

## Chapter Five

### The Idea of Balanced Development Challenged

Step back and ask, what is the most striking feature of the geography of economic activity? The short answer is surely concentration.

Paul Krugman (1991a: 5)

Sydney will always be dominant. Little towns are going to find it increasingly difficult to survive unless they become suburbs of larger centres, but that's history.

Michael Egan (in McGregor 1999)

... decentralization may not be a realistic objective in today's economic world. As long as any society places an overriding premium on economic productivity, efficiency, and growth, the economic forces promoting centralization are likely to remain dominant and perhaps uncontrollable by government action.

Richard Lonsdale (1972: 328)

#### Introduction

Part Two established that, following a period from 1965 till 1975-76 in which governments saw metropolitan primacy as the regional problem and made an attempt to address it, balanced development has disappeared from the regional policy agendas of governments in New South Wales and at the Commonwealth level. However, establishing that balanced development ceased to be a policy objective is essentially a preliminary task that is not as interesting or important as trying to establish why this occurred.

Part Three explores the possible reasons why governments in Sydney and Canberra in effect have abandoned their earlier attempts to realign the New South Wales settlement pattern. Further, it attempts to make sense of the wide range of factors at work in the changing regional policy priorities of governments. Part Three deals in turn with the appeal of the idea of balanced development itself; the emergence of new regional problems and changing regional conditions and the adoption of new policy

approaches; the effectiveness of “champions” of balanced development; changing ideologies and priorities in government; and the role of the policy process itself and institutional barriers in determining the fate of balanced development as a policy objective.

In view of the complexity of the policy process and of regional development, it is unlikely that the analysis will reveal a simple or single cause of governments abandoning balanced development. Hence Part Three will help to order the various explanations of regional policy change, while also providing an account of the regional policy environment in New South Wales. This approach is both comprehensive and analytical. The thesis recognises the complexity of policy change and attempts to provide the most complete analysis possible. It should be noted that many developments have impacted in multiple and interactive ways on regional policy, hence the approach of Part Three necessarily involves some recurring themes. Part Three also draws upon government decisions and actions at both State and Commonwealth levels (referred to in Part Two), where these are relevant to the themes developed.

In developing explanations for the substantial policy changes that have taken place, Part Three draws on theories of public policy developed in the political science literature outlined in Appendix H. Each chapter in turn provides a different angle or “cut” or frame of reference for the task of explanation, or what Allison terms “conceptual lenses” (Allison 1971: v).<sup>1</sup>

Part Three confirms that there are, in fact, shades of explanation for policy change, interconnected and inconclusive (Hood 1994). Overall, Part Three assists in addressing four issues – the decline of balanced development, the development of regional policy in New South Wales and at the Commonwealth level, the policy process generally, and the role of ideas in policy development.

The key question for this chapter is whether the idea of balanced development is itself flawed. The main issues are, first, whether the problem identified (metropolitan primacy) is worth solving and capable of solution by government action; and second, whether the solutions proposed by balanced development adherents are feasible. The

central question here is not simply whether the many critiques of balanced development are justified, but whether the critiques and the flaws in the balanced development argument have influenced the setting of regional policy objectives since the high tide period.

The central arguments of this chapter are that:

- There have been many powerful critiques of the idea of balanced development, at a number of levels;
- Successive governments have not been persuaded by core elements of the balanced development idea, and there are specific cases where governments have been influenced by the critiques;
- In some cases, governments themselves have led the criticism of balanced development;
- Despite this, the internal problems with the idea cannot be a complete explanation for the decline of balanced development as a policy objective.

The approach of this chapter is similar to Hood's explanation of the demise of "economic policy dinosaurs" (public ownership, regulation, high taxes, deficit budgeting, Keynesian macro-economic management) in the 1980s as the result of the internal collapse of the policies themselves rather than as a result of external shocks ("loss of habitat"; Hood 1994: 12-13). Hood considers the possibility that:

... instead of postulating an external shock to the system, extinction might be explained by blaming the victims. Indeed, some have speculated that the dinosaurs' demise may have been partly self-inflicted. ... In other words, extinction came not from "autonomous" forces like meteorites [new conditions, policy problems, crises] but from internal ones ... (Hood 1994: 13).

By contrast, Chapters Seven and Eight examine the fate of balanced development in the face of "external" challenges, in the form of new policy ideas and new regional problems. This chapter attempts to test the policy "respectability" of the idea of balanced development and to see whether the idea has been its own worst enemy.

## Critiques of RaRAism

There are those who have argued against having any special policies for regional Australia. Rural and Regional Australia (“RaRA”) has increasingly gained political and media attention, often with the negative overtone of receiving special political treatment because governments fear alienating regional voters. This perceived imperative on politicians not to offend RaRA, and to be seen to be “listening” to regional concerns, has come to be known as “RaRAism” in the metropolitan media. According to Ross Gittins:

The objection to RARAism is that its test of whether people are deserving turns not on how much money they have but on where they live.

It’s built on the assumption that everyone living in country areas is poor, whereas everyone in the cities is rolling in it (Gittins 2000; see also Hewson 2000).<sup>2</sup>

A number of critics of “RaRAism” have been prominent politicians. Ross Cameron achieved notoriety for comments relating to the loss of services from regional areas. He suggested that not every small town needed the same standard of services as obtained in the city – in other words, a concentration of services and development in the metropolitan region was to be expected. According to Cameron (referring to non-metropolitan regions):

You don’t attempt to weight the dice in favour of those areas. That gives an incentive to people to lock themselves into poverty (quoted in Grattan 2000).

Cameron urged governments not to “genuflect” to the country, and suggested that people suffering from poor job prospects or services in a regional location should move to the city (Grattan 2000).<sup>3</sup> Another critic of RaRAism has been the prominent Labor parliamentarian Mark Latham, who represents an outer Sydney metropolitan electorate. Latham has pointed out that the recent focus on the so-called city-country divide effectively ignores the large areas of relative economic and social disadvantage that exist in parts of Sydney:

A new chant can be heard across Australian politics, a mantra for every MP in front of a microphone. It is called “rural and regional Australia” ... This campaign, however, is based more on perception than reality. The most

disadvantaged and powerless Australians do not live in the bush. They live in the outer suburbs of our major cities (Latham 2001).<sup>4</sup>

Essentially, the counter-reaction to the recent political emphasis on regional problems represents an argument against one of the key tenets of balanced development – namely its exclusive focus on one dimension of the regional divide, the relationship between Sydney and the rest of the State.

## **Critiques of Top Down, Centralist Approaches**

The recent attitude of governments to regional development has involved the rejection of what are seen as “top down” or “centralist” approaches. Governments do not now accept that they should direct where people or economic activity are located.

Supporters of balanced development support centrally directed development. They want governments not to leave development to market forces or the preferences of communities, but actually to direct development to non-metropolitan regions. Again, this is central to the balanced development position, and it is antithetical to the “bottom up” approach embraced by governments since the 1980s.<sup>5</sup> For Taylor and Garlick:

... centralist and interventionist approaches to regional development policy formulation are no longer directly relevant or appropriate in Australia. They are no longer appropriate to shape the process affecting regional economies except as simple compensation. However, as purely compensatory measures they are now unaffordable and in many cases poorly targeted. Most significantly they can inhibit the structural change that is essential for a regional economy and hence the national economy, to remain viable. Interventionist policies have also tended to create a welfare mentality in regional areas with communities both encouraged to expect external, or central government solutions to every local manifestation of structural change. More importantly, interventionist regional policies deny the significance of local capacities to cope with change, to overcome impediments to adjustment that have been allowed to build up locally, to realise local opportunities for economic regeneration and to develop strategies to achieve these ends (Taylor and Garlick in Higgins and Zagorski 1989: 84).

There are several elements objected to here, including centralism, interventionism and compensation, as well as the elements of a new regional policy approach (see Chapter

Six). However, on this view of regional policy, increasingly embraced by all Australian and New South Wales governments, balanced development is rejected outright because it contains all three elements.

## **Is Balanced Development a Coherent Position?**

Whether balanced development can have a precise and coherent meaning in policy terms is critical to the extent to which governments are likely to accept it as a policy objective. Friedmann has questioned the precision of the balanced development concept:

... what should be balanced? Is it total investment in the aggregate or in each sector? Is it investment divided by population, families, or unit area? Is a balance to be achieved by having all regions grow at equal rates? Or should poor regions grow at a faster rate to allow them to catch up with regions that are better off? Is balance expressed in average income per family so that eventually all regions will be approximately equal in this respect?

Clearly one cannot remain indifferent among these choices; each alternative has different policy implications and different consequences for economic growth (Friedmann 1966: 51).

There is little evidence that balanced development supporters have addressed, let alone resolved, these critical questions. It is therefore unlikely that governments, in response to their demands for greater “balance”, will find easy answers.

An imprecise appeal to “balance”, linked to the issue of urban concentration, is hardly a sufficient basis for governments to build policy. Not only would governments not know if and when they had achieved “balance”, but they would not know what impacts the pursuit of balance would have on other policy objectives, particularly State or national economic growth.

According to Sorensen, balanced development is a “rather nebulous concept” (Sorensen 1994a: 34). Equally, the SCSD has found the notion of balanced development to be “... too open to different interpretations to make it a particularly useful analytical tool” (Legislative Council 1994a: 49). Hansen has also questioned whether the notion of balanced development has a precise meaning:

A common theme in growth centre strategies is the notion of ‘balanced’ distribution of economic opportunity. However, it is rarely specified in more concrete terms what this means. Does it mean that equality of per capita public overhead capital, income, or economic activity (however defined) should be the goal? Should the growth of less developed regions be promoted solely by moving resources to them or creating new resources within their boundaries? Precisely what public and private activities should be located in various types of cities and regions? What effects will the location of various types of activities in a given region have on other regions as a result of induced activities (on both the supply and demand sides) of an inter-regional nature? What conflicts might arise between maximising regional and national welfare and how should they be resolved?

It would seem apparent that until we are able to answer questions such as these the appeal to balance is not operationally feasible (Hansen in Friedmann and Alonso 1975: 567; see also Hansen 1976: 24).

The balanced development argument has simply focused on the city-country divide at a very general level and has relied on the intuitive appeal of linking Sydney’s problems with those of non-metropolitan areas. This simplistic notion has also been criticised by the SCSD (Legislative Council 1994a: 48-51).<sup>6</sup> According to Sorensen, balanced development:

... seems to mean the dispersal of economic and population growth away from city centres, capital cities or coastal locations towards suburban, rural and inland places. However, the scale of the shift, its precise location, and the type and quality of jobs involved are generally unstated (Sorensen 1994a: 34).

That balanced development begs so many further questions is one of its principal shortcomings. The absence of a coherent and explicit means of operationalising the idea of balanced development has allowed its critics, and governments, simply to reject specific policy proposals put forward by the adherents (Appendix F). The idea of balanced development, as put to governments by its supporters, lacks a detailed explanation of what it actually would mean to try to implement it.

## **Should Governments Be Concerned About Where Development Occurs?**

There is an overarching assumption underlying all forms of regional policy, and especially balanced development. This is the fundamental question of whether the

spatial pattern of economic activity should be an important concern of government.

According to Prud'homme:

The standard macro-economist view of the economy ignores cities, and more generally space. It tries to understand what is produced, how it is produced, for whom it is produced. But it does not care about where it is produced. More precisely, the only kind of space it considers is that of the nation state. It considers a country as a geographically undifferentiated whole (Prud'homme 1994: 4; see also Stilwell 1992; Krugman 1998).

This has been lamented by Powell (Roy Powell 1997b). However, some prominent theorists have questioned whether the fundamental question posed by balanced development proponents – where should economic activity occur? – should even be a concern of policy at all. According to Hansen:

... national policies intended to determine where people live or where economic activities should be located seem highly questionable (Hansen 1976: 11).

Another argument concerns whether trying to alter the settlement pattern is the optimal mechanism for government to influence social outcomes. Critics of the balanced development position claim that it is an inefficient way of redistributing welfare. H W Richardson states simply:

The way to improve the distribution of welfare is to redistribute income not to change the settlement pattern (H W Richardson 1976: 307).

Or as Hoover colourfully puts it:

... attacking human hardship and lack of opportunity solely through Place Prosperity might be like using a shotgun to kill flies (Hoover 1975: 260; see also Bolton 1992).

While Richardson questions the effectiveness of regional policy as a tool for addressing welfare concerns, Sorensen questions the moral justification of the place prosperity argument that is central to the balanced development position. He argues:

These notions of unfairness and inefficiency, and therefore the merits of 'balanced development', still lack credible empirical and theoretical support, notwithstanding many public inquiries and the efforts of academic researchers. For example, the idea that spatial variations in life chances are intrinsically

unfair is by no means self-evident and raises tricky moral issues. We could argue that people who choose to live in a disadvantaged area and could improve their lot by migrating elsewhere do not need special treatment. This line is reinforced if, as will nearly always be the case, the diversion of resources to improve the lot of disadvantaged areas has its own opportunity costs (Sorensen 1994a: 35).

For Sorensen and several other critics, reducing wealth in national or State terms in order to assist declining regions is questionable. The lack of a satisfactory resolution to this fundamental debate over the efficacy of spatial policies has merely reinforced the reticence of governments to undertake substantial regional policies.

## **Is Metropolitan Primacy a Problem? Is Sydney Too Big?**

Perhaps governments simply do not accept that metropolitan primacy is a problem. This could include a rejection of the idea that Sydney is too big in an absolute sense, or that its dominant position or continued growth in the State is a major concern. The conviction that Sydney is too big is, of course, at the heart of the balanced development case, and exploring the attitude of government to the issue of Sydney's dominance is likely to help explain the reasons for its rejection of the idea of balanced development generally.

Views about the appropriate size of Sydney and its dominance of the State has been a feature of the public debate for many years.<sup>7</sup> Of course, balanced development adherents have made Sydney's size and Sydney's problems (related to its size) central regional policy issues. This, in effect, has exposed the balanced argument to the longstanding city size debate, and has made it a hostage to that debate. As Stilwell points out:

To the extent that urban size is a key root of a wide variety of urban problems, decentralisation policy offers an apparently obvious solution. However, if there is no clear basis on which it can be agreed that cities are too big, decentralisation policy loses its rationale (Stilwell 1993: 162).

To the extent that either theory, history or economics can satisfactorily explain Sydney's growth – especially if it could be established that Sydney's size was not unreasonable and its growth had largely been inevitable – the argument for balanced

development would be appreciably weakened, and governments would be less inclined to regard that growth as a policy problem.<sup>8</sup>

## **Explanations of Metropolitan Primacy**

Krugman has argued that concentration is the most striking feature of economic geography (Krugman 1991a: 5). There is really little mystery to the continued growth of cities (H W Richardson 1976: 308). From Perroux (1950) and Myrdal (1957) in the 1950s to Michael Porter in the 1990s (1990), theorists have explained the inevitable unevenness of economic activity and settlement and the tendency for firms to co-locate with firms in cities or growth nodes. Agglomeration economies – both localisation economies and urbanisation economies – have for centuries been the driving force in the location of economic activity, particularly in relation to “footloose” manufacturing industries (Isard 1960: 404; H W Richardson 1973a: 71; 1973b; BIE 1994: 20). The benefits of agglomeration economies to firms are clear, inevitable and growing.

Regional economic theories attempt to explain differences in regional growth rates, the causes of decline and the nature of the settlement pattern, as well as the limitations on growth in regions. They also shed light on some of the basic assumptions of balanced development thinking. These theories include location theory, growth poles, supply and demand side theories, central place theory, theories of agglomeration, cumulative causation and centre-periphery theories. (Analysis of the most important theories of regional growth is undertaken in Appendix D). Explaining why regional growth is uneven and how and why large primate cities appear provides an important element of context to the discussion of balanced development. More than this, explanations of metropolitan primacy suggest severe limitations on the capacity of governments to overturn what are powerful forces at work in the space economy.

Following Krugman, the analysis in Appendix D demonstrates that agglomeration economies result in uneven economic development. Growth occurs around nodes. Businesses are attracted to larger market areas. The role of agglomeration economies is critical to the argument that large-scale urbanisation is a fact of economic life. In

view of the inevitability of agglomeration economies, it seems idle to lament the growth of cities. There is simply no level playing field in industry location where firms seek to minimise costs or maximise profits. Hence while there is no one satisfactory, accepted theory of regional growth (BIE 1994: 39), theory does provide a number of sound reasons for the economic dominance of cities.

Hence the argument for balanced development rests on a number of premises that have been seriously challenged. Yet there is little evidence that supporters of balanced development have taken seriously the various theories of regional growth and decline which cast doubt on their central assumptions and claims (or indeed are aware of them).

Above all, the regional economics literature questions in a fundamental way whether balanced development is, or can be, a realistic policy objective. While ministers and governments have generally not been swayed by regional development theory, or necessarily exposed to it, there is evidence that governments have, nevertheless, understood the implications of economic concentration noted by Krugman (BIE 1994; NSW Government 1993: 19).

### **The Logic of Australia's Existing Settlement Pattern**

Both history and geography have played a critical role in shaping Australia's settlement pattern, and a convincing explanation of Sydney's primacy would weaken considerably the claims of balanced development supporters that there is something wrong with the unevenness of development, that requires fixing.

Many writers have sought and provided explanations for Sydney's primacy.<sup>9</sup> There are two views of the New South Wales and Australian settlement patterns, and these lie at the heart of the debate over balanced development. On the first view, there are good reasons for the way Australia's settlement pattern has evolved. In this connection, Lepani et al have stated that "... the past is a fundamental constraint on the future" (Lepani et al 1995: 34). The role of history is critical, as is geography, and

cannot be easily undone. The major factors influencing the current settlement pattern are summarised in Box 5.1.

### **Box 5.1 Historical Explanations for Sydney's Dominance**

- The harsh inland climate and soils that have rendered much of the agricultural production reliant on irrigation or confined to areas of moderate rainfall;
- The lack of navigable inland rivers;
- The large distances involved;
- The nature of Australia's imperial relationship with Britain as a convict colony and decisions to space the convict settlements wide apart;
- The occurrence of settlement at a time when urbanisation was occurring elsewhere in the world, at the height of the industrial revolution;
- The settlement of Sydney before the rest of the State;
- The decision to locate the various colonies as far away from one another as possible for security reasons;
- The development of a transport system focused on exports and centred on the capital;
- The development of the colony as an exporter of agricultural produce, underlying the importance of trade and ports;
- The nature of the farm economy which encouraged large-scale commercial production and hence a sparse settlement pattern;
- The role of the cities in the early 1900s as centres of manufacturing;
- The ongoing preference of migrants for living in Sydney; and
- The small size of Australia's overall population.

Sources: Glynn 1970; Burnley in Goldstein and Sly 1975; Burnley 1980; Neutze 1981; Neutze 1985; Holmes in Jeans 1977.

The above factors have created a certain logic to metropolitan primacy. Sorensen has claimed that:

In general terms, Australia's market driven settlement system is well attuned to the nation's geography ... there is, for good reason, no large city in the interior ... It therefore seems eminently logical to have several large metropolises that are capable both of providing high order services and dealing with the rest of the world as equals, and to surround them with a range of small regional service centres and their tributaries. It is patently absurd to look to settlement systems in the quite different geographical environments of Europe and North America and claim that Australia is in some way deficient (Sorensen in Sorensen and Epps 1993: 238).

A J Rose has described metropolitan primacy as the “natural state” in Australia (Rose 1966). Rose has also claimed that:

The present capital city concentrations of economic activity in Australia are the perfectly logical outcome of an economic system seeking to minimise production and distribution costs (Rose 1967: 114).

Similarly, A J Robin has argued that concentration is a logical response to problems of long distance and few people (quoted by Holmes in Jeans 1977: 414). There has been little reason for a highly populated inland, as noted by Aitkin:

To the historian, geographer, and economist the fate of the country towns was almost pre-ordained. The Australian inland was naturally best suited for large-scale farming and grazing, forms of rural occupation which required land and capital and relatively little labour... Unless inland towns were to become major industrial centres, and given their disadvantages of distance from raw materials, lack of skilled labour and lack of a big domestic market there was no reason why that should have happened, their optimum size was likely to be quite small, and their growth tied to that of their rural hinterlands (Aitkin 1972: 11-12).

Or as Chris Cunningham has noted:

From the time that it outgrew its convict origins, Australian society has been primarily focussed on towns and trade... We are maritime, we are commercial, we are urban, or at least suburban. Settlement of the coastline, and establishment of trading entrepots, has always been more significant in forming the character of the nation, and the pattern of population distribution, than settlement of the inland (Cunningham 1996: 150).

In the twentieth century, the rural-urban drift has been compounded by advances in transport technology, an increased awareness of the benefits of economies of scale and the drift of farmers off the land (Woolmington in Sinden 1972: 190).

On this view, it is unlikely that government action, certainly at State level, could have made much difference to the settlement pattern. The second view is that governments have largely created Sydney’s dominance. Proponents of this view emphasise the role of city elites in creating and maintaining Sydney’s commercial hegemony, the early centralisation of government administration, the importance of government investment in the early development of Sydney, and the relative weakness of local government in Australia.

Glynn has emphasised the role of government in creating Sydney's dominance (Glynn 1970; see also Burnley 1980: 44). He has focused, in the colonial period, on the degree of government investment in the city, particularly in infrastructure and railway lines which emanated from Sydney and which were used to facilitate the export of agricultural produce.<sup>10</sup> For Glynn:

Australian political and administrative activity was highly centralised in each colony and undoubtedly this played an important part in metropolitanisation. In Australian circumstances the political and administrative functions of cities appear to have been an important causal factor in the growth of material or economic functions (Glynn 1970: 47).

Elsewhere, Glynn has referred to the tendency towards "metropolitan aggrandisement", largely as a result of government actions (Glynn 1970: 10).

Burnley agrees, noting:

Even government employment in the colonial era was a contributor to Sydney's and Melbourne's growth, for it was concentrated in the capitals and was swelling rapidly in fields such as education and lands administration (Burnley in Goldstein and Sly 1975: 96).

On the second view of Sydney's growth, the source of Sydney's dominance was government policy. As Bolton has written:

... each of the colonial governments preferred to centralize transport and trade on the state capital, for what at the time seemed good and sufficient economies of scale. This meant that from an early period life in the bush was strongly challenged by the competing attractions of life in a thriving metropolis (Bolton in Van Dugteren 1978: 6).

In the twentieth century, undoubtedly the encouragement of mass immigration by successive Commonwealth governments and the protection through tariffs of Australia's largely urban based manufacturing sector has also helped sustain the cities (Forster 1995). The role of overseas migration has been critical in increasing and maintaining Sydney's primacy, particularly since World War Two. As Neutze has noted, there were 620 000 migrants to Sydney in the critical 1947-71 growth period in which Sydney dramatically increased its dominance of the State's population (Neutze

1981: 54; see also Murphy 1993). It has been the clear and continuing preference of migrants to settle in the eastern capitals, particularly Sydney.

Despite cogent arguments on either side of the debate, there is a general consensus that there were, and are, good reasons for Sydney's size and its domination of the State's economy. And, while Sydney's growth has been assisted at times by government encouragement, there is little to suggest that the main reason for that growth has been government, or conversely that all it would take to reverse the metropolitan primacy would be greater government involvement.<sup>11</sup>

If the inevitability of Australia's settlement pattern is accepted, this has clear implications for the balanced development position:

... the process of urban centralisation would appear as an inevitable consequence of the accelerating pace of science/technology, and all attempts at urban decentralisation as Canute like vanities, aimed at reversing such an inevitable process (Woolmington et al 1971: 2; see also Woolmington in Linge and Rimmer 1971: 281).<sup>12</sup>

Historical forces have made metropolitan primacy more or less a given. As a result, the goal of substantial decentralisation is almost impossible to attain. There is a powerful argument that "... appropriate urban policy measures should take heed of natural population trends" (Braby in McMaster and Webb 1976: 210).

This kind of thinking, whether or not schooled in a deep understanding of Australia's history, has been accepted by recent governments that have rejected balanced development. For example, recent State planning strategies have accepted the need not to counter economic and demographic trends, recognising the power of the forces at work (DOP 1993; NSW Government 1993: 9; BIE 1994). Similar thinking pervaded the 1989 Discussion Paper (BACA 1989), reflecting an understanding of the drivers of economic growth and of the constraints on government action when attempting to confront historical forces.

## **The Economics of City Size Debate**

There was a considerable debate in the 1960s and 1970s over the optimum size of cities. In particular, in Australia Neutze fuelled discussion on matters of decentralisation policy by his appeal to the theory of optimal city size. Neutze argued that "... city growth should be restricted well before the point is reached whereby diseconomies exceed economies..." (Neutze 1965: 111). In effect, Neutze questioned the conventional wisdom about the benefits of economies of scale.

The debate went to the heart of the argument over metropolitan primacy and balanced development. It raised issues such as negative externalities of city living for residents and businesses, the size at which cities cease to exhibit positive externalities, and the cost of providing infrastructure in metropolitan and non-metropolitan locations. These are themes to which advocates of greater non-metropolitan development have frequently returned.

The question of whether Sydney is "too big" and the broader debate over the optimal size of cities are complex. If it were established, and accepted by governments, that city growth was not a problem, then at least half of the rationale for balanced development would be severely undermined. According to William Alonso:

Theory and fact on these issues are scarce and poor, and they swim in an ocean of opinion, much of it highly emotional (Alonso in Friedmann and Alonso 1975b: 434).

The debate has been largely over whether cities should have their growth restricted due to the negative externalities that are said to be caused either by the absolute size of cities or by their rate of growth. H W Richardson has been one of the stronger critics of the notion that city growth should be curbed. Richardson questioned whether one could even draw conclusions about whether there was an optimal city size, let alone make judgements about what that size was:

There is no way to demonstrate that big cities demonstrate net social costs. Consequently, we should be cautious about promoting infeasible city size control strategies (H W Richardson 1976: 307).<sup>13</sup>

Richardson's criticisms (see also Carter 1983) focus on the net social benefits of certain city size. Alonso also challenges the assumption that the economic benefits would flow from capping the size of cities. He concludes that:

... there is no basis for the belief that primacy or overurbanisation *per se* is detrimental to the efficiency goal of economic development. There are good grounds for believing in increasing returns to urban size.

Neither has there been empirical demonstration that a policy of regional equalisation is consonant with rapid economic development (Alonso in Friedmann and Alonso 1975c: 625; the economic benefits of cities are discussed below).

Economies do not necessarily cease when diseconomies begin. Agglomeration economies will continue and possibly increase with city growth, even if diseconomies are also growing. The problem of agreeing on criteria for measuring the impact of externalities, and its implications for policy, are well captured by Murphy and Roman:

Whilst there are no doubt many benefits and costs associated with large cities and their rates of growth, these days most researchers would probably accept that since these are so difficult to measure, and especially to measure in a common metric, that this question cannot sensibly be the basis of policy (Murphy and Roman 1989: 264).

Another key issue is the appropriate solution to the problems of city growth. And the choice of solutions is dependent on perceptions of the causes of the problems. A strong body of opinion suggests that the solutions lie in better management of the cities themselves rather than in decentralisation, and this view rests on the assumption that the causes do not relate simply to either the size of the city or its rate of growth. One of the doubts about the city size debate is whether it is size, or even the rate of growth, that causes a city's problems. According to Stilwell, there are three factors that might determine the extent of urban growth problems – city size, the rate of growth or the spatial structure (Stilwell 1992: 32). And Braby has argued:

... the more serious problems of urban growth, such as congestion and environmental decay, are more a function of the spatial distribution of population and employment within cities and ... the size of cities is of secondary importance (Braby in McMaster and Webb 1976: 210).

Friedmann has argued that the most appropriate choice is to take existing metropolises as given and to improve their livability (Friedmann 1971: 21).<sup>14</sup> Carter agrees, with particular reference to Australian cities:

There is also some doubt as to whether the growth rates of Melbourne and Sydney were ever “excessive”, or whether these cities were just badly planned. ... it is dubious that decentralisation and metropolitan overspill policies were ever solutions to the problems caused by inadequate planning and infrastructure investment in the major metropolitan areas (Carter 1983: 4-5).<sup>15</sup>

Carter’s argument, in effect, is that balanced development is the wrong solution to the urban problem, and that its adherents have therefore perhaps misdiagnosed the problem. There is merit in the argument that Sydney’s growth problems require “internal-to-Sydney” solutions.

Stilwell has posed a test to determine whether there is an “urban crisis”. He argued that an urban crisis would require a constellation of problems which are becoming increasingly severe, to the point where the ability of the system to reproduce itself is threatened, requiring structural change to be effected if system breakdown is to be avoided (Stilwell 1992: 38-40). Stilwell concluded that, while there were urban problems, arguably worsening, the system had not broken down (Stilwell 1992: 39).

This debate raises the issue, discussed by a number of writers, that the problems “of” cities are merely problems “in” cities (Alonso 1971; Stilwell 1992: 27), not related to city size or growth rate. Even if it were established that there is an optimal size for cities that could be agreed on, there is considerable doubt as to whether Sydney (either in the 1970s or even now) has reached Neutze’s point where diseconomies exceed economies. Writing in the 1970s, Alonso noted that:

... San Francisco, has its problems but is universally admired as a beautiful, charming, and productive metropolitan area; yet it holds nearly as many people as Sydney and Melbourne combined. The problems of these Australian cities ... seem generally manageable ones if there is the will to do it (Alonso in Cities Commission 1973: 9).<sup>16</sup>

On this view, it is highly questionable whether there is an “urban crisis” in Sydney requiring policy solutions that involve curbing future city growth. Supporters of

balanced development have made a fundamental assumption that Sydney has grown too big, such that a continuation of its current rapid growth is environmentally unsustainable, with its urban sprawl, traffic congestion and diseconomies of scale. Yet the optimum city size debate casts serious doubt on the balanced development position. Murphy and Roman have simply concluded, with particular reference to the size of Sydney debate, that:

Regional policy in the late 1960s and early 1970s was based on ideas and research which later proved to be flawed (Murphy and Roman 1989: 270).

Such a conclusion was shared by the NSW Government, which, in its 1989 Discussion Paper, saw the need for a "... more sophisticated and refined regional policy approach" (BACA 1989: 11).<sup>17</sup> The position advanced by Friedmann, Carter and others has been adopted by successive New South Wales governments and various State agencies, particularly in recent planning documents (1988, 1993 and 1995), as well as in support for the policy of urban consolidation favoured since the early 1980s. Governments have essentially rejected the notion that Sydney's growth can only be managed by decentralisation. They have seemingly concluded that there are "issues", "pressures" and "concerns" in Sydney's growth, but no crisis (Holliday 2000: 7). There is a continuing reliance on "internal-to-Sydney" solutions as well as a conviction that this approach is achieving a more sustainable city, without recourse to decentralisation (Holliday 2000: 9-10). While the optimum city size debate has suggested to governments that size is not the problem, it is equally believed by governments that decentralisation would not help in any case.

### **The Capacity of Decentralisation to Solve the Metropolitan Primacy Problem**

Balanced development has been "sold" to government as a solution to Sydney's perceived growth problems, despite the argument's non-metropolitan origins. There is a fundamental issue as to whether decentralisation offers a realistic and cost effective way of achieving this objective.

There is evidence that NSW governments in the 1990s have had considerable doubts on this issue. If decentralisation is seen as not being capable of making a difference to Sydney's growth problems, it would lessen considerably the force of the argument for balanced development and reduce it simply to another form of special pleading for non-metropolitan regions.

Even during the high tide period, there were a number of critics of decentralisation policies, and their critiques related mainly to its capacity to solve city problems.

Simons and Lonergan suggested that:

... the arguments in support of decentralisation have not yet been shown to be valid, and so decentralisation could well be an unrealistic and impractical solution to the supposed problems of large cities (Simons and Lonergan in McMaster and Webb 1976: 433).

Simons and Lonergan pointed out that primate cities have continued to grow despite previous efforts to encourage non-metropolitan growth (Simons and Lonergan in McMaster and Webb: 434). It was the inability of decentralisation efforts to influence population movements and industry location choices that for these critics rendered it a futile exercise. The reliance by balanced development supporters on decentralisation as a solution to Sydney's growth problems has had the effect of exposing the idea of balanced development to the kind of powerful critique advanced by Simons and Lonergan and others.<sup>18</sup>

Doubts about the efficacy of the "push" argument have persisted to the present. In particular, recent governments and agencies simply have not accepted the push argument. For example, according to DOP:

Sydney's growth problems cannot be solved through the growth of country areas. The scale of growth required to impact on Sydney's growth cannot be generated quickly in country areas. In addition the ability of their local economies, infrastructure and environment to absorb major growth has not been established. Country centres should be encouraged to maintain their populations and to increase and diversify their employment opportunities for their own benefit, not Sydney's. The emphasis ... placed on the potential of non-metropolitan areas to relieve pressure on Sydney is misplaced (DOP 1993 unpublished; see also DEP 1988: 7; DOP 1992 and 1993; Murphy and Roman 1989: 271).

In similar vein, DUAP Director-General Sue Holliday illustrated the size of the decentralisation task to the LGSA in 2000:

The combined population of seven of the bigger and strongest growing inland towns in the State – Albury, Wagga, Griffith, Bathurst, Orange, Dubbo and Tamworth is likely to increase on current growth rates by about 30 000 over the next 25 years. If the population of each were to increase by 50 % on current levels, that would represent a delay of only about 2-3 years in Sydney's overall growth.

... regional development will not be the “silver bullet” solution to Sydney's growth, particularly in the next decade or so... (Holliday 2000: 11-12).

The CMA *Strategy* proposed the redirection of 500 000 people to country areas from Sydney over the following 25 to 30 years (CMA 1993: 150). Yet as DOP pointed out, between 1971 and 1991 the ten largest inland cities in New South Wales increased their combined population by 40 000, roughly equivalent to Sydney's annual increase in population around the time the CMA *Strategy* was released (DOP 1993 unpublished). As DOP argued, the CMA's proposed increase would be neither realistic nor responsible (DOP 1993 unpublished).

Recent NSW governments and State agencies have simply rejected decentralisation as a solution to Sydney's growth problems. The importance of this government position cannot be over-emphasised, since the core of the balanced development idea is its “win-win” appeal for both city and country. Recent governments have continued to treat Sydney's growth and regional development as two separate issues. The bringing together of these two issues is at the very heart of the balanced development position. Hence to reject this is to reject balanced development as such.

## **The Economic Benefits of Cities**

Balanced development requires redirecting growth away from primate cities. Yet there is a strong argument that large cities generate not only benefits for firms but also national economic benefits, that might be diminished were governments to attempt to control their growth. According to Friedmann:

National economic development is, to a large extent, identical with the development of core regions (Friedmann 1966: 67).

Friedmann explores the question of whether, and how, governments and nations can reap the benefits of the dynamism of disequilibrium without incurring the dis-benefits of too much imbalance between regions, or between core and periphery (Friedmann 1966: 50-59; Hirschman 1958). The extent to which more balanced development would compromise national or State economic growth, for example by curbing the economic functions of the primate city, is a major policy concern.

Stilwell (1992, 1993) and others have spoken of the key role of cities in capital accumulation. Hoover has described cities as "... entrepots for interregional transfer..." where "vitalising inputs" from the outside world are absorbed (Hoover 1975: 238; see also H W Richardson 1973b: 41). In other words, cities have "spread" as well as "backwash" effects on their hinterlands (see Appendix D; Myrdal 1957: 27-33).

Richardson has referred to the economy-wide benefits of agglomeration in cities:

One of the most important of the agglomeration economies created in the largest cities benefits not the citizens but the economy as a whole. This refers to the systemic functions of large cities, and more particularly to their rate of innovation (interpreted widely) and its subsequent diffusion to smaller cities and to other parts of the economy (Richardson 1973b: 40-41; see also Porter 1990; BIE 1994: 59).

Despite what Richardson has termed the "big bad city myth" (H W Richardson 1976: 307), a number of writers have extolled the economic virtues of cities, none better known than Jane Jacobs:

... nations are strictly the economic creatures of their cities, becoming wealthy as their cities become more productive and numerous, subsiding into poverty as cities lose economic vitality (Jacobs 1985; see also Jacobs 1969; Stilwell 1992: 28).

This recognition of the role of cities as centres of innovation diffusion highlights another weakness at the heart of the balanced development argument – it is simplistic

in its portrayal of Sydney as taking resources away from the country. It focuses too much on the backwash effects.

Cities drive economic development in a number of ways. They are central to processes of structural change. They are centres of high-value added manufacturing and services. They contain key infrastructure such as research and education, and provide higher order marketing functions and global “command and control” functions (Watson and Murphy 1993: 105; Lepani et al 1995; see also Chapter Six). They provide international accessibility and information flows. They provide innovation through concentration (Pred 1966), and are highly adaptable to change. They are critical in new firm formation.<sup>19</sup> For example, the spillover benefits of economic activity are felt in non-metropolitan areas through diverse impacts including increased domestic and international tourism to regional areas, contracts won by regional firms on major metropolitan infrastructure projects, and Sydney’s role as a market for regional products and services.

The economic role of cities is related to the fact that productivity increases with city size, through specialisation and the capacity to capture economies of scale. As Beeson has noted:

There is considerable evidence that productivity levels increase with city size.

... Adam Smith proposed that productivity will increase with the scale of production because increased scale allows firms and workers to specialize in specific tasks and this specialization and division of labor increases productivity. The ability to exploit these economies of scale, in turn, depends on the size of the market. To the extent that the size of the market depends on population density and is limited by transport costs, the ability to exploit economies of scale depends on city size (Beeson in Mills and McDonald 1992: 21, 24; see also Appendix D).

Vipond has also noted that the concentration of economic activity in large centres minimises the disruption of structural change and maximises its benefits (Vipond in EPAC 1990: 31).

Governments have clearly recognised the key role played by cities in the economy, and that cities act as engines of national economic growth. This is perhaps

demonstrated most clearly in the increasing focus of governments on attracting mobile investment capital to the major cities (see Searle in Australian Broadcasting Corporation 2000: 14; see also Chapters Six and Eight).

Hence, in relation to balanced development, it is possible that governments have simply recognised the potential dis-benefits of discouraging city growth. This may be one of the most powerful reasons why governments have refused to embrace wholeheartedly the strategy of decentralisation (even when they were pursuing it). Governments may simply be willing to continue to accept all the negative externalities and costs associated with city growth because they know how important cities are to the State and national economies.

## **The Capacity of Government to Solve the Metropolitan Primacy Problem**

What governments should do in relation to regional policy is shaped considerably by what they can do (Collits 2001). The balanced development argument shows a substantial amount of faith in government. Supporters of balanced development assume, not only that government has the duty to address the issue of metropolitan primacy, but that government is capable of doing so effectively.

However, a close analysis of the operation of the space economy suggests many constraints on effective government action. Several observers have questioned the capacity of governments to intervene effectively to the extent required to achieve balanced development. These critics point to the complex and dynamic nature of regional development processes and to the fact that governments have little direct control over many of the drivers of regional development.

The capacity of government to shape regional outcomes at all, let alone recast the settlement pattern as per the balanced development credo, is, at best, severely limited. Governments are confronted by the considerable power of markets in determining the location of economic activity, the inertia of the existing settlement pattern (Hurley 1989: 362; see also Shaw 1983), national economic conditions, financial constraints,

the impacts of their own policies and those of other levels of government, the structure of government itself (see Chapter Nine) the complexity of regional problems and the sheer size of the balanced development task. Governments and central bureaucracies are, arguably, poorly equipped to deal with these issues.

### **The “Tyranny of the Macro” and the Increasing Complexity of Regional Processes**

Government’s impotence in the face of market forces and the existing settlement pattern is striking, and is an important constraint on its capacity for effective regional policy. Moreover, over time government has arguably become even less able to shape regional development outcomes. The reason why governments cannot play the role assigned to them by supporters of balanced development is that most of the processes that shape regional outcomes are simply beyond government control. This Sorensen has termed the “tyranny of the macro” (Sorensen in Sorensen and Epps 1993: 225):

These macro-events are not just some minor and shadowy influence on place prosperity. They are a dominant influence, if not *the* dominant influence. It is probably safe to say that a five cent decline in the value of the Australian dollar against its US counterpart ... will help the economy of rural Australia more than all the formal State decentralisation programs of the last ten years put together (Sorensen in Sorensen and Epps 1993: 226).

This is closely related to the complexity of regional processes, which have increased over time.<sup>20</sup> Balanced development supporters fail to acknowledge the severe limits on government action or the logic of what the Standing Committee has termed the “limited government position”, yet it has proven important to governments in the shaping of their regional policy approaches (see Legislative Council 1993: 116-18).

Sorensen (2000) makes a strong case that no government (Commonwealth, State or local) can control, or even influence all of the factors that need to be managed in order to effect a major shift in the settlement preferences of firms and households. More than this, he lists what he takes to be the key processes driving regional growth, and suggests that government has little influence on virtually any of them (see Box 5.2).

### **Box 5.2 Drivers of Regional Development**

- Biophysical resource endowment;
- Geographic accessibility;
- Human and social capital;
- Demography;
- Changing lifestyle preferences;
- Space transforming technologies;
- New production technologies;
- Expenditure on public infrastructure;
- Business management and development; and
- International events.

Source: Sorensen 2000: 19

Of the above, Sorensen found only two – biophysical resource endowment and public infrastructure – where government could be said to have a high degree of control (Sorensen 2000: 19).<sup>21</sup> The doubt about the capacity of governments to shape complex processes is shared by Alonso, who has argued that:

Geographic radicalism seems misplaced when we are uncertain of the purposes, of the processes, and of the effectiveness of the instruments (Alonso in Friedmann and Alonso 1975c: 636).

Governments are also constrained both by their relative impotence in the face of economic and demographic forces, and by their lack of knowledge of many of the factors driving regional processes. For example, Vipond has argued that governments do not have sufficient powers to enforce decentralisation. She has also claimed that future reversals of Sydney's strong population growth are likely (indeed they had occurred in the late 1970s; see Chapter Six), and that therefore more and better information is needed about likely trends and their causes before decentralisation can be properly considered (Vipond in EPAC 1990: 31).

### **The Size of the Task**

The “tyranny of the macro” suggests that the achievement of balanced development is a task simply beyond governments, and this challenges the fundamental assumption

by balanced development supporters that the absence of attempts at decentralisation is merely a matter of political will. As Mills and Payne pointed out in the 1970s:

A problem identified is not a problem solved (Payne and Mills 1973: 4).

Or as Richardson has put it:

Unfortunately, mere recognition of the adverse effects of primacy does not make decentralisation easier to achieve (H W Richardson 1976: 309).

It would be a huge task to achieve more balanced development, nor is the precise size of the task even known. It is evident that governments have baulked at both the size of the task and its indeterminate resolution (NSW Government 1993: 9). One of the great constraints on policy action in relation to regional development is the generally long lead-time involved in achieving change. As Alonso has stated:

A striking aspect of national territorial policy is that it proceeds at a snail's pace by comparison with many other policy areas (Alonso in Cities Commission 1973: 5; see also Murphy and Roman 1989: 270).

Governments, on the other hand, are required to demonstrate positive outcomes from their policy decisions to electors every three to four years. Indicators of success from a pursuit of balanced development do not fit comfortably into the electoral cycle, and this is an inhibitor against a commitment by government to the idea. Again, Alonso has warned of the size of the task:

... population distribution is the result of a slow and viscous process, so that any effective program will have to be sustained for decades, if not forever (Alonso in Friedmann and Alonso 1975d: 637).

Braby agrees, particularly noting the inherent uncertainty of the enterprise as well as its size:

... decentralisation policy diametrically opposes the course of unfettered natural development and will therefore require a massive planning effort which will strain the financial and administrative capacity of the planning authorities, will be slow and cumbersome in operation and will not be certain of success (Braby in McMaster and Webb 1976: 210).

It is not surprising that governments concerned with day-to-day regional problems, not to mention the electoral cycle, have resisted the challenge. Even Friedrich Engels recognised the size of the task of decentralisation:

... civilisation has left us the legacy of huge cities and to get rid of them will cost us much in time and effort ... (Engels 1873 quoted in Stilwell 1993: 164).

It is clear that successive NSW governments have simply regarded the proposition that they can turn around demographic trends as beyond their reasonable capacity, in terms of both finance and planning. DOP made this clear, when discussing the possibility of diverting growth to inland centres:

It is ... difficult to envisage policy intervention that would have sufficient impact on Sydney's size (DOP 1993: 18).

This scepticism about what it would take to effect meaningful change is linked to a concern that, in order to make a difference to the imbalance of population in New South Wales, governments would actually have to impose restrictions on Sydney's growth. Such restrictions could make Sydney a less attractive city and threaten the kinds of economic benefits of large cities noted above. Again, DOP explains the logic of the position:

If the NSW Government attempted to push people out of Sydney, it would have to reduce the livability of the region, the opposite of the aims of this planning strategy! (DOP 1993: 17).<sup>22</sup>

Governments in Australia have been unwilling to impose punitive measures ("push" policies) in order to achieve more balanced development (Holland quoted in Hurley 1989: 66). Creating positive incentives for decentralisation has been the most that governments have been willing to do. This clearly reflects a view within government that the challenge is too big, that the cost in terms of livability too great, for authorities to take the measures required. It might be argued that governments have simply not established exactly how they could possibly go about achieving effective decentralisation.

In summary, there are powerful arguments against the balanced development position based on the relative capacity of government to undertake the heroic task set by

balanced development supporters. The constraints on government action are severe, and growing (see Chapter Six), and there is considerable evidence that these are well recognised by government.

## **The Cost of Addressing the Metropolitan Primacy Problem by Decentralisation**

While governments now believe that substantial decentralisation from Sydney is not possible, they also believe that to attempt to achieve it would be, in any case, too costly. There are at least three elements to the “bigness” of the idea of balanced development – its requirement for large public expenditure, its need for centrally directed development, and the inherently long-term nature of the government support required.

Balanced development requires a much more substantial commitment from government than is currently expended. Current levels of support for regional development are seen as inadequate.<sup>23</sup> That the achievement of more balanced development would require a massive allocation of government funds has been recognised by Alonso:

Any policy of territorial distribution that amounts to more than window dressing will involve vast sums of money and affect all aspects of national life at a scale which is not sufficiently realised (Alonso in Friedmann and Alonso 1975d: 636; see also Duffy 2001).

Even in relation to the size of the incentive required to persuade individual firms to decentralise, an Australian study in the 1970s recognised the enormity of the task:

Relocation costs are high for most firms and especially high for large capital intensive firms with specialised plants. As there are only minor differences in operating costs between the city and the country, and as these are generally unfavourable to a country location, no major capital intensive firm already established in the city would contemplate moving to a regional centres *without the aid of massive subsidies* (Davey-Ashmore et al 1974, quoted in Glass 1976: 26; emphasis added).

While the precise size of the “bigger commitment” required of government to achieve “balance” is not made clear by regional advocates, it is apparent that the commitment

would need to be substantial. Most balanced development treatises have specified a considerable increase in regional development funding. Manning (2001) suggested a Commonwealth fund of over \$2 billion for enterprise zones and other supporting regional development measures (see Appendix F). The CMA 1993 *Strategy* argued for a \$117 million to \$234 million incentive fund (CMA 1993: 150). The 1994 Windsor Bill for payroll tax concessions would have cost the NSW Government approximately \$276 million per year (Appendix F). In all cases, these sums are vastly more than recent governments have been willing to spend on regional development. Taylor and Garlick have described the cost of centralist regional policies as simply “unaffordable” (Taylor and Garlick in Higgins and Zagorski 1989: 84).

Hence the key elements of the idea of balanced development – its insistence on big spending policies, its preference for centrally directed development (as seen in the state-wide settlement strategy), and its requirement for a long term commitment (see Alonso above) – have generally been rejected outright by governments in Sydney and Canberra. Clearly this is related to the opportunity costs of such proposals and to the fiscal squeeze on governments since the 1970s as well as being a specific rejection of core elements of balanced development. The sheer size of the commitment demanded, particularly in the light of uncertain outcomes, has dissuaded governments from embracing balanced development.

## **Specific Balanced Development Claims**

Supporters of balanced development have variously made specific claims about the growth of Sydney and the under-development of non-metropolitan regions. These are contestable propositions that are central to the balanced development position, and whose conclusions have been questioned both within government and by academic observers.

These claims are a fundamental part of the balanced development argument. Their deployment by balanced development adherents has, in effect, opened them to specific criticisms within government and this has had a markedly negative impact on the reception of their “big picture” ideas.

## **Subsidising Sydney's Growth?**

The balanced development argument includes the claim that Sydney maintains its locational advantage over the country as a result of subsidies rather than through natural advantages. There are two arguments presented to substantiate this claim, relating to the cost of urban sprawl and to the absence of charges on businesses for creating negative externalities. According to the CMA:

The statutory bodies' cross-subsidies and lack of real pricing have encouraged people to live in Sydney at the cost of business, commerce, the environment and the growth of many country towns (CMA 1993: 51).

Some have attempted to quantify the cost to government of urban concentration. As part of the push for selective decentralisation in the 1960s, studies were commissioned by the Committee of Commonwealth/State Officials on Decentralisation (DURD 1975). These were relied on by the CMA in the 1990s to maintain the case for decentralisation based on lower infrastructure costs in country regions (CMA 1993: 13-15).<sup>24</sup>

The NSW Government's 1988 planning strategy confirmed the existence of subsidies to housing on the urban fringe, and quantified it (DEP 1988).<sup>25</sup> However, the Government merely saw the existence of the subsidy as a further argument for urban consolidation rather than decentralisation (see Chapter Eight). Several inquiries in the early 1990s revisited the issue of comparative infrastructure costs.<sup>26</sup> The CMA argued strongly that Sydney's urban growth was subsidised (CMA 1993: 46-55). However, the Industry Commission in its report on taxation and urban settlement did not find clear evidence that urban fringe settlement was subsidised. The Commission concurred with the NSW Government submission, which stated that:

... it is unclear whether urban areas benefit at the expense of rural areas or vice versa. There are a number of cross subsidies for different services which make it very difficult to disentangle the overall effect (NSW Government 1993: 19; Industry Commission 1993: 242).

The Commission's conclusion agreed with that of Alonso:

The most common economic argument for calling this concentration excessive is the belief that per capita costs, particularly for infrastructure investment, rise after a certain urban size. However, there is no agreement as to the size at which this occurs, nor, for that matter, is there any solid evidence that costs do in fact increase with urban size for a given level of service and facilities (Alonso in Friedmann and Alonso 1975c: 622; see also Richardson 1976).

It is also the case that, in view of the fact that the majority of taxpayers live in Sydney, those paying for any subsidy of the urban fringe are largely other residents of Sydney. A second, and more convincing, argument in relation to subsidised growth is that individual firms are not fully charged for the social costs of negative externalities. It is suggested that firms choosing to locate in the city have the advantages of localisation and urbanisation economies without having to bear the full costs of the "bads", such as pollution and traffic congestion.

This also accounts for Sydney's, and other cities', continued growth in the face of rising business costs and the presence of externalities. As argued by Thompson:

... these economies of scale are captured by business as lower private costs; at the same time private business is able to slough off on society various social costs that its presence imposes ... In the absence of sophisticated public policy and the even more sophisticated public management that would be needed to implement price reform, factor markets so biased promote urban growth and great size (Thompson in Friedmann and Alonso 1975: 218).<sup>27</sup>

Powell has put it this way:

Because businesses do not pay the full resource cost of operating in the cities, there is a tilting of the playing field in favour of urban areas. In the past, some of the disadvantages to rural areas were "compensated" for by assistance to rural areas. Many of the measures that advantaged rural areas have now been removed so that they are fully exposed to the market forces (Roy Powell 1997b: 4).

Powell's argument is that, in the absence of real (social) cost pricing, a potential location advantage for non-metropolitan regions in attracting footloose firms has effectively been denied to them, to the advantage of Sydney.

However, whether many more firms would locate in non-metropolitan locations if they had to pay the marginal, rather than merely the average costs, of urban expansion, is doubtful. (This is leaving aside the not inconsiderable questions of how such a costing regime would be imposed, and how the amount of the social cost would be quantified). Firms collectively already bear a substantial part of the costs of congestion, and individually pay a considerable premium for land and buildings in Sydney. Equally, Sydney's population continues to grow substantially despite high housing costs relative to other parts of the State, and other capital cities. The strength of agglomeration economies places the alleged benefits of the subsidy in context.

There is no evidence that any governments have been persuaded by the arguments over costs at the urban fringe, and they have preferred to address the issue of urban sprawl – an ongoing concern – largely through “internal-to-Sydney” solutions.

### **The Links Between Sydney's Growth and Regional Decline**

Balanced development rests on the assumption that Sydney's growth and the alleged decline of regional New South Wales are causally linked, and that action taken by government to restrict Sydney's growth would necessarily provide a boost to country areas. Finding evidence that Sydney's growth was unrelated to non-metropolitan decline would substantially weaken the balanced development case, and diminish the argument that governments should intervene to redirect metropolitan growth. The acceptance by government of a distinction between city growth and regional decline would partly explain its rejection of the overall balanced development case.

The Mayor of Armidale recently described regional Australia as the “... poor cousin of the Sydney-Melbourne-Brisbane octopus” (*Armidale Express* 10 August 2001). Similar images abound in relation to Sydney's alleged capacity for gathering up economic activity in its “tentacles”. It is certainly the case that Sydney has grown while (some) regional areas have declined (see Chapter Six). The question is whether, and to what extent, Sydney has actually grown at the expense of non-metropolitan growth.

One issue is whether Sydney actually attracts existing non-metropolitan population and industry, or whether it simply receives growth that might otherwise have gone to the non-metropolitan regions. The centre-periphery theory outlined in Appendix D suggests that growth and decline of different regions are linked causally.

Sorensen has argued, while lamenting the absence of sufficient empirical data, that inter-regional financial flows disadvantage non-metropolitan Australia (Sorensen 2001). Senator Ron Boswell has talked of a vacuum cleaner-like process of sucking people out of the inland and depositing them on the coast (quoted in Collits 1998: 11). On this view, Sydney acts as a giant sponge, and regional decline is caused by Sydney's growth.

Yet Burnley has suggested that:

... it cannot be said that the growth of the metropolis has impoverished the balance of the States (Burnley 1980: 53).

Sydney's growth can only ever be seen as a partial explanation of regional decline at most. Sydney's growth and regional decline are largely separate processes, and governments have recognised this. To the relatively small extent that Sydney's population growth is fuelled by out-migration from regional areas, this is more of a consequence of regional decline than a cause of it. As Holliday points out:

What is not commonly known is that regional NSW ... gains more people moving from Sydney than move the other way (Holliday 2000: 5; see Chapter Six).<sup>28</sup>

In relation to the economy, the argument is more complex. While Sydney's share of the State's economy is large and growing, this need not mean that the growth is occurring at the expense of regional areas. Just as Sydney's population grows largely because migrants choose it as a location, similarly many new businesses choose Sydney as a location, and (not surprisingly) it attracts the overwhelming proportion of transnational firms' regional headquarters. Sydney's economic growth is not fuelled by businesses moving from the country. Equally, the decline of many regional centres, and of agriculture as a driver of regional economies (Stayner and Reeve 1990;

Butler and Mandeville 1981: 55), pre-dated the most recent cause of Sydney's increasing economic primacy, viz globalisation.<sup>29</sup>

The ABA in 1998 identified a number of common causes of decline among towns that had sustained large population losses. They included the depletion of mining resources, the advent of new manufacturing technologies, farm aggregation, proximity to larger regional cities, and locational disadvantage (Collits in Rogers and Collins 2001: 44; ABA 1998: 25-26). None was related to the dominance of Sydney.

The SCSD has examined the links between city and regional problems. According to the majority opinion of the Committee:

... it is better to consider the problems of regional economies and the problems of the size of Sydney as two separate problems, despite the intuitive appeal of linking one to the other (Legislative Council 1994a: 50).<sup>30</sup>

The Committee claimed that uneven development is a consequence rather than a cause of the regional problem (Legislative Council 1994a: 51).

Many regional centres are growing strongly (this is discussed further in Chapter Six). Moreover, regional decline has complex and, in many cases, place-specific and/or time-specific causes. Sydney's growth is driven mostly by overseas migration and the influx of transnational firms. Further, the argument that Sydney grows at the expense of the country ignores the considerable spread effects of Sydney's growth.

Hence, governments have been confronted by the fact that, in many cases, the regional problems they have faced have been endogenous, or have resulted from international factors. In promoting programs that seek to deal with the causes of regional problems (see NSW Government 2001), they have demonstrated that they do not accept the balanced development position that regional under-development is caused by Sydney's growth, and could be solved by decentralisation.

## **Compensation for Higher Business Costs in Non-metropolitan Regions**

It has often been argued by supporters of balanced development that business costs, particularly for manufacturers, are invariably higher in non-metropolitan regions, and that this has proven a disincentive to decentralisation.<sup>31</sup> On this view, government should compensate firms for these higher business costs in order to achieve more balanced development. This is part of the “tilting of the playing field” towards regional New South Wales favoured by the CMA and others (CMA 1994a). The Country Manufacturers Association has argued consistently for the return of payroll tax concessions, based on its view that country manufacturers face “... significant cost disadvantages when compared with like operations in Sydney” (Country Manufacturers Association 1993: 4).

The basis of the argument about higher country business costs is questionable. For example, it ignores the benefits of country location, including generally lower labour turnover, and it erroneously suggests that all country locations and all industry sub-sectors are equally disadvantaged. A number of studies have shown that it is not necessarily more costly to do business in non-metropolitan locations (Collits 1995: 19).

This is an important finding for the balanced development position, because the claim about higher costs is central to the argument for compensation and “tilting the playing field”. Moreover, governments have been unimpressed by these arguments, and the rejection of the balanced development position overall is linked to these empirically testable claims about costs. Certainly, the Greiner Government’s abandonment of the CIPTRS and the refusal by subsequent governments to consider similar schemes (see the Windsor Bill in Appendix F) has been informed by scepticism over the business costs argument.

## **The Effectiveness of Relocation Incentives**

The key tool of decentralisation has generally been relocation incentives. The supporters of balanced development assume that relocation incentives work – that business location decisions can be influenced by government assistance schemes. Advocates of these measures generally favour open-ended or “as of right” assistance, rather than the discretionary assistance like the RBDS preferred by recent governments.

However, the efficacy of relocation incentives has been questioned, including by governments.<sup>32</sup> One argument against relocation incentives is that assistance might be provided to firms that would have moved to the location anyway. This is the so-called “deadweight effect” (see Armstrong 2001: 250; Collits 2001: 64). Governments cannot know corporate location intentions, and there is always a risk that assistance will be wasted. This is particularly a problem for “as of right” assistance, where a firm receives financial benefits for just “being there”. The rejection of “hunting” approaches has been one of the principal developments in recent regional policy thinking.

Another concern is that the incentives offered would not actually persuade firms to move. The findings of a 1989 NSW Government survey of city businesses confirmed the already substantial evidence that government incentives were not major determinants of business location decisions (BACA 1989: 14).<sup>33</sup> It is therefore not surprising that the NSW Government dispensed with open-ended and relatively costly relocation incentives, in favour of a more targeted approach. These arguments question the efficacy of one of the fundamental building blocks of balanced development.

## **The Debate Over Earlier Decentralisation Policies**

One of the most contentious questions about balanced development is the debate over whether, to what extent, and for what reasons, the decentralisation policies of the 1970s failed. It is clear that governments generally, and bureaucrats, have believed

that decentralisation policies, and the growth centres in particular, failed (see Sproats 1983, 1990; BIE 1985; BACA 1989; Vipond 1983; Vipond in Higgins and Zagorski 1989: 69). This belief that balanced development, if ever tried again, would again be doomed to further failure has almost reached the status of conventional wisdom. It is an important part of the scepticism that governments now have about the capacity of decentralisation to help reduce Sydney's problems.

At one level, 1970s decentralisation policies can be seen as having failed since metropolitan primacy has continued. Moreover, faster growth occurred in the 1970s in non-growth centre locations than in the designated growth centres (Vipond 1983; BACA 1989: 11-13). At another level, governments have assumed that past decentralisation policies failed because of the small number of firms that relocated to the country (BACA 1989: 13-15). On the other hand, the CMA's view is that decentralisation was simply "perceived" to have failed (CMA 1993: 123; see also John 1993). As well:

There is also a strong opinion amongst some of those involved with these policies that they were never given an opportunity to work (CMA 1993: 123; see also Self 1990: 18).

Reasons cited by the CMA for the "failure" of decentralisation included a lack of continuing Commonwealth-State cooperation; unrealistic population targets; the absence of a long-term bi-partisan commitment; few government office relocations to the growth centres; local rivalries; and a lack of cooperation among government agencies (CMA 1993: 123-25; see also Lloyd and Anderton 1990: 8; Sproats 1990; Legislative Council 1993: 84-86). On this view, it comes back to political will.

There were undoubtedly difficulties specific to the actual Growth Centres Program that help to explain their demise as a policy instrument. More importantly for the argument here, the perception of failure in 1970s-style decentralisation became embedded in the thinking of a generation of politicians and public servants (Lloyd and Anderton 1990: 8). The CMA itself, which approached politicians as part of its 1993 *Strategy* exercise, concluded:

The perception that decentralization was tried and did not work is strong (CMA 1993: 93).

The 1990 and 1994 NSW Government policy statements also marked a direct rejection of past decentralisation approaches (BACA 1990: 1-3; DBRD 1994: 4). The 1990 Statement in particular was a fundamental reassessment of past policies, and marked a regional policy turning point. The Government's view was that past decentralisation policies had failed to "... generate significant diversified economic bases in country areas" (Murphy and Roman 1989: 273).<sup>34</sup> Not surprisingly, the ongoing perception within government that 1970s style decentralisation was a failure has been a powerful factor in governments' rejection of balanced development.

### **Specific Balanced Development Policy Proposals**

Advocates of balanced development have, over time, supported a range of specific measures that they believe would alter the current imbalance between city and country. As noted previously, the CMA in August 1994 released a "manifesto" to augment the more detailed *Strategy* document of 1993. Other advocates such as the CEZ, RAPI, and Tony Windsor have proposed specific measures designed to enhance balanced development. All these various proposals have been examined, and in some cases, rejected outright by NSW governments.

These policy proposals are seen as central to attempts at "operationalising" the notion of balanced development. They include growth centres; the proposal for a state-wide settlement plan; population targets for inland regions; a state-wide infrastructure plan and support for specific large infrastructure projects; payroll tax concessions for country industries; enterprise zones; and dramatically increased spending on regional development. There is not sufficient space here to analyse the above policy prescriptions in detail. They are outlined in Appendix F.

Like the rejection of specific balanced development arguments noted above, the rejection of specific policy proposals has effectively weakened the overall balanced development case in the eyes of governments and agencies.

## **The Impact of Critiques of Balanced Development on Government Thinking**

Many critics have questioned the coherence, relevance and utility of the balanced development idea. Some of its central arguments have been seriously challenged. A number of its key policy recommendations have been found wanting in important respects. In some cases, empirical assumptions have been shown to be without foundation. More broadly, policies that are seen as centralist or top down have been rejected, excluding balanced development on these grounds. Policies that favour “RaRA” generally have been questioned.

Many of the arguments against balanced development have considerable force. It is reasonable to draw the following conclusions from the debate over balanced development, set out in Box 5.3.

The argument for balanced development is perhaps weakest in its appeal to urban problems and urban “crisis”. The distinguishing feature of balanced development in relation to other regional policy ideas is this very linkage of city and country. To question the capacity of decentralisation to solve urban problems is to challenge the heart of the argument for balanced development.

However, it is one thing to suggest that there are powerful arguments against balanced development. It is another to claim that governments have rejected balanced development because of these arguments. Three points can be made. First, few of the prominent academics involved in regional development since the 1970s have supported balanced development, in contrast to the 1960s. Some have opposed it. Second, governments have taken much of the evolving regional development thinking on board, either directly, or filtered through advisory bodies and officials. Third, governments themselves have been critics of key balanced development policies and arguments from time to time.

### **Box 5.3 Summary of Arguments against Balanced Development**

- There is a strong argument that the power of governments lack the capacity to shape regional outcomes, particularly to the extent envisaged by balanced development adherents;
- The argument that decentralisation can solve Sydney's growth problems is exceedingly weak;
- There is no conclusive evidence that cities have an optimum size, or agreement over what that size would be, or that Sydney has reached that size;
- No agreement has been reached as to how decentralisation could be achieved to a level meaningful to those who demand more balanced development;
- Agglomeration economies are extremely difficult to overcome;
- Linking the "under-development" of non-metropolitan New South Wales with the "over-development" of Sydney is largely irrelevant to the real reasons for regional decline;
- There are many State and national benefits from the continued growth of Sydney;
- Achieving more balanced development is more than a matter of mere "political will" – there are sound reasons based on history and geography why Sydney has become so dominant in the State's economy; and
- Governments were not largely responsible for creating Sydney's dominance.

There have not been many "public academic" champions of balanced development attempting to gain the ear of government. On the other hand, there have been a number of critics of balanced development whose ideas have received currency within government. Government advisory bodies, for example, the SCSD, the BIE, and the Industry Commission, have made extensive use of the academic literature. This includes such academics as Carter and Taylor in the 1980s and Sorensen in the 1990s, who have mounted very explicit cases against aspects of balanced development. The BIE, particularly in its 1994 report, made a serious attempt to come to grips with theories of regional development in preparing its advice to government. Such advice informed the *Working Nation* document which, like the 1989 NSW Government Discussion Paper, rejected the approaches of the 1970s.

Government agencies and governments themselves have been the critics in a number of cases. Agencies have variously reacted negatively (or not reacted positively) to balanced development proposals and claims, for example payroll tax concessions, the idea of a state-wide settlement plan, the concept of positively planning for growth, the suggestion that decentralisation can solve Sydney's growth problems, and the claim

that Sydney's growth at the urban fringe is unduly subsidised. Governments since the 1980s have tended to see the decentralisation period as one of regional policy failure. There has been a clear and deliberate distancing by governments of their approaches from those of earlier times.

In relation to formal policy review processes, governments have also drawn on contemporary critiques of balanced development. The 1989 Discussion Paper, *Regional Development and Decentralisation*, was one of the few occasions – perhaps the only occasion – in which any NSW government since the 1970s has set out to undertake a comprehensive and open review of regional policy.<sup>35</sup> Hence the paper provides an opportunity to examine the impact of ideas on policy thinking in regional development, particularly in relation to balanced development.

The paper's authors were clearly aware of the regional policy literature and the academic debates that were going on at the time. For example, there were references to work done by Burnley, Murphy, Carter (as quoted above), the Rural Settlements Project (1988), the BIE review of the regional impacts of structural change (BIE 1985), debates over optimal city size, demographic trends and the literature of the time dealing with the impacts of decentralisation incentives (BACA 1989: 8-11). The paper concluded that:

The lesson to be learnt from this reassessment is the need for a more sophisticated and refined regional policy approach (BACA 1989: 11).

This is clearly consistent with the position adopted by Carter. The Paper continued:

Such a policy should not push against economic, social and demographic systems, but at best, seek to steer them at the margin, eg by recognising and reinforcing the positive growth characteristics of regions and maintaining appropriate indigenous economic activity rather than wholesale relocation of business enterprises into non-metropolitan areas.

The aim is not to shift people out of Sydney to country areas ... (BACA 1989: 11).

This statement, perhaps better than any others made by government since the end of the high tide period, sums up the policy objectives adopted during the 1990s. It developed several policy themes – region-specific objectives, building on existing

strengths, downscaling the objectives, diminishing the recourse to hunting strategies, and confining the role of government to working with existing market trends.

The Paper referred to the “... questionable validity of earlier arguments for decentralisation ...” (BACA 1989: 15). The lineage from Carter’s arguments of the early 1980s is clear, as is the recognition of the limits of government action (anticipating Sorensen’s arguments of the 1990s) and the impact of a new economic and demographic trends. The Paper represented a clear statement by government of its rejection of decentralisation policies, and a rejection of balanced development as a policy objective. This was, at bottom, a rejection of the idea of balanced development – the idea that government could engineer major changes in the State’s settlement pattern and the economic performance of regions relative to Sydney.

The strong arguments against balanced development in the regional development literature and among recent Australian and overseas academic experts have had an impact on government thinking. They have helped shape government attitudes to regional policy objectives and instruments. They have helped show governments what is possible and desirable in regional development. They have canvassed the weaknesses in the balanced development position. And the evidence available to governments has not convinced them of the merits of balanced development.

## **Summary and Conclusions**

This chapter has sought to establish what linkages, if any, exist between the failure of recent governments to pursue balanced development and conclusions drawn about the merits of the idea of balanced development. It is what Hood would term the “internal decay” of the idea (Hood 1994: 13).

There have been many critics of balanced development. The perceived failure of the growth centres and other balanced development programs from the 1980s onwards only strengthened the criticisms. Theoretical debates, like that over the optimum size of cities, and debates over the origins of Sydney’s primacy, have been largely confined to academe, have not generally figured in policy debates and have not necessarily

been fully comprehended within government. Yet the key messages from the debate, for example that there is no agreement on the optimal size of cities, has registered among policy-makers. Equally, governments have seen clearly the beneficial role of cities and have been sure in their embrace of continued city growth. Governments have not wanted to restrict Sydney's growth at a time when Sydney has achieved critical mass as a "global city".

Perhaps the most important element of the balanced development position to be rejected by policy-makers is the idea that decentralisation can be a solution to Sydney's growth problems. Governments and agencies have simply not accepted this, and as a result the cause of balanced development has faltered.

Yet while there have been a number of critiques of balanced development's core arguments accepted by government, of itself this does not explain the decline of balanced development as a policy objective. It does not, for example, explain the greater appeal of the idea to governments prior to 1975-76. The idea of balanced development has not changed markedly since the 1960s, and governments in the 1960s and 1970s were strongly supportive of the idea. Why these flaws in the balanced development position were not apparent to governments during the high tide period requires further explanation. Perhaps the flaws only emerged later, or perhaps the rejection of balanced development as a policy objective is only partly related to the idea itself. It follows that other factors are likely to have contributed to the idea's decline.

Hence this chapter has only provided part of the answer as to why governments have abandoned balanced development. It has also raised many questions about regional policy ideas, drivers and processes, and about the impact on policy of such issues as globalisation, changing government ideologies, and the State's changing economic geography. These issues are addressed in the remaining chapters.

## End Notes

1. For example, examining the role of ideas and problems assumes that governments, at least to some extent, respond in a rational manner to issues as they arise and choose among competing policy

alternatives. Allison talks about the “rational actor model” (Allison 1971: 10). Examining the role of interest groups draws on the pluralist and public choice models of public policy, and assesses the extent to which interest groups compete to hold sway over governments, which in turn appeal to coalitions of interests (following, for example, Tullock and Perlman 1976). Examining the policy process itself draws on a number of theories, including incrementalism (following Lindblom 1959, 1965), Simon’s notion of “satisficing” (Simon 1957, quoted in Davis et al 1993: 160-61) and Allison’s governmental or bureaucratic politics models (Allison 1971). The empirical findings in turn provide insights into the utility of the models, though this is not the main task of Part Three. See Chapter Nine.

2. There is a clear resonance in Gittins’ criticism of RaRAism and the critique of “blanket” decentralisation policies by Carter. What is at issue is the assumption of uniform disadvantage in non-metropolitan locations that is said to require special policy attention. Such assumption is found in Chapter Eight to be without foundation.
3. Cameron’s comments quickly achieved notoriety among supporters of balanced development. They even gave rise to a parliamentary debate on the matter in the New South Wales Parliament (Legislative Assembly 2000).
4. Another persistent critique of a focus on the problems of RaRA has been provided by the consulting firm National Economics, which has become a prominent player in regional development through its *State of the Regions* reports and close relationship to the Australian Local Government Association. While National Economics favours a greater government commitment to regional development generally, including for assistance for non-metropolitan Australia, it would also agree with Latham’s view that there are regional divides within the metropolitan area that demand at least as much policy attention as the non-metropolitan regions.
5. Equally, governments have balked at the paternalism which they believe a more directed approach to regional development implies. Governments have made a virtue of their rejection of policies thought up in Canberra or in “Macquarie Street” – the old-style “top down” approach to regional development.
6. Even one of decentralisation’s greatest supporters of the 1960s, Max Neutze, had this to say about balanced development: “The idea of promoting new cities in Australia grew out of the movement for decentralisation. That, in turn, was based on a belief that Australia’s major cities were growing too large at the expense of the rural areas and country towns. Among the reasons for this belief perhaps the crudest was an argument for ‘balanced development’” (Neutze 1976: 446). Neutze is pointing to a lack of sophistication in the balanced development argument.
7. For example, Premier Carr in 1995 expressed the view that Sydney was “too big” (Daily Telegraph Mirror 1995). Commonwealth junior Minister Joe Hockey stated in 2000 that Sydney should be allowed to grow to a population of around 8 million by 2050 in order to become a genuine world city (Hockey 2000).
8. This is an irony, as what balanced development advocates are really concerned about is country under-development, not Sydney’s welfare. Making balanced development a “win-win” is largely a tactical device in the argument.
9. See Chapter One; Butlin 1964; Glynn 1970; McCarty 1970; Stilwell 1973; Neutze 1977, 1978; Merrett in McCarty and Schedvin 1978; Rowland 1979; Daly in Heathcote 1988; Burnley 1980; Forster 1995; Lepani et al 1995.
10. As Burnley has commented: “Radial railway systems centering on the metropolitan cities, tapering freight rates, and concessions to border districts within the colonies (and later states) all helped metropolitan merchants to cope with the inland dispersion of the rural population, while discouraging the rise of competing inland towns like those which appeared with the westward movements of American settlement” (Burnley in Goldstein and Sly 1975: 96; see also Neutze 1981: 14).

11. Processes of urbanisation (not the same as metropolitan primacy), of course, have not been unique to Australia. As Woolmington has pointed out, population drift to urban areas is “... common to the entire developed world” (Woolmington in Sinden 1972: 188). On the other hand, Noel Butlin has spoken of the extent of Australia’s urbanisation as a peculiar phenomenon: “The process of urbanisation is the central feature of Australian history, overshadowing rural economic development and creating a fundamental contrast with the economic development of other ‘new’ countries” (1964: 6). Whether one takes the Woolmington view or that of Butlin, the conclusion is not reassuring for supporters of balanced development.
12. Woolmington refers to a “Malthusian inversion” effect. In other words, agricultural production has outpaced the capacity of society to consume, rather than the reverse, with the effect that fewer farm workers are required, and fewer regional service towns as well (Woolmington in Sinden 1972: 185-88).
13. Or as Carter points out: “A major weakness in the diseconomies of size thesis is its concentration on measuring marginal social cost in isolation from marginal social benefit” (Carter 1983: 3).
14. Richardson (1973) has also argued that “... the relief of congestion is an intraregional than an inter-regional problem” (H W Richardson 1973a: 126; see also Payne and Mills 1973).
15. Emanuel has stated a similar view that: “A major ‘prong’ for the attack on Australia’s developing urban problems will have ... to be in the existing cities themselves” (Emanuel in Cities Commission 1973: 56). In his critique of decentralisation policies, Carter found four arguments in favour of balanced development, and analysed them in turn: that large cities of Australia are too large in an absolute sense; those cities have been growing too fast; metropolitan dominance has adverse effects on the development of alternative centres; and large cities are associated with a more unequal distribution of income – that is, inequalities are increased within large cities (Carter 1983: 2-6). The first two arguments are dismissed on grounds similar to those provided by Richardson and others. The third argument, often appealed to by proponents of balanced development in more recent times, points out the draining effect of cities, with their superior incomes, job opportunities and educational facilities, on non-metropolitan regions. However, it ignores the spread effects of cities while dwelling on the backwash effects. Carter found the fourth (equity) argument – that cities promote inequalities – to be more persuasive than the other arguments that focus on the “bads” of large cities (Carter 1983: 8). However, as Carter pointed out, once the argument becomes one over inequalities between metropolitan and non-metropolitan regions, it may be pointed out that inequalities exist within cities and among non-metropolitan regions. And this undermines the critical balanced development claim that the focus of regional policy must be the metropolitan-non-metropolitan divide. What Carter did was to link the theoretical debates over city size and settlement policy to the decentralisation policies of the day and further to the notion of balanced development. He found the policies wanting on a number of grounds, and his arguments gave governments in the 1980s and 1990s a substantial hook on which to hang their doubts over previous policies.
16. Carter also concluded that Sydney and Melbourne had not reached anywhere near the size over which governments could properly show concern about diseconomies exceeding economies of scale (Carter 1983: 3).
17. The Discussion Paper showed considerable evidence of drawing on Murphy and Roman’s analysis.
18. Phil Day had argued both an economic and a sociological case for decentralisation (Day 1972). He was firmly in the camp of those for whom decentralisation was a means to the solution of Sydney’s perceived growth problems. Day’s placement of decentralisation in the context of addressing Sydney’s problems was both tactically clever in the short term, but less reassuring for the argument in the longer term. In the short term, Day and others who emphasised the role decentralisation could play in diverting future growth away from Sydney were able to recruit a whole generation of new supporters like Whitlam and Uren, who had little interest in the welfare of regional areas. On the other hand, when balanced development lost its purely regional focus as an argument to support under-developed areas of the State, it lay itself open to a whole new area of debate, and in the longer term, effective criticism which has considerably weakened its intellectual appeal.

19. Sydney is now the undisputed engine of the State's, and the nation's, economic growth, the tourism gateway to Australia, one of the key ports, the preferred destination of much inbound investment capital, the driver of national innovation. It is Australia's "world city". It is almost inconceivable that any government would jeopardise its growth.
20. Recently, increasing globalisation has only diminished further the capacity of governments to shape spatial outcomes. This is discussed in greater detail in Chapter Eight. Whether governments have ceded the control they once had over regional development, or have simply lost it to global forces, is a matter of considerable debate. There is less debate, however, over the fact of diminished government capacity.
21. Hewson has also discussed the range of "big picture" factors at work in shaping regional Australia: "It seems that a clear majority of rural Australians doesn't want to accept the fact that most of the conditions affecting rural Australia are the result of longstanding trends and structural factors – such as globalisation, trend declines in global commodity prices and hence terms of trade, technological innovation (such as improved transport and telecommunications and increased mechanisation), environmental pressures and changing consumer tastes and lifestyles" (Hewson 2000).
22. Whether "push" policies necessarily mean reduced livability is an interesting question. In the case of dirty industries, ejecting these would actually increase livability. This is partly the point of the supporters of balanced development. Hence the definition of livability is critical here. Negative measures would certainly be punitive in terms of the cost of living, for example pollution taxes, higher petrol prices. This issue of needing to impose negative planning restrictions in Sydney in order to halt or reduce its growth, with a view to encouraging decentralised activity, raises the question of conflicting government priorities. From the current discussion it is clear that ensuring Sydney's continued livability is a priority of government. This issue will form a key part of the discussion in Chapter Ten.
23. Supporters of balanced development have looked longingly towards the big-spending policies of the European Union which, largely for political reasons, has chosen to pour large amounts of money into supporting declining regions (see Manning 2001; Collits 2001).
24. As indicated in Chapter Two, DDD bureaucrat Phil Day quoted from one of the early studies in the 1970s, which clearly had influenced government thinking at the time.
25. According to DEP: "... the whole community pays dearly for continued urban expansion. The costs of providing physical and community services for new urban areas have to be met by Local and State Governments. Only a fraction of these costs is recoverable from developers and home buyers. In new growth sectors it is estimated that Government will bear a net cost of \$20 000 (\$1987) per lot for services ranging from water and sewerage to community and education facilities. In the past, the implied subsidy allowed many low income families to afford land. In the future, with costs of urban development rising rapidly, the costs for new growth areas are likely to increase substantially" (DEP 1988: 11; \$30 000 in 2000 dollar values).
26. See EPAC 1991a; Birrell in EPAC 1991b; House of Representatives Standing Committee on Long Term Strategies 1992; Industry Commission 1992, 1993; Legislative Council 1993; CMA 1993.
27. Alonso states: "The most sophisticated explanation of the excessive growth of cities runs as follows: where costs are rising, a new industry (or inhabitant) makes its location decision on the prevailing (average) costs, including such factors as congestion and local taxes. However, since costs are rising, marginal costs are greater than average costs. Marginal costs are borne by the urban body as a whole, and the differences between average and marginal costs are the externalities. For instance, a plant considering locating in a large city will take into account existing (average) levels of congestion, but does not consider the increased congestion and travel costs that would be borne by the whole population as a result of its coming. By this argument, then, this divergence between private and social costs permits the city to grow beyond its best size" (Alonso in Friedmann and Alonso 1975b: 436).

28. This was not always the case, however. Glen Searle, quoting Cities Commission figures as well as the Vernon Inquiry (Commonwealth of Australia 1965), argued that a substantial part of Sydney's growth at the time of the implementation of decentralisation policies was occurring as a result of rural-urban drift. Metropolitan areas gained 90 000 from non-metropolitan areas nationally from 1966 to 1971 (Searle 1974: 58; see also Steinke 1970).
29. In terms of economic concentration, Sydney's recent economic growth has been largely fuelled by the growth of "new economy" industries such as information technology and telecommunications and producer services. The attraction of new industries to "global Sydney" has coincided with the decline of many traditional regionally located industries, but the two developments are not causally linked. This is not to deny the obvious benefits of agglomeration economies to most businesses, nor the existence of backwash effects.
30. The Committee supported existing government efforts to promote Sydney as a global city. The Committee also disputed the factual basis of some of the common assumptions of the balanced development position. In adopting a position not dissimilar to that of Carter referred to above, the Committee rejected what it saw as the simplistic view inherent in the balanced development position that non-metropolitan problems could be conflated simply in order to build a case against Sydney's hegemony. Thus the Committee stated: "... it is simplistic to lump all the difficulties experienced in non-metropolitan New South Wales together, as if all the regions experienced all the problems, and then to contrast this with the situation in Sydney. While there are clearly a number of common concerns, there are also significant differences between regions..." (Legislative Council 1994b: 50).
31. See Public Sector Research Centre 1991; CMA 1993: 43-46; Country Manufacturers Association 1993; Rural Development Centre 1993; Collits 1995; Collits 2001.
32. It might be argued that the achievement of balanced development in theory need not rely on the relocation of industry from Sydney. The CMA itself argued (1993: 151-53) for a mix of "hunting" strategies (recruiting outside industries) and "gardening" strategies (growing existing regional industries) to achieve regional development. However, there is no doubt that decentralisation of economic activity would be needed to achieve any meaningful reduction in the current uneven development. Hence, any serious undermining of relocation strategies, particularly those that are dependent on incentives, has implications for the capacity of government to achieve balanced development.
33. Public Sector Research Centre 1991; Australian Chamber of Manufactures, NSW Division, 1989 and 1993; Collits 1995; Hodgkinson et al 2001; Collits 2001.
34. There was a concerted attempt by Labor Governments in the 1980s and 1990s to distance their regional policies from the Whitlam period (Higgins and Savoie 1995: 297, 299; Sorensen 199 :33; see also Chapter Eleven). While this reflected political objectives, there was also an element of regarding past policies as having failed. Minister Brian Howe, as noted in Chapter Four, stated in 1994 that: "We are not going to select places around Australia and say that they ought to become monster cities" (Australian Urban and Regional Development Review 1994: 48).
35. There were no formal regional policy statements as such prior to the 1989 Discussion Paper and 1990 Ministerial Statement, and subsequent policy statements (in 1994, 1998 and 2001) were largely simply reports on activities and program initiatives with a brief and very general statement of policy objectives. Nor did they reflect a public consultation process or a genuinely "whole of government" approach to regional development by inviting formal participation by other agencies.