

## Grattan Event - Monday July 28 2014 - Melbourne

### Mapping the Australian economy

More than three-quarters of all economic activity in Australia happens on less than one per cent of the nation's land mass. In today's services-driven economy, Australia's cities are the engines of material prosperity.

For a long time agriculture was the backbone of our economy, as we rode on the sheep's back. After World War Two prosperity shifted to suburbia, with manufacturing employing one in four Australians. This report shows that Australia's economy is increasingly driven by knowledge-intensive services located in Australia's large cities. Within these cities the most intense and productive economic activity is concentrated around central business districts and a small number of other business hubs. The way these areas draw large numbers of businesses and workers together makes them all more productive.

Grattan Institute's new Cities report raises important questions about whether patterns of housing and transport development that served Australia's cities so well during the golden age of manufacturing are the right ways to promote prosperity and opportunity into the twenty-first century.

**Moderator:** James Button, Communications Manager, Grattan Institute

**Speakers:** Sir Rod Eddington, JP Morgan

Paul Donegan, Senior Associate for the Cities Program, Grattan Institute

JAMES BUTTON: Thank you all for coming to this Grattan event to discuss the latest Grattan Cities report *Mapping the Australian Economy*. I'd like to start by acknowledging the traditional owners of the land on which we stand, the Wiradjuri people, and pay our respects to their Elders past and present.

We're here in the CBD of Melbourne to discuss a report that is in some important respects about CBDs and the role that CBDs play in our economy. And the two people who are going to lead this discussion are on Paul Donegan who is the Senior Associate in the Cities Program at Grattan Institute, before that Paul had senior roles in both Canberra and Victoria in the Public Service, and Sir Rod Eddington who you will all know, he's done events with Grattan before. He is an engineer by training but he has been the CEO of major airlines, Cathay Pacific, Ansett Airlines and British Airways. And in the context of this report he has done two major reviews into transport; here in Victoria the East West Report in 2007 and a report for the British government. He also is the inaugural chair of Infrastructure Australia, he took up that post in 2008, he's just stepped down from that position, and in that time he oversaw a major increase and a heightened focus on infrastructure from the Commonwealth Government. So we're very lucky to have you today Sir Rod, so thank you both for coming.

As I said, we're here in the CBD, I think this terrific CBD, very lively centre of Melbourne. I can tell you, in my own life it's changed out of all recognition. I remember as a kid coming here in the 1970s and the city was deserted. I used to come in here with a mate and we'd go down Swanston Street looking for something to do, we'd hang around in a milk bar down there where you went in cubicles and you flicked those song request things. And we just wanted something to happen in the city, it was

empty. 40 years later, 30 years later it's transformed out of all recognition, day and night, and that's part of our story: what's happened to our CBDs, what is the role of CBDs in our economy, and how do they relate to the suburbs and to the larger land mass of Australia?

So Paul, I thought we'd start tonight by asking you to tell us what's in this report and what the consequences of it are, and then we'll go to a discussion and at the end we'll have questions from the audience.

PAUL DONEGAN: Thanks James. In previous work Grattan Institute had looked at some of the concepts in why cities exist and why they're so important to economic production. Now, what we didn't have, because it doesn't really exist, is the numbers to support that discussion. The Australian Bureau of Statistics and organisations like that don't really give us a good spatial understand of our economy. They break it down by industry and by state and that's about it. But any business would know that location matters, it matters to your cost base, to what kind of customers you can connect with. And any household knows that location matters, that your location determines how you connect with family and friends, the schools your children can go to, how much you're paying for housing and so on. And so we thought this is a question that's really important in the real world and we broke down the Australian economy into small areas.

So what we found, perhaps unsurprisingly, is that cities are really where economic activity is most concentrated in Australia. One of the stats we've been mentioning a lot is that 80% of the Australian economy, and that's the dollar value of all the goods and services produced in a year in Australia, happens on just 0.2% of the land mass, most of that's in cities. Now, more than that though, what we found was that increasingly this activity is concentrated towards city centres. So James talked about CBDs. The CBDs of Sydney and Melbourne, just seven square kilometres, together represent almost 10% of the entire Australian economy, all the goods and services produced in a year in the whole country, and that intense concentration is something that you see in large cities across the country.

So if you take somewhere like Melbourne, we found that the Melbourne CBD with Southbank and the Docklands produced about \$54billion of goods and services in a year, which is a quarter of the whole Melbourne economy. By comparison, there are other areas around the city that are also heightened areas of economic production, and this is other inner city areas: around the airport where there's a substantial freight and warehousing presence; likewise in Dandenong, which also does wholesaling; near Monash University there's manufacturing and business services. None of these places come even close to the level of production that's occurring here in the centre. Dandenong, for example, is essentially coming up in second place at about a tenth of the level of production that's occurring in the CBD.

Now, this is really interesting for us and one of the reasons it's interesting is because it hasn't always been like this. So if you look back a hundred years, we were an agricultural nation, we were a nation of farmers, shearers, drovers. Something like half the population lived on farms or in little towns of up to 3,000 people, market towns and the like, and so the bush was really the backbone of the economy. Fast-forward 50 years, so this is after World War II, and manufacturing had really increased in prominence in Australia, it was giving us a lot of wealth and giving a lot of people jobs. So about one in four Australians was employed in manufacturing and almost a third of the Australian economy was produced through manufacturing, and this kind of activity was really dispersed right across in suburban areas, in regional centres. So the economy moved to the city, but it was very dispersed across the city.

Today, and what we've found, is that the intense concentrations of economic activity are no longer dispersed right across the city, but they're really intensely found in the centre. And that has pretty profound effects for how cities function, how our economy functions and even how we live our lives.

JAMES BUTTON: Thank you Paul. Sir Rod, I'd like you to pick up Paul's comments about the report, give us your assessment of this phenomenon and why you think it's happening?

ROD EDDINGTON: Well, I think Paul's traced the history of it quite nicely. We've gone from basically living off the sheep's back, to being an important manufacturing centre, to a services industry. And agriculture and manufacturing are still important, but agriculture today is about 3% of GDP and 3% of employment. It's very important to us, but nevertheless relatively small in comparison to the services sector. Manufacturing is about 7% of GDP, employs less than a million people. So most of us work in services jobs and in the service industry there are great advantages being co-located with others in the service industry. So in the CBD or the inner city here in Melbourne you'll find the banks, the insurance companies, the law firms; you'll find government; you'll find hospitals; you'll find educational institutions. And there are real advantages to those institutions all being close together. Even though real estate is much more expensive here, nevertheless the advantages of being together outweigh the advantages of being disparate and spread. And that's got profound implications for the way we live our lives, but the interesting thing for me is that cities aren't just important for our economy because of services, they're much more important to the community than they used to be.

You talked about when you were a kid and you walked down Swanston Street and you could have fired a canon down Swanston Street on Saturday afternoon and not hit anybody. Now you've got theatres, restaurants, you've got galleries, you've got libraries, you've got all sorts of institutions that are in the inner city and people come into the inner city not just to work, but for a lot of really important recreational and community activities as well. That tells you that cities are important to community as well as economy and my sense is that trend of moving into what I would call the inner cities is going to increase. So again, when you were rattling around Swanston Street, which wasn't that long ago, you wouldn't have gone down to the Docklands because you probably would have got knocked over the head, but today Southbank and the Docklands are major contributors not only to the economy, but to the community. So the two big banks that are based here, the two big national banks, NAB and ANZ, both have got major offices in the Docklands. You got to down to Southbank you'll find restaurants and theatres and a whole range of activities.

So the inner city or the CBD is spreading and that tells you that people increasingly are looking to the inner cities for not only jobs, but also for their community lives.

JAMES BUTTON: Thank you. Paul, let's talk about Docklands a bit. Sir Rod's talked about Docklands and you found some interesting counterfactual information about Docklands in this report didn't you? Docklands has had a very bad press for a long time. You didn't find that did you?

PAUL DONEGAN: Certainly has, I mean, we all know the mythology around the Docklands, that it's empty, it's a wasteland and maybe where there's smoke there's fire to some extent in terms of the amenity and the urban design. I don't really have a strong view.

What we did find though is that the Docklands as an economic centre is a powerhouse. The urban renewal and the opening up of the land in Southbank and the Docklands has been critically important to the CBD economy in Melbourne and, through that, to the Melbourne and even the national economy. What opening that land has enabled is for firms like Rod mentioned, the two big banks, National Foods, Myer, Medibank Private; there's a whole bunch of firms down there and they're

basically attracted, there's a large amount of land, they can set up big offices but they can still be proximate to other knowledge-intensive businesses in the CBD proper, and that means that they can do their business very successfully, that's why people are moving there.

And if you break up the CBD economy into the proper CBD, Southbank and the Docklands, Docklands is in fact the number two area in terms of production of goods and services in Melbourne. And if you break that down per working hour there, it's in fact more productive in terms of labour productivity than anywhere else in the city and even than the Sydney CBD. So that was a genuine surprise to us, but it shows that this kind of policy activity that has led to it has actually been really important.

JAMES BUTTON: I'd like to ask both of you about the nature of work, the new kinds of work in these city centres. You mentioned some industries, but what are those industries, why are they being attracted, and is there something changing about the very nature - you and Jane-Francis have done very interesting work on this Paul in terms of the actual nature of the work, the way small firms and different firms both compete and collaborate. Can you tell us a bit about that and I'll get you to comment on it as well?

PAUL DONEGAN: Of course. We went through earlier the history of production of goods and services in Australia. We used to be centred around extracting things from the ground or making things or growing things, but today increasingly economic activity is not even something you can always see or touch because it's about knowledge. And the knowledge-intensive activities, these ones that are congregating in city centres, are becoming an increasing proportion of the economy. So it's not that agriculture has declined in real terms, in fact agricultural production is as high as it's ever been, but things like design businesses, professional services, selling our expertise so that Asian cities can set up good water supplies, educating international students. These are the kinds of activities that are generating much more economic production than we've seen in the past.

JAMES BUTTON: Even in sectors like the mining sector, for example?

PAUL DONEGAN: That's very true. The mining sector or mining boom, incredibly important to the Australian economy and of course when we think about it we think about the Pilbara, the Bowen Basin in Queensland, the Hunter. But the Reserve Bank did some work and found that half of all mining jobs are in cities and we had a bit more of a close look at this and, in particular, at the WA mining industry and, in fact, one in three WA mining sector jobs are in Perth.

JAMES BUTTON: They're not digging.

PAUL DONEGAN: They're not digging holes. That's right. Not to be disrespectful to the people working on the mine, but it's equally important to have the geologist selecting where to go, the software programmers to develop mining software that has made the Australian mining industry at the global forefront of productivity, engineers to design machinery and so on. They're all part of that package and that's very knowledge-intensive work.

JAMES BUTTON: Sir Rod, as the CEO of a number of major companies over time as well as an advisor to governments, you've seen this change happening right up close. Can you give us your sense of what it means for the economy and how it's changing the jobs our children will be going into?

ROD EDDINGTON: Well, I think that's right. I studied engineering a million years ago at the University of Western Australia and it's interesting to hear you talk about WA because, as important as the

Pilbara is, I mean, resources are 40% of Australian export earnings and the iron ore that comes out of the Pilbara is fundamental to that. But a lot of the key mining services jobs are in West Perth and in fact Australians are really good at mining, not just digging stuff out of the ground but all the design work that goes behind it, that you mentioned. You go to mine sites anywhere in the world and you'll find Australian men and women on the senior management team and I know that from my six years on the Rio Tinto board. But in West Perth you've got a lot of mining services people co-locating, feeding off one another. And it's a good example, as you say, the mining jobs aren't just in the mine sites themselves, they're elsewhere.

And one of my favourite question is if you go up to the Pilbara and look at a train that's several hundred carriages long carrying iron ore from the mine site, which might be 300km from the port, and each of these carriages carries 100 tons of ore and you've got three locomotives pulling and two locomotives pushing, where's the driver? The answer is in Perth in an air conditioned office operating the trains remotely. I mean, there are a lot of very skilled men and women actually at the mine site doing really important jobs, but it's just a demonstration of how technology is changing what we do. Now, there are some interesting corollaries to this because it means cities start to compete with one another.

JAMES BUTTON: This is happening around the world. It's not by any means an Australian phenomenon.

ROD EDDINGTON: Absolutely. So if you are running a software design company you may have employees in Bangalore in India who are working in a facility there and communicating with you electronically who are at the heart and soul of your business. You might have people in London or you might have people in Silicon Valley. So, one of the things about our children is that they will find themselves in competition with not just people who live in the same city, but people who live in cities in other countries on the other side of the world because their skillset is that portable.

JAMES BUTTON: It's really interesting you say that, because when we paint this picture of the city centres it all sounds like it's great, all these people going into the centre doing these fascinating jobs, talking to each other, sharing knowledge, but who's missing out here? Is everybody enjoying the benefits of this new economy or are there winners and losers do you think Paul?

PAUL DONEGAN: One of the things that this shift towards city centres in terms of economic activity, even as that's occurred our patterns of population settlement are still very similar and basically continuing on the trajectory that we saw in that manufacturing era, steadily expanding the fringe of the greater city even further out. Melbourne CBD is a bit of an exception, there's a very substantial population growth in the city centre here, but that's not something you're seeing Australia-wide to anywhere near the degree that you're seeing in Melbourne. So in fact what's happening is as our economy goes in, jobs go in to some extent. Employment growth is highest closer to the centre. Population growth is highest furthest from the centre, and so that really creates this divide where people have limited access to a lot of this exciting activity, this opportunity within a reasonable commute time.

There are parts of Melbourne, parts of any large city in Australia where people living far from the city centre can only access a tiny proportion of the jobs in the whole city within, say, an hour on public transport or 45 minutes in a car. And that's bad for them because it cuts them off from a lot of these opportunities and, as Rod says, this competition is not just within the city, but increasingly international and so you're essentially starting the race several metres at least behind the starting



line. It also means that okay, you might choose to commute for a very long period of time to access a job or a good job, but that in itself is expensive, it cuts into family time, it creates stressors of its own.

But the third thing is that it's also very bad for the economy. As firms become increasingly knowledge-intensive and increasingly specialised they need skilled people and they need increasingly specialised and quite intensive skills to be able to do the jobs that we've been describing, and that means you really want to have the deepest pool of potential employees as an employer to be able to draw upon. And if the employee is in the city but they're so far away that they can't realistically make it to your workplace, then that's not good for the potential employer and it's not good for you as an employee.

JAMES BUTTON: It's one of the fascinating things about this report is we're talking about historic change in the nature of economy, but our city structure in terms of where people live, transport, is not keeping up with that change and I wonder if you could reflect on that Sir Rod, especially with the work you've done in transport in the centre?

ROD EDDINGTON: It's true because many of the houses that people live in today who are in the services and the knowledge industries were built at a time when Melbourne was much more a manufacturing centre. The houses are still in the same place, the jobs may have moved. A good example in Melbourne is the west, because when I first came to Melbourne many years ago the west was basically farmland and defence territory and now if Bernard Salt, the demographer, was here he'd be telling you it's the most rapidly-growing part of Australia, the west of Melbourne, out towards Werribee, Cairnlea, Caroline Springs, those areas. But unlike the older suburbs which have good public transport infrastructure – trams, heavy rail, good road networks – the newer areas really only had roads, they didn't have anything like the concentration of rail and light rail. So one of the challenges for the Brumby government, something that's been continued on since then by both the Baillieu governments and Dennis Napthine government is to build more heavy rail infrastructure out to the west to do the very thin you've talked about: to give the people who live in those areas not only better access to the high-paying jobs in the inner city, but also to the universities and the hospitals and all the other pieces of the jigsaw because there's no point in building housing estates 15km from the inner city if you don't have the infrastructure there to allow people to be part of the full life.

It does raise the other question though James which is what about remote working? Can you envisage a world in which rather than having people move from the outer suburbs to the jobs in the inner city you somehow can use technology to move the job out to where people live? And there's no doubt that we are seeing more remote working, but it's also clear that a lot of the jobs that we all do require us to sit round the table on a reasonably regular basis. And we are, at the end of the day, Homo sapiens, social animals, we like to be surrounded by others, so although technology does allow a degree of remote working, and you touch on this in the report, I don't think it's going to change this fundamental shift which says cities become more important, not less.

JAMES BUTTON: I think you're right, remote working is a bit like the paperless office, it's something that's been for a long time, "It's coming, it's coming" and it just never comes.

ROD EDDINGTON: Yes.

JAMES BUTTON: And part of it as you say, and as Jane-Francis and Paul's report says, people are social, they like to gather. Sitting around a table, going off for a coffee, all of those personal exchanges seem very important. So given that many people and more people are living a long way out, under the Brumby government and since then there have been improvements but we've still got a big problem haven't we in terms of getting people closer to jobs?

ROD EDDINGTON: That's true James, but I spent a lot of my working life in places like Hong Kong and Seoul and Tokyo and a lot more people there live closer to the inner city. And Paul's point which is we're beginning to see more compact living in the inner urban area, so blocks of apartments, and it's really important we keep amenity and all those other important pieces of the community jigsaw in place. But we are in Melbourne seeing more people moving into the inner city, particularly earlier on in their lives or later on in their lives, when their children have gone off to make their own way. So I think we're seeing both, I think we're seeing urban creep and we're also seeing increased urban densities. And you can argue the pros and cons of those two things, but we are seeing both at the moment and, again, the report speaks to that.

JAMES BUTTON: Paul, you might talk a bit about that, about the specific recommendations the report makes in both the living area and the transport area?

PAUL DONEGAN: Yes, one of the things is that we see a large amount of housing supply increasing on the very fringes of the city and also in the very CBD, but not necessarily that being reflected in the inner and middle established suburbs of the city. It's quite bipolar and what that means is that people don't necessarily have quite the array of choices about their housing and where they live than was the case many years ago. Certainly there are plenty of options on the urban fringe, but that may not be necessarily appealing if you want to be able to access all the employment and amenity and community options that we've discussed already. But the other option of living in, for instance, a CBD high-rise, that's not necessarily something that's appealing for many families looking to raise children. That's not necessarily the case all around the world, but certainly something that we've found is that in Australia people don't necessarily see a CBD high-rise as where they want to bring up their kids. And having that full array of choices where it might be someone able to trade off their location, for the dwelling type to be a bit smaller, a unit or a townhouse or even just a smaller detached house or an apartment in a small block, is not necessarily something the cities are offering.

So that's certainly something that we would like to see, essentially enabling people to have a more diverse array of housing choices. That touches on some work that Grattan did previously that identified that under real-world circumstances, where you're constrained by the actual income that you have, not everyone wants to live in a detached home very far from the city centre. But the supply of those kinds of houses in inner and middle suburbs isn't adequate to what people would choose if they had the opportunity and the corollary is better transport connection. Some places just don't have the connectedness to the city centre that people in more established areas or even growing up in previous generations might have taken for granted, and Rod's touched on that already.

JAMES BUTTON: Do you think Rod that, given the report and given what you just said about Tokyo and given the fact that our economy will need a lot of skilled workers in the centre it seems, should our cities become more like New York or Tokyo in a living sense?

ROD EDDINGTON: I think they are already. I think the fact that you've got buildings like the Eureka Building in Southbank.

JAMES BUTTON: It seems to be high cost housing, doesn't it?

ROD EDDINGTON: They are but many of those people would have vacated houses probably in the conventional living areas, so it'll be interesting to see how that plays out. But I think this debate speaks to physical infrastructure and the way in which we understand it, which is where people live, what are the public transport networks like, what are the opportunities for roads and the like? But it

also speaks to the way in which we use technology because if competition is between cities – and by the way, that's true in Australia as well and it's true in Victoria.

So if you go the regional cities like Geelong, Ballarat and Bendigo and talk to the people there and ask them what connectivity matters more than anything they'll say, in some cases slightly reluctantly, the connectivity to Melbourne. One, because many of them are increasingly commuting to jobs here in Melbourne, and it's not just physical connectivity, it might be telecommunication connectivity. How good is the telecommunication connectivity? If I'm running a business on the outskirts of Geelong or Ballarat or Bendigo, how good is my communication technology because I'm speaking to people who work in the offices in Sydney and Brisbane and maybe Hong Kong and Tokyo, but I'm also speaking to people in offices in Melbourne. So when we think about connectivity we just shouldn't think about transport connectivity, we should think about it more generally, James.

JAMES BUTTON: And if you're in one of those cities that you mentioned before, Ballarat, Bendigo, you're not far from Melbourne.

ROD EDDINGTON: Correct.

JAMES BUTTON: You could go down two days a week, have the job with some time in the city, some time using Skype and the internet.

ROD EDDINGTON: Yes.

JAMES BUTTON: I guess the difficulty perhaps comes for people who live even further out. Some other work in a different Grattan program showed that those city centres are not doing too badly in terms of economic growth, population growth, that are quite near the big capitals, but further out it's more of a challenge.

ROD EDDINGTON: It is James, but we Australians are not very good at moving to where the work is. We'd much rather try and find a job just down the road than move towns to a place where there are jobs.

JAMES BUTTON: Whereas the Americans, say, are more?

ROD EDDINGTON: Whereas the Americans are much, much, much more transportable, if I can use that expression. And having lived in other countries, it's true in the UK too, I've lots of friends in the UK who might live in Manchester for a while or Birmingham for a while and live in London for a while. We tend to be much more reluctant to move to where the work is and the Pilbara's been a good example in that. There have been some people who have been prepared to commute, but there have been really good paying jobs in the Pilbara and there have been manufacturing businesses closed down in Adelaide and the skills the men and women have in Adelaide are absolutely spot on for work in the Pilbara, but people don't want to move. And I understand some of the family issues that surround that, but we are reluctant to move to where the work is.

JAMES BUTTON: So it must have deep historical roots?

ROD EDDINGTON: It does, but it does make it a bit more difficult. It does mean our economy is a bit less flexible.



JAMES BUTTON: I'm going to take questions in a moment, but I just want to ask Paul one last question about the report which is there's some great detail in this report Paul about areas of cities that are actually doing very well in terms of generating value. Here in Melbourne, Richmond generating a lot of value. Tell us why Richmond for example, seeing we're in Melbourne – we could talk about Piermont Ultimo in Sydney or Gold Coast, but why is Richmond proving to be such a valuable place?

PAUL DONEGAN: So somewhere like Richmond, there's a reasonably diverse array of activity there, there are some media businesses, quite a lot of advertising, still substantial retail and hospitality presences. But if you think about it, Richmond's not very far from here at all and yet the amount of economic activity it generates, off the top of my head, is something like a 20<sup>th</sup> of the CBD. It's really, really, yes, it's more substantial than most parts of greater Melbourne, but you wouldn't want to overstate its contribution either. And that's something that's not just happening because there's a lot of workers in the Melbourne CBD, even though there are, but because the amount of activity they're generating per hour is much higher than elsewhere in cities.

ROD EDDINGTON: James, this does raise one question – or it raises a number of questions and I'm sure we'll get some of them from the audience – but if cities are really important, what does that mean for the role of rural Australia and our regions? Because cities don't feed themselves, the rural community feeds us and, in a world in which cities become even more important, how do we ensure that as a nation we have the right commitment of resources not just to the cities, but to regional and rural Australia as well? And I think you can't in a holistic sense debate the role of cities without ultimately touching on that as well.

JAMES BUTTON: That's exactly right and that's why that question of where are the people going to live and whether people will move to jobs and all of that is very important.

ROD EDDINGTON: Correct.

PAUL DONEGAN: Well, one of the things there though is, much as though we might wish it to be otherwise, that whether it be in a city as economic opportunity concentrates toward the centre, or nationwide as places like large cities or a region like the Pilbara grow, is that much as people may be often reluctant to move, you can't just order jobs around either. You can't just move the jobs to where people want to be and that creates a lot of -

JAMES BUTTON: That's been a very strong Grattan finding, hasn't it?

ROD EDDINGTON: Yes.

PAUL DONEGAN: Yes, and it's not a finding that you make happily in the sense that -

JAMES BUTTON: Because there have been many programs, "We'll just fire up some industry here with some industry support or economic support". There's just no evidence that it –

ROD EDDINGTON: No evidence that it works, in fact plenty of evidence that you can waste a lot of money doing that.

JAMES BUTTON: That's right. I think it's time to hear from you all here.

AUDIENCE: Paul, I like your paper very much except that you utterly, utterly miss the point. I'm not making jokes here, this is terribly serious. This goes to the centre of the Australian experience. You talk about selling our expertise and the services sector in Australia, the cities being central to that. If you look at Australia's exports, our services have turned down. The measure of our services quality is the interest of importers from overseas wanting our stuff and they don't. They don't, they don't want our services. They're buying our coal, they're buying our iron ore, but they're not buying our services. Australia is doing itself a grave disservice by thinking we can do good things with services when nobody except ourselves wants our services. This is a terribly important thing. You talked about mining services, design, engineering and software design. People are not buying our services. The export figures do not show this.

Our manufacturing is turning down, which is okay because most of that downturn is related to simply transform manufacturers. Our very good high-end manufacturers continue to power it, but the central thesis of your story about the Australian city is that services are going to take us somewhere else. In my opinion, they're not and, to go back to my question, which is if the rest of the world doesn't want to buy our services, what on earth do we think we're doing? What are we up to with services when the cities can only be supported by our own mining enterprises? Thanks.

JAMES BUTTON: I think both Paul and Rod would like to answer that.

PAUL DONEGAN: Thank you for your question. One of the things that the report wasn't about was the composition of the macro economy and what's a desirable ratio of service to mining exports to whatever else. What we're essentially doing is a report card on where economic activity as it occurs in Australia now is happening. What we found was that increasingly it's intensely concentrated in city centres and a lot of that is to do with businesses that are selling knowledge, rather than producing goods or growing things and so on. The other issue is a pertinent issue in Australian economic discourse, but that's not the report that we wrote, it's not the question that we're asking.

ROD EDDINGTON: So the major buyers of Australian services are Australians. Australia I think exports about half its food, for example, that it produces, so we consume half of what's produced, we export the other half. We do that with 3% of the workforce. 200 years ago you probably would have needed 80% of the workforce. So as technology has made our farming community very efficient and our farmers are very efficient, that's freed up people and they've gone into services and we Aussies are the major buyers. Whether it's restaurants or education or entertainment or legal services, we the Australians are the major buyers. Australia's major export earner, number one iron ore, number two coal. I think it's now number three education and number four tourism.

JAMES BUTTON: Yes, that's right.

ROD EDDINGTON: So yes, exports of resources are fundamental to our economy, fundamental to our ability to earn globally the money we use to buy other things, but the bottom line is services are three and four. And by the way, it's not resources *or* services; it's resources *and* services and if we –

AUDIENCE: The world does not want our services.

ROD EDDINGTON: That's nonsense. I've lived in Japan, I've lived in Korea, I've lived in the UK. I've run airlines that are full of people coming to Australia. Walk down the city streets at any time of day, we're in great shape. So I don't buy the argument the world doesn't want our services. It's simply not right. It mightn't fit your model, but it's not right and, as I said, it's not resources *or* services. And by the way, as a proud Australian who lives in Australia, I want to buy Australian made services and I do

every day and I'm going to continue to. So the biggest buyers of Australian services aren't the Japanese; they're Aussies.

AUDIENCE: Recently Plan Melbourne was released in Melbourne. Can you comment on the role and the effectiveness or the application of planning theory and planning policy on what really happens? Does planning theory lead or follow?

PAUL DONEGAN: Good question, indeed, thank you. I think Plan Melbourne and, in particular, some of the decision making that preceded it that was subsequently incorporated into Plan Melbourne touches quite closely on some of the issues that we've discussed earlier. One of the key things that we recommend coming out of this report is people being enabled to have more choices about the locations in which they live and the dwelling types in which they live and being able to trade those off, so that it's not a kind of dichotomy between population growth in CBD apartments and detached housing on the urban fringe.

One of the things that preceded Plan Melbourne was decisions about zoning. It seemed like a good thing, that you could essentially collapse a whole bunch of urban zones into one which was high growth, one which was medium/modest growth for housing supply and population, and one which was like, "Lock it down, don't build anything here". Prior to the release of Plan Melbourne, the government decided that rather than either setting targets or creating incentives around local councils, making decisions to set what growth sign was where, they'd just let the local councils do it. Unsurprisingly, the inner and middle established suburbs which are best served by the infrastructure that we've discussed, transport infrastructure and so forth, are most proximate to the economic and social opportunities that city centres are providing, said, "Look, thanks but no thanks. We're going to have nearly all of our areas in the kind of 'you can't build here' zone".

That was a really disappointing step in terms of both the economy of the city and the opportunities people will have to make choices about how they live their lives. So in that sense, I think that's going to be something with more longevity than some of the phrasing in the Plan Melbourne document that was released subsequently.

ROD EDDINGTON: It's a good question, does it follow or lead? I think it's both. One of the things I like about these sorts of documents is that they should be released and people should have plenty of opportunity to consider them, agree or disagree, challenge or accept. I think that's a much healthier process rather than government, as it were, trying to carve out a piece of legislation in tablets of stone and put it to the community without the debate.

So I think these sorts of debates are really important, but I don't think you can debate planning issues absent of the sense of where the economy is and where it's going, and also you can't debate them absent the sort of lifestyles that people want to lead. Because today a lot of people who live in the greater Melbourne area lead a life that's much more inner city-centric than it was 40 years ago. And I'm not just talking about people who might come to the MCG to watch a game of football or a game of cricket or to AAMI Park to watch a game of soccer. People come to our theatres; you can remember a time when the theatres were going to be pulled down. Lots of great restaurants in the inner city today, our galleries have never been more popular, our museum, a facility like ACMI, the Australian Centre of Moving Images which very few people went to. We've had Pixar, we've had Tim Burton; we've got DreamWorks there now. When the Tutankhamun exhibition was on at the museum over 800,000 people came to watch it. These sorts of things never happened in the past, so you can't have a discussion around planning law and planning process absent of discussion around where's the

economy, where is it going and what are the things we, as a community, want to be doing with our lives, not just for work but also for recreation?

JAMES BUTTON: If I can just say quickly, there's some earlier Grattan work in a report called *Cities: Who decides?* which is a terrific report about cities that have actually done well in achieving change and getting a different mix of housing and industry. And the cities that have succeeded globally are those that have actually involved their populations in a serious sustained discussion over time. I'm thinking about Vancouver, for example, where people have been actually asked in a serious way what future do they want for the cities and what trade-offs are they prepared to accept, because you can't have everything. A kind of grand plan for a city and that's I think where the New South Wales government started. I don't know where they finished up, I don't know if you know Paul, but it's where they started didn't they? That was some of the intent initially.

PAUL DONEGAN: Yes, it certainly did appear to be the aspiration and I think that kind of reform agenda in New South Wales started with an enormous amount of good intentions. It's very easy in the Melbourne CBD to make flippant remarks about the New South Wales political system and the level of trust that the Sydney community had in the politicians, but I think that in part was an impediment to getting change that people could believe was in their best interests.

AUDIENCE: Just help me out on that point you made earlier about services. A great number of our companies that operate in Australia are foreign entities and they structure their value chain around tax and other issues to save money, basically to make profit and not pay tax. So if they don't necessarily need to pay for a service in Australia they won't, done, they'll just offshore it, simple. However, the value we can create in the services that we are generating here that's what really matters and the only way you can do that is to bring talented, educated, creative and hardworking people closer together.

What I wanted to understand is, from all your research, how well have you been able to garner how much the market pulls the planning along by the nose and how much the market learns to play the dance of regulation? I understood that point that it's too late and it's both, but who's really leading? It's the biggest, most stressful thing for young people these days, where will they find a place to live? Who's dragging this market dynamic along? How do you temper it? Have you seen any of that? Can you discuss any of that, please?

PAUL DONEGAN: I think that what we've seeing over recent years is a much more rapid increase in house prices - if I think I understand your question correctly - in inner areas that are close to where this economic and social activity is much more concentrated and increasingly concentrated. Ordinarily, if the market were working then that would then stimulate more construction of housing in these areas, you wouldn't see such acute increases in house prices in areas close to city centres. So to that extent, that suggests that there's something that's an impediment to the market doing what markets are supposed to do, which is serve people. And one issue is around restrictions on what housing can get built where and so forth, but a counterexample is that government decision making can also make a profound difference on a lot of these issues.

We were talking about the Docklands before. 20 years ago that was only really just embryonic, but it was very much a conscious decision of governments of multiple persuasions to release this land and to encourage economic activity occurring. And you can contrast that to the Sydney CBD where land is very, very scarce, there's a much higher premium than the Melbourne CBD. And so across that 20-year period you can see that the Melbourne CBD is a legitimate competitor to Sydney for a lot of

businesses for where they choose to locate and 20/25 years ago, that would have just been laughable. So at the risk of repeating of what was said earlier, it's both. It is the market but it's also government, they both have a powerful role to play.

JAMES BUTTON: What do you think Rod? The gentleman has raised an important issue that for young people where am I going to live, how am I going to be able to afford a house? In your various roles, you must have thought about this question?

ROD EDDINGTON: Look, I think it's always been an issue actually. My parents paid off the family home the day that dad retired. Dad worked for the Commonwealth Bank all his life, apart from his war service. Owning your family home was always the ambition, as it still is, as it should be, but you certainly didn't own your family home when you were 35. If you weren't renting, you probably had a house and the mortgage was 80% of the value of the house. So I think there are some real issues here, but I think the basic point's right: it is a real challenge. There are probably few markets in which governments interfere more than the housing market. It's a long way from being a conventional market, James. There's a lot of government regulation around it, there are a lot of government initiatives to try and help people get into homes, their own home, and First Buyer subsidies are an example of that.

JAMES BUTTON: Singularly ineffective.

ROD EDDINGTON: And it seemed to me all they did was tick the price of the houses up, they didn't necessarily help that many more people into houses. So some of these well-intentioned activities don't necessarily deliver the outcomes they want and unless we have a world in which more houses are being built, the right sort of houses that people want to live in in the right places, the challenge remains.

PAUL DONEGAN: Can I just echo that last remark, it's absolutely spot on and, in doing so, put in a somewhat gratuitous plug for a report we released late last year entitled *Renovating Housing Policy*. And one of the things we identified there was that home ownership levels and bi-ownership, either with a mortgage or an outright owner, are starting to decline, but declining most acutely among people who are younger and who are on lower incomes in a way that we didn't see in, say, the 1970s. And there's a spatial element to this as well. When you're looking to buy a home there's always a trade-off around location and how much can I spend and so forth, but an average household on an average income looking to purchase an average-priced home for that suburb these days is looking to purchase a house 35km from the city. 20 years ago that trade-off wasn't as acute; average household, average house price, able to buy 10/15km from the city centre.

JAMES BUTTON: That's the difference.

PAUL DONEGAN: That's a bit shift, particularly as the economy has concentrated inward across that period. So, some of these challenges aren't the same as challenges for young people of previous generations.

ROD EDDINGTON: And if that's true, unless you've got the transport infrastructure, including the public transport infrastructure, because is 35km a long way from where you live from your job? Is that a long way or a short way? The answer is it depends on the transport infrastructure.

JAMES BUTTON: That's right and the roads as well.



ROD EDDINGTON: Well, the roads and the rail networks because if you're trying to move lots of people down narrow corridors at peak times, the urban commute, history suggests that the heavy rail is a critical part of the solution there. So without the right infrastructure and the right telecommunication infrastructure, the further you live from your job the more difficult life becomes.

AUDIENCE: I'd just like to ask the panel to reflect on the metropolitan governance implications of the economic geography described in the report.

PAUL DONEGAN: I think it really touches back on some of the issues that Rod mentioned around transport infrastructure in particular is the first thing that comes to mind for me. That that kind of infrastructure is at times very expensive and certainly there's a very strong case to be made for making better use of the infrastructure we currently have. But if you're building new suburbs in areas which are unserved by transport connections then it's only fair and equitable that they be given access to that, and that's not cheap. We see that the role for the Commonwealth there is one that has oscillated over time, there have been degrees of interest in our cities, at times there's less interest, but the Commonwealth collects such a large proportion of tax revenue in Australia that decision making in that respect is not as healthy as it could be. That's one aspect.

The other is that the housing supply decisions that I touched on before are being made by local governments with the interests of the people who vote for them and the people who pay their rates at heart. If you're a local council in an inner or an established suburb with good transport connections and proximate to jobs, there's not a whole lot of incentive for you to enable increasing housing supply and a more diverse mix of housing in your area because the local rate payers at the moment are going to be very wary about the impact on transport or property values and so on. And so the absence of decision making that takes the interests of the whole city into account is a real gap and that's made clear by some of the dynamics we've identified.

AUDIENCE: Tony Abbott recently said that the Commonwealth should stick to its knitting by not funding rail and concentrating on road. I'm just wondering if the panel has any views on whether that's an appropriate principle for the Commonwealth to adopt?

ROD EDDINGTON: My first observation there would be to say a lot of these big transport projects ultimately rest with the state. If you look at our Constitution, the states are responsible for much of what happens in our nation, they're responsible for education, they're responsible for health, they're responsible for transport, including rail. In fact, at Federation at the beginning of the 20<sup>th</sup> century I think there were nine different rail gauges in Australia and you'll hear a number of reasons as to why people thought that might be true. In other words, the distance between the rail lines varied from place to place and one of the reasons given was that it depended whether your rail network was built by Scottish engineers or Irish engineers or Welsh engineers or English engineers. I prefer the line that says it was to stop the buggers in the other states getting to you because the trains had to stop at the border because they couldn't move from one rail network to another.

But on a more serious side, these issues are issues primarily for the state. Quite understandably, most of the revenue gets raised by the Federal Government, which is a dichotomy. My sense is that whatever the Federal Government may choose to fund or not to fund, the states themselves will have transport projects that are priorities for them in both road and rail areas. So for many of our cities and for much of our country it's not just do we want better roads or do we want better rail networks; we want better both. So now it becomes a question of where you allocate resources. At a holistic level

you could argue that it mightn't matter much to a state government whether it got money for roads or rail because whichever it gets money for it will use some of its own funds for the other.

My own view is whatever the Federal Government may think on this issue, the states, which will of course be driven by people like us, will have rail projects that are a priority for them. So, for example, in the state of New South Wales we've seen the Premier, who is of the same political persuasion as the Prime Minister – Liberal governments in Canberra and in New South Wales – commit to the Northwest Rail Link. It's a major rail program and, although the state will get funds to help them with their road programs, they'll have to fund the rail programs themselves. And I think we'll see the same in Victoria. So whatever the Federal Government chooses to fund or not to fund, I think the states will press on with the transport projects that they believe are right for them.

AUDIENCE: You've alluded to the importance of the transport challenges facing Victoria and Australia going forward. I wondered if you could comment on the quality of the process you believe is in place for prioritising what transport projects should go forward and ways it could be improved, if at all?

ROD EDDINGTON: The good news is we're much better at it than we were six years ago, when I started at Infrastructure Australia, but that's a pretty low bar. Six years ago when projects came to Infrastructure Australia they were nothing more than wish lists really. There was no what I would call robust case around them: business case, economic case. People hadn't thought about the economic implications of a project, they hadn't thought necessarily about the community implications of a project; they'd often thought about the political implications of a project.

So I think there's a lot of work being done now to try and inform projects when they're put forward and some of that's being done by the good civil servants around the country but, to be frank, a lot of it's being done by institutions like yours. I think people like KPMG, Ernst & Young, Port Jackson Partners, PricewaterhouseCoopers; the consultancy firms are helping governments get their head around these issues, which means that the cases that come forward now are much better informed. They're not perfect, but they're much better informed and we're having the debate around these sorts of issues.

JAMES BUTTON: So you're saying for a long time in Australia we had a terrible process here?

ROD EDDINGTON: We had no process. The process was you built bridges over puddles and roads to nowhere in marginal electorates at election time. That was the process. It was politically right on the money. It wasn't necessarily the best thing for the taxpayer dollar and it wasn't necessarily the fairest thing for our community. Now, I'm exaggerating James, but not by much. The process is much better today, but we still have some way to go.

JAMES BUTTON: Paul, do you want to comment?

PAUL DONEGAN: The only thing I'd add is that as well as it being very important to be able to prioritise effectively which projects you actually build; sometimes the best decision is to not build something and to think about other ways to solve these problems. In particular, if we can do various things to get better use out of existing infrastructure or find other ways to meet or manage the demand for infrastructure, that's also going to be an important element along with building new things, of better infrastructure for Australia into the future.

ROD EDDINGTON: And that is the single most important thing to do. So if you're concerned about congestion on our heavy rail network into the inner cities at peak times rather than necessarily building X more railway lines, what could you get if you invested in a new upgraded signalling system

which allowed you to get more bigger trains down existing rail lines? Making best use of existing infrastructure is the single best thing to do and, by the way, economically it is the single most effective thing to do.

JAMES BUTTON: What about user charging?

ROD EDDINGTON: That's interesting. If you think about roads as another example, because the signalling network applies to rail. If you think about roads, if you had variable tolls across the day on toll roads, on roads that are toll roads and we have them already and with new technology you can do that, you might flatten out the peaks. Not everyone needs to drive down the Monash at half-past eight in the morning and if you had a variable toll system and the technology, as I say, increasingly is there, then you may be able to make better use of toll roads. If you talk to the automotive engineers, they will tell you the day may come that you'll get on a major highway and the car will drive itself and it'll lock us into a caterpillar-like train as we go along and therefore we'll get more cars down an existing road. Now, I'm not sure I want to sit in a car where I'm not driving it, although my wife might have a separate view James, but I do think there are ways in which we can make better use of existing infrastructure, whether it's road or rail or whatever.

AUDIENCE: We had an interesting conversation about developing transport infrastructure. Are there other options, like in the future, for example, if we try to get more and more people into the CBD we are putting extra pressure on existing amenities: roads, water supplies and electricity. So is it a good option to put more money into improving that infrastructure or creating a new CBD area for special services, like IT services or banking, and providing more incentive to those industries to shift their complete operations to new CBDs or existing CBDs, like Ballarat or Richmond?

JAMES BUTTON: Thank you for the question. Paul, your report's got things to say about this?

PAUL DONEGAN: Yes, that's right. There are a number of things you can do to enable business to locate in a particular area: ensuring that there is land available, and we touched on that before with the Docklands and the like; ensuring there's adequate transport infrastructure so that they can connect with customers and with suppliers and other businesses and so forth, and particularly in some sectors of the economy that's critical. What is a lot more difficult is telling a business or creating some set of incentives for a business to say, "Okay, you're going to locate over here" whether it be the Ballarat CBD or anywhere else.

A business will decide its location based on what's best for it and the Melbourne CBD is a great example. The rents are higher here than anywhere else, the traffic congestion is worse than anywhere else, parking is expensive; there are a whole pile of disincentives why you would not locate a business here. But because of the importance of being close to other businesses, particularly in knowledge-intensive sectors of the economy, being close to your customers, your suppliers, people you can generate business deals with, solve problems with, and also one thing we perhaps haven't touched as much on tonight but is really important is being able to draw on the deepest pool of possible employees. If you're in a knowledge-intensive business doing skilled work, doing specialised work there might not be that many people in the whole city who can actually fill the vacancy that you've got adequately. So you want to be able to be in the location that gives you access to as wide a range of talent as possible.

So these are really powerful economic forces and we might not like them and it would certainly be appealing if we were able to get a more even distribution of jobs and people and infrastructure, but

the fact that we might like that doesn't mean that we have the capacity that would like to be able to do that sort of thing and essentially order the economy around.

ROD EDDINGTON: I think as the transport infrastructure gets better between the inner city of Melbourne and the satellite cities of Victoria – Ballarat, Geelong and Bendigo particularly because broadly they're about an hour away – then there will certainly be more flexibility. And the important thing is you can live in those areas and work in the inner city, as long as the transport infrastructure is effective and the telecommunication infrastructure is effective. But if you were to say to a business that's currently based in the inner city here in Melbourne, "You have to move and we're going to send you down to Geelong" the people who run that business might say, "Okay, if we're going to move from Melbourne we're not going to go to Geelong, we're going to go to Sydney or Singapore or Hong Kong or Bangalore".

So you can't assume that government has the capacity to play God with these things. Businesses will make their own decisions about where they locate and if you make it extremely difficult for them to locate in a particular place then you can't assume they'll go to where you want them to go. You can't say to a company, "You've got to leave the inner city of Melbourne, you've got to go to Geelong" because the men and women running that company may decide to move interstate or overseas.

JAMES BUTTON: Unfortunately we're out of time and I know there are more questions. It's been a terrific discussion. When I was a kid hanging around in the CBD in the '70s, on Sundays I used to watch this program called World of Sport and I was very keen on World of Sport. And what always struck me about World of Sport was that in the end everybody who came on the program got a gift and I remember those gifts; they were always the Hutton's Footy Franks and the Del Monte soup. No, we're not going to give you those things but we have – and it just shows we've become more sophisticated these days – a bottle of wine. So thank you very much for coming tonight and can you all please thank Paul Donegan and Rod Eddington?

I have one more announcement to make, which is not as happy an announcement. Very sadly the Cities Program at Grattan is coming to an end at the end of this year and Jane-Frances Kelly, who inaugurated the Cities Program and has been its Program Director from the start, is going back to Scotland where she came from originally. Now it's an exciting time in Scotland, there's a referendum and who knows what's going to happen with that referendum, but there are many opportunities for her there. Australia's loss is Scotland's gain. We are replacing the Cities Program with a Transport Program, so many of the issues we discussed tonight will be the focus of that program. But before the Cities Program concludes, Jane-Frances Kelly and Paul Donegan are writing a book about cities in Australia. That book will be finished by the end of this year and published early next year. It will address the very questions we've discussed tonight: if cities are now the engines of our prosperity, what does that mean for the people who live in them; for the economies of them; for the whole questions around where people live in cities, the cost of housing and the huge transport question. I think it'll be a terrific book, having seen early parts of it, so please watch out for that.

Thank you all for coming tonight and we'll see you again at another Grattan event. Thank you very much.

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