

Productive cities: opportunity in a changing economy

It is time to put the functioning of our cities squarely on the economic reform agenda.

Cities are essential to generating economic growth and to creating and sharing opportunities. In the past, our cities have served us well in this regard. But if Australia is to prosper in an ever more knowledge-intensive global economy, then our cities must perform these roles differently – and much better – than they do today.

Productive cities, the latest report from the Cities program documents who lives where in Australia's four largest cities and how this is changing. It then analyses the consequences for national productivity and individual opportunity.

Speakers: **The Hon Malcolm Turnbull MP**
 Jane-Frances Kelly, Cities Program Director, Grattan Institute
 James Button, Author and Communications Manager Grattan Institute

JAMES BUTTON: Thank you all for coming tonight. My name's James Button, I'm the Communications Manager at the Grattan Institute. We're very lucky tonight to have Jane-Frances Kelly who is the Cities Program Director at Grattan Institute. Jane-Frances has been the Cities Program Director for four years and before that she's done so many things, just an extraordinary range of things: she's worked for the Strategy Unit of the UK Government under Tony Blair; she has led strategy work for a range of governments, including the Victorian Government, the Commonwealth Government, the Queensland Government; she's worked for Noel Pearson in Cape York and for the Chief Commissioner of Police and for the Vice-Chancellor of Melbourne University. On Jane-Frances' left is someone I don't think I need to introduce but I will do anyway, the Honourable Malcolm Turnbull is the Shadow Minister for Communications & Broadband; he's a former Minister for the Environment; former opposition leader; he's been a barrister, a lawyer, a merchant banker, a writer, and many other things. And he's married to Lucy Turnbull, the former Lord Mayor of Sydney, someone with a keen interest in this area that we're going to discuss tonight, cities, and who is on the Grattan Board.

We're here tonight to talk about Grattan's latest report *Productive cities: opportunity in a changing economy*, and to have a broader discussion as well about our cities, how they're changing, and the impact that the change in our cities is having on the economy. Jane-Frances will start by talking about the report, about the ideas in it, and Malcolm will respond. We want to hear from you as well, so I'm hoping there'll be time for you to ask questions.

Jane-Frances would you like to start by telling us what this report is about.

JANE-FRANCES KELLY: Thank you. I'll give you a 12 minute spiel and I'll show a couple of maps of Sydney up the back as well. I often start when I'm speaking somewhere by telling people that I arrived in Australia in 2004. That's because, despite getting 20 out of 20 for my Citizenship Test, the accent is clearly not going anywhere and I've had quite a few people assume that I arrived about two weeks ago, so I like to be able to clarify that it's almost a decade now. When I arrived I spent the first year working for government in Victoria, so I was in Melbourne, and I saw a couple of maps of Melbourne from the ABS Social Atlases and the maps showed where people with university qualifications live and then where people with vocational and no qualifications lived in Melbourne. I'll show you some similar maps for Sydney, but essentially people with university qualifications are highly concentrated in the centre and the inner suburbs of Melbourne, and people with vocational and no post-school qualifications are round the outer suburbs. I was really struck by how strong those patterns were and I was going "This is a really strong pattern, I'm sure this must have implications for the economy and for access to opportunity". But, as Sydney-siders may have blanked out, 2004 was also the first time that Melbourne was the top of *The Economist Liveability Index*, and so everybody that I was asking about this was just saying "But we're the best city on the planet, it's not possible to be on planet Earth and be in a better city. We're just really marvellous and I bet most Sydney-

siders are really envious". What I soon learned about Australia is that people in Melbourne have a strong view on the Melbourne/Sydney rivalry and you come to Sydney and people go "Sorry, what rivalry?" which is really fun.

We know that cities change over time. We were just talking before about how much, for example, Potts Point has changed. It's gone through its scruffy incarnations and I'm really sorry that I never saw it then. 25 years ago apparently there was tumbleweed rolling down the streets of the CBD in Melbourne come 5.45pm and of course it's not like that now. Having seen these maps almost 10 years ago and thinking that this must have an implication for the way that cities function and for people being able to get to opportunities and so on, we wanted to ask what was happening with the economy now and who lives where now and how those two things interact. First the economy and essentially what does Australia need to do to stay prosperous and to keep everyone in work? We focused on two things that we thought were important for cities, the first was the global advanced economy shift towards concentrations of knowledge-intensive activities that tend to agglomerate in the centres of our cities, often in tall buildings. The second was the broader shift across the whole economy, so all over our cities, to higher skills levels and more specialisation, and I'll take each of those in turn and then we'll see a couple of maps.

The first is this shift to knowledge-intensive activities and this is happening across all advanced economies globally. There are lots of opportunities there that Australia really needs to take advantage of because those types of jobs are important for national prosperity, those kinds of jobs in those kinds of firms are innovative, they're high growth, they're export-intensive, and that means that productivity growth relies on how well they do. What that means is that what happens in CBDs is important for the whole country, or someone said to me recently "You mean you just want to make life easier for bankers?" and I said "You don't have to like these people, it's just that those jobs are indeed important for national prosperity". Ensuring that those firms can be as productive as possible matters for all of us: the thinking jobs, the highly skilled jobs like engineers, architects, industrial designers, financial analysts and so on. It's also worth keeping in mind that many of the jobs in mining are actually those types of jobs and happen in the CBDs in Perth, in Brisbane, in Sydney, even in Melbourne.

To maximise their productivity those kind of firms need various things. They need to be able to locate close to each other so that they can learn from each other. The economists call that knowledge spill overs, and one of the other main things that they need is deep labour markets so that they can get the best matches between jobs and employees. What deep labour markets means is that there are lots of opportunities, lots of job openings, and lots of potential candidates. Anybody here who has ever tried to hire someone at work knows how important it is that you are able to hire somebody really good, and so if there's only a few job openings then that means that you're unlikely to find the job that's right for you, and if there are only a few potential candidates you're unlikely to find the best match in the candidate. When that job matching goes really well productivity increases, and there's an economics literature that says we can expect quite a nice uplift in productivity if that kind of ecosystem is going well. But, of course, the majority of jobs are not in our CBDs and wherever there are people there are jobs, they're often called population-serving jobs: dentists, doctors, hairdressers, all those jobs that you can expect to grow naturally wherever there are residents. There are also a lot of industries that don't want to be in the centre of cities because the rent is higher there, so transport logistics, much manufacturing and so on.

However, even across all of those jobs they're becoming increasingly skilled. We know that the labour force has got much higher levels of qualifications than they had maybe 20, 30 years ago, and they're becoming increasingly specialised. Thirty years ago people would graduate in engineering and now you graduate in biochemical engineering or – I looked up Wikipedia and they mentioned at least 25 different kinds of engineers. I enjoyed writing about the increasing specialisation right across cities and across the economy because I got to reference Adam Smith, who was the first person to talk about division of labour or specialisation in economies, and he's Scottish and, of course, therefore right. The other thing that's great about that is it means I like writing something about the contemporary economy that has an 18th century reference in it. What that means is that deep labour markets matter everywhere. They matter for productivity because job matching where skills are higher and there's more specialisation matters for productivity. They also matter for individuals because the better the job match you

have the more likely it is that you will learn more from the job and climb the skills ladder if that's what you're interested in doing.

Having taken a look at what we thought was important in the economy, we looked at five censuses worth of data about who lives where in our cities; income data, qualifications and access to jobs. I'll just show you a couple. Income I don't have the map here because essentially higher income individuals live closer to the centre of cities. This is qualifications. The darker the colour here shows where bigger concentrations of people with university qualifications are living. This is a Sydney equivalent of what I mentioned about what I saw about Melbourne in 2004. You can see a big concentration around the harbour and you can see where the train line goes up into the northern suburbs as well. The next one we've got here is where people with a vocational qualification live, and it's kind of the mirror image of the first one so they're much concentrated around the outer suburbs of the city. Then the last one on qualifications I have is where people with no post-school qualifications live and that's closely correlated with disadvantaged areas. People with no post-school qualifications have become a smaller part of the population over time because more of us are finishing high school and going onto TAFE and so on. This is a really interesting picture where you've got higher skilled, higher qualification people living in the centre and people with lower vocational qualifications in the outer suburbs.

Then we wanted to take a look at what peoples' access to jobs are like and the first question we asked was what proportion of the jobs in the city can you access within either 45 minutes by car or within 60 minutes by public transport? If you were living in one of the darkest areas there on the map, what that shows you is that if you're willing to commute by car to work for 45 minutes you can access more than half the jobs in the metropolitan area, that means that you have quite a few opportunities available to you and it means that the economy is going to function better in those parts of the cities because job matching will be stronger. This is public transport and you can see there's fewer that you can access, but what I want to draw your attention to in these maps is not the darkest areas but the lightest areas. The car one, for example, you can see that there are large proportions of the city and they tend to be where people with vocational qualifications live. The city is really only providing you with a small proportion of jobs that are accessible to you even if you're driving 45 minutes and it's an even worse situation by public transport.

Now, a lot of people say to me "But people are making trade-offs, they're making choices about where they want to live in a city" and so we need to ask whether this is just peoples' choices. When you look at how house prices work in Australian cities you can see that actually a lot of the people in the outer suburbs can't afford to move in any closer because there's a very steep gradient of house prices in Australian cities so the closer you get to the centre the more expensive houses get – any kind of dwelling, essentially. That suggests that people are not exercising a choice, you could say they're actually being locked out of being in parts of the city with richer access to jobs.

What this means is rather than the deep labour markets – now, the economists in the room will be saying to themselves "Why does she keep saying deep labour markets? The term is thick labour markets". In the economics literature the term is thick labour markets, but economists are not always known for the sensitivity of their terminology and so we prefer the term deep labour markets, but I am referring to thick labour markets. So rather than the deep labour markets that the modern economy needs, our cities are not doing at all well at connecting people in jobs and this is bad for productivity because it's bad for job matching, and it's also really bad for opportunity. Where there are fewer opportunities it's less likely you'll get a good job match, as I was saying, and therefore be able to advance in your career if that's what you're interested in doing. It also makes people who live in the outer suburbs, these areas of the city with very poor job access, more vulnerable in an economic downturn because if there are fewer jobs available overall then people in outer areas will have access to even less of those fewer opportunities than people in the centre of the city.

Last week I met the man at the OECD who is in charge of regional and metropolitan economics and so on, and he said "You know what this means? This means that the city is not doing its job as a city". Because there are two reasons that cities exist, one is that we come together in order

to be more productive, that's the economist reason. Another one is that people will move to cities – and you can see this in developing countries and the rate of urbanisation – to spread the risk. So if you live in a tiny place in the country and you lose your job it's quite hard to find another job, but if you move to a city and you lose your job you're more likely to find another one. And he said "But if a city is as badly connected as this, connecting people and jobs, it's not doing its job as a city, either in terms of the economy or in terms of opportunity" and he said "What it looks to me like is that Sydney is not functioning like a city of 4.5million people, it doesn't have the economy or the access to opportunities of a city of 4.5million people. It's more like a city of 1million people and then a whole series of areas that are functioning more like towns". Which I thought was really interesting and he said it, not me, so it must be right.

So how can the functioning of our cities not be on the economic reform agenda as a result? I might very quickly go through what we think might ameliorate this situation. We want to be able to improve the ability of people in firms to connect with each other. That would involve either government moving jobs so they're closer to where people live, bringing people to live closer to jobs or improving the transport links between people and jobs.

I'll take the first of those. There are often calls for government to move the knowledge-intensive jobs in Sydney's CBD to the western suburbs, for example. Now, there will be good natural growth of jobs in the suburbs because I was talking about population-serving jobs, the kinds of industries who have a natural interest in being there. But it doesn't work to try to move the types of jobs in the CBD to the western suburbs and whenever it's been tried it has failed and has cost an enormous amount of money along the way.

The second is about bringing people to live closer to jobs or giving people the opportunity to live in job-rich areas of the city. Previous Grattan research [The housing we'd choose](#) showed that people want to be able to have different housing choices, particularly in the middle suburbs of our cities, and those opportunities don't exist anything like the number they need to. What this report shows is that increasing the supply and diversity of housing in the middle suburbs is not just important because it's what Australians say they want to be able to choose, it's also important for the functioning of the economy and for the fair go.

Then the last one is about improving transport links between people and jobs, which essentially reduces the distance by reducing the time it takes to jobs, and we say you have to take action both on roads and on public transport. We do not make specific recommendations because it's different in every city, and we did this report about Australia's four largest cities, but we do say the only way that you can manage demand for road space is by charging for it, but we're not specific about how you do that. With that revenue we recommend that the fastest, easiest way to increase transport links to give people access to opportunity and make the economy function better is to have really good bus links. It's cheap, it takes less political capital and it's much faster.

We think this stuff really matters for productivity and for access to opportunity and the good news that we conclude the report with is that what is good for the economy in this case is good for the fair go. I think that's more than nine minutes, but I was just on a roll.

JAMES BUTTON: It was a fascinating introduction to the report, so thank you Jane-Frances. Malcolm, you've read the report and I'd like to get you to respond to Jane-Frances' comments, but in particular to look at are our cities failing to work as cities, particularly on the economic sphere that Jane-Frances sketched out? As a former minister, and a likely future minister, is the way our city is structured an important national issue and, if so, what is government's role at all levels of government?

MALCOLM TURNBULL: Thanks James, and Jane-Frances, congratulations on this report which is excellent, we've all enjoyed it. Can I say that I'm hoping that in the forthcoming election, which is only a few months away, we're not going to have an unedifying outburst of chauvinistic rhetoric about population and immigration as we did during the last election where I remember Barry O'Farrell and I consoled ourselves at the time that we thought each of us had given the only rational speeches on population and immigration policies during the whole election, but that was probably a little bit hard and self-gratifying for ourselves. But can I just say this to you,

these are the fundamental points I think: when people complain about immigration, over-population, over-development – and I say this as a constituency MP who receives a lot of complaints, as you do if you're in public office – people are complaining about invariably congestion in one form or another. The truth is that density is not the problem, density is the solution, but density without infrastructure lacks amenity and density without amenity is congestion and is very unpleasant. And so the great failure of planning in this city, and in many others in Australia though some cities have done better than others, has been that we've had growing population but without the investment in the infrastructure, whether it is parks or facilities, but above all transport to enable you to get the benefits of the density.

Now, Jane-Frances has put some numbers and statistics around what we have all seen. I remember in 1980 Lucy and I returned from the United Kingdom where I'd been doing a post-graduate degree in England and we bought a house in Woolloomooloo and not long after that Alex Turnbull came along in 1982, and he was the only baby at the Kings Cross Baby Health Centre who was not from the Housing Commission in Woolloomooloo. Alex has always struggled as to whether this was a compliment or a backhanded reproach of some kind, one of the nurses said to Lucy "Oh, it's so nice to have a middle class baby". He's got over that, he's more than 30 years of age. But if you look at the inner east now – Potts Point, Kings Cross, whatever – it is full of young families and the truth is that the amenity occasioned by density is drawing people back into the centre.

Now, there's a bunch of reasons for that. You might say it's common sense. It's all of the factors that Jane-Frances has talked about. Enrico Moretti has written very insightfully about this in *The New Geography of Jobs* which is a book everyone should read if they haven't read it already, and indeed Ed Glaeser has talked about the same themes in his great work *The Triumph of the City*. They're both key volumes in this area. But the bottom line is, it seems to me that in a more dynamically changing society where husbands and wives both work, flexibility, optionality is at a premium and this is the point that Jane-Frances makes about the depth of labour markets. You want to be living somewhere where you have the greatest range of possibilities for employment, whether it is full-time or part-time, and you are clearly going to be able to do that where there are more people living together. And all of these impacts of – it's an ugly word but it's a good concept – all of these impacts of agglomeration, in other words having lots of people with similar interests and skills living close together, you get a network effect and it sort of snowballs. And the big challenge is how do you get the snowball to start rolling down the hill? But once it gets going it develops a momentum of its own, but it is all driven by density.

Now what are the issues for governments? I'll talk about governments writ large. We've got to recognise that we have to make it easier to build new dwelling units. One of the things that comes out of the Committee for Sydney's report published today, which has a similar research base to the Grattan paper that we're talking about now and something we're all familiar is, is that we are simply not building enough homes in Australia. And in Sydney that is particularly profound and the problem is overwhelmingly one of planning. We've agonised for years about why is housing unaffordable, is it demand site pressures; first home owner grants; negative gearing, etc.; cheap interest rates; whatever you want to describe. But overwhelmingly it's a supply-side constraint and Glaeser's work in the United States bears this out, and we can see it anecdotally here, that where you make it easier for people to get planning permission to do infill development you will get more infill development and then you'll get more supply and housing will become more affordable. So that is a critical thing, that issue of planning is absolutely critical. I know that Chris Johnston is here in the front row, I'm sure he'll have some much more informed things to say about this than I can.

Can I also make the point that it's important to understand conceptually that distance is not a linear concept. You can talk about distance as a linear concept, but in urban terms it's meaningless. Distance is a temporal concept. The issue is not how many kilometres A is from B, how many kilometres my home is from my job or my shops or my kid's school or whatever; it is how long does it take me to get there? And so for you that is entirely determined by the transport links: is there a decent road; is there good public transport; is there a bridge over the river; all of that stuff and that is absolutely critical. Now I think that we've tragically neglected transport infrastructure, particularly public transport infrastructure in this city and I think that is in large part of the reason for the problems. I mentioned the anecdote about Lucy and I living in

the Cross in the early '80s. I'll give you another more recent insight as to how wrong smart people can get these issues.

In 2006 New South Wales was due to lose another seat in the House of Representatives. There are 150 seats in the House of Reps and every three years it's re-assessed and, as Queensland and Western Australia grow ahead of the other states, the more slowly-growing states lose electorates to Queensland or Western Australia. And so we were losing a seat and there was a redistribution and it was concluded by the Electoral Commission and the Bureau of Statistics in all of their wisdom, great demographic research, that my electorate of Wentworth, the inner east, was old and dying and shrinking and therefore we had to expand it quite considerably, which wasn't terribly electorally helpful to me. Anyway, it turned out alright, I'm still here, but nonetheless it was interesting because I wasn't in a position to challenge the statistical work, but it just didn't seem right to me. It was completely and utterly wrong. Someone might correct me, but I was with the AEC the other day, I'm pretty sure this is still current, Wentworth has the largest enrolment in New South Wales and that is because more people are moving into the inner suburbs, a big chunk of the eastern part of which is in my seat. That's 2006, so that's only seven years ago, and this trend was completely missed by the smart people who should be focused on it.

So I think it's important, we shouldn't keep on turning a blind eye to this. People want proximity, they want the optionality, they want the flexibility of being able to move around and that means we have to invest in better transport infrastructure. If we don't all we're going to do is keep on making living close to the city unaffordable, more and more unaffordable, but if you invest in that transport infrastructure then, because distance is a temporal not a linear concept, you make greater ranges of Sydney within 30 or 45 minutes of travel and therefore you expand the range of properties whose occupants are then able to participate in all the benefits of this global city.

JAMES BUTTON: Malcolm, you've said a lot of important and striking things there. I'm just going to pick up a couple of things, and in a way they go in a different direction so perhaps not. You said a really interesting thing that in a period when men and women work there is an importance of flexibility and optionality. I took that as saying it's not just about work but it's about picking up the kids, it's about being close to amenity, to schools, to shopping, a whole bunch of things. If you're commuting for a very long time that suddenly becomes very difficult doesn't it?

MALCOM TURNBULL: If your construct is a world where the family is a man and his wife and some kids, and the kids go to school near where they live in the suburbs, and the wife stays at home looking after the kids and the house and the pets and cooking and so forth, and the father goes off to work in the morning and comes home at night, then that can work. If you live in a different construct, which is contemporary Australia, where the husband and wife are living there with the kids, who go to school of course, but they are both working and in particular the wife is working and she may not be working full-time, she might be working part-time while the children are young, but there is all of that need for flexibility, then you've got to be living close not to one job, but to two jobs. And you've got to be able to move to your place of work, to be able to pick up kids, you've got – I'm assured this is happening – father's sharing the child rearing and housekeeping duties more than ever before. All of that means that you need to be closer and that is why you try and walk down Macleay Street on a weekend, you get knocked over by these SUV prams and strollers that people have nowadays.

JANE-FRANCES KELLY: One thing that we did identify as an issue is that when you look at the data on male and female labour market participation – so men and women working – there is a bigger difference between male and female working in the outer suburbs. Now, there are obviously a series of reasons why Australia is so bad at allowing women to stay connected to the labour market while having kids – and I don't have kids and I'm fed up being the only woman in the room frequently, it's ridiculous. Many of these women are very educated, so the country has actually invested in their education and then presides over a situation where their human capital has to erode over time because we can't get to work. There are obviously a lot of reasons for that around child care costs and availability, marginal tax rates, all of that kind of thing, but we think that there's a spatial aspect to it. There's an academic at the University of South Australia called Barbara Pocock who talks about something called the Spatial Leash and what she says is that there is one partner who needs to stay closer to where the kids are so that

they can do school pick-up times, so if one of the kids is sick they can get to the primary school or the child care facility faster and so on. It tends to still be the woman who is the primary carer and what that means is the women are having to stay closer to the home in terms of work, but we've just seen that in many of those outer-middle and outer suburb areas there are many fewer jobs. And so it's kind of like a double or triple disadvantage that you're looking at and it might potentially tip them over.

JAMES BUTTON: So the potential of inequality is increased isn't it?

JANE-FRANCES KELLY: Yes, enormously. And so there's a gender aspect to this.

MALCOLM TURNBULL: There is no question, if you fail to invest in public transport and you don't have adequate public transport, you don't have adequate transport at all, what you do is you have then discriminated dramatically against whom? Against the old, the young, the poor and the sick. So this is a social justice issue, this is a question of social equity and it's very, very fundamental. The victims of this lack of investment are the people, the types, the categories that I've just described because the wealthier folk, the better educated, more highly paid folk, will gravitate to the areas where that lack of amenity is not felt, where the amenity is present.

JANE-FRANCES KELLY: And interestingly, then they will make sure that there's restrictive zoning so that their neighbourhood doesn't change and more dwellings can't be built.

MALCOLM TURNBULL: Nimbyism, yes, it is rampant and it's something that people have got to think about, that if you mount a campaign to stop there being greater density in your suburb are you not simply determining that your children will never be able to afford to live there?

JANE-FRANCES KELLY: Exactly, and you're keeping other people out. You're basically making the fair go further off for a lot of people.

JAMES BUTTON: I think it's time to throw some questions to the floor.

AUDIENCE: I want to thank the Grattan Institute for the report and the good presentations tonight. When you draw the conclusions from the report I think it's really important not to throw out the options of sub-centres in Sydney's metro regions. Sydney has been relatively successful economically, if not in design terms, with its centres and it's possible to create agglomerations with some of that momentum of the snowball going down the hill if you create the conviviality and the opportunities for face-to-face and then, as the labour markets develop, that the depth isn't only over the choice of jobs, it's skilled and knowledgeable people leaving one firm to start another and you get networks of back-connections and linkages and so on. And that's quite possible in Sydney.

JANE-FRANCES KELLY: And in Melbourne, and they exist at the moment and we talk about them here.

AUDIENCE: Indeed, I used to chair a thing called *The Knowledge Precinct* in Melbourne years ago. I wouldn't completely pan the role of government employment in this. I'm not proposing another march westwards as was done in the '80s, but when governments make commitments to upping their services in centres they are putting out signals to the private market and they're committing themselves more than would otherwise be the case to infrastructure to make the centres work and to get concentrations of hopefully mixed uses if we can get away from some of the planning systems we've had to create the buzz that's necessary to have the centres go. So I won't talk longer, I just want to say that there's a sort of a feeling in the report that says let's build up the global city part of Sydney and let's make some connections for the others to get to work. There's a whole lot of opportunities for Sydney to have wonderful, world-beating, wholly connected and buzzing sub-centres. Thank you.

MALCOLM TURNBULL: Can I just comment on that? I think that's probably a bit tough on Jane-Frances to be honest, but I don't think that's the sense of the report. But I'd say this to you: the real key – and this is the big difference between Sydney and Melbourne – is that Melbourne is a flat, incredibly interesting place with the city essentially in the centre. Whereas Sydney is

topographically very complex and lots of hills and hollows and harbours and stuff, and the CBD is actually on the eastern edge of the city. So there are challenges there, but I think what the message for me that comes out of this is that what we've got to do is make sure – and this where WestConnex is important and other links – we've got to make sure that where we are now, the city, the traditional city, is as close as possible temporally to centres further west, especially Parramatta. And this gets to the point you're making I think, if you can get seamlessly and quickly in 15, 20 minutes from Sydney to Parramatta then that would be enormously valuable for both Parramatta and for the CBD, and they would in effect become substantially merged because of that proximity that only transport can deliver.

JANE-FRANCES KELLY: Thank you for your defence. I just want to say quickly that this has been really interesting to me in the last couple of weeks because we absolutely recognise in the report that there are suburban employment centres and we talk about population serving natural jobs growth and also the kinds of industries that have a natural interest, and I can hear myself repeating these words because I do emphasise that. So despite the fact that we have talked about that a fair amount in the report and that I do emphasise it when I'm speaking about it and we have data – I didn't want to show too much data tonight – we're getting a lot of response saying they're giving up on jobs outside CBDs. I don't think it's actually – and Malcolm's comment I think has maybe just given me some faith that this is the case – to do with what we're saying and what we're not saying, but to do with there seems to be a conversation out there that people are just assuming that we're saying something or expecting us to say something and locking into that. That suggests that there is quite a lot of frustration going on in areas of cities that do not have these richer, deeper labour markets. I just want to mention that.

JAMES BUTTON: I think there is that risk of a divide, isn't there, and resentment could build, we'll have a sort of two-part society of inner city people and people further out.

JANE-FRANCES KELLY: I think it clearly is, people are constantly saying "You latte-drinking inner city Vespa driving".

MALCOLM TURNBULL: You know most of the columnists who write about latte-sipping inner city self-indulgent lefties actually live in Paddington or thereabouts, so it's sort of funny really.

JANE-FRANCES KELLY: The reason we suggest buses is because buses are really good at connecting up the entire city. They connect up different employment centres to different employment centres, so it's not just about connecting people to the CBD at all.

AUDIENCE: Jane-Frances, one of the problems that you're denying, I think you're actually feeding, is over and over again you say that there are things that occur naturally in our economy and then when it comes to government action your exact words tonight were "When they encourage a move to the suburbs they always fail and it always costs a lot of money". Now, that's not people putting arguments to you; that's your words. What I want to argue against is the prospect of densification and expensive public transport projects actually producing a solution. Those maps show a picture of the population at a single point in time and you've aggregated the entire 15 to 65 year-olds to show western Sydney as having a deficit. Now of course everybody aged 35 to 65 in western Sydney doesn't have a degree. But Parramatta aged 25 to 35 actually performs the same as inner Sydney because the next generation of young people are being educated. So your concentrations for the future aren't correct.

If you want to supply jobs to the 2million people in western Sydney the rate of jobs growth is equivalent to one Barangaroo every 18 months. Now, Barangaroo has 24,000 people and what we have just at our back at Barangaroo is a living case study of what government effort is required even in CBDs to generate 24,000 jobs, and that task has to be repeated every 18 months in western Sydney to supply the same jobs in western Sydney as the ratio that there currently are. We can't densify and we can't build public transport in this city at the required rate. I support those things. The only solution is jobs concentrations, like Barangaroo, in Sydney's suburban centres.

MALCOLM TURNBULL: So you're in favour of Badgery's Creek I assume?

AUDIENCE: I'm in favour of a full aerotropolis provision, not just of an extra runway at Badgery's Creek which would be an over-float of Sydney Airport, but a proper professional services concentration facility I support, but I suspect that will never happen.

JANE-FRANCES KELLY: I'll just say briefly, you're absolutely right to quote back at me my own words, it works well always. What we say fails each time is for government to try to pay firms to move to areas that they do not have a locational advantage, there is no advantage for them to be in. We did the Melbourne launch of this report last week and Rod Eddington spoke and he said it would be like government trying to say to the CEO of ANZ "We will move all of your jobs from the centre of the city into the western suburbs". They wouldn't be willing to do that because they know that for some of their jobs – I'm talking about the knowledge-intensive jobs that are export-intensive. And we also say in the report they're not all in the CBD but the majority of them are, the only reason they're important is because they're important to national prosperity. So we're not talking about all jobs, we're talking about those types of jobs it doesn't work to move them to suburbs.

JAMES BUTTON: Thank you, Jane-Frances.

AUDIENCE: The question I want to get to is a little bit connected to Malcolm I think and it's about political leadership, and this is about representative democracy versus continual polling of everyone about issues, and it really comes to the NIMBY-type issue. What's happened in New South Wales for instance is that the government in New South Wales has come to power saying they're going to give planning back to the community, back to the people, yet most of those people say they don't want change, which is a very natural understanding that people have. My reading is that Sydney, ahead of most other cities in Australia, 25% now in the 2011 census in apartments against 15% in Melbourne, has got a tipping point that's moving to exactly what Malcolm was talking about, a more urban, cosmopolitan lifestyle. But there's a whole reaction against that because it's now got to a point that's fairly significant from a whole lot of people who are threatened by it from a more suburban comfortable background.

It seems to me what comes with this more urban lifestyle is more mixed use, more jobs connected closer to where people are, more density to allow public transport, all of those sort of things, yet there's a strong reaction and if politicians are saying "We're going to listen to that larger group" – at the moment two-thirds of those compared to one-third, say – it's going to be very hard for us to move across into all the positives that can come with that more mixed use, more urban lifestyle. So Malcolm, it's a real question about leadership and it's also the three tiers of course: the federal, state and local. And the local is the most protective against change in this.

MALCOLM TURNBULL: Yes, well I think you're right and I think that's a very good point. I think council areas, local government areas in Sydney, are far too small and I think if they were larger the whole NIMBY issue would be less apparent, I think you would then have better planning skills available. We've got a huge number of councils here and not all of them can afford or obtain the type of planning expertise that they need. The reforms that Brad Hazzard has canvassed – it will be interesting to hear what everyone here thinks about them – they seem to me to make a great deal of sense, and I'm not even remotely an expert in this area and I just pick up a few scraps from Lucy from time-to-time so I become educated to the extent that I am on local government matters. But it does seem to me that we've got to reach agreement on the overall planning rules in a neighbourhood or a precinct or a suburb, and then have developers be able to get on with developments that fit within those rules.

Now of course, the problem is are the rules set too restrictively in the first place? But the city cannot just keep on spreading further and further out. You can take the view Bob Carr did just to say we should just shut the gate and stop growth. Well, this is the tragedy of Carr's time as Premier, 10 or 11 years as Premier and he said he didn't want the city to grow, he didn't invest in the infrastructure to support growth, but the city continued to grow. And it was really a dismally lost decade as a consequence, so this is what Barry O'Farrell and his team are trying to catch up on. But I think doing nothing is just not an option. Trying to pretend you can freeze a city in time is just a recipe for more of the lost opportunities we've suffered from in Sydney. The Committee for Sydney's report published today, which you're all familiar with, is the cruellest cut

of all suggesting that Melbourne is going to overtake us and before too long people in Melbourne won't talk about Sydney; people in Sydney will just talk about Melbourne all the time, gnash their teeth about it. I mean, the humiliation is extraordinary.

But I'll just leave you with one thought about Sydney and Melbourne which I often reflect on, and it is this, and it's a tribute to Melbourne: Melbourne is largely an artificial environment. All of the best things in Melbourne, all of the things people like in Melbourne, whether it's the course of the Yarra, the parks or all of the built environment, are entirely manmade creations built by men and women. The things about Sydney that bedazzle and beguile are all creations of nature. So we are the luckier city because we have natural gifts that Melbourne never had, Melbourne that beautiful sheep pasture, promising swamp that it was to begin with. We've got this extraordinary natural environment and the less well-endowed southern capital is going to overtake us because of better planning, better government.

AUDIENCE: I'd like to prompt some discussion on affordability and economics. I often find these debates frustrating, there is very often two different perspectives: there is the planning perspective and you hear comments about "Well, we need to invest for the long term" which is totally right, and then "Never mind the affordability and the short term" and there's this conflict that goes on. And so we have people who will say "We've just got to invest in this massive project and that massive project and not only that, we want it now" and it's not very helpful because both perspectives actually matter. We have to worry about the long-term planning, but we also have to worry about the short term and the economics and the affordability. And I find that not enough thought goes into those critical issues of timing, because that's where the crunch comes, it's the timing of investment which makes the difference between whether this is a good economic or not a good project. And another subtlety to that whole timing debate – and I'm really pleased that Jane-Frances has talked about things like buses and pricing – is the idea of a very phased investment program. So you don't have to invest in the long-term project now, you can do something small and then do something a bit bigger and a bit bigger and a bit bigger, and it starts to snowball. I think there needs to be more consideration to that critical timing issue.

JAMES BUTTON: Jane-Frances, can you respond?

JANE-FRANCES KELLY: I can only agree and luckily I don't think we've fallen into any of the traps.

MALCOLM TURNBULL: Yes, I agree with you too. The only thing I'd say is, and I'd be interested in your views about this Mr Thorpe being the man from the Treasury, don't you think that one of the problems that we face is that we have not worked out a satisfactory way of financing public transport infrastructure – and I don't just mean buses and trains and ferries and trams and so forth, but also roads. We haven't worked out a way to capture some of the accretion in land value occasioned by the development of that transport infrastructure because it does seem to me that we, the world, has forgotten something that we once knew. If you look at the 19th century railway companies they were all basically real estate players and the biggest property owners in Japan or indeed in North America are still railway companies, yet we seem to have lost that. And it's a contemporary thing too. Look at the MTRC in Hong Kong, essentially a property company. Do you guys at the New South Wales Treasury think about how you can capture some of that accretion in land value to enable you to support transport infrastructure or the investment therein?

AUDIENCE: Yes, I probably need to be careful because I'm not the spokesperson for that area. Conceptually of course it's worth investigating and certainly it is being investigated. My sense, slightly removed from that detailed work, is that it's not quite the magic solution that people hope it would be. So by all means we should be trying to investigate those and pursue those options, but it doesn't solve things.

JANE-FRANCES KELLY: Could I just say that I love the story that the Fellow in the Cities Program, which we unfortunately lost a couple of weeks ago – I mean, he's alive and well and just doing other things – Peter Mares wrote an essay about the history of rail investment and I hadn't known that the suburb of Bentleigh in Melbourne is named after Thomas Bent who had

been a premier in Victoria in the early 20th century. And he had spent some time in jail because he saw rail development as a real estate play and he would essentially buy up all the land and then, as a politician, approve the railway lines and that's why he ended up in jail. And his name was Bent, it's fantastic.

MALCOLM TURNBULL: Well, Jane-Frances can I just say to you that that sort of thing would be completely unknown in New South Wales. We're of the highest standards in public life.

JAMES BUTTON: We're rapidly running out of time. I do want to try and give time for a couple more questions.

AUDIENCE: Specifically to Jane-Frances, the report shows a greater depth of labour markets around the city but also towards Port Botany and the airport. Given this, would you like to comment on the broader productivity opportunity beyond just the transport aspect of major infrastructure projects, such as a western Sydney airport or something like high speed rail?

JANE-FRANCES KELLY: No. We deliberately don't make any specific infrastructure recommendations because you'd have to do really very detailed work on each of the cities to come up with the right idea. I just want to say, I know that people keep coming up with different numbers and all the rest of it, but if someone could build a fast train between Melbourne and Sydney and Brisbane and Canberra it would be great, from a personal non-economic – I don't really know what the numbers say, but it's a much more civilised, sophisticated way to travel.

AUDIENCE: Actually just yesterday we had a seminar by Professor Hansen ITLS on a high speed rail link. And Malcolm, here's something for you: there was John Alexander from Bennelong from Epping, I happen to come from Epping, and he saw exactly what was just said now; he saw the high speed rail link as a real estate exercise to decentralise away from Sydney to Goulbourn. But my personal opinion on that is we don't have time for that because we are in year nine of peak oil and very soon the ball game here in Sydney will change. My suggestion is just electrify the rail line to Goulbourn then duplicate the rail line to Canberra and electrify it and then hopefully our parliamentarians, if they are lucky enough to reach Sydney, can take an electric train to Canberra. But my question is on housing affordability and John Alexander, by the way Malcolm, mentioned we cannot afford 1million houses in Sydney and if you look at the flats at Rhodes they have just built, higher density, wonderful, also \$1million. So why is that so expensive? I'm saying cynically because the banks and the developers are too greedy and if the government also opens their hands and says "Oh, we want to have a share of it" you won't have affordable housing in Sydney. Impossible.

MALCOLM TURNBULL: Can I just make this observation, and I thank you very much for your question. But politics, they say, is the art of the possible and an economically bankable, financeable fast train from Sydney to Melbourne is probably teetering on the edge of the impossible, depending on your point of view. But eliminating greed from the soul of developers, I would put to you, is right up there with eliminating lust. And I think it's important, particularly as we come into the election, not to make any rash promises, and I think Bob Hawke once said "No child shall live in poverty". I think if you were to say under a Coalition government "No developer would be greedy" the people would regard that as being a little bit unbelievable.

I'm firmly of the view in relation to housing affordability, and I think we talked about this earlier, that this is really a supply side issue and that we simply need to enable more dwelling units to be built. But the answer is not just releasing more land on the edge of the cities, which is what a lot of politicians have said over the years. It really means confronting these difficult planning issues in the infill areas in the centre and the areas 5km, 10km, 15 km from the centre and in all of those issues of densification. We've got to confront those because, as Jane-Frances' studies show and we all know, we live in the city for heaven's sake, this is where more and more people want to live and because more and more people want to live there and because we're not building enough dwelling units there, the prices keep on going up. Glaeser's work in the United States is so instructive on this, that the cities with the most liberal planning codes – and I'm not suggesting we should be emulating them, no need to go from one extreme to the other – have the higher levels of housing affordability.

JANE-FRANCES KELLY: I will say briefly, one other way that we can have medium density, because it doesn't have to be high rise. We forget that doubling density – and it's a word that I try not to use even in public because people think density, they think downtown Shanghai. Actually, if you doubled density it might involve on a suburban street having a couple of granny flats in the background and a couple of town houses. But one of the reasons that we're bad at building affordable medium and higher density is because we don't do that much of it and it's much more expensive to build. We're incredibly innovative and efficient in Australia at building detached houses. If we can bring that same kind of nous and innovation to the medium density product we'll all do much better.

JAMES BUTTON: Thank you. One last question.

AUDIENCE: I found the report really interesting and my focus is around how to actually make things happen. So when it comes to major investments or investments of any kind, often I'd assumed that the reason why these things didn't go ahead is because the cost-benefit analysis, or whatever study, didn't really quite take the right level of thought actually that there wasn't a good level of demand for it to occur. So is it the case that the methodology that we've been using for these sorts of evaluations, whether you think the demand will never be there and that's why this sort of thing won't get off the ground? Or is it that there's an issue with the methodology itself and potentially it hasn't picked up some benefits that the report's gone through?

And that was related to a broader question that I had that when it comes to investments that do target areas of disadvantage, given that things that have political traction depend on where voters' hearts are and where their values are, and often people who are quite affluent, well-off tend to be in these densely populated areas where they don't experience lack of availability of services. And the payback period for benefits is just too far into the future, and I'm thinking of the NBN here, but leaving that aside for another forum. What do you think can be done in terms of actually building some sort of shared value, I guess, amongst the constituents so that there is more than just thinking about what affects you directly, but also more nationally?

JAMES BUTTON: Jane-Frances, you had some thoughts on that.

JANE-FRANCES KELLY: Briefly, I definitely always argue that methodologies could be more sophisticated. I think what you're talking about is what the economists refer to as wider economic benefits and I agree. "Wide and deep" should be the catch words for this report. The other thing, when you talk about shared values and so on one of the things that's interesting to me about this report is that thing that I said at the end: in this case what's good for the economy is good for the fair go. Because we've concentrated on the economic aspects, how to make labour markets work better because access to opportunity essentially, if you like, is the fair go. But there is another perspective on this which is, I was really shocked when I first saw those maps of Melbourne in 2004 and as I've been showing these maps around the place people have been really quite struck. There's a level of polarisation that's happening in our cities that left unchecked will continue. And we also need to ask ourselves are these the kind of cities we want to live in?

MALCOLM TURNBULL: Can I just say something about cost-benefit analyses and so forth, and you mentioned the NBN, it would have been terrific if there had been a cost-benefit analysis. It was an oversight, to say the least. The telecommunications infrastructure about, which we've had a singularly ill-informed debate over the last few years, is very different to bridges and roads and tunnels. And there are many reasons for that, but the principal reason is that telecommunications infrastructure can be built incrementally; it's much more like an organism. If you build the harbour bridge you can't tack an extra lane onto it every 10 years, whereas with telecoms networks you can and you do build them to meet today's demand and foreseeable demand and then expand them, develop them, augment them as both better technology becomes available and demand grows. So you've got enormous optionality with telecom networks and there are many issues between the approach that I take, which I think is a rational one, and the approach the government's taken, which I think is an irrational one.

But I'll give you one very simple example: the government would say "Malcolm's approach may meet our demands today and in the foreseeable future, but it won't meet the demands we think

we might have in 20 years' time". I can say, for the sake of argument, "Okay, I concede that point, let's say you're right. Why would you though, as a rational person, want to have many billions of dollars not earning any return for 20 years in the hope that it may earn a return in 20 years when you have, because of the nature of telecommunications networks, the option of postponing that investment until you know that the demand is there and when you do so you not only make that investment at a time when you will get a return on it, but at a time when you'll be buying the technology of 20 years hence, not the technology of today?" So there are a lot of very significant fundamental conceptual differences between telecommunications networks and bridges and tunnels and roads and I just throw that in. My opponents often use these civil engineering metaphors of bridges, the harbour bridge and all that stuff. It's really not apt.

JAMES BUTTON: Malcolm, thank you very much. I think the number of people who have turned up tonight and the quality of the questions or statements that were made; the level of discussion just shows how much interest there is in this subject. It's a very difficult subject, an unwieldy subject in a way, what our cities mean for our economy and our society, but one that fascinates all of us. Tonight we've covered a lot of ground, we've talked about inequality and we've talked about the need to have more people living closer to, not just the centre of the city, but to other centres within the metropolitan area. There are still a lot of gnarly questions around how it's going to be paid for, but it's been a great discussion. Can I above all thank Malcolm Turnbull, he's a busy man, he's got an election coming up and he's given up his time to come out tonight and talk to us.

MALCOLM TURNBULL: It's your time, it belongs to you. I'm a public servant.

JAMES BUTTON: Thank you, Malcolm.

End of recording