Introduction

South Australia’s future prosperity is dependent upon harnessing our State’s resources - mineral, agricultural and human, through inspired leadership and diligent application to both the strengths and deficiencies of our economy and infrastructure. The Productive Economy Discussion Paper provides a platform for discussion, but not necessarily ‘the answers’ for South Australia.

The demise of South Australia’s manufacturing base is well documented, as is the loss of the most valuable resource, our children to the ‘East Coast’ and overseas, from Adelaide region, and from our regional communities.

There is a perceived confidence running through the Discussion Paper that the ‘engine’ supporting a ‘productive economy’ will be ‘Knowledge Industries’, but the ability to attract these ‘industries’, or even whether we should attempt to pursue these ‘industries’ needs to be debated.

The mobility of Knowledge Industries and Knowledge Workers needs far deeper analysis than presented in the Discussion Paper. Pittsburgh, as an example requires far deeper analysis.

‘A PRODUCTIVE ECONOMY FOR SOUTH AUSTRALIA’ .....?

The page 8 introduction highlighting ‘sending the right signals’ for investment in our State is ‘advertising agency language’ applied to a new age where the nature and size of ‘industry’ is changing, BUT what are the ‘right signals’ for this new age?

The historical heavy financial investment in ‘smoke stack’ and ‘rust belt’ industries has gone and is being replaced by ‘knowledge industries’. The ‘Knowledge Industry’ and its workers are highly mobile, as are the ‘products’ they develop. The product, but more precisely, the intellectual property, patents, licenses, copyright and ownership plus the means of production are just as mobile resulting in a high degree of uncertainty, which has not been addressed by the Discussion Paper.

The premise of ‘A PRODUCTIVE ECONOMY’, when distilled to its basic elements is that ‘planning’ needs to be ‘flexible’. But ‘flexibility’ can be a ‘two-edged sword’ with ‘the creative’, the adventurous’, ‘the unscrupulous’ and ‘the ineffective’ all promoting outcomes that were never envisaged when the Legislation was drafted.

The amendments to the Development Regulations over the past few years has given power to the Department of Development, among other things, to ‘call in’ proposals should they exceed $5 mil in the metropolitan area and $3 mil in regional areas. This contrasts with the previous ‘hurdle’ of
$20 mil. The ‘bundling up’ of a number of On-The-Run sites to meet the $20 mil ‘hurdle’ which the Ombudsman rejected. The response of the then Minister was to amend the Regulations to reduce the threshold to $5mil and $3 mil for regional developments.

The experience of the Prospect Resident’s Association (‘the PRA’) in opposing the demolition and building of an extension to the St George’s Nursing Home at Fitzroy, despite the assignment of the highest development plan rating, has meant that for the past five years we have been opposing a ‘moving feast’, and in the PRA’s opinion demonstrates the vulnerability of the Development Plan to a ‘flexible’ legislative and administrative processes.

Another example of ‘planning flexibility’ is the proposed development on the corner of Prospect Road and Kintore Avenue Kilburn, where the more ‘relaxed’ ‘arterial roads’ planning requirements have resulted in the ability of the developer to extend the development down Kintore Ave into the ‘residential zone’, on the basis of ‘not seriously at variance’. What is ‘not seriously at variance’ is a matter of fact and degree in each particular case. (refer Ciccarello v City of Charles Sturt & Anor [2010] SAERDC 49; R v The City of Munno Para: Ex parte John Weeks Pty Ltd & Anor (1987) 46 SASR 400; Terra Group Pty Ltd v City of Port Adelaide Enfield & Anor [2015] SAERDC)

A ‘Red Flag’:

The final paragraph of ‘A PRODUCTIVE ECONOMY FOR SOUTH AUSTRALIA’ (page 8), in the opinion of the PRA, is a ‘red flag’ because of the absence of recognition of a ‘people component’.

Specifically the statement:- ‘To achieve these things. We must have a clear approach to planning and maintaining land supply; enabling business flexibility and competition through effective policy;...’.

The Prospect Residents Association supports the ‘containment of our urban footprint’ but again questions the preference for ‘infill’ while at the same time the Department is silent on the rehabilitation of ‘greyfields’ and ‘brownfields’. Developments such as St Clair, Oakden /Light’s Vision/Mawson Lakes etc. are ‘soft challenges’ for the concept of ‘infill’ but the challenges of brownfield rehabilitation appears to be a subject that is deliberately avoided.

‘KEY TRENDS INFLUENCING CHANGE’

‘Some service industries have already begun to fill the gap left by manufacturing, in particular health care, the construction sector and financial services.’
Two of the three ‘industries’ that are identified as filling ‘the gap’, Health Services and Construction, are highly dependent upon State and Federal Government funding, not private sector investment.

The Torrens-to-Torrens expressway and the ‘new’ RAH are the ‘main engines’ of the observation. In addition, the ageing of South Australia, Federal Government Aged Care policy and its funding, will continue to drive the economy of South Australia.

The serious need to upgrade both the road and rail freight routes to and from the Dry Creek Intermodal site will require significant investment from the Federal Government if South Australia is to maximise its productive potential. (The PRA commented on the challenge in our response to the Integrated Movement Discussion Paper).

Balance of Trade and ‘Leakages’

The identification of export dollar-values on figure 4. Page 9 is not contrasted by import values and it is the difference between these two figures that highlights the strength/weakness of an economy. The PRA is also concerned that the Discussion Paper has not examined international, interstate, intrastate and regional productivity outcomes for South Australia.

The ‘Figure 7:Model pg. 25’ - sourced from ‘SGS Economics and Planning, is in the opinion of the PRA very ‘high level’ and as a consequence simplistic:
A far more instructive model, by the same organisation, can be found in an earlier paper by SGS ‘A JOBS AND INDUSTRY STRATEGY FOR MELBOURNE’ WEST 2013’ pg

'Developing an effective three horizon strategy requires a sound understanding of the current strengths and opportunities of a region. A useful way of framing this regional business analysis is in terms of the 'multiplier' model shown in Figure 5.

The key driver of a regional economy is its capacity to generate inter-regional export sales; that is, income injections from sales of goods and services to customers outside the region, whether these customers are located elsewhere in Melbourne, Victoria, Australia or overseas. Investment in infrastructure, plant and equipment, and housing also draws in external income that triggers a regional multiplier effect, as the new business orders enjoyed by exporters flow through to their suppliers and the local households that provide labour for these activities. Of course, regional economies are completely open to inter-regional trade. The multiplier effect from inter-regional export sales and inward investment is inevitably diluted by 'leakages' of income. These occur when local businesses use outside suppliers for their inputs of materials and services, when local households shop outside the region, when local savings flow out to investments in other geographies and when dividends are distributed to external investors.'

The last paragraph makes it quite clear, that 'leakages' occur when

- ‘local businesses use outside suppliers for their inputs of materials’;
- ‘local households shop outside the region’;
- ‘local savings flow out to investments in other geographies’; and
- ‘dividends are distributed to external investors.’
The scenario described in the SGS Economics and Planning Report of 2013, in the PRA’s opinion, raises questions about the ability of the ‘Knowledge Industry’ to provide the hoped for benefits as alluded to in the Discussion Paper. It is the mobility of the Knowledge Industry, which can move its ‘machinery’ on a laptop/server or brief case overnight to another location. At the same time our brightest, and best young minds will follow, which in the opinion of the PRA downplays the benefits of embracing the ‘industry’ in the manner described in the Discussion Paper.

Nothing in the Discussion Paper addresses the mobility issues of the knowledge industry and its workers. Of more concern is the lack of discussion as to how many young South Australians will benefit from the enticement of a ‘knowledge industry’ into our community.

South Australia’s geographic location and existing infrastructure is a ‘pivot point’ in servicing Asia’s growing middle class, not only for South Australian sourced products and materials, but also for goods from the east coast. The East/West freight routes need to pass through Adelaide and the Dry Creek intermodal facility provides the connection by rail to Darwin and out to Asia.

The importance of the Dry Creek Intermodal facility cannot be overstated for both South Australia and Victoria. The freight routes (rail/road) will require significant investment by the Federal Government in conjunction with the State Government, if the continued growth of Asian markets for our food products is to be serviced and expanded.

But the exchange between ‘markets’ (‘leakages’) has not been analysed by the Discussion Paper. The Balance of Trade requires an exchange of goods and services, hopefully resulting in a neutral or positive outcome for South Australia.

The PRA questions the lack of data with respect to imports from our trading partners, leaving the South Australian economy with a negative outcome.

The current dominance of English in the ‘knowledge industry’ cannot be taken for granted and International Student Education may have a very short ‘use by date’.

Exports of Alcoholic beverages will no doubt continue to climb as a consequence of Asia’s expanding middle class, as will markets for seafood supporting the growth is the Intermodal facility at Dry Creek which is only a few days away from Asia’s customers thanks to the Adelaide to Darwin railway.
Environmental Impacts

The containment of our ‘urban footprint’ to protect our ‘food bowl’ requires continual policing and application of administrative and legislative instruments to ensure that land use and its potential degradation does not compromise our capacity to produce food for the local and international markets.

The growth of Asia as a market for fresh food and the impact of ‘Climate Change’ present an opportunity and a challenge for increased exports to Asia.

The expected demand can be a ‘double edged sword’ in that our natural resources could be over extended in taking advantage of the growth potential of the Asian Middle Class.

We recognise that the ‘Sundrop’ tomato ‘farm’ at Pt Augusta is an example of applying technology to a horticulture situation taking advantage of the location’s access to sunlight, seawater combined with solar technology has been harnessed with minimal impact on the environment. Critical to the start up and success of initiatives is access to capital and technology. The ‘return’ to the local economy of Port Augusta is significant as the workers spend their wages in the locality. But it must be recognised that the ‘Sundrop’ development has required significant ‘set up costs’ and it also raises the issue of the return on investment and whether similar initiatives can find ‘partners’ such as Coles in the supply of fruit and vegetables to both the local and export markets. Moving away from ‘market gardens’ to ‘garden factories’ may be a difficult concept, but it has the potential to take pressure off the local ‘food bowl’.

Given the size of the upfront investment and the involvement of a National Company as the only retailer of this product raises questions of the level of return to the local area or South Australia consistent with either of the SGS models.

South Australia has a history of expertise in arid land farming and that experience together with the harnessing of technology can put South Australia at the forefront of future food production methods.

Pittsburgh?

The ‘revival’ of Pittsburgh requires a far more detailed examination of the flow-on benefits for the long-term residents of the former ‘steel city’. 
At Page 19 of the Discussion Paper the heading states, 'Case Study: Innovation drives growth – the Pittsburgh Model'. At the bottom right hand corner the following statement is made:

'Pittsburgh's successful transition from its industrial roots to modernized economic base has earned it praise as the poster child for managing industrial transition.'

The Prospect Residents Association would question the nature and extent of the 'successful transition'.

The publication; 'Capturing the next economy: Pittsburgh's rise as a global innovation city Scott Andes, Mitch Horowitz, Ryan Helwig, and Bruce Katz September 2017' provides a commentary on Pittsburgh's initiatives.

In the Executive Summary on page 6 under the heading 'Pittsburgh possesses significant innovation assets', with a commentary on the 'assets' - but in the final clause the observation is made, 'However, despite its significant assets, Pittsburgh's technological strengths have not yet translated into broad-based economic opportunity or growth.'

A sobering and poignant comment is made at the bottom of Page 7 that reflects the challenge of an ageing workforce, 'the average worker in Pittsburgh is older than the national average, with a quarter million people expected to retire over the next decade.' Despite the clear and present danger of a tightening labor market, not enough is being done to upskill workers to fill the gaps.

The 'takeaway' of the Pittsburgh experience is that jobs are not being created rather 'mobile, elite, knowledge workers' are employed at 'front end' with minimal flow on to the residents of Pittsburgh. At the very least Pittsburgh should not be held up as an example until there is a flow on to the people of the city.

Providing incentives for business to establish or expand is a reputable lever to use to encourage start-ups and expansion. However, providing incentives without a measurable 'pay back' to South Australia and South Australians in the form of jobs is a 'Band-Aid' hiding a fundamental weakness in the incentive strategy and the economy. Simply providing 'hi tech' jobs for 'knowledge workers' without creating jobs for the community has little long-term benefit.

A 'word search' of the Discussion Paper for 'wealth' provided no 'hits' and raises the question of the future of developments when the 'incentives to business' expire.

'Critical competitive challenges threaten Pittsburgh's opportunity
Three areas stand out as constraints to the city's economy:

1. The connection between research and industry strengths is weak and is dampening the region’s potential. Pittsburgh has yet to see the economic activity in advanced industries expected given its robust academic and research strengths. The difference between the level of innovation inputs (such as patents and R&D investments) and the level of economic outputs (jobs, GDP, and firms in advanced industries) is stark.

For example, compared to the national average, the region performs 204 percent more research in medical science but employs 91 percent fewer workers in pharmaceutical preparations. Similarly, the region performs 225 percent above the national average in computer science research but has 36 percent fewer jobs in software and 59 percent fewer in data processing.

2. The entrepreneurial ecosystem has yet to produce a significant number of high-growth startups. Pittsburgh’s physical and programmatic strengths are significant, yet they are insufficient to compete with Denver, Austin, Atlanta, Copenhagen and other global peers. The reality is that these cities all have serial entrepreneurs who have built high-growth companies that employ large numbers of workers. Pittsburgh has many “shots on goal” in terms of new startups, but too few are scaling to the point of being regional employment drivers. As one local entrepreneur put it, “entrepreneurship in Pittsburgh in many ways is within its first cohort. Version 1.0 was about developing capacity to generate a lot of startups. Version 2.0 will be about growth and employment generation.”

3. Demographic and skills headwinds threaten Pittsburgh’s ability to create the workforce it needs to compete— both within its innovation district and beyond. Pittsburgh faces significant demographic and competitive pressures to its innovation workforce that will stymie the region’s growth if left unaddressed. Between 2009 and 2014, Pittsburgh’s population remained stagnant while peer cities grew by double digits. At the same time, the average worker in Pittsburgh is older than the national average, with a quarter million people expected to retire over the next decade. Despite the clear and present danger of a tightening labor market, not enough is being done to upskill workers’ (Capturing the Next Economy pg. 7)

The article’s reference to the ‘The entrepreneurial ecosystem’ and Pittsburgh’s lack of such an environment raises the challenge for the city, but it alerts us to the possibilities of highly mobile knowledge industries that can move to places where the ‘enticements’ are better. In the digital age libraries of plans and documents can be carried in a brief case, including the patents and plans.
The 'hubs' that have been developed at the Tonsley and Elizabeth, if the Pittsburgh dialogue is accurate, suggests that the potential is high for the 'mobile knowledge industry' to move on to another suitor. The benefit for Tonsley or Elizabeth is trades, clerical, cleaning, labouring and security work. In addition any local knowledge worker is likely to follow the 'industry' interstate and/or overseas.

'Creating and reinforcing opportunities and innovations'
Boosting the productivity of South Australia's regional economies therefore depends on maximising the export earning potential of the key sectors described earlier on page 12.

Reference to page 12
'South Australia's competitive advantages'
Based on the latest economic trends and evidence, the following sectors have the potential to provide South Australia with the opportunity to capitalise on a greater level of economic growth in the future.

These areas of key competitive advantage include:
• International education
• Energy and resources
• Tourism and visitor attraction
• Agribusiness and value-adding
• Defence industries
• Health and medical industries
• Knowledge and creative industries
• Professional and information technology services.'

The industries identified referred to on page 25 and named on page 12 are generic, but 'the latest economic trends and evidence' are not sourced!

While not denying that there is real and potential for increased contribution to South Australia's economy, many rely heavily on Federal Government decisions and funding, while others are 'of the moment'.

The 'Sun Drop' development at Pt Augusta while a positive example of 'new industries' the ownership and financing are not 'local', and as a consequence there is 'leakage' that the PRA suspects will be significant given the high set up costs of the initiative.

The test of the real potential of these industries is the number of patents/trademarks etc that are owned by South Australian developers.
Returning to the ‘Pittsburgh’ example a concerning comment is made;

Pittsburgh has yet to see the economic activity in advanced industries expected given its robust academic and research strengths. The difference between the level of innovation inputs (such as patents and R&D investments) and the level of economic outputs (jobs, GDP, and firms in advanced industries) is stark. (p7 'Capturing the New Economy')

The ownership of the ‘patents’ etc. of the Sun Drop enterprise need to be identified, but if they are owned overseas then much of the value of the operation is also owned overseas with, although not insignificant in respect of the local economy of Pt Augusta and the surrounding region, it provides little more to the South Australian economy. The real measure of benefit needs to include the level of ‘leakage’ from the region, be it local, state or country occurs. It is accepted that SA must be able to identify and ‘tap into’ emerging opportunities, BUT how much ‘leakage’ needs to be considered.

In Summary:

1. ‘Knowledge Industries’ are highly mobile and may have fleeting benefit for the South Australian economy;

2. The ‘Pittsburgh experience’ needs to be examined in a more critical manner and applied to the South Australian situation.

3. ‘Leakage’ from the region/State needs to be identified and understood.