Adept Economics

April 2016

Queensland Jobs Growth Summit

Initial Views and Recommendations from a Summit Sponsor

Adept Economics

Adept Economics is a Brisbane-based consultancy providing expert economic analysis and advice for private and public sector clients who want to know, for example, whether an investment project is worthwhile or a policy or program is beneficial and cost-effective.

Adept can help you by preparing business cases, reports for boards or senior executives, or funding submissions to governments, councils and other funding agencies.

Contact

Gene Tunny – Principal, Adept Economics

PO Box 1201, Milton QLD 4064

p. 0409 727 635

gene.tunny@adepteconomics.com.au

Report author

Gene Tunny

Disclaimer

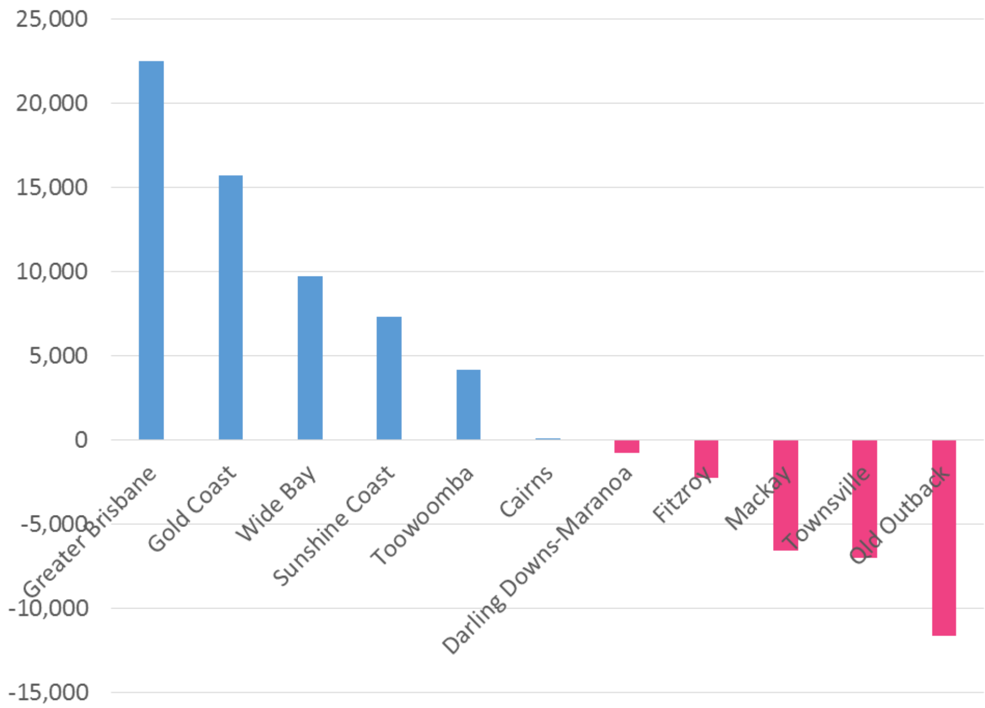
While Adept Economics endeavors to provide reliable analysis and believes the material presented in this report is accurate, it will not be liable for any party acting on such information.

Summary

Jobs Growth Summit is timely given regional Queensland is struggling

As many local economies in regional Queensland struggle in the wake of shocks from the mining downturn and drought, the 26 April Queensland Jobs Growth Summit is very timely.[1] Concerns are particularly elevated for the mining regions of Mackay and Fitzroy, and for Townsville and the Outback, which have all experienced a significant loss of jobs over the last twelve months. In contrast, South-East Queensland (SEQ) has had a relatively robust economy (Summary figure 1).

Summary figure 1. Employment growth, 12 months to March 2016, 12-month moving average estimates, ABS Statistical Local Area 4 regions



Source: ABS, cat. no. 6291.0.55.001.

As well as providing a forum for discussing policy reforms that could address regional employment concerns, the Jobs Growth Summit also provides a forum to discuss policies that can promote a more dynamic and prosperous economy across the entire State. While SEQ's economy currently appears in robust health, it is important to ensure policy settings are as growth-promoting as possible, given that SEQ's current good fortune cannot last forever. Certainly, the residential building boom in SEQ may eventually suffer the consequences of an over-supplied market for apartments, particularly in inner-city Brisbane.

Growth-promoting policy settings preferred to activist interventions

The general philosophy underpinning this report is that government does best for the economy when it gets the economic framework policy settings right—that is, policies relating to tax, industrial relations, education and training, health, among others. There are too many risks associated with interventionist policies from governments to create jobs, as history has shown that

[1] Adept Economics is a sponsor of the Jobs Growth Summit, which is being hosted by the University of Queensland and the Australia Institute, and is being held at Queensland Parliament House, Brisbane on 26 April 2016.

government attempts to “pump prime” economies and save regional jobs are typically not cost-effective and can involve intervention at the wrong time, many months after it was actually needed, as infrastructure projects, for instance, typically have a long lead time. But government is not powerless to promote employment growth, and important employment-enhancing reforms are feasible and desirable in Queensland.

Reforms to boost employment are obvious, but political will may be lacking

There are some obvious things that can be done to boost jobs and economic activity in Queensland. The business community has been advocating many sensible policies for many years. All that is lacking is the political will to implement them. It is time for the Queensland Government to act boldly in the interests of the long-term prosperity of the State. Recommendations for action from the Queensland Government proposed in this report include the following.

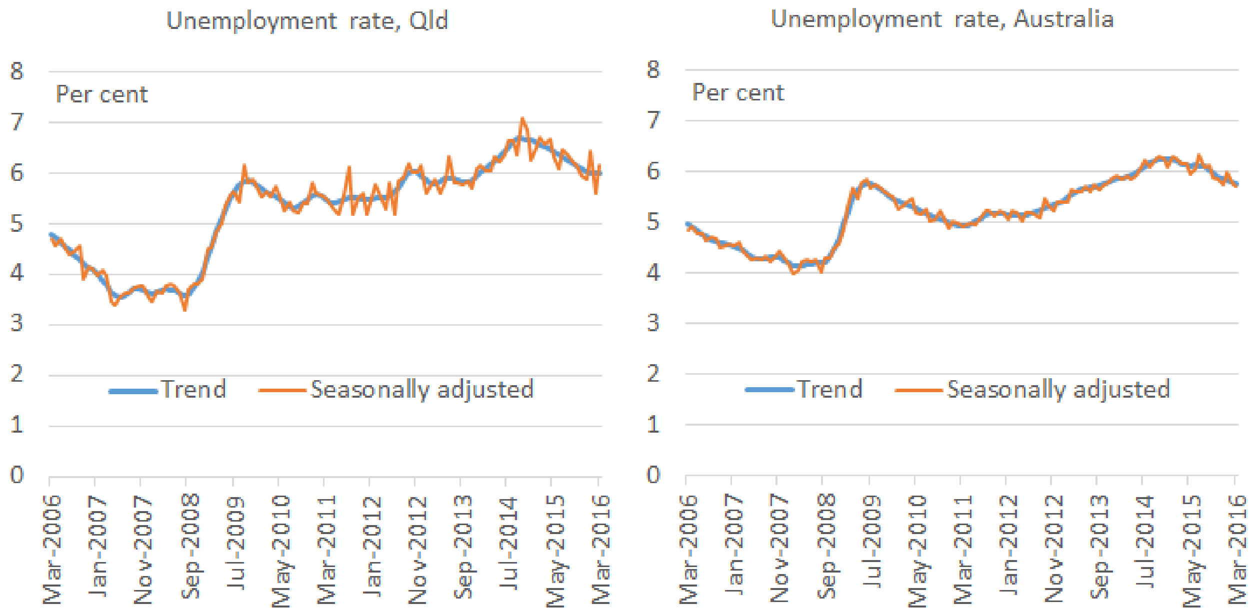
- **Recommendation 1.** Fully deregulate retail trading hours across Queensland. At a minimum, it should adopt the National Retail Association’s proposal to harmonise trading hours across South-East Queensland.
- **Recommendation 2.** Support the alignment of Saturday and Sunday penalty rates, as recommended by the Productivity Commission.
- **Recommendation 3.** Over the next few years, progressively raise the payroll tax exemption threshold from $1.1 million to, say, $2 million. Furthermore, over the longer-term it should push for a reform of Commonwealth and State federal financial relations, so the State Government can ultimately abolish inefficient taxes such as payroll tax and stamp duty.
- **Recommendation 4.** Consider changes to the draft Planning Regulation 2016 to ensure that it has sufficient grounds to intervene and override local planning schemes that are unduly constraining development. Furthermore, it should actively review local planning schemes and propose changes to those that are unnecessarily prohibitive.
- **Recommendation 5.** Consider privatising government-owned businesses, such as Energex, Ergon, Powerlink and Townsville and Gladstone Ports, by either sale or long-term lease to the private sector, with a view to paying down debt and funding new infrastructure.
- **Recommendation 6.** Use the Queensland Productivity Commission’s *Industry Assistance Inquiry Report* as a guide to wasteful government expenditure that could be cut in the interests of paying down debt and funding new infrastructure.
- **Recommendation 7.** Revive its Department of Premier and Cabinet’s 2015 *Economic Action Plan*, put a new draft out to public consultation, and consider adopting many of the deregulatory measures advocated in the plan.
- **Recommendation 8.** Legalise Uber without delay and fast track the new regulatory framework it is developing for taxi services.
- **Recommendation 9.** Explore opportunities for the relocation of public servants to regional centres, such as the relocation of WorkCover to Townville, where such a move would not result in inefficiencies of public administration.

Reforms along these lines are needed to promote employment growth and to ensure a prosperous and dynamic Queensland economy into the future.

1. Introduction and context

The Queensland Jobs Growth Summit is timely given widespread concerns about the state of the economy at the end of the mining boom and after regional Queensland has suffered a widespread drought. Queensland's economy as a whole appears to be under-performing relative to the national economy and unemployment appears stuck around 6 per cent while the national unemployment rate continues to trend down (Figure 1).

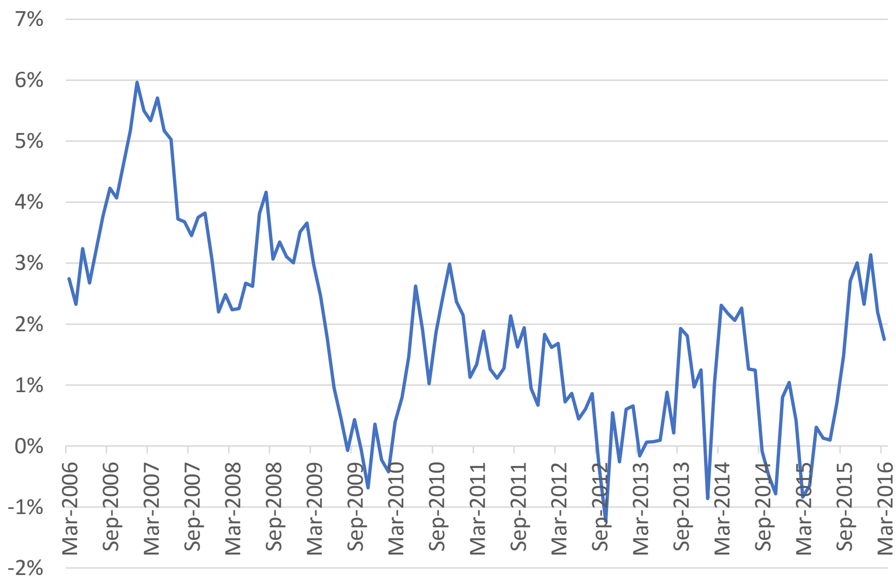
Figure 1. Queensland and national unemployment rates



Source: ABS, cat. no. 6202.0.

On a Statewide basis employment growth was running at a relatively strong rate of around 3 percent per annum in late 2015 and early 2016, but has recently dropped to below 2 percent in through-the-year terms (Figure 2).

Figure 2. Employment growth, seasonally adjusted, through-the-year, Queensland

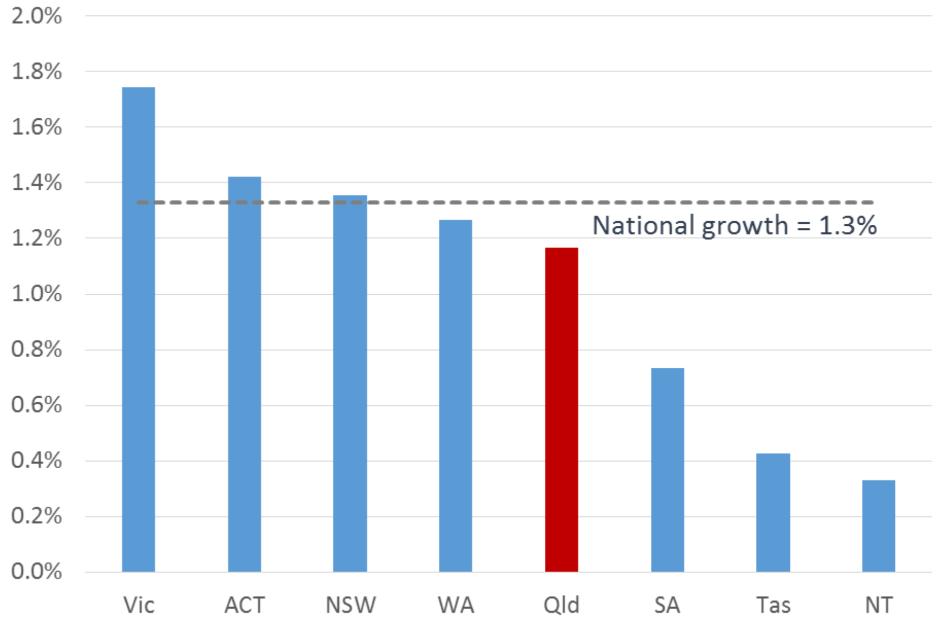


Source: ABS, cat. no. 6202.0.

Population growth has fallen below the national average as interstate migration has plummeted

The end of the mining boom and an under-performing economy have no doubt contributed to Queensland falling to fifth place in terms of population growth among Australian States and Territories (Figure 3).

Figure 3. Population growth over 12 months to end of September 2015



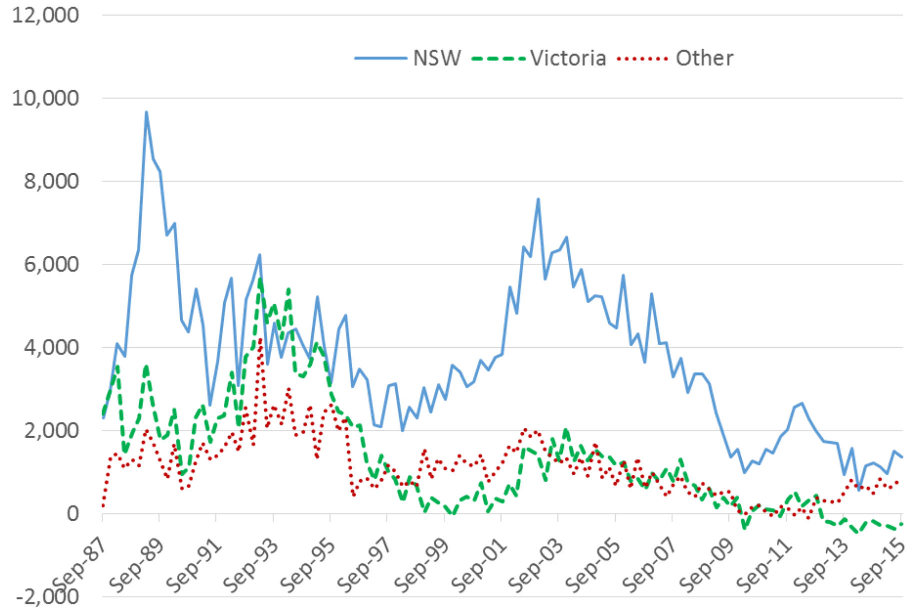
Source: ABS, cat. no. 3101.0.

Queensland is not attracting overseas or interstate migrants to the same extent as it has in the past. Queensland has actually been losing people to Victoria, a State that Queensland once gained a lot of people from (Figure 4). In periods when net migration to Queensland was high, such as several years in the 1990s and 2000s, Queensland was number one in population growth in Australia, but, as noted above, Queensland has now fallen to fifth place.

This is all very concerning because, given the State's natural advantages (e.g. climate, natural resources, environment), Queensland should be growing at a faster rate than other States. It is time for the Queensland Government to look closely at regulations that might be unnecessarily restricting economic development or making Queensland a less attractive place to live.

It is suggested that Queensland's low rate of population growth is related to a few factors, including our under-performing economy (related in part to the mining downturn and drought), excessive regulation that is constraining business investment, and a failure to properly manage population growth since the 1990s, which has reduced livability in Queensland. At the same time, conditions in NSW and Victoria relative to Queensland have improved, meaning we are not seeing the same levels of interstate migration as we once did. SEQ nearly running out of water in the late 2000s is a good example of a failure to properly plan for growth, and it is an example that must have raised doubts about Queensland's desirability as a place to live in the minds of many people in southern States.

Figure 4. Net interstate migration to Qld by State, quarterly

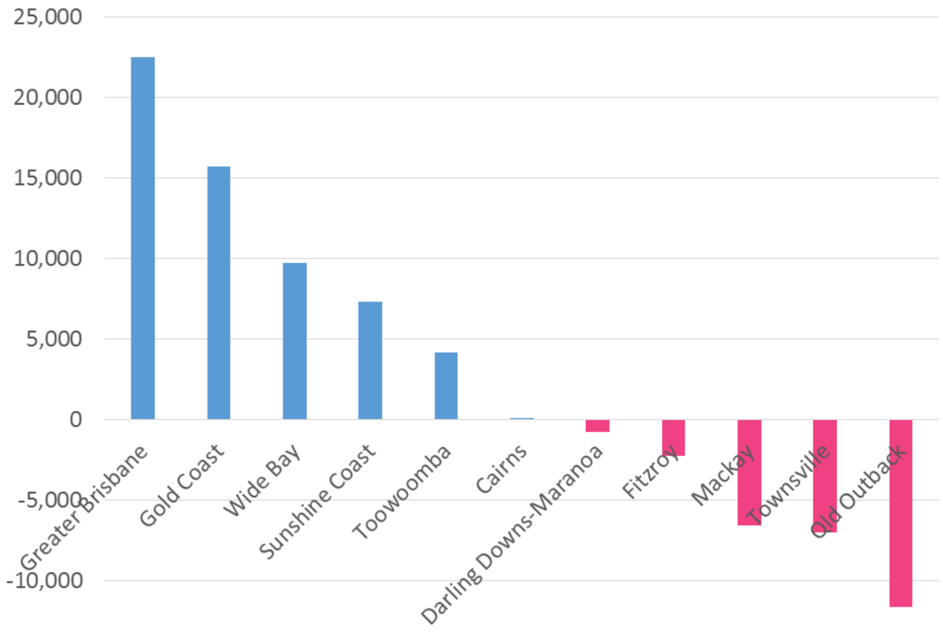


Source: ABS, cat. no. 3101.0.

SEQ economy in reasonable shape, but regions are suffering

While the Queensland economy has undoubtedly been generating jobs, that jobs growth has not been strong enough to get the unemployment rate below 6 percent, and it also largely occurring in South-East Queensland (SEQ), with the rest of Queensland appearing to have had a fall in total jobs over the last twelve months. Job losses were particularly large in the Townsville region and the Queensland outback (Figure 5).

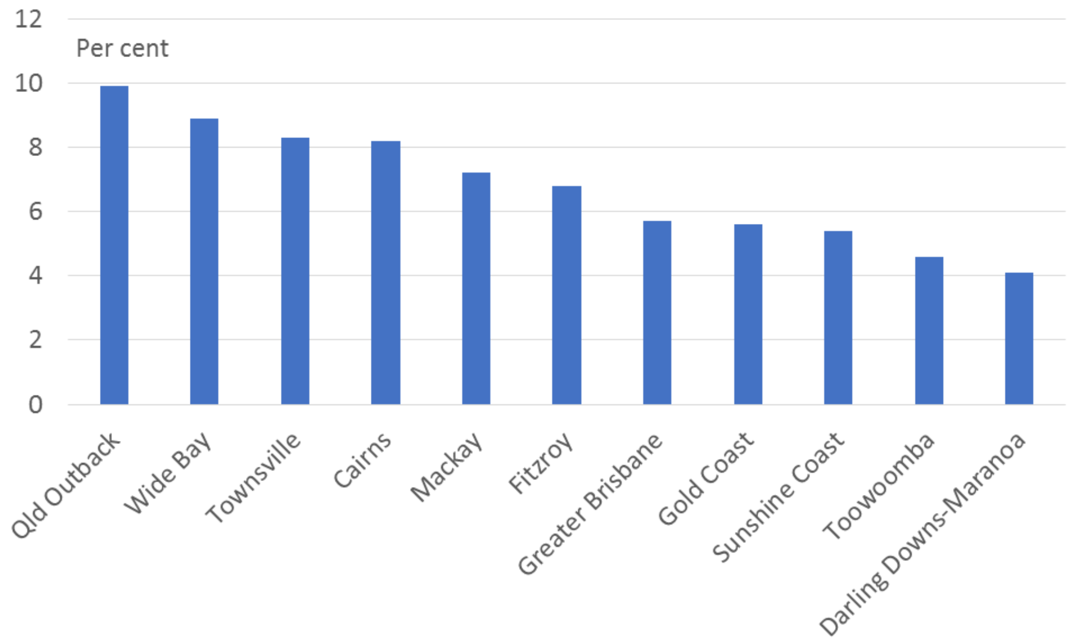
Figure 5. Employment growth, 12 months to March 2016, 12-month moving average estimates, ABS Statistical Local Area 4 regions



Source: ABS, cat. no. 6291.0.55.001.

Consequently unemployment rates are much higher in some regional areas, particularly those acutely affected by the mining downturn and drought (Figure 6).

Figure 6. Unemployment rate, March 2016, 12-month moving average estimates based on ABS data



Source: ABS, cat. no. 6291.0.55.001.

The wide variation in economic conditions across regions makes it difficult to read the overall state of the Queensland economy as a whole. While many regions struggle, some tourism-dependent regions, such as Cairns and the Gold Coast, are doing better than a few years ago when the Australian dollar was higher in value. Also, SEQ's economy appears solid, as already noted. Tourism, particularly in Cairns and on the Gold Coast, and residential property across SEQ are helping to support the Queensland economy. In latest *Global & Australian Forecasts*, NAB Group Economics notes:

> *"…data for Queensland, while mixed suggests strength in tourism and property-related sectors is offsetting weakness in regions affected by the mining investment downturn."*[2]

Of course, this is little consolation for workers and business owners in struggling regions.

Leading indicators do not give much cause for optimism

Leading indicators relevant to the economic outlook over the next twelve months for Queensland are ambiguous. The highly regarded NAB Business Index shows Queensland has the highest level of confidence among States and Territories. However, other indices show much less confident businesses. For example, the Sensis Small Business Index recorded a fall in small and medium-sized business confidence in March quarter (Figure 7). And the CCIQ Pulse Survey shows a relatively low level of confidence. CCIQ's December quarter Pulse Survey notes:

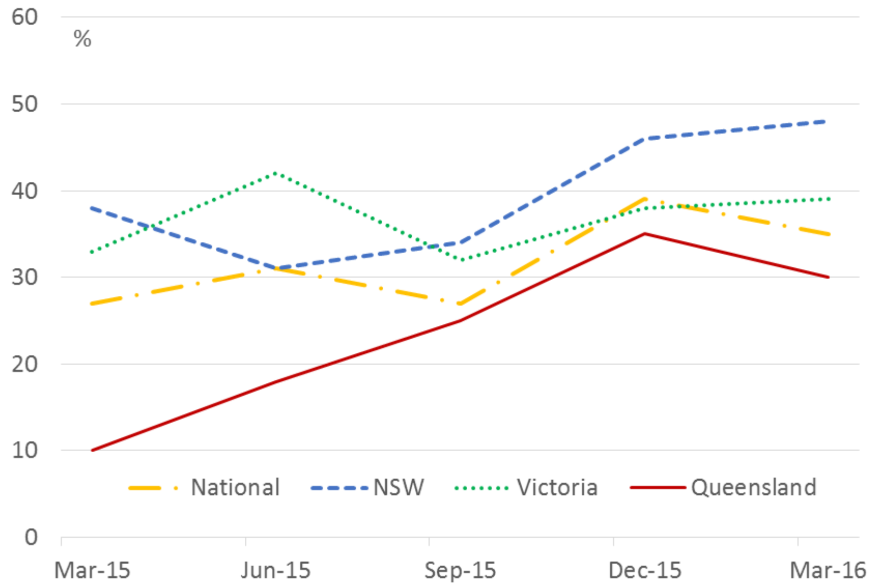
> *"For every business citing a strengthening outlook for the Queensland economy there are two*

[2] NAB Group Economics, 2016, *Global & Australian Forecasts*, April 2016.

citing a negative outlook."[3]

Overall, the business sentiment indicators are conflicting and do not offer much of a guide.

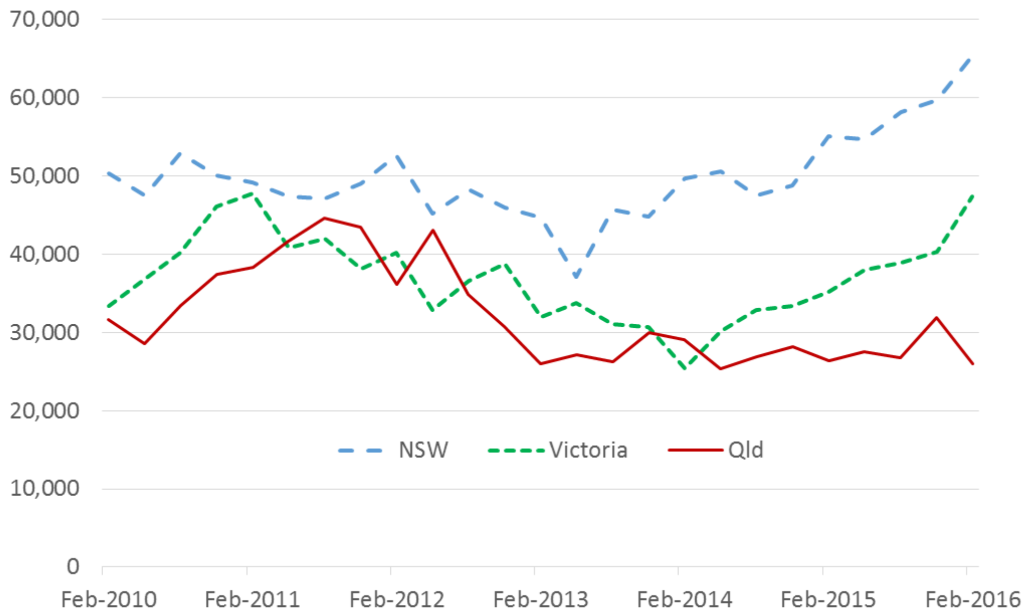
Figure 7. Confidence in own business prospects in next 12 months, net balance, Sensis small business survey estimates



Source: Sensis Small Business Index, March 2016.

Other leading indicators do not suggest a strong economy over the next twelve months. Job vacancies are holding up but have not experience the recovery seen in other States (Figure 8). This suggests Queensland will not see a resurgence of strong jobs growth over the next few months.

Figure 8. Job vacancies, ABS estimates, original data (i.e. not seasonally adjusted)



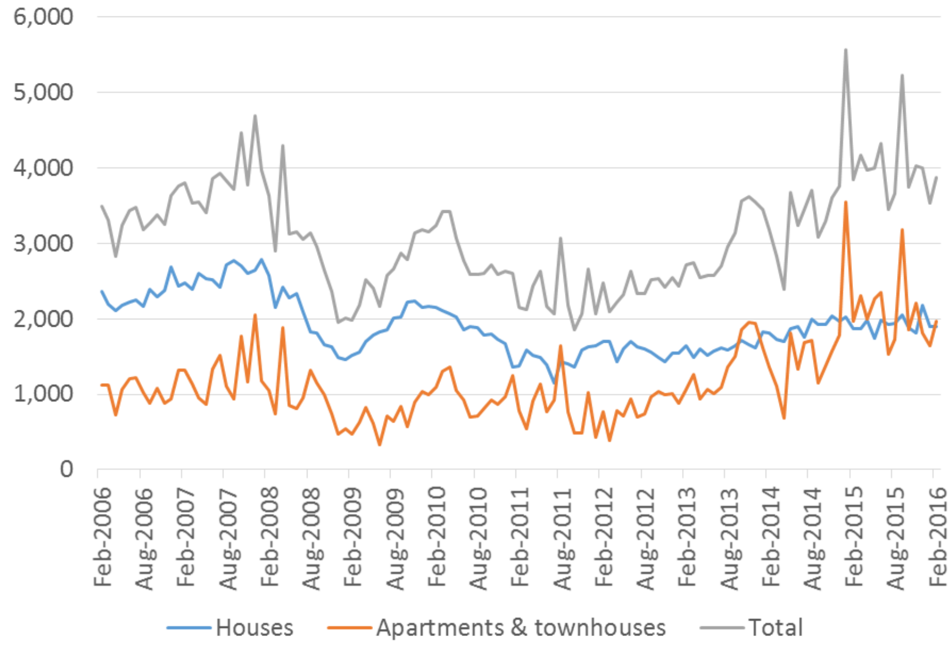
Source: ABS cat. no. 6354.0.

[3] CCIQ, 2016, *Westpac Group CCIQ Pulse Survey of Business Conditions*, December quarter 2015, p. 2.

Residential construction is a bright spot, but oversupply threatens future prospects

One of the real bright spots for the Queensland economy remains residential construction. Building approvals remain at relatively high levels (Figure 9), but there are concerns about oversupply, particularly in apartments in inner-city Brisbane, so there may be a correction impacting future construction sometime in the future. This has been foreseeable for some time. In March 2015, QUT Media reported that, based on analysis by QUT Professor Chris Eves, "Brisbane's inner city apartment market will crash in 2016, due to oversupply driven by belief in inexhaustible international demand."[4] There is already some evidence of falling unit prices, with capital growth of -0.7 percent in Brisbane units in March according to CoreLogic RP Data.[5]

Figure 9. Residential building approvals, Queensland, seasonally adjusted



Source: ABS, cat. no. 8731.0.

Opportunities for future jobs growth are largely in the services sector

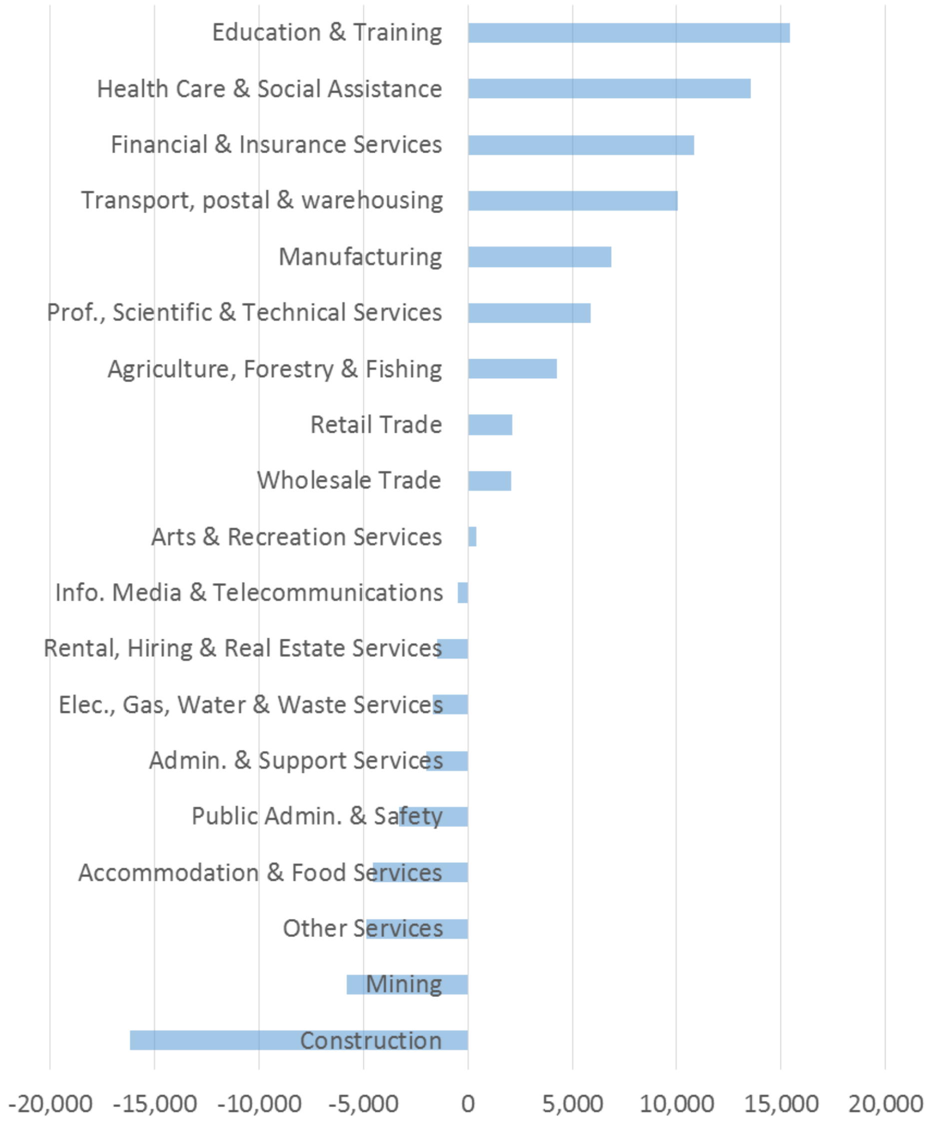
The ageing population and the rollout of the National Disability Insurance Scheme (NDIS) means there is substantial jobs growth occurring and projected in the health, aged and disability care (referred to by the ABS as Health Care & Social Assistance) sectors (Figure 10). At the same time, a growing population, growing longer-term demands for highly skilled and educated workers, and a surging international education industry, mean that the education sector will also be an important source of future jobs growth. The Australia Institute is certainly correct to highlight that a large share of future jobs will come from these sectors and others in the broader services sector.[6]

[4] https://www.qut.edu.au/science-engineering/about/news/news?news-id=85924

[5] CoreLogic, 2016, "CoreLogic RP Data Hedonic Home Value Index, March 2016 Results", *National Media Release*, 1 April 2016.

[6] Swann, T., Ogge, M. and Campbell, R., 2016, *Jobs Growth in Queensland: Trends and Prospects*.

Figure 10. Employment growth by industry, Queensland, four quarters to March 2016



Source: ABS, cat. no. 6291.0.55.003. Note: chart based on four-quarter moving averages.

While mining has recently lost a substantial number of jobs, there is the prospect of some rebound if the planned Adani Carmichael coal mine proceeds. However, it is unclear when exactly construction will begin. Also, even the very optimistic projections of around 10,000 additional jobs is only a fraction of the desirable employment growth in Queensland each year. Consider that through-the-year to March, employment in Queensland grew by around 40,000 employed persons, and in times of stronger economic growth employment would increase even more.

Regarding tourism, the Australian dollar which has declined from its peak of US$1.11 in July 2011 to around US$0.78 now, is acting as an economic shock absorber, with the fall in the dollar from its highs a few years ago boosting tourism (and helping exporters, as their products are now more competitive internationally). In 2015, international visitor numbers to Queensland increased 9 percent to 2.34 million and their spending was up 19 percent to $4.9 billion.[7] That said, the benefit was not seen in the employment data for Queensland over the last twelve months, with employment in accommodation and food services, which is significantly dependent on tourism,

[7] Tourism Research Australia, 2016, *International Visitors in Australia: December 2015 Quarterly Results of the International Visitor Survey*, available at http://www.tra.gov.au/research/latest-ivs-report.html.

experiencing a small decline based on the ABS data, but the volatility of the data in question should always be kept in mind. Over the last two years, employment in accommodation and food services appears to have increased by 28,500 employed persons.

As always, it is difficult to forecast the pace of future jobs growth. Hence it is important for government policies to be as supportive to economic development and jobs growth as possible, taking into account legitimate environmental and community concerns where appropriate, of course. Policy areas that governments should consider with a view to boosting jobs growth are discussed in the next section.

3. Policy areas to focus on for future jobs growth

Business is reasonably clear about the impediments to future jobs growth, but governments have been slow to act. Broadly speaking, government does best for the economy when it gets the economic framework policy settings right—that is, policies relating to tax, industrial relations, education and training, health, among others. There are too many risks associated with interventionist policies from governments to create jobs, as history has shown that government attempts to “pump prime” economies and save regional jobs are typically not cost-effective and can involve intervention at the wrong time, many months after it was actually needed, as infrastructure projects, for instance, typically have a long lead time. But Government is not powerless to promote employment growth, and important employment-enhancing reforms are feasible and desirable in Queensland.

In this section below, a number of policy areas are considered in which reforms could generate significant employment growth for Queensland and help contribute to a more dynamic and prosperous economy.

Retail trading hours

The confusing restrictions on retail trading hours lack any sensible public policy rationale, other than providing protection to politically influential independent grocers such as the IGA network. The disparity of opening hours that already exists across Brisbane is evidence of the absurdity of the restrictions. Compare the Coles at Toowong Village, which closes at 6pm on a Sunday, while the Coles at Merthyr Road, New Farm can remain open until 9pm the same day. Extending trading hours would result in large consumer gains—through greater variety and lower prices at supermarkets compared with independent grocers—and also employment and economic activity gains, as longer trading hours would mean retailers could benefit from increased sales to tourists and visitors.

Recommendation 1: That the State Government fully deregulate retail trading hours across Queensland. At a minimum, it should adopt the National Retail Association’s proposal to harmonise trading hours across South-East Queensland.

Penalty rates

Penalty rates are a major constraint on jobs growth, particularly in the hospitality sector. This is of particular concern in Queensland given that tourism is such a significant contributor to our economy and has a lot of potential for future growth. In November 2014, the Queensland Tourism Industry Council (QTIC) noted:

> *"Industrial relations policies severely hinder the international competitiveness of Queensland's tourism sector, most notably award wages, penalty rates and operating hours which inhibit the flexibility needed by the tourism industry."*[8]

At a minimum, Sunday penalty rates should be aligned to Saturday rates, as recommended by the Productivity Commission. In the coming months, the national Fair Work Commission will make an important ruling on penalty rates, which hopefully will give due consideration to the constraint that too-high penalty rates impose on job creation.

Recommendation 2: That the State Government support the alignment of Saturday and Sunday penalty rates, as recommended by the Productivity Commission.

Tax

Research by the OECD establishes that taxation policies can have significant impacts on economic growth.[9] Broadly speaking, indirect taxes such as the GST are better economically than direct taxes such as income tax and company tax. Hence it is regrettable that the national policy debate has moved on from a consideration of a tax mix switch toward the GST and away from other taxes. Also, OECD research suggests property taxes such as land taxes are highly efficient. Hence, a greater reliance on land tax would be desirable in preference to the highly inefficient stamp duty, which discourages labour mobility, as it raises the cost of moving house to take up a new job in a different region. However, the large reliance by State Government's on stamp duty, and the fact greater reliance on land tax would be extremely unpopular, rules out any changes, even though they are highly desirable.

A more likely candidate for reform is payroll tax, which constrains employment growth to an extent, as it raises the cost of labour to employers, adversely affecting demand. Its effects are pernicious around the threshold below which businesses are exempt from payroll tax, which is $1.1 million in payroll. This is a relatively low level, and peak business groups such as CCIQ are right to call for the threshold to be lifted. In the long-term it would be desirable to eliminate payroll tax entirely, but given it currently raises around $4 billion per year in Queensland, that is not feasible at the moment.

Longer-term goals for Queensland revenue should include greater reliance on the GST, through a higher rate and broader base, and State-based income taxes (substituting for Commonwealth income tax) as per Prime Minister Turnbull's proposal in the days leading up to the 1 April Council of Australian Governments (COAG) Meeting.

Recommendation 3: That the State Government, over the next few years, progressively raise the payroll tax exemption threshold from $1.1 million to, say, $2 million. Furthermore, over the longer-term it should push for a reform of Commonwealth and State federal financial relations, so the State Government can ultimately abolish inefficient taxes such as payroll tax and stamp duty.

[8] Queensland Tourism Industry Council, 2014, *Submission to the Productivity Commissioner on the International Tourism Productivity Commission*, p. 8.
[9] *Johansson, A., Heady, C., Arnold, J. et al., 2008, "Tax and economic growth", Economics Department Working Paper no. 620.*

Planning and approvals processes

Impediments to economic development and job creation include unnecessary planning regulation and complicated approvals processes, including, for example:

- heritage restrictions, such as those that prevent the demolition of pre-War Queenslanders in some neighborhoods; and
- excessive car parking requirements that can make some new developments, particularly for hotels and serviced apartments, which do not need as many car parks as a residential apartment complex, less economic and less viable.[10]

Part of the problem appears to be that the State Government has insufficient power to intervene and ensure that local government planning schemes are not too restrictive and unnecessarily constrain economic development. While Queensland has recently had a review of its State planning regulations, the proposed reforms by the State Government may not have gone far enough. In February, the Urban Development Institute of Australia (UDIA) Queensland, regarding the draft Planning Regulation 2016, listed as a concern:

> *"The bounding of State interest checks, reducing the State Government's ability to intervene where a local government seeks to impose onerous design standards, parking or environmental offsets in a planning scheme policy."*[11]

Also, for SEQ, the UDIA has noted that there is too long a delay in the holding period of land until approvals are achieved, which can be up to three years on a typical sub-division.[12]

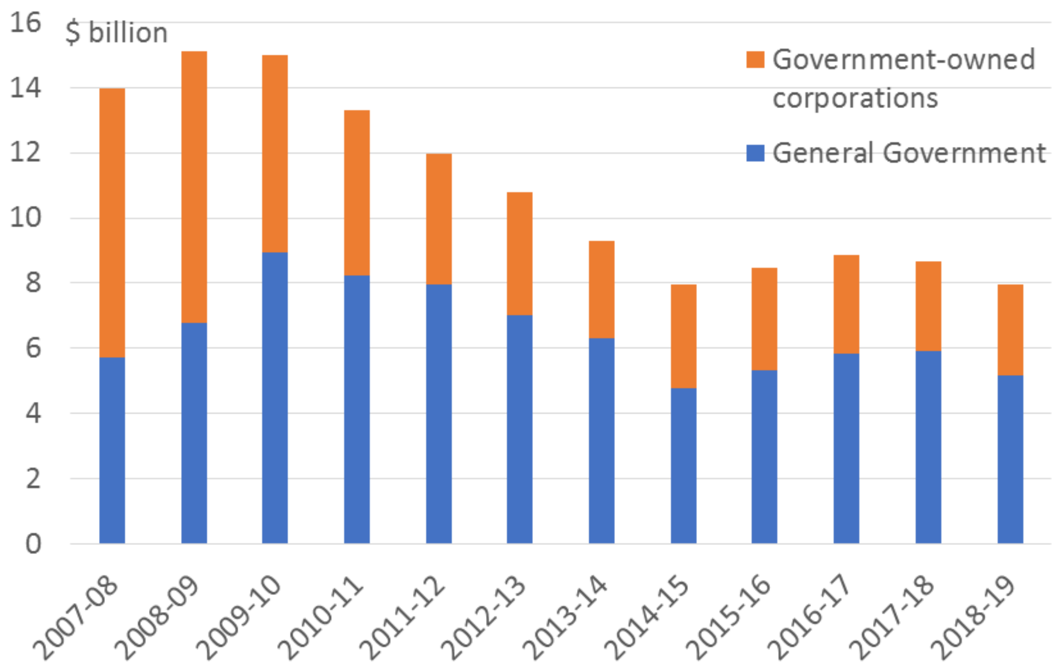
Recommendation 4: That the State Government consider changes to the draft Planning Regulation 2016 to ensure that it has sufficient grounds to intervene and override local planning schemes that are unduly constraining development. Furthermore, it should actively review local planning schemes and propose changes to those that are unnecessarily prohibitive.

Privatisation to pay down debt and invest in infrastructure

The Queensland Government has ambitious plans for new infrastructure, including the $5-10 billion Cross River Rail, but it is severely lacking in available funds to pay for its plans. The Government has tied its hands by ruling out privatisation, via asset sales or asset leases, of government-owned businesses such as Energex and the Port of Gladstone. It has ruled out the *Strong Choices* asset leases the previous Government would have used to fund over $8 billion of new infrastructure. This meant the new Government faced a big challenge in finding alternative ways to fund the new infrastructure expected by the business sector and community. Currently, projected levels in the forward estimates are relatively discouraging to the business sector (Figure 11).

[10] On heritage restrictions, see Brad Rogers's blog post "Old Queenslanders in a new city", available at https://bjreconomics.wordpress.com/2014/03/26/old-queenslanders-in-a-new-city/.
[11] UDIA, 2016, *UDIA (Qld) Submission—Draft Planning Regulation 2016 and related Statutory Instruments and Guidelines*, p. 3.
[12] UDIA, 2015, *The 2015 UDIA State of the Land Report*.

Figure 11. Actual and estimated capital purchases, Queensland public sector (non-financial)



Source: ABS, cat. no. 6291.0.55.003.

Of course, governments need to be careful selling income-generating assets to get proceeds to invest in new infrastructure, which has been labelled asset recycling, as the new infrastructure should earn at least the same return to the community as the asset sold. With congestion ever increasing on our transport networks and other pressing needs, there may well be opportunities for asset recycling, so the Government should definitely consider it.

At the same time, there is a need to repair the Budget, so we can start genuinely paying down debt. A large share of any privatisation proceeds could, and indeed should, be used to pay down State debt, which is still on the path to around $80 billion. We need to pay down tens of billions of dollars of debt if we are to get back our AAA credit rating and achieve the lower ongoing borrowing costs and confidence boost it would bring.

Privatisation would bring a double dividend, as many State-owned assets would be better managed by the private sector. International studies show large efficiency gains through privatisation that can be 10 percent or more.[13] Privatisation of electricity businesses would result in lower growth of electricity network costs, and hence lower growth in power prices, according to analysis by EY.[14]

In summary, from an economic perspective, there is much upside and little downside risk in privatisation. As Mike Baird's recent successful $10 billion privatisation of NSW's Transgrid electricity business has shown, privatisation can bring in many billions of dollars that can help fund essential infrastructure and contribute to debt reduction. Indeed, the previous Government's *Strong Choices* privatisations were estimated to bring in $37 billion. Of course, embracing privatisation would be politically difficult, but then so are all of the genuine choices for repairing the Queensland Budget or boosting long-term economic growth.

---

[13] See, for example, the authoritative study Megginson, W. and Netter, J., 2001, "From state to market: A survey of empirical studies on privatization", *Journal of Economic Literature*, vol. 39, no. 2, pp. 321-389.
[14] EY, 2015, *Network Pricing Trends: A Queensland Perspective*, report prepared for Infrastructure Partnerships Australia, CCIQ, AiGroup and the Property Council of Australia.

Recommendation 5: That the Government consider privatising government-owned businesses, such as Energex, Ergon, Powerlink and Townsville and Gladstone Ports, by either sale or long-term lease to the private sector with a view to paying down debt and funding new infrastructure.

Cut government waste and use savings to pay down debt and invest in infrastructure

In addition to privatisation, it would be desirable to cut unnecessary government spending and use the savings to pay down debt or help fund worthwhile infrastructure investments. We should definitely not increase taxes to do so, as taxes are a disincentive to economic activity.

There is clearly scope to cut spending. As the Queensland Competition Authority identified last year, the Queensland Government spends a lot of money on assistance to industry through grants, subsidies, and tax concessions.[15] For example, the QCA has estimated that, over 2013 to 2018, tourism will receive $312 million and the film industry $57 million in assistance. And farmers and regional businesses and households will benefit from the under-pricing of government utility services such as electricity and water, at a total cost of $1.3 billion. And let us not forget about the need to get our $14 billion of annual health spending under control, as it is currently growing at 4-5 percent annually. These all represent potential sources of savings, albeit politically painful savings.

Recommendation 6. The State Government should use the Queensland Productivity Commission's *Industry Assistance Inquiry Report* as a guide to wasteful government expenditure that could be cut in the interests of paying down debt and funding new infrastructure.

Revive the Premier & Cabinet Department's Economic Action Plan

The need for policy actions that would boost the Queensland economy appears to have been obvious to Queensland Government officials in 2015, given the Department of Premier and Cabinet was in the process of preparing an *Economic Action Plan*, which contained analysis of the economic and job creation merits of existing commitments and proposed policies to boost economic growth and employment, some of which were refreshingly radical.[16] The Plan was leaked in October 2015 and the Government subsequently disavowed it. Nonetheless some of the policy changes it advocated deserve serious consideration. These policy changes included, among others:

- daylight saving;
- removal of restrictions on the supply of taxi licences—i.e. effectively the legalisation of Uber;
- deregulation of restrictions on food vending carts; and
- relaxation of heritage restrictions on economic development.

Despite its rejection by the current Government, the *Economic Action Plan* should have a long shelf life and will serve as a challenge to future State Government officials considering policies that would boost the economy.

[15] QCA, 2015, *Industry Assistance in Queensland*, Inquiry Report.
[16] A copy of the Economic Action Plan is available at this link: https://queenslandeconomywatch.files.wordpress.com/2015/11/economic-action-plan.pdf.

Recommendation 7. That the Queensland Government revive its Department of Premier and Cabinet's 2015 *Economic Action Plan*, put a new draft out to public consultation, and consider adopting many of the deregulatory measures advocated in the plan.

Recommendation 8. The State Government should legalise Uber without delay and fast-track the new regulatory framework it is developing for taxi services.

Regionalisation of Queensland public service jobs

There may be the opportunity to move some back-office public service jobs out of the South-East corner and into the regions. Indeed, it may be possible to move the bulk of a single agency such as WorkCover to a regional city such as Townsville, bringing hundreds of additional jobs to the region and bolstering its economy. That said, any consideration of such a move would need to ensure that such a move did not come at the cost of the efficacy and efficiency of public administration.

Such a regionalisation strategy, were it economic, would certainly be preferable to other strategies to improve regional job opportunities, which typically take the form of structural adjustment packages in response to the shutdown of a major employer or the contraction of a major regional industry. Rescue packages, or structural adjustment packages as they are referred to in policy circles, are typically found to be ineffective. Rather than trying to prop up faltering regional economies, it is usually better to allow the playing out of the natural economic adjustment mechanisms, which could include people migrating out of some regions to find employment in regions with more favourable conditions.

It is widely acknowledged that Australia's record across all levels of government in structural adjustment policy has been poor. Clearly, structural adjustment packages are challenging to design well. Research by the Grattan Institute has found that structural adjustment packages across a range of industries typically:

- *"have a high cost per job;*
- *do not appear to have significantly affected overall long term employment trends in the region; and*
- *did not result in the regions performing any better than other regions that lose a major employer but did not receive any government assistance."*[17]

It appears pointless to devote funds to trying to promote new job opportunities, as ultimately economic fundamentals in the region will determine industrial and employment growth.

Generally, the view from many authorities, including the Productivity Commission, the Grattan Institute and CSIRO, is that government policy should not try to prevent the natural adjustment of regions to economic shocks from occurring, and should indeed facilitate that adjustment occurring, while managing any adverse consequences using other means. Hence so-called exceptional circumstances assistance would be undesirable. Instead, a range of policies designed to expedite adjustment, such as re-establishment grants or loans and assistance to obtain professional business advice, may be desirable.

Clearly, a significant part of regional adjustment is expected to occur through migration flows. A 2001 study by Paul McGuire, then at the Queensland Department of Employment and Training, found that a large part of a Queensland region's adjustment to declining employment opportunities

[17] Daley, J. and Lancy, A., 2011, *Investing in the regions: Making a difference*, Grattan Institute, p. 26.

occurs via migration flows.[18] Governments should accept that this is natural and desirable and not waste money on regional assistance schemes. As John Daley from the Grattan Institute has wisely observed:

> *"...governments should put development funds where people and jobs want to go."*

Hence, governments should be very careful in their efforts to prop up regional economies. Where there are opportunities for de-centralisation that can ease congestion in capital cities and not detract from the efficiency and efficacy of public administration these should be considered, but generally broader intervention is not warranted.

Recommendation 9. The Queensland Government should explore opportunities for the relocation of public servants to regional centres, such as the relocation of WorkCover to Townville, where such a move would not result in inefficiencies of public administration.

[18] McGuire, P., 2001, "Regional unemployment in Queensland: Dimensions and policy issues", *Australian Bulletin of Labour*, vol.27, no.4.

About the author

Gene Tunny is the Principal of Adept Economics and is a former Commonwealth Treasury manager with experience in industry, budget policy and macroeconomic advice and development. He is an accomplished speaker and regular economics commentator for ABC and commercial radio and television current affairs.

Gene graduated from the University of Queensland in 1996 with first class honours in economics, and he was a University Medalist. He is the current Secretary of the Economic Society of Australia (Qld).

Gene can be contacted at gene.tunny@adepteconomics.com.au or on +61 (0)409 727 635.

Gene blogs regularly at www.queenslandeconomywatch.com.