits to growth that are emerging on the policy agenda.

Let us seek some pointers in current conditions and trends.

Business cannot continue as usual

Some observations:

- 1. Production of oil has peaked* – world probably 2006, now irreversible decline; Australia 2000, now import 50%.
Australia's food production, paddock to plate, shows an energy deficit of about 5:1.
- 2. Economic growth is unsustainable* – growth means accelerating throughput of materials and energy; cannot continue indefinitely, environmental systems are now breaking down – fisheries, water supply, salinity, groundwater, cane toads, hymenachne weed, Great Barrier Reef, climate self-control....

Business cannot continue as usual (cont.)

Some more observations:

3. *Global financial system is unstable* – international finance is built on unsustainable debt, a pyramid standing on its point. Australia's foreign debt is unpayable.
4. *Free trade, foreign investment and mobile capital are vacuuming vigour from the nation* – nimble companies exploit differences in currency between countries – theory of comparative advantage is negated as its pre-conditions don't apply; skills or entrepreneurial initiative siphoned away.

Current policy settings dysfunctional

1. *Peak oil*: Governments dismissive – “markets will find what we need”. Economy is unprepared for supply disruption.
2. *Growth*: Construction companies wield market power and are funnelling funds to roads – increase carbon intensity.
3. *Global finance*: Markets centralise – economies of scale, so suck vitality from the periphery to the centre. Regions:
 - remit flow of bank fees, interest, super and taxes
 - import most food, soft drink, beer, electricity and fuel
 - export raw unprocessed materials
 - export sons and daughters.
4. *Free trade*: Now affecting factory workers, professions, services, taxpayers – as factories, dividends, capital gains, intellectual property, taxes flow offshore.

A new theory is required

Let's call it “re-localisation”:

- to save fuel;
- to improve local self-sufficiency and reduce throughput of materials – would return labour to regenerate the land;
- to counter erosion of retirement earnings and asset price inflation (housing unaffordability in capital cities);
- to regain local control over finance, manufacturing and trade.

A new theory is required (cont.)

- The pre-conditions of a new theory of “re-localisation” are present, in the four trends above (“Business cannot continue as usual”).
- There is no current theory to explain how to transition from this unstable present to a new re-localised future.
- A policy based on attracting retirees and public housing tenants could also be a useful “no regrets” interim action.
- In any case, a policy based upon devolving public administration has useful precedents and can be invoked at any time. Imagine the difference in national policy if Treasury established regional offices to gather local insights.

Conclusions

1. **Current** economic rationalist **policy settings** that are taking us away from re-localisation won't endure, **are *unsustainable***, generating too much instability and inequality – and wasting too many natural resources.
2. **Free trade neutralises most bright ideas**. Any decentralisation strategy is doomed under current economic policy settings, especially free trade, which sneers at any active support for local enterprise as “protectionist”.
3. To escape the dilemmas, a new theory is required, one that can displace economic rationalism.
Only a more powerful idea can drive out a powerful idea.

Conclusions (cont.)

4. Only a theory that saves fuel is realistic.
5. Happily, a theory aimed at saving fuel (and reducing carbon emissions) would be highly favourable to re-localisation of economic activity and hence to regional development. The consequent policy settings could re-invigorate regions. But there is no sign that our economic policy elite in our parliaments or the public services are equal to the challenge.
6. The initiative will need to be taken by civic leaders and thinkers.
7. Relocating retirees, public housing tenants and public servants could be worthwhile first steps.

Discussion topics

1. Given rising fuel prices (tight supply or emissions policy), should governments actively facilitate transition to low-fuel economy; or allow market forces to drive it (eventually, with greater risk of crash).
2. Given unpayable foreign debt, should governments wind back free trade policy now ; or allow market forces to lead to a cleansing default.
3. Given the complexity of modern problems and the environmental limits to growth, how can concerned citizens improve the analytical capacity and educational breadth – especially ecological literacy – of the national public service and parliament.