

Heart of the city remains the lure

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The reality is that people want to live near their inner-city jobs, write Jane-Frances Kelly and Peter Mares.

Cities are home to three in four Australians and generate about 80 per cent of our GDP.

So if we are concerned about the three Ps productivity, participation and population we must change the way our cities work.

The rise of knowledge-intensive industries is clustering high-value jobs around city centres. Yet we continue to spread our cities outwards, as if the future of employment lay in manufacturing plants on the suburban fringe.

A growing body of research shows that the more knowledge-intensive our economy becomes, the more proximity matters. This might seem odd in a networked society. In theory much of the work carried out in expensive city offices could be done just as easily from a desk in the outer suburbs. Yet the industries winning a bigger share of the Australian economy choose to locate close to one another in the heart of the city.

Urban economist Ed Glaeser calls it "the central paradox of the modern metropolis" as the cost of connecting across distance falls, the value of being near other businesses rises. In sectors of the economy such as finance, insurance and business services, reducing the physical distance between firms and workers significantly increases productivity.

Proximity allows employers to draw from a deeper pool of qualified staff and gives workers access to a wider choice of jobs, resulting in better matching of skills and positions. Clustering also helps businesses and workers to become more adaptive and innovative as they learn from one another through knowledge transfers and spillovers.

It is not only the skilled who gain. In *The New Geography of Jobs*, US economist Enrico Moretti calculates that 12,000 high-tech jobs at Apple indirectly create another 60,000 jobs. While 60 per cent of those jobs go to professionals (such as lawyers and accountants), 40 per cent are unskilled positions in sectors like hospitality and personal services.

Importantly, Moretti found that as the knowledge level rises in a local economy, so do wages, "not just for the skilled workers but also for workers with limited skills".

Launching the 2012 *State of Australian Cities* report this month, Infrastructure Minister Anthony Albanese said that our cities are "shrinking in on themselves" as knowledge-intensive industries create inner-city jobs, yet housing continues "to creep outwards".

One way to narrow the distance "between where people live and where they work" would be to relocate jobs to the urban fringe, but the benefits of clustering in a more knowledge-intensive economy suggest this is not going to happen in sufficient numbers. Jobs growth in outer suburbs is likely to be in industries that require large amounts of physical space for their operations, such as logistics and transport. So can we instead move people closer to jobs?

There are two ways to do this. First, we could upgrade urban transport networks. This would reduce travel times, which is what really matters. The other way is to increase the number of dwellings within reach of city centres.

It is widely assumed that Australians' enduring desire to live in a free-standing home forces our cities outwards as home-buyers drive to what they can afford in new "greenfield" developments.

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It is true that many Australians do have a preference for a detached house. Yet detailed research by the Grattan Institute in Sydney and Melbourne revealed that even more Australians would like to live in a townhouse, a terrace or an apartment in an established suburb.

Grattan's report *[The Housing We'd Choose](#)* shows that these Australians would trade off the size and type of a dwelling for a location nearer the centre of the city.

Unfortunately, the current housing market fails to offer them that choice.

To change the situation we need to build more housing in middle-ring suburbs that are relatively well supplied with transport and other infrastructure.

This does not mean riding roughshod over the interests and concerns of existing residents. In fact, evidence gathered for Grattan's report *[Cities: Who Decides](#)*, shows that the only way forward is deep and sustained engagement with local communities. That is why the long-term strategic plans and zoning reform proposals now being discussed in Sydney and Melbourne are so important.

If these processes end up preserving established suburbs in aspic, then we will not only limit residential choice, but we will continue to build cities that serve an out-dated economic model.

This will dampen growth, hold back productivity and prevent more Australians from gaining access to the high-value jobs being generated in the knowledge-rich urban centres.

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