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Structural Change: Lessons from Port Augusta's Experience in the 1990s

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Executive Director's Note

Welcome to the forty second issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of its Corporate Membership Program. The scope of *Economic Issues* is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within the scope, the intention is to focus on key issues – public policy issues, economic trends, economic events – and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

This paper draws from a case study of structural adjustment that Port Augusta experienced in the period 1986 to 1996. Like communities that have been dependent on the spatial concentration of the automotive industry, Port Augusta too was dependent on employment and specialisation, but in the rail and power industries. Historical experience demonstrates that adjustment pressures are on-going – how we respond to them is critical to the take-up of new opportunities, employment growth, incomes and expuTJec1(507.19 Tm{gAth)-261(1(507.16

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- 2.
- 1.

Introduction

In the South Australian Centre for Economic Studies two most recent Economic Briefing Reports – December 2013 and June 2014 – we produced two focus articles on the question of structural adjustment:

modelling and estimates in our Focus Article 1: Life after Holden in our December 2013 Economic Briefing report. Our view at that time, and it remains the case today that the most reliable estimates were provided by the Centre for Policy Studies (CoPS) at Monash University. They concluded that a compl

all Australian cities, at an annual rate of 1.6 per cent losing six per cent of its total population and Elizabeth experienced the second largest decline (-3,389) of all Australian cities at an annual rate of 2.4 per cent.³ (In the most recent inter-census period the population of the City of Playford increased by 13 per cent or some 9,000 persons.) Port Augusta experienced very significant job losses and an outflow of population, only moderated to some extent through take up of employment in the still in embryo, mining sector.

Generally it was the case that regional cities based on *rural industries*, such as in South Australia, Mount Gambier, Murray Bridge and Port Lincoln, continued to grow (on a population basis) at just below or close to the state average whereas *industrial cities* including Port Pirie and Whyalla experienced significant job losses throughout the 1990s. The *service city* of Port Augusta also experienced ongoing labour shedding at the rail workshop and the power stations.

The Industry Commission reported that whilst South Australia has lost over 9,000 jobs in the manufacturing sector over the period 1986-91 a badly, others such as⁴

The lesson or observation from this period looking across the six Provincial Cities and regional centres such as Elizabeth is that the vulnerability of a region to economic cycles or changes in demand for a single industry impacts directly and decisively on total employment.

deregulation of sectors of the economy contributed to adjustment pressure. At the same time business operations were installing new IT systems, banks were installing ATM networks leading to the closure of rural banking houses and new communications technologies saw manual telecommunication exchanges replaced by automated communications networks. With respect to employment in the banking sector, the Centre for Australian Financial Institutions reported that South Australia had been hardest hit by bank branch closures in non-

Commonwealth and State Public Sector (community and health services, education and government administration).

In one SACES review⁷ including various reports on the Upper Spencer Gulf cities and Far North region we noted a range of impacts on social capital of the regional cities. For example, the centralisation of nurse training from country hospitals resulted in reduced opportunities for young people to take up nursing as a career without having to leave home. This decision limited further education opportunities in the communities and created family/peer disruption. It also removed positive role models for young people from the community with implications for social capital and communities generally.

The Implication: Significant Regional Job losses

Over the period 1986 to 1996 but particularly the five years to 1996 the population of Port Augusta declined by 1,600 persons, total employment declined by 1,240 positions and the employment to population ratio fell from 40 per cent to 35.7 per cent. The male workforce participation rate declined from 76.5 per cent in 1991 to 63.9 per cent by 1996. Unemployment rose from 13.4 per cent of the

that located in Port Augusta to support the development of the Roxby Downs Township.

Structural Adjustment Assistance

The Federal Government provided structural assistance through the Rail Reform Transition Program. It allocated \$20 million (\$32 million in 2013 dollars) to support measures that would create jobs, through economic development of regions most adversely affected by the sale of Australian National.

The allocation was split between South Australia (\$18.25 million), Tasmania (\$1.35 million), the Northern Territory (\$200,000) and Western Australia (\$200,000).⁹ The allocation was further split in South Australia to assist displaced workers following the closure of AN headquarters in Adelaide and the Islington workshops.

Funding provided to Port Augusta was allocated to, *inter alia*, the upgrade of the aerodrome (\$2.5m), the Pichi Richi Railway upgrade to Stirling North and carriage refurbishment (\$2.25m), support for aquaculture developments (snapper and king fish) (\$300k), launching facilities at Point Lowly for aquaculture grow out trials (\$450k), removal of toxic waste from foreshore land that had been dumped by the railways (\$1.5m) and various business related internet development.

The level of assistance provided in 1996 following the loss of 2,200 railway worker and administrative jobs (at least 1,100 in Port Augusta) and Adelaide combined, was relatively modest compared to

manufacturing and flow on impacts.

A Realistic Perspective

This historical background of the experience of the three Upper Spencer Gulf Provincial Cities also informs us to why the region has placed so much hope and emphasis on investment and growth in the mining industry and why the revitalisation of the Whyalla OneSteel plant through Project Magnet was so significant for that city.

vehicle assembly plant at Elizabeth not only in a proper historical context but in a realistic assessment of the performance and outlook for employment and for the South Australian economy. There are

¹⁰; others have estimated at various times employment losses in South Australia of 13,200 positions¹¹ and more recently 24,000 job losses.¹² These contrast with estimates by the Centre for Policy Studies (CoPS) at Monash University of 7,300 fewer jobs in 2018 in South Australia and 5,000 persons (0.7 per cent of current employment) reported by the Panels for the Reviews of the South Australian and Victorian Economies.

There are also varying estimates of firms in the supply chain with claims of up to 700-800 firms¹³ while the Commonwealth review of capacity to design and manufacture the full range of parts and components automotive manufacturing accounts for around 27,500 direct jobs (nationall¹⁴

Port Augusta lost 1,600 employment positions or more than 20 per cent of total employment in a very short space of time. In the case of Port Augusta there was relatively little offered in the way of relocation assistance, skills training and support for career advice and counselling. Elizabeth, Salisbury, Gawler and Onkaparinga will be the four council areas most affected by the closure of automotive assembly and job losses. While Elizabeth experienced the second largest decline in population of all Australian cities in the period 1991 to 1996 it is now one of the fastest growing regions in Australia but there remains the challenge of high unemployment, high youth unemployment and pockets of disadvantage.

With respect to these four Council areas where automotive employment is concentrated, what happened in the inter-census period 2006 to 2011 is instructive. In this period automotive job losses included, *inter alia*, closure of the Bridgestone plant at Salisbury with the loss of up to 600 jobs and then in 2008 the closure of Mitsubishi plant with up to 1,700 job losses. These four regions are reported as

amongst employed residents (yet) even with the impact of a declining automotive sector, three of the four South Australian regions outperformed the Australian economy in reducing unemployment. Playford, Salisbury and Onkaparinga showed almost no change in the unemployment rate over the period compared to a 0.4 per cent increase in unemployment Australia wide. Salisbury saw a 0.7 per cent increase in the unemployment rate, but still saw a 7.8 per cent increase in absolute employment (a net 4,000 jobs created) over the period. Overall, a net 9,000 jobs were created across the regions over the period.¹⁵

Contrast this experience with the fact that in the 25 years since 1986, Port Augusta and other industrially based provincial cities have yet to achieve the aggregate level of employment and population they enjoyed in 1986. Notwithstanding, they have achieved some remarkable success in the diversification of their local economies, expanding into solar energy, aquaculture (inland and offshore), mining and mining services and manufacturing.

Conclusion

a automotive component parts
taken steps to develop new markets, produce new products, enter into new supply chains and improved their internal management,

productivity and hence competitiveness. Several companies already supply to the global automotive market, the oil and gas sector, mining, defence and the food sector. Many companies have been assisted in the task of diversification through government support, funding and programs such as the Automotive Transformation Scheme and export assistance schemes. Past achievements and success by automotive supply companies point at least in one direction, that there is a role for transformation assistance and this will remain on offer under the proposed car industry assistance funding.

South Australia has had opportunities to learn from previous large scale job losses and closures with the most recent being the two Mitsubishi plants at Lonsdale and Tonsley Park, where some \$55 million was applied for structural adjustment assistance and labour adjustment assistance. One of the real challenges now for South Australia is to further develop our expertise and employment base

- skilled and skilled workers from manufacturing closures often find employment back in manufacturing where their skills are highly prized. The broader impact on the automotive sector as a whole means it is likely that finding employment in that sector will be more difficult as was previously the case with other automotive industry closures. At

assistance with literacy and numeracy, recognition of prior skills and further training and job search assistance. This view is supported by

qualified workers affected by the closures may be transferable to other sectors. However, some workers may need to undertake training to access alternative employment. For example, a proportion of the workforce has low language literacy and numeracy skills or have

Labour market assistance programs are available and are more comprehensive than in earlier years so that for example, intensive assistance is available for workers made redundant in the automotive manufacturing industry.¹⁶ There is a specific program called the

The long period of decline in mass assembly and manufacturing in South Australia highlights the greater challenge facing the South Australian economy in the 21st Century that the goal of advanced manufacturing, the goal of growth of high value added exports, further

