

Building a Resilient Community

Sustaining Rural Communities Conference

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I want to begin by congratulating the organisers of this conference for their commitment to rural sustainability, their persistence in debating the issues it raises, their tenacity in making sure this issue does not go away.

Its fitting that it is held in Narrabri, which is at it happens the location of a number of programs to address rural sustainability, including Agrifood Skills and the Narrabri Model for Workforce Development.

A town like Narrabri – small, pleasant, located in a rich agricultural region - is in many ways the exemplar of the struggle to sustain small communities well away from the coastal regions.

Like other rural communities it has the great advantage of a custom of regional organisations sharing common purposes, able to work together for common objectives, and with a formidable capacity to reach out to governments to get something happening

I was delighted to see in the most recent population number that Narrabri is at least holding its own – with a small population increase over the last four years.

Even so I expect it is still the case that more young people are leaving than arriving, and that the population is ageing a little faster than the Australian population as a whole.

I'm an economist by trade and my contribution will be to offer an economic context in which to think about issues of rural sustainability.

A sustainable town, a resilient town, must have a sustainable economic base, a resilient economic base. Without that, everything else is futile.

I should say right up front that you have every reason to be optimistic and hopeful about the future of the rural economy.

Let's assemble a picture of the world over the next five or ten years, and begin with that we expect of the global economy.

Sydney and Melbourne to an extent can focus on themselves.

But Rural Australia is focused on the world economy, because rural communities are far more dependent on exports to the rest of the world than the big cities are.

So, what do we see over the next five to ten years

In all probability in ten years time China's economy will be at least half as big again as it is today, and quite likely at least the size of the US economy

Living standards, per capita real incomes in China, will have risen by a half

Consumption of food and fibres may well rise by around 40% to 50%, because China's incomes and living standards have not yet risen so far that food drops sharply as a share of total consumer spending

The recent National Food plan estimates that world food consumption will by 2050 be 75% higher than it was in 2007, and half the growth will be in China.

Chinese people will be eating more meat, and using more grain to grow meat.

In India we expect a similar story, though from well behind where China is today

The whole region of which Australia is a part will be growing much faster than Europe, faster than the US.

So I expect the world economy over the next decade will be kind to rural Australia.

Furthermore, the Australian economy itself will I think continue to outperform. The domestic market will remain firm.

We are now well into the 22nd year of uninterrupted expansion in the Australian economy – the longest upswing we have ever experienced

Over that time Australia's GDP has increase by over half, real per capita incomes and labour productivity have both increased by around 40%, and the wealth of Australian households has increased fourfold.

Over long expansion years farm output has doubled, keeping pace with the rest of the Australian economy. Rural commodity prices have also doubled over the period.

The best news is that because of increases in productivity and control over input costs, farm incomes have risen much faster than the total of output and price increases.

Last year farm income was 7 times higher than it was when the long expansion began in 1991.

There are a lot of gloomy predictions around now, as there usually are, but I think the upswing has a while to run.

It's true we are now making a difficult transition as mining investment tops out, as it well may this year, but I'm fairly confident we will continue to expand at a moderate pace.

With quite low interest rates and a substantial backlog in new dwelling construction compared to population growth, we are beginning to see a bit more activity in residential construction.

We have seen some signs that non-mining investment is strengthening. Non mining business investment is twice as big as mining investment.

Mining investment is topping out at high level and will stay high for a while. Meanwhile we will be seeing a quite significant increase in iron ore output, and later in gas output.

Household consumption has been growing at around the same rate as the economy as a whole.

We have been battling the headwind of a very high Australian dollar, and I have been very glad to see that in recent weeks it has come back by a bit more than the average rise of the US dollar against other currencies in the period. As the US economy picks up and the US Federal Reserve eventually moves to raise interest rates, we may well see quite a bit more appreciation in the US dollar.

Some of the underlying trends are also encouraging.

Productivity or output per hour worked has increased quite quickly over the last year or so, after a decade of very modest increases.

At the same time wages growth has slowed a little. In combination these two trends mean that the growth of labour cost per unit of output has fallen quite sharply. [March quarter national accounts]

The farm sector has done well over the last two decades, and it continues to do well today.

Droughts, floods and fires have played havoc with the numbers, but over the last few years farm output has expanded, farm productivity has increased strongly,

and at the same time some of the labour constraints that were a big issue a few years ago are no longer so tight.

The state of the rural economy is surprisingly good – I say surprising because you hardly ever hear the good news about rural Australia

Last financial year farm output in both current dollars and in volume was the highest ever recorded in Australia.

At 2% of GDP farm output is the same share of the economy as it was 20 years ago, which of course means it has grown at the same robust rate as the economy as a whole. By contrast manufacturing output has fallen sharply as a share of GDP over the period, from 11% to 7%.

That is output. Despite the high dollar, rural income isn't bad either. In December quarter of last year farmers earned the second highest agricultural income ever recorded. It was one tenth higher than it had been five years earlier.

The good news has continued. In the March quarter just past wheat, beef and barely exports were near record highs. Agricultural exports in total in the March quarter look to be the highest ever recorded – and this is again despite the high Australian dollar, which of course reduces the Australian dollar value of exports.

Plus, farmers have been investing. Over the last decade the volume of net capital stock in farming has increased by just short of one third – a lower rate of increase than mining, but more rapid than most other industries.

That rapid rate of investment over the last decade will support higher output and higher labour productivity over the next decade.

We hear a lot of lamentation about farm sector productivity, but in fact labour productivity in farming increased by one quarter in the two years to 2011/12.

Total factor productivity was also up handsomely.

So the global economy looks good for the rural sector over the coming decade, the Australian economy looks good, and the rural sector has been doing well, despite the doom and gloom.

The recently released National Food Plan sets ambitious goals of 45% increase in the volume of food exports and a 30% increase in productivity by 2025. That is let us say a 13 year period. It is ambitious but by no means impossible. In the last thirteen years Australia's agricultural exports have increased in volume by 35%. Labour productivity in agriculture has increased by an astonishing 82%.

So all up the future for the farm sector is very bright, and one of the important reasons is that Australians farmers are increasingly efficient.

But there of course in that success lies part of the problem you confront. Farming is so efficient that it employs fewer and fewer people. Over the two decades during which farm output has doubled, the farm workforce has contracted. Last year the farm workforce was down to 315,000 – close to the smallest in recent decades, despite the fact that rural output was the highest ever.

A quarter of a century ago, with far less output, the farm sector employed over 400,000 workers, which was a markedly higher proportion of the total workforce.

So here we have the paradox that you are grappling with in Narrabri and in many rural towns cross Australia.

The farm sector is doing really well, but it is actually losing jobs rather than creating them.

Indeed, that is one of the reasons it is doing so well.

The population challenge to rural towns is not the failure of the rural economy, but its success

So here is conclusion number one for the resilience of rural communities. You cannot expect a boom in farm production to underpin sustainable communities, because in fact you already have a boom. There will be ups and downs but on average it is unlikely to expand much more strongly over the next twenty years than the last twenty years.

To the extent that rural sustainability and resilience are linked with some sort of critical mass of town population, you absolutely must look beyond farm sector employment.

You have absolutely no choice.

Fortunately, regional Australia is not just about farm industries and not just about the services farm industries require, important as they are.

It's about tourism

It is about retirement communities, which have transformed the north coast of NSW

It's about cheap housing costs versus the high housing costs in the big cities

It is about education and health services.

It is about mining – now 10% of economic output, likely to grow a little, almost all regional and rural

It's likely to be about the NBN as more services can be produced and delivered remotely.

Here we are talking about the obvious: tourism, retirement, cheap living, education services, health services, etc.

But we are also talking about the transformative possibilities of NBN. Here for the first time residents in rural and regional communities will be able to see the same movies at the same time as they are seen in New York, Sydney and London, listen to the same music, read the same media and news sources at the same time, and instantly access the unlimited world of internet information. In respect of many activities, there will be no difference between living in Narrabri and living in Manhattan. Banking and finance transactions for great businesses as well as for single households, will all be easier, cheaper and quicker. Over time education institutions like universities and TAFES will adapt to the internet, making some though by no means all learning experiences more readily available in regional and rural areas.

This is important for existing residents, but it is also important for prospective new residents. One of the biggest economic disadvantages rural communities, access to wide and complete and contemporary information, will be equalised.

Most will have them already, but it seems to me the first priority for every council and shire is to have a plausible plan for diversifying the local economy beyond farming and beyond services to farming.

On the broader issues of resilience my thinking has been much influenced by the terrific 2008 literature review by 6 UNE academics – McIntosh, Stayner, Carrington, Rolley, Scott and Sorenson.

What it comes down to is that we can best think of resilience in terms of optimising four important finds of investment or capital

Human capital, which is education, skills and our work experience. This is where Agrifood Skills Australia is making a contribution with the Narrabri initiative. What are the skills that will be required – particularly in a more diverse regional economy - do we have them already, how to get them. This goes all the way from how to operate plant and drive a truck, to how to manage businesses, and how to exploit fast, high volume internet access.

Then there is social capital – in many respects rural towns do well here. The communities are closely knit, and have a capacity to work together. They put high value on community

Productive physical capital, of course – and this includes roads, business plant, the lot

And finally and sometimes importantly for rural communities, natural capital – parks, forests rivers, and also the sustainability of the natural environment.

As a member of the board of the Australian Workplace and Productivity Agency I now chair a reference group looking at what needs to be done to develop the food and beverage workforce to meet the demands of the next couple of decades.

We've only just begun and it's much too early to come to any conclusions but there are some interesting themes.

One is that right now there do not seem to be critical shortages in either food production or food processing workforces. The challenge is not so much today, as over the next few decades as the skill requirements increase, as we expand exports of both food commodities and processed food, and also as the present workforce ages and retires.

It is already apparent that a lot of thought needs to go into providing appropriate high level training. For example, in many cases abattoirs are being automated or semi automated, reducing the requirement for skilled manual workers such as boners and slicers. But if there are robots on the job we need more engineers, more software specialists.

The area we are looking at include the increasing need for professional farm management, the reasons enrolments in the agricultural science and veterinary courses are markedly lower than the work opportunities suggest, problems of retention of workers in meat processing, etc.

Many of you will have strong views on these issues, and I encourage you to contribute. The Issues Paper is now on the AWPA website, together with advice on how to make a submission or contact us.

To the extent the planning deals with farm sector jobs it needs to recognise that farming jobs will require an increasing level of skills. That's true of agricultural science workers such as vets and agronomists of plant farm managers, plant operators, even of seasonal labour. So as ever education and training is the key. I'm happy to say that is how the Agrifood Skills Council sees it, and it is right.

But farm employment, however highly skilled, however clever, will not sustain Australia's rural towns. Planning needs to take into account that the future may be bright if bright for farm incomes but not for farm employment.

The only way to sustain rural and regional communities is through increased economic diversity.

That implies a willingness to accept change. Nothing could be more retrograde in my view than for rural organisations to fight foreign investment in farms and food processing. Foreign investment helps to connect us up to the global economy, it is a pathway for innovation, it increases diversity.

I would also suggest that the push by farm lobbies to increase guest worker programs, to extend them to include domestic workers and to include a wider

range of field workers, will not do a thing for rural resilience and sustainability. It risks creating a rural workforce which is by definition temporary, by definition unable to form families and have children, by definition temporary and part. Pressed far enough it will produce a political conflict which the farmer organisations will certainly lose.

A final thought is that to achieve economic diversity, to take full advantage of access through the internet to the rest of world, I think we will see that the major remaining issues in resilience are essentially about lifestyle.

An important and sometimes neglected aspect of resilience is that amenity of the community

The problem is not young people moving to the city – they should be seeking new work and learning opportunities, new social worlds.

The problem is attracting new people into the community to make up for the outward migration

Part of the planning for resilience and sustainability should ask whether shire codes permit good quality trailer parks and other forms of cheap temporary accommodation.

If there is insufficient accommodation of this kind, can local government encourage more of it?

Do council rules permit new residents to buy a few hectares of rural land and put a house on it? Do the rules permit them to put several houses, under a single title? In other words, are part time or full time residents from the city who want a rural life style as opposed to a town life style encouraged or discouraged by zoning laws?

Do the rules encourage people to set up new restaurants and coffee shops and wine bars? Is there a farmers market for fresh produce? Is there a good quality swimming pool and good quality library?

Is the town welcoming to refugees, recent arrivals in Australia?

Has local government done all it could to promote tourism, including accommodation, restaurants, craft centres and lobbying for better facilities in national parks and state forests?

So, to sum up I think in rural communities you have the great advantage of a history, a tradition of working together for a common objective.

Planning for resilience should I think take into account a view that the future for the farming economy is pretty good. It is good now. It will be better in a decade. The global economy, the Asian regional economy, will be helpful.

But planning also needs to recognise that the better farming gets, the fewer people will be employed in it, and the greater the need for rural towns to diversify away into other sources of income and employment.