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by

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Abstract

In common with other advanced market economies, regional and rural communities in Australia have come under increasing economic and social stress. One manifestation of this phenomenon is the growing spatial inequalities in social and economic conditions. This paper briefly reviews the genesis of spatial inequalities and examines their consequences in the contemporary Australian political milieu. The discussion concludes with an analysis of the policy implications of these inequalities for local governments and communities in disadvantaged regional and rural areas.

Key Words: Local government, regional inequality, spatial inequities, regional and rural areas

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Introduction

Real and perceived regional inequalities in social and economic conditions in late twentieth century Australia are now firmly on the political agenda. For example, the extraordinary success of Pauline Hanson's One Nation Party in the 1998 Queensland State Election can at least partly be ascribed to disenchantment by electors living in relatively deprived rural communities. Similarly, the rise of NSW Legislative Assembly Independent MP Tony Windsor's Country Summit Alliance may also be attributed to feelings of marginalisation amongst voters in regional NSW. Numerous smaller and less well-known pressure groups scattered throughout regional Australia are also achieving growing recognition. It is thus somewhat surprising that comparatively little research effort has been focussed on the question of regional inequalities and the role local government can play in mitigating the consequences of these inequalities. This forms the subject matter of the present short note.

The note itself is divided into three main parts. Section 1 provides a brief review of the origins of spatial inequalities. Section 2 examines some of the consequences of these inequalities in the contemporary Australian milieu. The note ends with a discussion of the policy implications of this state of affairs for local governments and communities in disadvantaged regional areas.

Origins of Spatial Inequalities

The production of geographical space is integral to political expansion and to the development of capitalist economies. Prior to the First World War, geographic expansion was a major means of political and economic expression and was largely manifested in the accumulation of territory by colonial aggrandisement in the case of European countries and, in the case of Australia, Canada and the United States, by assuming contiguous territory (Smith 1996). Between the world wars, the diminishing availability of external territory gradually redirected economic expansion into agglomeration, thus creating a fundamental transformation in the spatial economy of capitalism (Harvey 1989). Since the First World War, increasing rural depopulation has occurred and there is now a widespread trend toward the amalgamation of small rural land holdings due to economies of scale that are secured from mechanisation and advances in technology and methods of transport (Walmsley *et al* 1995). These trends cause private sector organisations to review and, where appropriate, to reduce or withdraw operations as depopulation occurs, but few public sector organisations are able to respond quickly to changing

demographic and economic circumstances and gradually become less viable due to decreasing demand and income. While these difficulties are being experienced mostly in small, depopulating places and fast-developing suburbs on the periphery of major metropolitan centres, they also occur in the older, inner-city 'rust-belt' suburbs (Hallman 1977).

Given there is *a priori* a degree of acceptance of the 'naturalness' of spatial inequality, its existence may not present a problem for society in terms of social or economic inefficiency or pose a compelling political need to find a remedy. After all, those affected by the deprivations of spatial inequality suffer privately but they are free to make a private decision to either remain in that location and endure, to act as best they can to alleviate the extent of disadvantage, or to exit and thereby (hopefully) overcome their disadvantage (Hirschman 1970). Rational decision-makers who feel compelled to move will duly consider their individual residential preferences and then migrate or eventually decide to remain in their present location; in either event they will be merely reacting to the 'natural' sorting and self-correcting forces of a free market. The 'father' of regional science, Walter Isard (1960) first alluded to the market-based buyer-seller relationship in order to explain the spatial economy and since that time the complexity and the challenges of this field of study have continued to fascinate academics and public policy analysts. Clearly, politics will determine whether there is a need for public intervention in free markets, and the extent of intervention necessary to adjust all or any particular imperfections in the spatial marketplace. However, it is important that the interventions of government be driven by a need to optimise the effectiveness of the marketplace and to achieve the best possible level of social and economic equity and wellbeing rather than by social correctness or the morality of public sector intervention or non-intervention. Such intervention should be based on sound theoretical foundations and market information to find, as Stilwell would have it, an acceptable level of "harmony between equilibrium and optimal states"(1972:9).

There is an essential and necessary contribution of places on the economic and spatial periphery to the continual process of urban development and in fact the whole economic history of society and modern states in the post-industrial revolution era is marked by changing relations between city and country and the domination of cities over regional and rural states and organisations. This inevitability is noted by Skowronek (1982) who ascribed a systematic transformation of state organisations in the half century to 1930 as a result of what he called 'environmental stimuli', such as the Spanish War and First World War, the surge in population and technology and the economic crisis caused by class conflict and the increasing conflict between labour and capital (or at least the fractions of capital). He claimed this transformation was initiated on the entrepreneurial initiative of individual bureaucratic actors rather than by politicians since they were driven by a need to preserve tenure in their positions and political power prerogatives within the apparatus of the state.

Evidently, most of the productive forces on the spatial periphery are expended in the support and furtherance of city urbanisation. The rural organisation is, as a direct consequence, doomed to decay and ultimate dissolution and later to a slow but inevitable demise of its organs and functions. The last quarter century has witnessed the creation of a sophisticated global capitalist political-economy characterised by increasing global domination by Japan, Germany and the United States, by an unprecedented concentration of capital within a relatively small number of 'world cities' and large multi-national corporations, the emergence of newly and rapidly industrialised countries, and the continued or even accelerated immiseration of many parts of the underdeveloped world. The development of this complex, seamless and seemingly boundless global economic marketplace has induced both capital and labour to embrace the potential of this larger global market and assiduously seek out the opportunities to maximise security and returns. Inevitably and increasingly, capital and labour investments flow toward the more attractive and more secure returns offered within larger agglomerated centres and quickly developing industrial nations. As a consequence, global investors in 'world cities' have increasingly and systematically deprived the economies of the smaller countries and the regions that exist on the economic and geographic periphery of much needed capital, and there appear to be few market or political responses available to remedy the effect of this on those that exist on the spatial margins.

Australian Consequences

Economic globalisation raises a complex array of geographical, economic, political and social questions for government and has considerable implications for remotely located areas in Australia. As an open, plural capitalist economy, Australia is especially vulnerable to the vagaries of the global market economy, and particularly areas outside the few large agglomerated centres of Melbourne, Sydney and Brisbane. Meanwhile, increasing systematic economic deprivation in underdeveloped countries is likely to create a widespread resurgence of nationalism and political revolution, and economic and political interests in urban and regional areas in Australia and elsewhere are more likely to invite or even demand government intervention to remedy the 'regional problem' of uneven economic development (Smith 1986; Howe 1995). Politically, governments will be forced to adopt public policies which will do little or nothing to address the social and economic deprivations which occur on the periphery and allow far greater local political autonomy. Local and regional coalitions are likely to emerge to compete for outside investment and to politically oppose disinvestment by public and private organisations within their local jurisdiction.

Many Western economies have experienced a marked increase in poverty and seen increasing evidence of social, economic and racial disharmony in recent times (Edwards and Whiteford 1988). Although there has been a notable absence of research into the spatial dimensions of poverty and income inequality in Australia, this trend also is in evidence here (Raskall 1995). ABS Census figures for 1976-

1991 disclose a marked widening of income distribution across neighbourhoods in both urban and non-urban areas and among men, women and households (Hunter and Gregory 1996). This demonstrates that spatial income inequality increased among neighbourhoods and statistical divisions at all aggregation levels without exhibiting any statistical significant difference in the extent of increase between the major cities. This evidence suggests that inequality is not only increasing in areas as previously classified as being deprived, but is also rising in a uniform trend among middle and lower classes measured spatially and among major cities throughout Australia.

The ratio of mean income of the lowest 5% of areas ranked by socio-economic status (SES) to the mean income of the highest 5% of SES areas fell during the fifteen year period 1976 to 1991 from 60.4% to 37.9% for households, from 54.9% to 42.5% for men and 78.8% to 57.8% for women (ABS 1991). This evidence suggests that measured spatially, social deprivation is worsening. The Federal Government presently addresses specific deprivations using taxation and social security remedies and both State and Federal governments provide grants to local government which are partially formulated to remedy spatial disadvantage. However, this evidence suggests that such interventions are either inadequate or misdirected as they have demonstrably failed to reverse or to arrest the overall trend of social inequality in Australia, which has actually tended to accelerate.

In addition to the effects of social and economic deterioration, many local communities have now begun to suffer from the effects of slow but sustained infrastructural deterioration due to reduced public sector capital investment over an extended period. In the early 1970s, political influences in local government became more culturally and socially diverse with increasing numbers of individuals representing minority and single issue groups being elected to councils and led to the 'socialisation' of politics in local government. In fact, capital expenditure has significantly declined as a result of untied funding being progressively diverted from traditional capital infrastructure development and maintenance to current expenditure initiatives for human services, community welfare and other income equalisation initiatives which are not, or at least inadequately provided by the higher tiers of government (and who have traditionally been responsible for such public good provision). Consequently, there is now a significant variation in social welfare provision among jurisdictions and an increasingly significant shortfall in capital maintenance funding which will result in an increasing level of deterioration in local roads, infrastructure and natural environment, which will sooner or later produce an infrastructure crisis similar to that experienced in the western suburbs of the largest capital cities in Australia during the 1960s.

Aschauer (1989; 1991) drew public attention to the consistently decreasing level of public capital investment in the USA by sub-state governments during the post-war period. He claimed that this reduced level of capital spending was directly responsible for 57% of the slowdown in national productivity during that important period, and was the cause of over two decades of poor economic

performance in that country. This outcome was also noted by Hulten and Schwab (1997) who claimed that the fall in the level of public capital investment caused GDP in the USA to drop from nearly 2% in 1955 to 1.1% in 1984, although that figure rebounded to a little over 1.3% in 1991.

In a similar vein, Gerritsen and Osborne (1997:70) have claimed that the ratio of current to capital outlays by local government in Australia has diminished from 0.33 in 1967 to 2.04 in 1994 and attribute this fall to the gradual transfer of infrastructural and utility services from local to State government over this period. However, this explanation does not fully account for its causation. In effect, capital expenditure fell by almost 50% in the period 1972 to 1993 (ABS 5502.1) (current figures are not available due to a variation in ABS collections) because of the effect of competition between state, local and central government to provide social, recreational and economic services, and the increasing tendency of local councils to divert funding from infrastructural development and maintenance to current expenditure. But Hulten and Schwab (1997) claim central governments should assume all or at least greater responsibility for infrastructural development to avoid the destructive and undesirable effects of competition. They put the view that national infrastructure policy is inconsistently applied under the principles of fiscal federalism in a number of important respects, assuming that the prime objective of government is to maximise constituents welfare and minimise their costs. There is also evidence of duplication across the tiers of government, variable and poor performance efficiency, and the gross under-utilisation of high-cost capital equipment.

Spatially uneven economic and political differentiation is more firmly on local political agendas now than at any point in recent history. Despite the protestations of local interests, Federal and State governments have continued to heavily disinvest in urban and regional Australia by removing or rationalising spatially distributed public sector agencies to achieve economic efficiencies. The previous Keating government's Better Cities and Working Nation programs compensated to some extent for this negative effect in some regional areas, but these initiatives will not secure funding beyond current commitment and were not adequate to offset gross economic losses anyway. The Howard administration moved quickly on election to disband regional development areas of the Department of Transport and Regional Development and to downgrade and shift the Local Government Office to the Sports and Local Government portfolio. The Federal government is currently conducting a public inquiry into the causes of spatial deprivation and unemployment and has called for public submissions to help determine public policy remedies; adding weight to Saul's contention that Western governments simply "do not know what to do" to resolve chronic unemployment, deprivation and spatial inequity (1997:13). There is little doubt that the undercurrents of capitalism are a root cause of spatial deprivation and uneven development, and the lack of political will to restructure the economy, eliminate market monopolies and diminish special interest rent-seeking has much to do with the lack-lustre performance of many modern

economies and limited job growth. The size and constrained autonomy of many sub-state jurisdictions prevents them from defending or adjusting the structure of the local economy. However, larger, urbanised jurisdictions will be better equipped to improve structural efficiency, internalise externalities and minimise free-riding, and thus allow local public goods to be more evenly distributed.

A looming crisis appears to be emerging from uneven urban development on economic margins, from the impact of economic and industrial restructuring, from chronic unemployment and falling real incomes, from localised effects from the internationalisation of trade and finance, from the ballooning of deficits in the balance of trade, from the gradual agglomeration of the surplus means of production to higher class nodes, from pervasive capitalistic exploitation by multi-nationals (K-Mart, Coles, MacDonaldis, Harvey Norman) in the suburbs and towns, and the increasing flight of capital and labour to the major world cities of Tokyo, Bonn and New York in the form of rents, dividends and profits (Duncan and Goodwin1988). Communities are largely at the mercy of self-interested, profit-maximising decision-makers in industry and commerce who seek to open, close or relocate industrial capacity to increase profits and to exploit the political system through their sophisticated, well-entrenched rent-seeking activities. Moreover, many professions and industries operate under monopoly or oligopoly trading arrangements and are particularly resistant to legislative changes which may diminish their market advantage granted through tariff, subsidy or tax concessions and legislative or market entry restrictions. Large political investments are often made by these bodies to secure selective market advantage and these costs are inevitably passed on to consumers.

Policy Implications

How then are peripheral communities and individuals within them able to sustain themselves in the face of this looming crisis? The answer is more likely to be found within the community itself than from any government intervention or market adjustment. Given the failures of both government and market, or combinations of either to provide an effective remedy to this problem, it seems that communities must ultimately act in their own regard to ensure their own survival and well being. Foldvary's (1994) theoretical offerings suggest that this might be achieved through interventions by autonomous committees of constituted, voluntary communal associations which will seek to address their own economic and social advantage by contracting entrepreneurial, market or communal production means and thus alleviate a need for a market, government or bureaucratic solution.

Like Foldvary, Jacobs (1984) advocates the concept of a 'contractual' community which can be structured to enjoy the benefits of scale and economic synergy. Instead of a Putnam-style civic self-government, she suggests that proprietary and residential associations within communities should determine local public good preferences. She goes on to argue that cities and communities, rather than

countries and States, are the key entities of economic growth and development and that the health of peripheral rural and provincial economies is built upon those of the cities and commercial nodes within it. In a manner which is critical of Adam Smith's *Wealth of Nations*, Jacobs proposes that it is the addition of 'new work' that increases the division of labour and economic growth in local economies rather than any regional development intervention and other economic subsidies by the state (Jacobs 1984:81). Unlike other economists, she holds that congestion, crime and pollution are not the unwanted consequences of economic progress, but are actually manifestations of economic stagnation which present entrepreneurial opportunities for 'new work' or redevelopment.

Jacobs (1984) is critical of the arbitrary nature of jurisdictional sub-divisions within countries and proposes that cities and jurisdictions should constitute a strong, natural economic unit which can grow and prosper by encouraging local production of goods to replace imports and add to exports to create 'new work'. It does not follow that a spatially large jurisdiction will logically or necessarily require a large, expensive centralised bureaucracy or indeed, any formal bureaucracy at all. The Lakewood and Reston experiences in the USA demonstrate that expensive production by localised government can be virtually eliminated where cities can contract in, out service to the public or private sector, or arrange and subsidise provision through a communal volunteer sector. The imposition of broad national quality standards for the production of local public goods 'hinders market differentiation and export capacity' (Jacobs1984:226) and forces jurisdictions and cities to increase their reliance on central direction and control. The work of Oates (1972) on the efficacy of fiscal federalism demonstrates that a lack of vertical integration of responsibilities for public good provision, grants and taxation will also increase dependency of communities on central government.

Localised government imposes an unnatural formal overlay of order, zoning and planning on the spatial distribution of individuals and groups in a population causing naturally ordered complexity of communities to be dissected into social components which have increasingly polarised and segregated society (Ardrey 1970). Thus government is at least partially responsible for the decline in social diversity and vitality in communities by constraining the development and integration of 'open-minded' space by natural market forces and participatory planning by imposing 'single-minded control on development. Such zoning controls segment and 'alienate components of the population' and provide separate amenities which inhibit communal 'oneness' (Walzer 1983:9).

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