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REGIONAL AUSTRALIA AND THE 'NEW ECONOMY'

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As politicians and community leaders have become more aware of the importance of employment in the 'new economy' they have sought to ensure that more of this employment is located in regional Australia. However analysis of employment trends in NSW and Victoria since 1996 show that the proportion of 'new economy' jobs in Sydney and Melbourne vis-a-vis the proportion of these jobs in the rest of their respective states has increased. The paper provides a preliminary discussion of why this is the case and concludes that much more will have to be done if regional centres are to become thriving participants in 'new economy' industries.

Where are high level service jobs, particularly in the business and financial services area being located? This paper attempts to answer the question by examining the extent to which regional Australia (particularly the major regional centres), is sharing in employment growth in this industry sector. The focus is on New South Wales and Victoria. The context of the inquiry is the current rural and regional crisis and the efforts of the Federal and State governments to 'do something', in this case to assist regional centres to play a greater role in the 'new economy'.

Studies of the intercensal period 1991 to 1996 have shown that the non-metropolitan areas of NSW and Victoria lagged behind their respective capital cities in rates of job growth and population growth.¹ Though both the metropolitan and regional economies improved during the second half of the

decade the regional areas have continued to lag behind. Over the period May 1996 to May 2000 estimates derived from the Labour Force Survey carried out by the Australian Bureau of Statistics (ABS) indicate that employment in Melbourne grew by 7.8 per cent compared with 4.3 per cent in the rest of the state. In Sydney over this four year period employment grew by 10.4 per cent compared with 6.8 per cent for the rest of NSW. One of the questions considered is the extent to which this slower employment growth is a consequence of limited involvement on the part of the regional economies in the 'new economy'.

The term 'new economy' is understood to correspond closely with the business services and services to finance and insurance industries as currently defined by the ABS. Business services include computing services, scientific research, marketing, legal, consulting and

other business services. Services to finance and insurance include investment and financial advice and parallel insurance advice and underwriting. These areas are at the heart of what has come to be known as the 'new economy' (or 'producer services'). The restructuring of contemporary advanced economies is leading to rapid growth in employment in these services. In part this is related to the globalisation of corporate activities. As manufacturers and other producers of goods and services look to international markets for their output, there is a parallel growth in coordination and planning activities and thus increased need for relevant specialist services. The knowledge involved in these services is an increasingly important factor of production in the modern economy.²

Further impetus to growth in the business services sector flows from the realisation that market performance of firms across the full spectrum of industries in both the private and, increasingly, the government sector is dependent on high quality input from specialist service providers. In addition, parts of the business services sector can be regarded as producers in their own right, as with software products within the IT industry.

The statistics on employment in business and finance and insurance services collected by the ABS give a good indication of employment growth in the 'new economy'. Nevertheless some caveats need to be kept in mind. It is difficult to provide trend data prior to 1994 because the ABS introduced new industry definitions at that time. Also the employment data for business services tend to exaggerate growth because of the increased tendency for government and private entities to contract out business services performed in house (and thus

previously classified according to the original industry location). Finally, some low skilled services, particularly cleaning services, are included within the business services sector. Telephone answering or call centre services are also included.

A distinctive feature of the business, finance and insurance service sectors is the high levels of expertise required and thus the capacity of these industries to provide employment opportunities for well paid professionals, particularly accountants and marketing, management and IT specialists. Thus, from the point of view of any region, it matters a great deal where growth in the business services sector is located. The locations that are favoured will feel themselves to be at the leading edge of the economy and amongst the richest regions because of the relatively high salary levels of those employed in the sector.

International research suggests that non-metropolitan areas are making some gains in overall employment growth relative to big cities. Research in the US³ and in the UK⁴ and an OECD report on Germany⁵ all show that non metropolitan areas in these countries are attracting rapid employment growth. In a number of cases that growth has occurred in places that are on the outer fringes of the bigger cities, although Beyers⁶ stresses that more isolated small places can be part of this new trend. Recent research on the finance sector by Immergluck⁷ has shown that the substantial corporate and organisational change in that sector, along with big shifts to electronic trading, have benefited non-metropolitan locations in a number of cases. Recent positive employment change in finance jobs in rural England confirms that observation.⁸

Perhaps regional centres in Australia may be benefiting from similar trends. In

relation to employment in the 'new economy' there has been much discussion of the possibility that, with better access to telecommunications, regional centres may be able to compete with the metropolises in providing high level services. Partly towards this end, substantial government funds have been allocated to improving the telecommunications infrastructure in the regions under the 'Networking the Nation' and related programs. Further such investment is high on the agenda of those anxious about the state of the regional economy.⁹ The presumption is that regional centres can compete in the new economy if provided with the appropriate IT infrastructure.

INDUSTRY PATTERNS IN REGIONAL CENTRES: THE BACKGROUND

If Australia's regional centres do take on a significant role in the 'new economy' it will mean a break with the past. The major recent works on Australia's regional centres have emphasised their role as providers of administrative, retail and government services (notably education and health). Beer et al.'s study of regional centres with populations above 10,000, which was based on 1991 and earlier census data, it shows that regional centres have not been prominent as providers of business or financial services. In 1991, 8.7 per cent of the workforce of these cities were employed in finance, insurance, real estate and business services (as defined prior to 1994) compared with 12 per cent of the national workforce.¹⁰

More recent work, by Baum, Stimson et al., this time based on the 1996 Census, reveals a similar pattern. They identify a major group of regional centres whose well-being depends largely on their role in providing employment in service ind-

ustries, notably in public administration, defence, community services and education (but again, not business or financial services). The regional centres in question include most of those that the politicians and planners have in mind when they think of the prospects of encouraging employment in the 'new economy'. In NSW they include Bathurst, Orange, Armidale, Dubbo and Wagga Wagga, and in Victoria, Ballarat, Bendigo, Shepparton Wodonga and Warrnambool.¹¹ These towns are all at the larger end of the regional centre spectrum. As noted below, they are thought to be the best candidates for progress in the 'new economy' because of the tendency for population and employment to move to these centres from the surrounding smaller towns and rural hinterland.

It will take time (and sophisticated data) to establish if regional centres are benefiting from the 'new economy'. The present paper provides some preliminary data on progress to date. It reports on the pattern of metropolitan and non-metropolitan employment change in the years since the 1996 census. It also works towards a methodology that could be used to monitor intercensal trends more sensitively than has been possible with previously existing methods.

Data sources

The paper uses two separate sources to establish local level employment change. The first is unpublished ABS Labour Force Survey results. Employment estimates for state capital and rest of state areas by industry to the industry subdivision level can be derived from the Labour Force Survey. The data purchased for this report cover the period May 1996 to May 2000. They provide the most recent trend information on employment growth by location and industry at sub-

division level. However the data have to be used carefully because the sample on which they are based makes fine-grained employment estimates by industry in small areas statistically unreliable.

For more detailed local analysis of employment patterns we utilise a second data set, which is cross sectional information on industry by location drawn from the 1998 ABS Business Register. This provides data based on actual counts of businesses by employment ranges. The data are available to industry sub-division down to the Statistical Local Level (SLA) level. Employment counts have to be estimated since information by industry to this level is grouped by the various

employment ranges.¹² Also information is only collected where there is at least one employee (other than the principal). Thus the numbers are lower than those estimated in the Labour Force Survey since, in that survey, all persons employed within the relevant industry are counted. Nevertheless, despite these caveats, comparison of the Business Register employment estimates by industry with 1996 Census data and the Labour Force estimates indicate that the overall results presented in this paper are reliable. Though the counts for people employed by industry in the Business Register are lower than the Labour Force estimates we believe they give a good

Table 1: Employed persons by Industry, Australia, May 1996 and May 2000

| Industry | May 1996 000's | May 2000 000's | Increase 1996-2000 000's | Per cent change |
|-----------------------------------|-------------------|-------------------|--------------------------------|--------------------|
| Agriculture | 419.9 | 438.3 | 18.4 | 4.4 |
| Mining | 87.1 | 75.8 | -11.3 | -12.9 |
| Manufacturing | 1103.7 | 1174.4 | 70.7 | +6.4 |
| Utilities | 73.7 | 67.6 | -6.1 | -8.3 |
| Construction | 596.0 | 707.6 | 111.6 | 18.7 |
| Wholesale Trading | 501.8 | 437.4 | -64.4 | -12.8 |
| Retail Trading | 1255.6 | 1320.7 | 65.1 | +5.2 |
| Accommodation | 376.6 | 449.9 | 73.3 | 19.5 |
| Transport/Storage | 395.8 | 418.3 | 22.5 | 15.7 |
| Communication | 166.6 | 180.4 | 13.8 | 8.3 |
| Finance | 191.2 | 184.8 | -6.4 | -3.4 |
| Insurance | 61.3 | 61.9 | 3.6 | 5.4 |
| Services to Finance and Insurance | 70.2 | 86.9 | 16.7 | 23.8 |
| Property Services | 100.6 | 128.8 | 28.1 | 28.0 |
| Business Services | 703.1 | 894.2 | 191.1 | 32.2 |
| Govt. Admin. and Defence | 365.0 | 346.8 | -18.2 | -5.0 |
| Education | 597.0 | 615.4 | 18.4 | 3.1 |
| Health and Community Services | 768.2 | 857.0 | 88.8 | 11.6 |
| Culture and Recreation | 178.1 | 218.4 | 40.3 | 22.6 |
| Personal Services | 323.0 | 348.7 | 25.7 | 7.9 |
| TOTAL | 8334.6 | 9016.5 | 681.9 | 8.2 |

Source: ABS Labour Force Survey, May 1996 and May 2000

basis for comparisons of employment by industry down to the SLA level. Unfortunately the Business Register data cannot be used for trend analysis since the data are not part of an annual collection. The Register is updated for various industry sectors at different times. The great advantage of the Business Register data is that they provide employment estimates for the intercensal period and thus can contribute to some timely answers to the big questions about regional progress.

Establishing the national context: job growth by industry in Australia

The overall Australian pattern of employment in the late 1990s is shown in Table 1. The importance of job growth in the business and finance and insurance services sectors is clear. Some 30.5 per cent of all net job growth in Australia over the 1996 to 2000 period occurred within this service sector. There was also quite striking growth in the property industry, though not in the finance and insurance sector.

Table 2 provides data which indicate the location of business services jobs in Australia since 1996. These Labour Force Survey data indicate that Sydney and Melbourne play an increasingly dominant role in the industry. In 1996, 49.9 per cent of those employed in the business service sector were located in Sydney and Melbourne. By May 2000 this concentration had grown to 53.2 per cent. There was a marginal loss of employment in the ‘other capital cities’ and a major loss of

employment share in the rest of Australia. This implies that regional centres are vying for a smaller share of business service employment in Australia.

The regional pattern: metropolitan and non- metropolitan change compared

The scale of concentration of employment in business, finance and insurance services and finance, insurance and property in Victoria and NSW is shown in Table 3. The Table shows the share of employment in each of these industries over the 1996 to 2000 period in Melbourne and Sydney relative to the whole of Victoria and NSW respectively. In every case except for ‘services to finance and insurance’ in NSW, the metropolitan share increased from the already high levels recorded in 1996. The metropolitan predominance is especially notable for Victoria.

The increase in the concentration of these activities in Melbourne and Sydney has had different regional consequences, as can be seen in the information displayed in Table 4. Whereas employment in business and financial services in Melbourne and Sydney grew at around the same rate between 1996 and 2000, there was job loss in the rest of Victoria and

Table 2: Business services employment by major locations in Australia, May 1996 and May 2000

| Location | May 1996 | | May 2000 | |
|-------------------|------------------|-----------------------------|------------------|-----------------------------|
| | Numbers employed | Per cent share of Australia | Numbers employed | Per cent share of Australia |
| Sydney | 191,125 | 27.1 | 265,465 | 29.7 |
| Melbourne | 160,682 | 22.8 | 210,733 | 23.5 |
| Brisbane | 68,917 | 9.8 | 89,061 | 9.9 |
| Other Capitals | 111,514 | 15.9 | 136,784 | 15.3 |
| Capital Cities | 532,238 | 75.7 | 702,043 | 78.5 |
| Rest of Australia | 170,830 | 24.3 | 192,167 | 21.5 |
| Australia | 703,068 | 100.0 | 894,210 | 100.0 |

Source: ABS Labour Force Survey, May 1996 and May 2000, unpublished

Table 3: Share of business, property and finance services employment located in the metropolitan areas of NSW and Victoria by sector, May 1996 and May 2000, per cent

| Sector | Melbourne Share of Victoria | | Sydney Share of NSW | |
|-----------------------------------|--------------------------------|------|------------------------|------|
| | 1996 | 2000 | 1996 | 2000 |
| Finance | 80.7 | 84.7 | 82.7 | 86.7 |
| Insurance | 82.9 | 90.5 | 84.2 | 87.0 |
| Services to Finance and Insurance | 85.8 | 96.6 | 85.7 | 79.6 |
| Property Services | 74.2 | 85.2 | 68.8 | 73.2 |
| Business Services | 84.0 | 88.7 | 78.6 | 81.5 |

Source: ABS Labour Force Survey, May 1996 and May 2000, unpublished

job gain in the rest of NSW. The gain in non-metropolitan NSW reflects the presence of rapidly growing coastal communities in NSW (for which there is no parallel in Victoria). Also as shown below, the Wollongong and particularly the Newcastle areas are important business service centres, with the latter well ahead of Geelong, which in terms of population size is the nearest comparable centre in Victoria (see Table 5). Nevertheless, even in NSW the growth in employment in the industry sectors in question in regional NSW was half that of Sydney.

Though not shown in Table 3, employment in each of the industry sectors (including business services and finance and insurance services) is estimated by the ABS to have fallen between May 1996 and May 2000 in regional Victoria. In regional NSW there were employment falls in the finance and insurance sectors but not in the business services and services to finance and insurance sectors or in the property industry. It probably comes as no surprise that there were such declines in the finance and insurance sectors. Most observers will be aware of the tough times experienced by many small towns,

especially those where the population declined during the 1990s. Population decline contributed to the closure of bank branches and the difficulties experienced by insurance and other financial brokers who have serviced these towns. The pain felt in regional Victoria was exacerbated by the outsourcing, privatisation and compulsory tendering policies of the previous Kennett Governments. One result of these events was that an increased share of services to

regional communities were provided by Melbourne-based firms.

On the other hand, as noted above, there has been some optimism that regional centres at least may benefit from growth in the 'new economy'. The idea that such centres are becoming 'sponge' cities, absorbing some of those moving from rural and smaller regional towns is now well documented.¹³ There is a related expectation that this trend will strengthen these centres' role as providers of services. As a recent commentary puts it: 'The depopulation of rural Australia has interacted with globalisation to encourage private sector services to recentralise their operation in large regional centres'.¹⁴

Table 5: Share of employment in business services, finance, insurance, services to finance and insurance and property services by locality, Victoria, 1998

| Region | Victoria | | Share of Victorian employment | | | | |
|--------------------|------------------------|------------------|-------------------------------|---------|-----------|---------------------------------|-------------------|
| | Total employment share | Population share | Business Services | Finance | Insurance | Services to Finance & Insurance | Property Services |
| Melbourne SD | 73.9 | 72.3 | 88.4 | 87.3 | 92.2 | 89.8 | 82.4 |
| Geelong & area | 3.9 | 4.4 | 3.0 | 2.0 | 2.1 | 1.6 | 2.9 |
| Vic. large centre* | 5.1 | 5.5 | 2.7 | 3.5 | 3.2 | 2.3 | 4.8 |
| Vic. small centre+ | 4.3 | 4.8 | 2.5 | 2.9 | 1.7 | 2.2 | 3.8 |
| Rest of Vic. | 12.9 | 13.0 | 3.4 | 4.3 | 0.8 | 4.1 | 6.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total number | 2,154,964 | 4,654,937 | 219,590 | 45,939 | 12,122 | 23,068 | 24,280 |

Source: ABS, Business register for employment data by industry
DEWRSB Small area labour markets employment for total employment share

* Large centres include Ballarat, Bendigo, Shepparton, Warrnambool, and Wodonga

+ Small centres include the SLAs which contain the urban localities of Colac, Portland, Horsham, Mildura, Echuca, Wangaratta, Bairnsdale, Sale, Moe, Morwell and Traralgon.

Outcomes for centres and towns in Victoria and NSW

The Labour Force Survey data cannot be used to answer questions about the progress of regional centres. For this purpose we turn to the Business Register data for 1998. If regional centres were making progress as providers of business and financial services this should be evident by 1998. To assess whether this is the case we provide data on the numbers and share of employees in the various industry sectors under discussion within Victoria and NSW by locality, along with relevant data on population and total employment share within the State. Table 5 shows this for Victoria and Table 6 for NSW.

For Victoria, data for Melbourne, Geelong, Victoria's large towns and small towns (as listed below the table) are shown. Consistent with the Labour Force Survey data utilised in Table 3, Melbourne dominates the employment pattern, with employment shares in 'new economy' jobs well above its population share for every sector shown. However Geelong and the large regional centres (which are all inland cities) were doing

poorly in terms of employment share, with the partial exception of property services. Their share of employment across each industry shown was near half of that which might be expected if it were to match their share of Victoria's population. In the case of the very important business services sector, Victoria's large regional centres were employing just 2.7 per cent of the state's workers in the industry, yet 5.5 per cent of the state's

Table 4: Change in employment in business services, finance, insurance, services to finance and insurance and property services in Victoria and New South Wales, May 1996 to May 2000

| | 1996 | 2000 | Percentage change |
|------------------|-------|-------|-------------------|
| Melbourne | 240.5 | 307.8 | +27.9 |
| Rest of Victoria | 49.7 | 40.9 | -17.7 |
| Victoria | 290.2 | 347.7 | +19.8 |
| Sydney | 329.6 | 426.9 | 29.5 |
| Rest of NSW | 84.5 | 95.6 | 13.1 |
| NSW | 414.1 | 522.5 | 26.2 |

Source: ABS Labour Force Survey, May 1996 and May 2000, unpublished

Table 6: Share of employment in business services, finance, insurance, services to finance and insurance and property services by locality, New South Wales, 1998

| Region | NSW | | Share of New South Wales employment | | | | |
|----------------------------------|------------------------|------------------|-------------------------------------|---------|-----------|---------------------------------|-------------------|
| | Total employment share | Population share | Business Services | Finance | Insurance | Services to Finance & Insurance | Property Services |
| Sydney SD | 65.4 | 62.9 | 82.0 | 83.3 | 90.2 | 87.5 | 72.8 |
| Newcastle SSD & Singleton (A) | 7.2 | 3.4 | 5.5 | 4.0 | 3.5 | 3.6 | 6.5 |
| Wollongong | 3.7 | 4.1 | 2.4 | 1.7 | 1.5 | 1.5 | 3.1 |
| Large rural centre* | 4.8 | 4.9 | 3.2 | 2.9 | 2.5 | 2.6 | 4.1 |
| Small rural centre+ | 5.7 | 6.5 | 2.8 | 3.1 | 1.0 | 2.2 | 5.6 |
| Total rest of coast ¹ | 3.0 | 3.9 | 1.2 | 1.5 | 0.2 | 0.7 | 2.9 |
| Tweed (A) - Pt A | (0.5) | (0.7) | (0.2) | (0.2) | (0.1) | (0.1) | (0.5) |
| Rest of NSW | 10.1 | 14.3 | 3.0 | 3.5 | 1.2 | 1.8 | 5.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total number | 2,849,966 | 6,333,515 | 298,847 | 69,368 | 22,933 | 33,550 | 42,422 |

Source: ABS, Business register for employment data by industry

DEWRSB Small area labour markets employment for total employment share

* Large rural centres include Lismore, Dubbo, Albury, Hastings, Tamworth, Wagga Wagga and Orange.

+ Small rural centres include the SLA's which contain the urban localities of Armidale, Ballina, Bathurst, Casino, Coffs Harbour, Goulburn, Grafton, Lithgow, Taree, Forster-Tuncurry, Griffith, Moree, Moama, Nowra-Bomaderry.

¹ Coast apart from Sydney, Newcastle and area, Wollongong and area, and Hastings but including Tweed Heads.

population was resident in these cities. Equally striking, their ratio of employment to population in the business service sector was no better than for Victoria's small regional centres.

For NSW the pattern was similar, though Newcastle stands out as a partial exception to the pattern of Sydney dominance. Employment in the business services sector in NSW large rural centres was well below their share of the state's population. Though not shown in Table 6, there were no exceptions to this pattern when the individual cities making up the large rural city category (listed under the Table) were examined. Location on the coast (listed separately in the Table,) did not make any significant difference either. The population on the NSW coast is growing rapidly and Table 6 shows that employment in property services in coastal locations was relatively high, but in all other industries

listed, coastal areas are not doing well.

The low level of business and financial service sector employment in regional centres in both states in 1998 is significant given that the overall employment situation improved in regional Victoria and NSW at the end of the 1990s. There was modest growth over the 1996 to 2000 period across a wide spectrum of industries. Employment in agriculture increased in NSW (though not Victoria). Manufacturing employment, especially in the food and beverages sector, increased in both regional Victoria and NSW. So, too, did employment in the construction, retailing, accommodation, sport and recreation, road transport (in Victoria but not NSW), and in the health and community services sectors. Regional Victoria has benefited from the overall economic recovery but, as shown in Table 4, the additional business activity has not been felt in employment

in the business and financial services sector within the regional centres. The situation is more positive in NSW. Employment in the finance and business service sector has increased over the 1996 to 2000 period though, as shown in Table 4, at half the rate of growth estimated for Sydney.

As there are no recent trend data on employment levels by industry and locality with respect to business services or other financial sector industries, it is difficult to judge how far the situation described in Tables 5 and 6 reflects developments over the past decade. It is possible that the large regional centres could have improved their relative position in recent years (though if so, from a low base). Nor does the present situation deny the possibility that they may be on the cusp of rapid improvement.

Regional areas and the 'new economy': optimism and pessimism

The loss of jobs across the business services sector (and the other sectors analysed) in regional Victoria, the slow rate of growth in these sectors (relative to Sydney) in regional NSW, and the very low shares of employment in business services and financial and insurance services in the large regional centres in both Victoria and NSW undermines the optimistic scenario described earlier.

As noted, Commonwealth and State policy makers appear to assume that improved communications will provide the basis for a more optimistic outlook for regional centres. To this end, Governments have provided substantial financial assistance to ensure that high quality telecommunication links are available relatively cheaply to non-metropolitan centres.¹⁵ In the past the regional centres have been disadvantaged by the huge cost of providing the railroad or highway

transport infrastructure which would allow enterprises in the regional areas to overcome the transport cost advantage available to competing firms in Melbourne or Sydney (especially where competition for metropolitan or overseas markets was involved). But in the case of telecommunications infrastructure, some believe that regional firms will be able to compete on equal terms with metropolitan service providers once bandwidth widens and cost falls. On this account too, it is expected that entrepreneurs in the 'new economy' can locate in regional centres and compete for business with metropolitan financial and business service providers.

The data analysed here makes it difficult to accept the optimistic scenario. Rather, the recent Australian experience confirms the work of theorists who argue that firms exploiting knowledge based production systems, often associated with global demand, favour the metropolitan locations. Regional service providers face the major additional problem of attracting the skilled workers they require. This is well documented in the IT field. By 1996, according to the 1996 Census, 62 per cent of all Australian resident IT professionals were located in Melbourne and Sydney. This concentration had grown significantly over the previous five years as computing professionals were drawn into Sydney and, to a much lesser extent, into Melbourne from elsewhere in Australia and from overseas. Some 73 per cent of all computing professionals who were overseas in 1991 and who moved to Australia between 1991 and 1996 were located in Sydney (49 per cent) or Melbourne (24 per cent) by 1996. With skill shortages now rife in the IT field, and salaries growing accordingly, it is hard for regional employers to compete for their services.¹⁶

There is a circular and cumulative effect of this concentration of jobs which is felt in local housing and retail markets. The high salaries paid to employees in the 'new economy' stimulate the production of high level retail and personal services which together enhances the attraction of the location for other professionals.

It will not be easy to break this cycle. In principle, the ready availability of telecommunication links between city and region means that service providers can deliver their expertise from a distance. (Of course the reverse pattern is also possible as city based service providers look to regional markets.) In practice it appears that service providers need to be in close proximity to their predominantly metropolitan clients, mainly in order to interact directly with them.

But it also appears that successful service firms need the stimulation of competition and networking with other providers. Access to advanced telecommunication services is only one component of the required mix of factors. Research has shown these 'new economy' firms form strong clusters within the largest metropolitan areas in a nation, as they require face-to-face contact, outsourcing and project teamwork, all of which are easier to arrange in a large city. Coordination and planning are a key part of business services activity.¹⁷ In addition, overseas firms which are penetrating Australian markets need offices to coordinate their activities here. These are located predominantly in Sydney and Melbourne, mainly because these two cities are the prime gateways to international commerce,¹⁸ but also because overseas firms, like Australian firms, need to locate where business service firms are concentrated.

It is true that the concentration described here has been accompanied by

some decentralisation of production and back-office functions to outer suburban and regional centres (or even to offshore) locations. This outcome implies that Australian non-metropolitan areas are experiencing in a muted form the experience of their European and US counterparts described above. The weaker outcome reflects the fact that the middle and outer suburbs, or smaller capital cities are a more favoured destination for back office activity like call centres. Though providing jobs, these activities do not carry the benefits that are usually associated with growth in the business services sector. However, it may be the strongest initial connection that can be made between aspects of the 'new economy' and non-metropolitan Australia.

This discussion implies that governments intent on tackling the regional development problem will have to do much more than ensure that the relevant telecommunications infrastructure is in place in regional centres if business service firms are to flourish in these places. Major investments in education and research and development, along with incentives for the creation and expansion of firms will be necessary. Education and training needs to be boosted so that talented local people (the kind of people most likely to want to work in a regional setting) are encouraged. Assistance to research and development is required if regional firms are to get a start and to build the kind of networks they need if they are to compete against metropolitan firms.

Note

* The authors would like to thank Virginia Rapson for her work on the Business Register data, including the development of the estimation techniques needed to prepare industry level employment data at the SLA

level.

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