

The Australian

Bush subsidies a romantic folly

- Henry Ergas
- From: **The Australian**
- September 10, 2010 12:00AM

Recommend

Be the first of your friends to recommend this.

 tweet

AUSTRALIANS are romantic about the country. Like most love affairs, that romance is well-served by at least a veil of ignorance. Few Australians visit the bush and even fewer know much about it. With few facts to go on, myths emerge and take control.

But this myth has long been an expensive one. And after the deals between Labor, the Greens and the two independents, the costs could rise dramatically.

Let's start with what we know. Gross household incomes are about 25 per cent lower, on average, in the country than in the capital cities. The income gap largely reflects lower educational attainment; the proportion with a tertiary qualification in regional areas is about half the urban level, and while about 30 per cent of Australians live outside the capital cities, 40 per cent of people who left school at Year 10 or before do so. Data shows functional illiteracy, a problem in urban areas, is even more widespread in the country, as is its close correlate, financial illiteracy.

It is important to sort out the predominant causality here. By and large, people do not have few skills because they live in country areas; rather, they live in those areas because they have fewer skills. Were their skill levels higher, many would not remain where they are; rather, they would move to the main centres.

This is because human capital is far more productive in cities. There it benefits from economies of agglomeration: the efficiencies that come from spillovers of ideas, opportunities only large population concentrations can afford, and the collocation of so wide a range of activities as to intensify competition and increase the pressure to succeed.

Information technology and globalisation have increased the economies of agglomeration. Communication at the speed of light allows human capital to be even more productive and, studies show, does so disproportionately in urban settings.

People outside cities forgo these efficiencies from agglomeration. Putting aside activities that can be highly productive but are site-specific (such as mining and agriculture), their earnings are therefore usually lower, and especially so for those who are skilled and enterprising. As a result, being in regional areas has a high opportunity cost for the educated and ambitious.

Younger, more skilled people consequently have been among the prime movers from the country to the cities.

Conversely, with some localised exceptions (mainly sea and tree-changers), it is older people and people with few skills who have predominated in the flow going the other way.

That reverse movement reflects the fact lower incomes in country areas have an offset: they are mirrored in lower housing prices. This makes regional areas attractive for retirees, whose incomes, unlike market wages, are fixed and do not depend on location. The same applies for people on government benefits. And where benefits are subject to work availability tests, those tests are easier where job vacancies are low. As a result, the proportion of the population with benefits as its prime source of income is 10 percentage points higher outside the capital cities than in them.

The overall outcome is a pattern that is regionally fractured. The unpalatable truth is the farther one lives from our large urban centres, the lower are likely to be one's human capital, lifetime earnings and life chances. Poorer prospects translate

into riskier behavioural choices, including a significantly higher incidence of smoking, problem drinking and poor diet, and more widespread antisocial behaviour, which reduce life chances ever further.

All of this leads also to differences in outlook. Surveys show people in regional areas are likelier to believe government cannot be trusted and that politicians are just in it for the money. They also score more poorly on survey questions about openness to different types of people and ways of life, and are likelier to follow local, rather than national or international, news. These attitudes engender a politics that is more local, oriented to immediate benefits and volatile.

Our political system has responded by throwing money at the bush: more frequent and costly drought assistance, with almost continuous periods of "exceptional circumstances"; large subsidies for irrigation; roads that would never pass a cost-benefit test; hefty subsidies for rural health and education; and now the National Broadband Network, with a cross-subsidy from metropolitan areas of several billion dollars a year.

Much of this spending is ineffective. To believe, for example, that computer use in country areas is low because networks are unavailable is wrong. As for believing digging optical fibre into the ground will solve the problem, that defies common sense.

Moreover, the efficiency cost of the subsidies is high. Fine for Julia Gillard to commit to charges for the NBN being the same in rural areas as in the cities. But how will the resulting losses be paid for? Through higher prices for metropolitan users, with the fact the implied tax is hidden making it no less distorting. And protecting the cross-subsidies from competitive entry will require entrenching NBN Co as a monopoly.

None of this is to deny that there are also many imposts heaped on to the bush. Land use regulation, such as that associated with native vegetation, is the most onerous. The risk is that the government, pandering to the Greens, will make those regulations even more burdensome and then, to appease the independents, will throw yet more handouts the bush's way.

Those handouts are a poisoned chalice. Locking the bush into a culture of welfare dependency, and transforming country towns into economic ghettos without sustainable sources of wealth, will merely ensure large parts of regional and remote Australia die, leaving only pockets of economic and social viability.

Whether that is in the bush's interest is questionable; it is demeaning to a history that shows enormous capacity to innovate and adapt. And it is not in the best interests of the nation as a whole. Far better to remove unnecessary imposts and distorting subsidies. And, as first step, make burdens and benefits explicit, count their costs and test their efficiency.

Labor knew that in 1987, when it moved to make all cross-subsidies transparent; now it seems to have forgotten it. It's up to the independents to show they have the wisdom to put rural Australia on a new course.

Recommend

Be the first of your friends to recommend this.

 tweet

Copyright 2010 News Limited. All times AEST (GMT +10).