VIEWPOINT

November 2005

# Can Cape York communities be economically viable?

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The Cape York Institute for Policy and Leadership is a public policy organisation formed in partnership between the people of Cape York, Griffith University, and Federal and Queensland Governments. The Institute receives core funding from the Commonwealth Department of Education, Science, and Training and Education Queensland. The views expressed in this paper are intended to further the discussion about the challenges facing Indigenous peoples of Cape York, and possible solutions. The views expresses herein do no necessarily reflect the views of Griffith University or the Institute's funding agencies.

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## 1. Introduction

The end goal for the Cape York reform agenda is to ensure that Cape York people have the capabilities to choose a life they have reason to value.[1] This follows the work of Nobel Prize winning economist, Amartya Sen, in focusing on building capabilities to enhance substantive freedoms.[2] It was shown in a previous paper that the only sustainable way to build capabilities is to pursue economic and social development, through engagement in the real economy.[3]

This then raises the fundamental question of whether building a real economy is possible for the communities of Cape York. This paper explores this question of the economic viability of Cape York communities in further detail.[4]

It is important to note at the outset that we do not take a position as to the future viability of communities. Instead, the aim is to consider the conditions under which viability might be achieved.

We begin by setting out a general framework for considering questions of economic viability. We define a community as economically viable when its economy produces an acceptable level of wellbeing across a range of capabilities, with an acceptable level of outside support. By this definition, the remote communities in Cape York are not currently economically viable, as their economies are not currently producing an acceptable level of wellbeing.

We then consider scenarios under which the communities of Cape York can be economically viable. The scenarios of economic viability have the following common themes:

- people must enhance their capabilities and be mobile;
- policies and attitudes must enable engagement with the real economy; and
- people must be engaged in both local and non-local employment.

These themes provide a vision of what the end-state of economic viability might look like, should people choose to maintain their communities in Cape York.

It is our hope that the discussion set out in this paper will allow more rigour to be brought to bear in considering the fundamental question of economic viability, not just for remote communities in the Cape, but more generally for other Indigenous communities in Australia, and indeed for mainstream regional and remote communities as well.

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[1] Cape York Institute for Policy and Leadership, 'Freedom, Capabilities and the Cape York Reform Agenda', CYI Viewpoint, October 2005, available from http://www.cyi.org.au.
[2] Sen, A, 1999, *Development as Freedom*, Oxford University Press, Oxford, p.295.
[3] Cape York Institute for Policy and Leadership, op. cit.
[4] For the purposes of analysis in this paper, we use the Oxford Dictionary definition of community as 'a place considered together with its inhabitants'. It therefore includes the diaspora of people who maintain their connection with a place, even though they are resident elsewhere.

## 2. What is economic viability?

There has been a resurgence of interest in the question of the economic viability of remote Indigenous communities. Most prominently, the editorial of *The Australian* newspaper stated recently that even if a range of policy changes were pursued, "there will be a tougher question to be asked about many remote Indigenous communities: whether they are viable."[5]

However, when the viability of remote communities is questioned, there is rarely any consideration of what the benchmark for viability should be. There often seems to be an implicit suggestion that viability requires such communities to be self-sufficient, without an appreciation of the substantial ongoing external support provided to many mainstream rural and regional communities.

Perhaps in reaction, others speak confidently of the future for remote communities, implicitly assuming a high level of continued outside support. However, they rarely appreciate the difficult questions of the continuation of passivity, the reality of the difficult economic context, or the trade-offs between alternate uses of scarce resources.

We approach the question of economic viability from first principles. Consistent with the end goal of the Cape York reform agenda, we consider that the fundamental purpose of the economy in remote communities is to enable Cape York people to achieve the capabilities to choose a life they have reason to value.

Following the work of Sen, capabilities are those attributes that give people the ability to pursue opportunities in their life. Capabilities include a person's education, their health, their job status, their income, their security, and so forth.[6] The wellbeing of a community can then be defined to be the aggregate of the capabilities of its members.

We can then define a community as economically viable when its economy produces an acceptable level of wellbeing with an acceptable level of outside support. This is illustrated in Figure 1.

Note that our definition of viability has two explicit axes of conditionality. First, viability depends on what constitutes an acceptable level of wellbeing. This level would be expected to be set primarily by the members of the community – to what level of wellbeing do they aspire for themselves, and future generations? But it will also be impacted upon by the expectations of the wider community. It is conceivable that the mainstream Australian community would not tolerate certain aspects of low wellbeing, even if chosen consciously by the community themselves (e.g. they may not be accepting of lifestyle choices that exacerbate poor health outcomes, such as chronic substance abuse).

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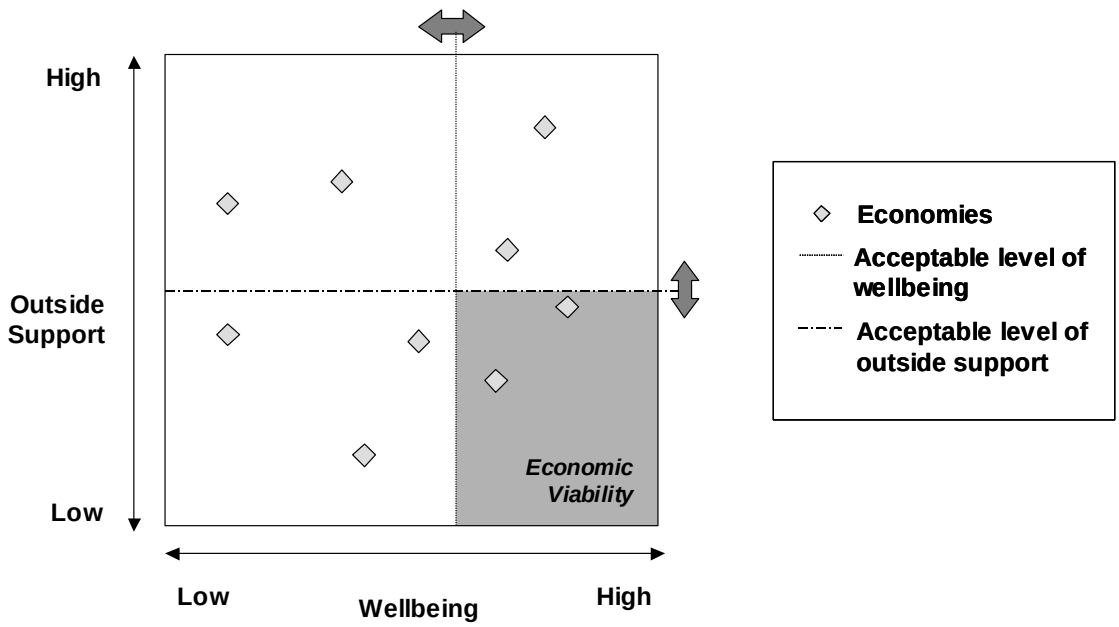
[5] *The Australian*, 12 August, 2005.

[6] Sen, A. op. cit. We recognise that Sen's formal definition of capabilities is the choice-set itself, however, for ease of expression, we use the term capabilities to represent the broad set of determinants of that choice-set. In the end, our objective of expanding the size of the choice-set is the same as Sen's objective.

**Figure 1. Defining Economic Viability**




Second, viability depends on what constitutes an acceptable level of outside support. This is ultimately defined through the political decision making processes of State and Commonwealth Governments, which assess the tradeoffs between cost and broader social benefit. In theory, it is possible to conceive of a community existing 'viably' anywhere in Australia, as long as external support can be provided to the requisite level, and this support doesn't induce passivity that depletes other capabilities.[7] Ultimately, the constraint is not whether such a level of support can be conceived in economic terms, but rather whether such support is politically feasible.

Each of the points in Figure 1 can then be understood as a mapping of a particular scenario against these conditionality axes of wellbeing and outside support in a community. Only the combinations of wellbeing and outside support that fall within the shaded region are economically viable, since it is only in this region that both wellbeing and outside support are acceptable. On every other mapping, either wellbeing is too low, the requisite outside support is too high, or there is a combination of both of these constraints.

It is important to note that our definition of viability is based on an observation of a community at a single point in time – in technical terms, it is static analysis. This definition therefore says nothing about the potential of a community. Economic viability can certainly change over time - a community can move from being not viable to viable, or vice versa.

[7] See Cape York Institute for Policy and Leadership, op. cit. p.6, for a discussion of the cycle of capability deprivation that results from income passivity.

This definition of economic viability is equally applicable to other Indigenous communities in Australia, and indeed for mainstream regional and remote communities as well.

## 3. The current situation on Cape York

Our definition of economic viability considers the capabilities for the people living in the community to be the critical measure of wellbeing. In this section we examine the current state of capabilities in Cape York communities.

Figure 2 sets out the level of capabilities for Cape York communities, and the comparison of these levels to mainstream Australia. We used general data for Cape York from the Queensland and Commonwealth Governments, combined with detailed on-the-ground observations in a sample of communities.

**Figure 2. Assessment of capabilities in Cape York**

| Capability | Comparison to Aus. average | Rationale |
|---|---|---|
| **Employment** | Very low | Very few 'real' jobs (excluding 2 day per week Community Development Employment Program - CDEP). |
| **Income** | Low | Average personal income around 60 per cent of the Australian average. |
| **Wealth** | Very low | Very few basic assets owned (e.g. cars, property, basic household items). |
| **Income Passivity** **(negative capability)** | Very high | Majority of personal income comes from welfare or CDEP. |
| **Health** | Very low | Very low life expectancy. High levels of substance abuse. |
| **Safety** | Very low | High rates of property and violent crimes. |
| **Housing** | Low | Low quality housing coupled with high household size. |
| **Basic Infrastructure** | Low | Most basic services provided, some are poor due to remoteness (e.g. road access). |
| **Education** | Very low | Very low rates of attendance, very low secondary school completion rates. |
| **Social capital** | Very low | Low rates of social responsibility and community involvement. |
| **Governance** | Very low | Intensely political and high potential for conflict of interest. |

Source: Internal Cape York Institute analysis.

On all of the capabilities, Cape York communities rate more poorly than the rest of Australia. The current level of wellbeing on Cape York cannot be considered to be

acceptable by any reasonable standard  Hence, in the terms of our definition, the communities in Cape York are not *currently* economically viable.

We emphasise again that this is a static picture of the current situation only.  We will show in Section 5 that there is a range of scenarios under which the Cape York communities could become economically viable over time.  The statement that communities are not currently economically viable is nothing more than recognition that the economy in these communities is not currently producing an acceptable level of wellbeing.

## 4. The analytic framework

We have shown that Cape York communities face a deprivation of capabilities on all indicators. Our question is, then, under what conditions can these communities be economically viable?  In this section, we outline the framework used to create scenarios of economically viable communities on Cape York.  This enables us to set out a long-term vision for what a real economy might look like in these remote communities.

### *4.1. A simple economic model*

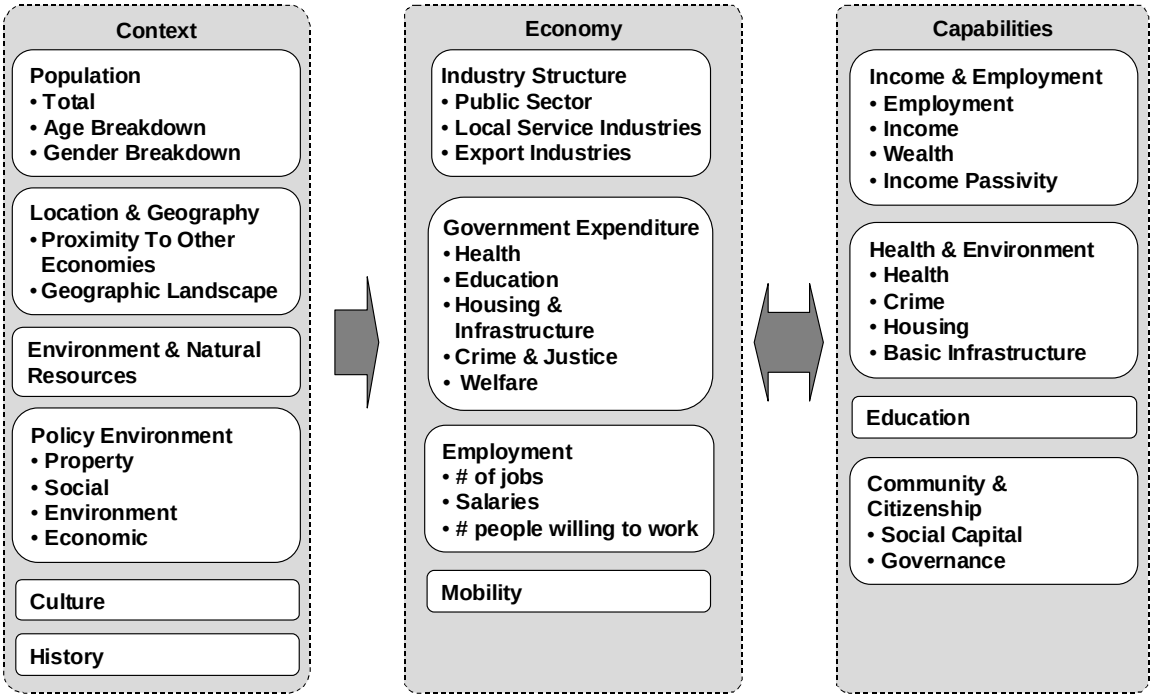
Working out what economies might look like in future is a complex process.  Indeed, large organisations such as the World Bank and the International Monetary Fund invest significant resources in developing what are known as computable general equilibrium (GE) models to do just that.  Fully functioning GE models are complex mathematical systems that allow a complete identification of the possible effects of an exogenous change, such as a policy reform or a currency shock, on an economy.

In this work, we formulated a much simpler economic model.  This model was built on the premise that each community's economy sits within a unique set of contextual factors and is associated with a unique mix of capability outcomes, which all link together in a complex, but broadly identifiable, fashion.  The central premise of our methodology is that if we know the context of a community, and we know what capabilities *should* look like, we can determine what the economy *might* look like.

Our simple approach utilised our understanding of the linkages between the context, economy and capabilities and the detailed information that we collected on the communities on Cape York.[8] This is set out in Figure 3.

[8] Our central modelling tool was a set of spreadsheets that contained 50 input variables and 21 output variables.  These variables were linked together through a set of basic equations.  Underpinning the tables of results was a set of conditions that highlighted unfeasible combinations of elements in the system.

**Figure 3. A simple economic system**




Values for each of the characteristics of the economy were constrained by the context of the economy and the capabilities in the economy. As a simple example, if capabilities were set such that employment was high, and the context indicated a natural advantage in some commodity, then it would be likely that the local workforce would be primarily employed in industries around that commodity.

The strength of this framework is that it provides a rigorous overview of what an economy, and hence what an economically viable community, might look like. The understanding and observations of the linkages in the system underpin the hypothetical scenarios generated. This provided a critical 'reality check' on our work and ensured that the scenarios we prepared considered a wide range of economic determinants and constraints.[9]

Similarly to our definition of economic viability, we believe that our simple economic model is also generally applicable to other Indigenous communities in Australia, and indeed for mainstream regional and remote communities as well.

*4.2. The importance of context*

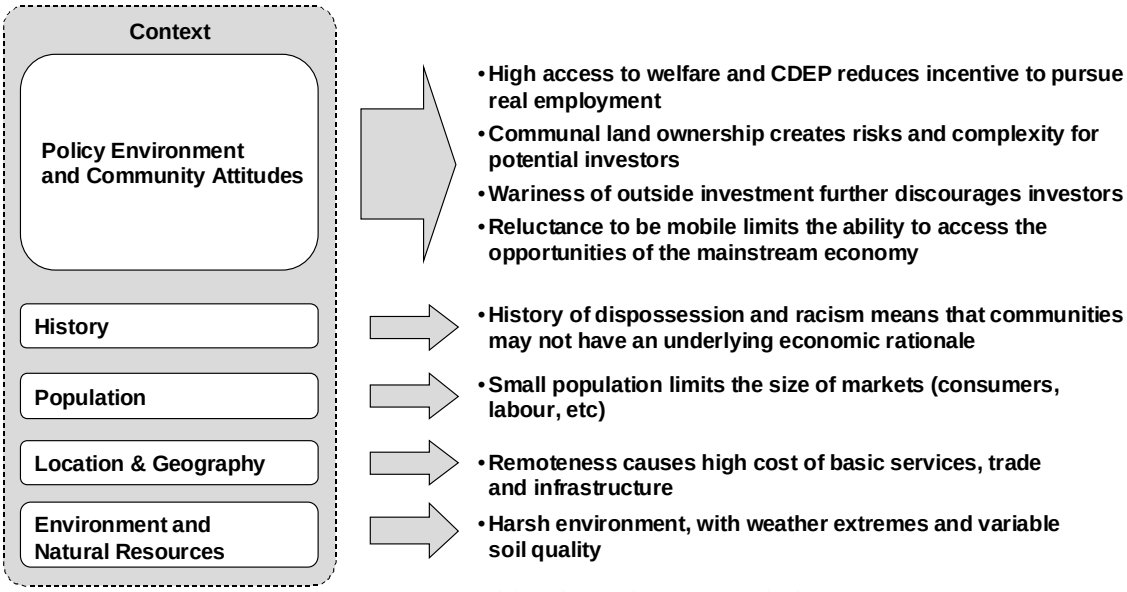
The context of an economy is especially important because it tells us what the costs and benefits of different activities might be in that economy. For example, an economy's location in the remotest part of Australia imposes some significant costs on a range of economic activities and is, as a consequence, a crucial part of the context for Cape York communities. As another example, the policies of the State

[9] We acknowledge that our model may not capture the full complexity of these economies. However, we expect that a diminishing return sets in quite quickly as the complexity of the model increases, especially due to the inherent data constraints for Cape communities.

and Commonwealth Governments towards income provisioning in Indigenous communities represent an important factor shaping the outcomes that we see.

Our preliminary analysis of how context acts to inhibit development of a real economy for Cape York communities is presented in Figure 4 below.

**Figure 4. How context shapes the economies of Cape York**




Of the factors in Figure 4, it is only practically possible to change the policy environment and community attitudes.

*4.3. Assumption regarding capabilities benchmark*

To determine what the economy might look like using our methodology, we needed to set out an assumption for an acceptable level of capabilities.

Clearly, there is no single definition of an acceptable level of wellbeing. As noted previously, this will depend not only on the community's own aspirations, but also on the expectations of the wider Australian community.

For our modelling purposes, we have adopted a benchmark that Cape York people should be able to aspire to a set of capabilities that are comparable, on average, to those of other Australians. That is, people in these communities should reasonably aspire to the same level of opportunities for education, health, employment and incomes that mainstream Australians enjoy.

*4.4. Generating scenarios of economic viability*

With capabilities set at mainstream Australian averages, we examined a range of possible alternative scenarios for the economies of Cape York communities. Our parameters for generating scenarios were the elements of the context that can be changed via government and community intervention – namely the policy

environment and community attitudes. In other words we examined how policy and attitudinal changes could lead to scenarios of economic viability for Cape York communities, given the circumstances of their small size, remoteness and harsh physical environment.

## 5. Scenarios of economically viable Cape York communities

In this section, we set out some broad results from our modelling analysis.[10]

### *5.1. Results: Common themes for economically viable scenarios*

There were a number of common themes in all of the economically viable scenarios that we developed. These themes presented a markedly different picture of the communities to today's unviable state. These common themes are summarised below.[11] All of the themes were required for the scenarios to function and all were complementary to each other.

**People must enhance their capabilities and be mobile.**

By definition, for communities to be economically viable, they had to maintain and enhance capabilities at an acceptable level.

In our modelling, all viable scenarios had a basic level of services that allowed acceptable capabilities to be maintained and enhanced. These included primary schools to teach basic numeracy and literacy skills, police services to maintain law and order, and medical services to deal with minor injuries and illness.

Due to the issues of remoteness and lack of scale, modelling showed that advanced services for maintaining and enhancing capabilities (e.g. universities, major hospitals, etc) were unlikely to exist in economically viable scenarios. At a minimum, however, scenarios had institutions available locally for people to develop sufficient capabilities to permit them to be mobile and access opportunities elsewhere.

These scenarios were characterised by a high degree of mobility among community members. By accessing mainstream services, people were able to supplement their locally developed capabilities with those developed elsewhere and imported back into the community.

In viable scenarios, mobility was also vital to create employment and income capabilities. Firstly, it provided these capabilities in scenarios where there were insufficient opportunities for local employment. Secondly, it occurred

[10] More detailed results have been generated for a sample of communities, on the basis of data provided by the communities themselves. These results are currently being discussed with communities, to inform their thinking about economic and social reform. Subject to their permission, these more detailed results may be published at a later date.

[11] We did attempt to model future scenarios based on today's policies and attitudes. However, we consistently found that these scenarios were not economically viable.

when the types of local opportunities available were unlikely to match people's individual requirements. (For example, a small, remote community may not be able to support an architect, who must therefore seek work elsewhere). Mobility also enhanced incomes indirectly, by creating the opportunity for mobile individuals to send remittances back to relatives residing in the community.

**Policies and attitudes must enable engagement with the real economy.**

As discussed previously, engagement with the real economy is a necessary requirement to build and sustain acceptable capabilities. Therefore, a real economy was an essential component of every economically viable scenario.

Importantly, proximity to a real economy is not enough. Some Cape York communities are already very close to significant mainstream economic activity (e.g. mining and tourism), yet there continues to be very little engagement with that real economy. This suggests that remoteness alone is not a sufficient explanation for capability deprivation in Cape York communities.

In our modelling, economically viable scenarios required policies and attitudes that actively promoted economic development. They included policies and attitudes encouraging outside parties to invest in the communities, thus creating employment opportunities. They also had a welfare system that actively encouraged people to take up these employment opportunities and away from welfare dependency.

**People must be engaged in both local and non-local employment.**

As discussed in a previous Cape York Institute paper,[12] the capability of employment is central to wellbeing. Unemployment not only deprives people of an income, it also has other more serious effects, such as psychological harm, loss of work motivation, skill and self-confidence, an increase in sickness, and disruption of family and social life.

To meet the targets set by this employment capability in economically viable scenarios, our modelling indicated that people had to pursue jobs both inside and outside the community. This again highlighted the importance of mobility.

Scenarios with high levels of local employment did occur. For reasons of scale, these scenarios depicted a local industry that serviced more than just the local economy. That is, the industry had to be competitive in terms of the broader Australian economy.

Further, the scenarios with high levels of local employment were likely to be based around a single 'anchor' industry. Two major factors were the limited opportunities for profitable, high labour-intensity industries in remote

[12] Cape York Institute for Policy and Leadership, op. cit.

locations and the difficulty of more than one industry to meet minimum efficient scale.[13]

However, anchor industries have inherent risks associated with the fluctuation of industry fortunes. In addition, policymakers have a notoriously poor record in 'picking winners' for industry support, so may be reluctant to commit to initial extra support in the establishment phase. Consequently, the mobility of a community remained an integral component of any scenario of economic viability and anchor industries were only likely to exist in scenarios with particular natural advantages.

*5.2. The transition to economic viability*

The common themes presented in the previous section are a markedly different set of characteristics to today's unviable state. Whether economic viability is ultimately achievable must therefore depend on whether communities and policymakers can follow a potentially challenging path of transition.

Our mapping of economic viability in Figure 1 can be used to demonstrate possible transition paths. In Figure 5, we present some hypothetical paths from the current state of capability deprivation to possible end-states of economic viability.[14]

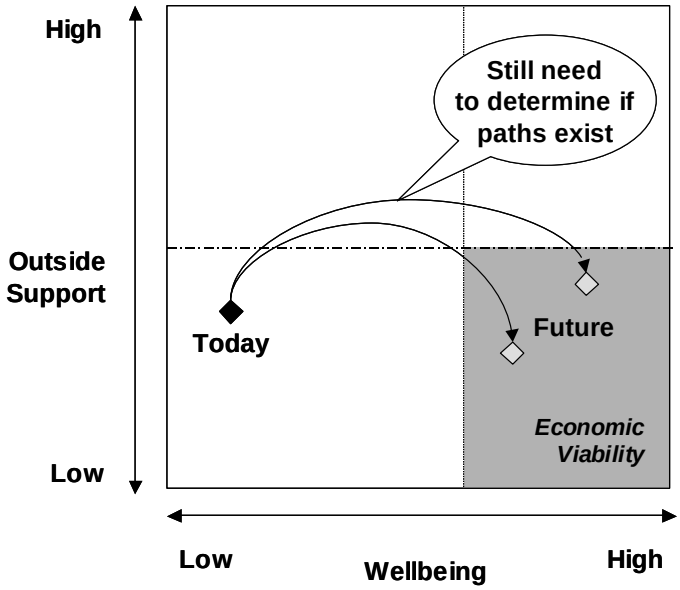
It is beyond the scope of this paper to discuss such transition paths in detail. This is the subject of an extensive development agenda in Cape York across a wide range of prerequisites for economic and social development.[15] The common themes for economic viability presented in this paper are intended to inform this process, by providing a vision of what the end-state of economic viability might look like in Cape York communities.

[13] Our research supported this contention by finding that anchor industries are common to small remote communities with high levels of local employment. Some of the examples we looked at included King Island, which specialises in agriculture; the Kitasoo tribe in British Columbia, which specialises in fishing; and the Louden tribe in Alaska, which specialises in waste disposal.

[14] Note that this path is likely to involve an increase in government expenditure in the short run, demonstrated by the upward curve in the transition line, as resources are used to grow capabilities and realign incentives.

[15] This development agenda is set out in *Freedom, capabilities and the Cape York reform agenda*, Cape York Institute for Policy and Leadership, op. cit.

**Figure 5. Transitions to economic viability**




*5.3. A policy interpretation: Viability is a question of choice*

This section has presented a broad overview of the results of our modelling of economic viability in Cape York communities, and presented the common themes. All of these themes were required, and were complementary, in the economically viable scenarios.

Our policy interpretation of these results is that a critical precondition of economic viability is that people must be mobile, and that they must enhance their capabilities, especially through education.

If this precondition is met, we consider that economic viability is fundamentally a question of choice. If people choose to maintain their community, they must engage with the real economy to deliver an acceptable level of capabilities, at an acceptable level of outside support. To do this, they must seek out local and non-local development opportunities and minimise the passivity impact of ongoing external support.

A common concern is that encouraging mobility will lead to the inevitable decline of such communities. We do not believe that this is correct. The strong and ongoing cultural connection to ancestral lands for the Indigenous people of Cape York means that it is very likely that people will choose to maintain their communities, even as they orbit back and forth to the mainstream.

Critically, however, choosing to stay should not be a default consequence of incapability, particularly due to a failed education. This would be a choice of desperation, due to a lack of feasible alternatives. Instead choosing to stay should be an informed choice from a full range of alternatives that reflects people's passions, talents and preferences.

Nor should the choice to stay be an implicit choice of dependence, with the hope that government support for local development will be enough to solve the current deprivation crisis. Instead, choosing to stay needs to be grounded in a keen awareness of the fundamental economic context, and the policies and attitudes required to build a real economy.

## 6. Conclusion

This paper has presented our findings on whether Cape York communities can be viable. We have presented these findings as three separate contributions.

Firstly, we presented a simple analytic framework for assessing the economic viability of communities on Cape York. This framework defines economic viability and enables scenarios of economically viable communities on Cape York to be generated that take into account a wide range of economic determinants and constraints.

Secondly, we have presented our findings on the state of the current economies in Cape York communities. Our assessment is that capabilities are currently very poor on Cape York and hence that the communities are currently not economically viable. However, this does not preclude them from becoming viable at some point in the future.

In fact, our third and final contribution is the demonstration that remote communities can be viable. Our modelling shows that the common themes of economically viable scenarios are that people must be mobile and enhance their capabilities; policies and attitudes must enable engagement in the real economy; and people must be engaged in both local and non-local productive activities.

Importantly, our work emphasises that economic viability involves a significant degree of choice for the community. It may be a strongly constrained choice, but it is a choice nonetheless.