



What's Right with Enterprise Zones and the Economy Servant or Master?: Response to Paul Collits' article

Graham Apthorpe, Economic Development Manager

Graham Apthorpe MBA is the Economic Development Manager at Cowra Shire Council. He leads the Enterprise Zone Working Group for the NSW Local Government and Shires Association and is the Australian Local Government Association's representative for the current Commonwealth Government inquiry into regional business impediments. He has visited a number of Enterprise Zones in the USA and continues to research the applicability of the concept for Australia. Here he provides a personal perspective into the issues raised by Paul Collits' article 'What's Wrong With Enterprise Zones' from *Sustaining Regions* Volume 2, Number 1.

Paul Collits' article certainly contributes to the debate on Enterprise Zones but I challenge his assertion that the case for them 'ultimately fails'. Not only have overseas Enterprise Zones been a successful mechanism for twenty years both at community and political levels but they are popular in terms of regional and rural inclusiveness, providing an opportunity for distressed areas to share in the overall benefits of economic success. Interest in Enterprise Zones for Australia arises from a concern that existing policy is not helping us to move towards similar inclusiveness and achieve the economic and social indicators we desire.

My first experience of economic development work was in Narrabri in North Western NSW around twenty years ago. The local Flour Mill was closing and taking with it a dozen or so jobs. I joined a team of earnest locals attempting to influence the

company to reverse the decision and we sought advice from some old hands who had been involved in decentralisation issues in the 1960s and 70s. With wisdom and experience one respected elder of the town took us aside and counselled us, advising that we were unlikely to succeed, (he was right) and that we would be travelling down a very long, hard and difficult road. For anyone involved in economic development issues in country Australia, his words were and remain prophetic. Some years later the Chairman of our Regional Development Board said on his retirement that he had hoped to be responsible for creating just one real job, but sadly in spite of his and the board's best endeavours, he had no confidence he had been able to achieve that goal. Why is it, that so many in regional and rural Australia perceive the economic development job to be so difficult and if that is a reality, can it be changed? My belief is that economic development is difficult in regional Australia, because our needs as communities run counter to the economic forces in Australia at present and in attempting to combat those forces, we have few effective tools.

Regional and Rural economic development is mainly concerned with jobs and population growth. Australia's economic structure delivers fewer commercial opportunities for regional areas than city areas because our rural and town economies lack depth. Certainly there are some successes in regional Australia where market forces have delivered some strong results, however many communities are only just surviving. The job of the

economic developer is to attempt to alter the economic result within their area of responsibility, to change the natural forces of decline and to stimulate private sector job growth.

Many would paint the Government's approach to economic issues particularly those concerning regional and rural areas as laissez-faire and driven by market forces but clearly this is not the case. Governments apply certain values to their decision making and these are apparent in economic policy. Governments want sick people to get better and so they subsidise pharmaceuticals, they desire balanced media coverage and regulate media outlets. They see market benefits in regulating the numbers of taxis. Public safety and regulatory issues are best served by the independence of government. Safety nets are provided through a strong welfare system. The principal of Horizontal Fiscal Equalisation is well entrenched in Australia to ensure the equitable delivery of government services across the land. Governments make these decisions because the market will not always deliver the results society wants.

Regulatory positions and the demands of society result in government having the ability to significantly affect 'the market' but there has been a reluctance for Federal governments over a number of administrations to extend a general philosophy of intervention into the development of regional economic development policy.

It is in such a climate that local government has explored the potential of new economic development tools to change this situation. While recognising a variety of skill levels and commitment by individual councils, local government has increasingly faced the burden of job retention and population loss. In spite of some very solid relationships and some very user friendly policies from State Governments they have often lacked the power to change the overwhelming forces of centralisation and movement of business to metropolitan areas. The lack of any substantive and transparent economic development tools at Federal level which target individual businesses to encourage their expansion and to stimulate job growth (in comparison with similar regions overseas) has required many individual and ad hoc local government efforts across the nation. This is simply a waste of resources when an overlaying

mechanism such as enterprise zones could be in place to greatly assist local efforts. It is a major concern to local government that Australia's value-centred approach in many areas of public and commercial life does not extend to regional Australia.

So Why Enterprise Zones?

Local Governments' interest in enterprise zones extends beyond the 'shiny new toy' syndrome. It has been a deliberate process. The concept was initiated by the Central West Regional Organisation of Councils (NSW) and then continued by a partnership between the Local Government and Shires Association of NSW and the Institute of Chartered Accountants in Australia. It has been canvassed at a number of State and National local government and accounting conferences, and included in the Australian Local Government Association's submission for the Federal Budget. Interest in this mechanism resulted from the belief that the current economic structure is unlikely to deliver the results needed in country Australia and allow these areas to capitalise on its resource base. Few believed that this could be achieved by just a positive attitude, by hype, talking the areas up, promotions, glossy brochures and promotional CDs and web sites. It was more likely to be achieved by making regional areas an attractive investment proposition with some levelling of the playing field, recognising that the market generally delivers lower profitability from regional areas. The private sector must be convinced that it can make a profit in a regional area, equal to a city location.

Value-centred economics can change that situation and can install a regime which recognises the differences between city and country and put in place a range of incentives (many tax based) which reduce risk and reward success. By foregoing tax, and transferring part of those payments already made to employment agencies and welfare recipients, to businesses when they create jobs, we could substantially increase jobs, reduce the welfare bill and increase taxation revenues via GST, PAYG and Company taxation. It is a very low risk policy option for government as no jobs means no incentives and there is no massive injection of funds required.

Paul Collits identifies that development is typically lumpy and inequalities are accepted as normal. This may be an acceptable notion between economists but the argument is difficult to sustain in a country hall when addressing real people who may have lost their jobs. The choice for governments in the many situations found in regional areas lies somewhere between the extremes of evacuation and abandonment or massive subsidies to keep them alive! New ways of stimulating economies which have potential to expand should be found. The States have some excellent programs for regional development but still have payroll tax. The Federal Government does not have similar regional policies equivalent to those (non-subsidy) policies found in the USA, Ireland, UK and Europe.

Many working in economic development contend that Australia needs to expand its options for regional areas not limit them and the present situation of each local government authority and regional group trying to find its own solutions is wasteful. The USA's rural areas face similar difficulties to those in regional Australia but they have the tools to stimulate private sector job growth at local level. In the USA, action can be taken by rural communities in the knowledge that they have something substantial to offer the private sector on a reward for success basis. In its simplest form a business in an Enterprise Zone funds itself. It assumes the risk of expansion, of new investment and of job creation on the basis that the business will be expanding. It does so on the basis that if it achieves what it sets out to do it will be rewarded by paying less tax on the growth component than it would if it was not in a zone. The tax credits are used to offset tax liability as and when needed and cannot be 'cashed in'. To claim then that Enterprise Zones require massive government expenditure is incorrect. The issue of upgrading infrastructure in rural areas is another matter complementary to the regional economic development debate but independent of the way in which Enterprise Zone mechanisms work.

Local Government does not believe Governments should do it all but neither does it believe that the market will deliver equity to rural areas...in fact it is unlikely to ever do so. We need an integrated approach with the three levels of government and communities working within a system which is

transparent, simple and substantial. For too long economic development has been a conversation within public and academic circles about trying to place order over the private sector. As public authorities our best results for private sector job growth will come from creating a climate which reduces risk but encourages risk taking.

Paul Collits raises concern in respect of Constitutional issues. Advice by Special Counsel obtained for the Local Government and Shires Association of NSW/ICAA report sees no impediment to Enterprise Zones being created in Australia and that the High Court would be unlikely to recognise a challenge to them. Informal advice by the Federal Attorney General has confirmed this understanding.

Enterprise Zones, Empowerment Zones, Renaissance Zones, Business Migration Zones are various names for a range of interventionist programs designed to recognise disadvantage and attempt to correct it by assisting those areas to participate in the economy as a whole. Both the USA Embassy in Canberra and other agencies in the USA have over a number of years, assisted local government's interest in Enterprise Zones. The European Union Embassy also has been generous with its time and resources. We have been advised that severe economic differences can lead to embitterment in the USA's rural areas and Enterprise Zones have that fact as a consideration. Likewise the EU bears in mind that regional disparity does not bode well for Europe as a whole. Most western democracies have mechanisms similar to Enterprise Zones; Canada, Australia and New Zealand being the exceptions.

Numerous studies have been undertaken over the years to investigate the success of Enterprise Zones. In 1995 UK's Enterprise Zones program was reviewed (PA Cambridge Economic Consultants 1995) and among other matters, it was found that 58,000 jobs had resulted directly from the zones with considerable additional economic activity having been generated. Standard and Poor's (1997) reported that the creation of empowerment zones in the USA, along with other economic development tools, can assist areas to move towards their economic goals. The Californian Trade and Commerce Agency (Hatamiya 1999) reports that its program is a success and since the designation of the first Enterprise Zones and Economic Incentive

Areas over 12 years ago, they have contributed to the creation of over 88,000 jobs. A study of Colorado's experience (Alm and Hart 1998) shows that Enterprise Zone programs have had a positive and significant impact on both employment growth in target areas and the level of per capita income. A study undertaken by the USA Department of Agriculture (Reeder 1993), while recognising that some areas may not benefit from interventionist methods, nevertheless concludes that Enterprise Zones have been effective at stimulating economic development. Beck (n.d.) points out that State Enterprise Zones have experienced growth and that zones had more businesses operating than prior to designation, taking into account natural growth factors. Dr. Karen Mossberger (2000) notes the emerging consensus over the positive effects of tax incentives via Enterprise Zone programs on business location decisions and Timothy Bartik (1991) concludes that state and local policies can significantly affect the long-run level of business in a local economy.

That Australia has not used the successful methods utilised overseas for a number of decades in most western democracies is a concern. Enterprise Zone type mechanisms are conspicuously absent from Australia's economic development tool box. We have held on to outdated notions of communities 'visioning their futures' and tinkering at the edges and reacting when major regional employers close down. There has been little passion for new directions, little political momentum and little new thinking. Much of what is held up as regional policy consists of a changing regime of grants which pits community against community for limited funds. Where is the integration between Local and State regional economic develop policies and where are the Federal policies? Where is the National plan for Regional Australia? How much more motivated would our regional and rural areas be if they had a Federal Government committed in the same way as the US State of Oregon with its preamble to its Enterprise Zones legislation:

The health safety and welfare of the people of this state are dependent upon the continued encouragement, development, growth and expansion of employment, business, industry and commerce throughout all regions of the state, but especially in those

communities at the centre of or outside of major metropolitan areas for which geography may act as an economic hindrance. There are areas in the state that need particular attention of government to help attract private business investment into those areas and to help resident businesses to reinvest and grow and that many local governments wish to have tax incentives and other assistance available to stimulate sound business investments that support and improve the quality of life.

Oregon State 285B.665 (2001)

With such a philosophical approach appropriate economic tools would necessarily follow!

Enterprise Zones may not be a perfect solution for regional Australia but there is significant interest in them as an effective adjunct to existing regional economic development policy. Communities, which have identified opportunities, will be able to present themselves for designation as an Enterprise Zone and if successful will then have a mechanism available for the private sector to take those regional opportunities forward. It seems a reasonable response by government to provide the Enterprise Zones mechanism as and where it is desired especially if government is genuinely committed to communities being responsible for their own futures.

Historically local government has been hamstrung in its ability to interface with and influence the private sectors' investment decisions. Local government is at the coalface of economic development issues and while Australia does not yet have Enterprise Zones many in regional Australia are working toward that goal. Perhaps Roy Green's observations from 1991 as editor for *Enterprise Zones – new directions in Economic development* are of interest to us now 'From the outset, many promoters of the enterprise zone concept offered that it was but one experimental approach to tackling the seemingly entrenched and complex problems posed by local and economic distress' (Green 1991, p. 2). A decade later Enterprise Zones have moved past the experimental stage to become an entrenched and recognised tool for regional areas. Perhaps by accepting that our problems in regional Australia are also entrenched

and then considering the evidence for Enterprise Zones, Australia might find a valuable tool that will change that fundamental flaw. What we have now, as far as policy, seems certain to perpetuate regional and rural Australia's existing divergence from acceptable social and economic benchmarks.

References

Alm, J. and Hart, J. 1998, *Enterprise Zones and Economic Development in Colorado*, Department of Economics, University of Colorado at Boulder, Colorado.

Bartik, T. 1991, *Who benefits from State and Local Economic Development Policies*, WE Upjohn Institute, Michigan.

Beck, F. D. n.d., *Do State Enterprise Zones work?*, Illinois State University.

Green, R.E. (ed) 1991, *Enterprise Zones – New Directions in Economic Development*, Sage Focus, USA.

Hatamiya, L. 1999, California Trade and Commerce Agency, *California Enterprise Zones 1998 Annual Report*, California.

Mossberger, K. 2000, *The Politics of Ideas and the Spread of Enterprise Zones*, Georgetown University Press, Washington DC.

PA Cambridge Economic Consultants 1995, *Final evaluation of Enterprise Zones*, London.

Reeder, R. J. 1993, *Rural Enterprise Zones in Theory and practice: An Assessment of their Development Potential*, United States Department of Agriculture, Washington D.C.

Standard and Poor's 1997, *Report Card on Empowerment Zones*, Credit Week Municipal.