

Robin Boyd House – discussing City Limits

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JOHN DALEY: Thank you Tony and thank you to the Boyd Foundation for the opportunity to be here. It's not our typical Grattan Institute function, but it's nevertheless a very special one. I know that as Jane-Frances and Paul were working on the Cities material from the beginning of the program, the great Australian ugliness was almost a foundational text, was a place that the program in some ways started, so it's great to kind of be seeing that circle coming together. And, as you say, Robin was one of the great theorists and practitioners of what matters in Australian cities and we feel very honoured to be even a small part of that legacy.

A huge welcome to everybody here, all of you one way or another are friends of Grattan, we are very grateful for your support. The kinds of things we do, we'd like to believe they make a difference but we know that they wouldn't happen without your support, so we're thrilled that you can be here this evening and be part of what I'm sure will rapidly develop into a conversation about our cities, where they're going, and what we might do about them. And then, of course, I'm very pleased to have with us here tonight Paul Donegan, one of the co-authors of *City Limits*. In fact, in the last few weeks Paul has I think the technical name is "been poached" by the Victorian Department of Premier & Cabinet to run their intergovernmental relations program, which I'm sure he will do extremely well. But he was a terrific contributor at Grattan, not least in his contribution to his book, and it's great to have you here this evening Paul.

PAUL DONEGAN: Thank you.

JOHN DALEY: So why don't we start Paul, why did write the book?

PAUL DONEGAN: We wanted to, I guess, take this work that the Cities program had done and synthesise it into a single thing that if you're going to read something that Grattan has to say about cities read this, and synthesise a body of work that occurred over a period of time.

Where we started with the book as a proposition is there are some very important things that people need from their city. One of them is a home and the other is a job. What we find though is that in recent years in prominent growth, certainly in Melbourne and in other large cities right across the country, has been concentrated most heavily in the CBD and the inner suburbs, say, within 10km of the city centre. Meanwhile, population growth, the home side of that, most of the population growth in Melbourne and, again, in other large Australian cities is occurring in the outer fringes of the city 20km or more from the city centre. So what we're seeing is this big and growing divide between where people live and where people work. I might have taken your question and run with it, but I hope that's alright?

JOHN DALEY: Yes, that's great. I think one of the interesting things with this Paul is why did this happen?

PAUL DONEGAN: There are two big drivers around where we live and where we work. One of them is the way the housing market works, and Tony, you touched upon it a little bit and I'll unpack our take on things, and the other is the changes in the way the economy works in Australia and in just about every advanced country. John, did you want to?

JOHN DALEY: Yes, I guess this kind of feeds into stuff that we've seen across Grattan which is a huge shift in the Australian economy away from manufacturing towards services and that reflects what it is that we as consumers spend our money on. Today we spend relatively less of what we earn on things and relatively more of what we earn on services, whether that's cable services or architectural services or hairdressing services or having the lawns mown or whatever it might be, that's where we spend an increasing part of our wallet. And I think one of the interesting things is this is not an Australian phenomenon, this is a global phenomenon. You can see this happening across the world, essentially the price of manufactured goods is falling, people are not responding to that price fall by buying more and more manufactured goods, instead they're responding to that by spending more of their wallet on services. And the other big services of course that I should mention are around education and health care, enormous services in our economy.

So that's one trend and then the other trend that we see is a concentration trend. It's something where as we have more and more of these services in our economy the people producing them want to get closer and closer together. When you were in manufacturing it didn't matter how close you were to the CBD or at least not within limits. If you were within 20km or 15km or so that was close enough. If you had to go and see the lawyers once every six months you could do that. You needed to be reasonably close to supply chains and other manufacturers, but not particularly so. Services are a different game. I can tell you from my own work, which I guess in a think tank is a kind of weird kind of services industry, it is incredibly important to me that I spend a reasonable amount of time on Collins Street bumping into people on Collins Street, and all sorts of things come out of those interactions, and that seems to be true of a huge number of service industries. It really matters that you are close to lots of other people working in those high-end service industries. It doesn't matter if you're a hairdresser, but it does matter if you're in these high-end services, legal services, business services, marketing services and so on.

The interesting thing about this game is that it appears to be a universal human phenomenon that the better our communications technology gets the more important it is to be physically close to other people. Even though we can now send documents between here and Sydney far faster than we could 15 years ago – it's worth remembering, 20 years ago we had to send documents to Sydney by fax. I mean, that's the Stone Age by comparison today, and yet what has happened to traffic on the air corridor between Melbourne and Sydney? The answer is it has grown way faster than the population. It's really important to go and see people face-to-face, at least some of the time.

My favourite illustration of this phenomenon is a lovely piece of work that got done at Harvard, as is so often the case, where they looked at a whole series of medical journal articles which, like all scientific articles these days, had a vast number of people who were allegedly co-authors. And what they did in particular was that they looked at the first author and the last author, in other words the god Professor and the poor person who actually had to do the real work, as opposed to everyone who came along for the ride. And what they did was they had really good records and they could figure out how far apart were those people sitting when the piece of work got written. Sometimes of course they were working in the same lab, sometimes they were kind of at the opposite end of the building,

sometimes they were on different floors of the same building, sometimes they were in another building at Harvard, sometimes they were in another building at the far end of Harvard, sometimes they were at another university, maybe MIT in Boston, sometimes they were in another university in another city all together.

Of course, what you can do in this kind of game is look at how often does that journal article get cited, how important is it? You can rank them that way, and there are issues with ranking too much that way in academia but it's at least useful for the purposes of this exercise, and you could discover, as they did, that your paper was more likely to get cited more often if there was an optimal distance before the first named author and the last named author, and that optimum distance was about 8m. It really matters that people are close to each other and that's, of course, why we're seeing this enormous growth in the centre of our cities, because as our economy becomes more and more about high-end services those high-end services are increasingly clustering in the centre of our cities.

One really lovely illustration of this that I might just finish this with is there were a whole series of engineering firms that are based in Melbourne, they've all done by and large pretty well, firms like SKM as it was and now called Jacobs, AECOM and so on, and they all used to be based in Hawthorn. All of them have essentially moved into the CBD of Melbourne over the last decade and it's not because the rent is any cheaper. It's because, even in that engineering services game, being really close to everybody else makes a difference.

PAUL DONEGAN: To some extent it changes how we think about Australia. If you think about Australia 100 years ago, we were a nation with deep, deep roots in the bush, our economy was rural, we had a lot of agricultural activity, and people lived on farms or in market towns. Fast-forward to the manufacturing period and the way people lived reflected the way that economy worked, that you had factories dispersed around cities, rising car ownership after World War II gave people a lot more opportunity to work and live in different places, which meant that we had these big tracts of land that were once unviable because no-one could live other than near a railway line or near the centre of the city where the factories were.

So in that respect the cities did quite well at generating and distributing opportunity there, home ownership increased, the living standards increased as the productive capacity of the economy grew. Doing alright, notwithstanding some substantial shortcomings which Tony touched upon and which are very much coming home to roost now. But then this shift occurred that John described, that opportunity concentrates closer to the city centre, meanwhile we're seeing these patterns of population settlement largely continue as they did 30, 40, 50 years ago in this manufacturing environment. The result? A big divide between where people live and where people work, and that has some really profound consequences, both for the community as a whole and for those households.

So if you look at the choices available to you if you're living on the fringe of any large city in Australia, the range of jobs you can access is much more limited. So we did some mapping which identified if you live here, for instance, or in fact in most of the inner and middle suburbs of Melbourne, if you're driving by car you can get to half or even more of the available jobs in the whole city. Why does that matter? Well, we only need one job at a time, we don't need to get to more than one job, but the more choices of employment you have, the more opportunity that you have to get a job and the more opportunity you have to get the kind of work that is best for you, that enables you to make the best

use of your skills, earn the most income, have the most fulfilling work, and it's also best for the employer in terms of getting someone who is most skilled and most useful and most productive in their role.

So in some respects that's what a city does looking at it through a particular lens is match lots of people with lots of jobs and try to get those matches as good as possible, what works for both the employees and the employers. If you have people who have very, very limited access to jobs, as we see in the outer fringes of Melbourne and other big cities, then that's not working so well. It holds the economy back and it also means that the trade-offs that those households have to make are a lot more intense than the trade-offs that households closer in have to make. It might be around income, so the employment opportunities 20km or more from the city centre pay a lot less. They're much more likely to be less secure, casual employment for example, and while some households might wish to make that choice, other households find it thrust upon them. The wage is not as good.

The other option that might be available to some people is to commute further to a role that is more appealing to them or that is the only job that they can get because the concentration of employment is much closer around here than where the population growth is occurring most rapidly. But if you're spending a long time behind the wheel of a car you're not spending that time with your loved ones, with friends, with family, doing things that you actually want to be doing. There's some pretty strong evidence identifying that people with very long commute times are less happy, less satisfied with their lives, more stressed, lower levels of self-rated wellbeing, so there's an issue there.

And for other households in those circumstances and particularly women in households in outer suburban homes the situation you illustrated today is that most of the unpaid caring work for children or for aging frail parents is done by women. That means there are a set of constraints around the kind of job you might be able to access, the length of time you might want to commute for, and the flexibility of the work, but if there are relatively few jobs further out then suddenly commuting for an hour-and-a-half each way isn't an option. And we're seeing women leaving the workforce or not entering the workforce not because of a choice a household has made about how they wish to balance work and family life, but because of the way the city has thrust those kinds of constraints upon them. I'll illustrate that with an example.

So we profiled in the book a woman who was a researcher at the Royal Melbourne Hospital looking at genetic disorders in young children, important, useful work. She and her husband decided they wanted to settle down and have some children. That prompted a decision by them to buy a home, not an uncommon trajectory in life in Australia. Where they could afford was a place called Point Cook in Melbourne's southwest, somewhere which was affordable partly because both road and rail connections are quite poor. All good though, they had the child, she went on maternity leave and return to work, but the intersection of the commute, the transport difficulties she was experiencing, the hours at work and the kind of pick up and drop off obligations of the childcare centre, they just couldn't make them stack up and couldn't make them work together. So after a period of very stressful and frenetic life they made the call together to say she's going to leave the workforce and bring up that child and she's now teaching sewing classes half a day a week at the local primary school.

So if you think about the difference there in that household's income, in the kind of skills that the woman in question is developing or not developing in the latter of. As a community we miss out on the productive activity she's doing and the knowledge she's generating and, again, this is something that

is not happening because that household decided this was what we think is best for the child, for example; it's because this invidious choice of parenting, home and work were not able to fit together because of the way the city was functioning.

JOHN DALEY: So Paul, it does beg the question do these households want to make different choices and what kinds of different choices do they want to make?

PAUL DONEGAN: That's a really important question because we don't exist in a world with unlimited choice and if you ask someone what kind of home would you like to live in, well, probably in an enormous mansion in the middle of the city centre with room for the sports cars and the butlers and so forth. But what we're seeing is the kind of trade-offs that people are being forced into are narrower and more difficult than they should be because of the way the city's working.

So Grattan commissioned some research of people about the kinds of choices and trade-offs that they would like to make about their housing. This applied to real life budget constraint and tested people about their views on the location of their home, the kind of home that they wanted to live in and some of the characteristics of the neighbourhood that they wanted to live in. You'll be unsurprised to know that different people in Australia and different stages of life wanted different things. So some people identified that they'd prioritise an inner city lifestyle, quite happy to live in, say, a high-rise apartment, and in Melbourne recently we've been meeting that need, which is terrific. Others identified that no matter what they wanted to live in a detached house, whether that's the great Australian dream or whatever but this was something that people described was the number one priority for them and they were willing to endure long commutes or other things within their budget in order to be able to do that. And, again, within Melbourne in particular, less so Sydney, we've been building large numbers of detached houses on the city fringe with some consequences for the economy which we've described, but at the very least people are able to make those choices.

But unsurprisingly a large number of people identified that they wanted to trade-off location and housing type in different ways, and this might be to live a bit closer in than they would be able to afford to with a detached house in order to be near an aging parent, near where they grew up, perhaps ensure that they don't have to endure a horrendous commute; maybe living in somewhere like a townhouse where you've got a little courtyard rather than a big backyard, living in a terrace or a flat in a low-rise building, that might be suitable for a small household or a family. We didn't particularly test living in an architecturally designed ground-breaking home like this one, but the point raised that people wanted to find a middle ground between living in a detached house on the outer fringe, which we're building, living in a high-rise in the city centre, which we're building, and finding different kinds of homes in middle suburbs in order to make that trade-off in a way that makes sense for them, but we're finding that we're not actually building these homes in any large numbers. Those, they're described as semi-detached units, terraces, townhouses, more innovative design sometimes but not even necessarily, they're not being built in the kind of numbers that the high-rise apartments or the detached houses are. So people aren't really able to make those choices because the market's not supplying them.

I might anticipate your next question, which is why isn't the market supplying them? Because if you look at the middle suburbs of Melbourne and Sydney, prices are going through the roof, people are essentially voting through their wallets to say, "I would like to live here if I can afford to". Then we've got this survey research that we've done, people identifying when questioned that many would like to

live in middle suburbs and are open to different housing types in order to do this, and the homes are just not getting built. The lack of scope to make money is very much a question given the fact that prices are going up so much. And when we dug into this we interviewed developers and others involved in the industry, they consistently would identify that there are a number of barriers to building those sorts of homes.

One is there are issues around assembling parcels of land, financing costs, construction costs. But one thing that came over and over was the fact that getting permission to build the home, essentially navigating zoning, planning and those related decision making processes introduced an enormous amount of uncertainty, of cost and of risk into the process of building these kind of middle ring homes that people are identifying they want. So it's either too unprofitable, too uncertain or too hard, I'll go out to the fringe and put up some more detached houses or, if you're a different kind of player, I'll put up a skyscraper in the CBD, and these homes in the middle aren't getting built.

JOHN DALEY: So Paul, from a policy perspective, one clear recommendation is around looking long and hard at our planning regimes and, of course, that's easy. So apart from that, what else do you think we need to look at doing?

PAUL DONEGAN: That's right, planning and particularly identify how as a whole city we make these decisions about how we use land within that city. Too often when considering land use, planning issues the conversation occurs within a very narrow context about a local area and the trade-offs aren't put forward to people. So understandably people will think relatively narrowly because that's a conversation that governments and others are encouraging them to have. Transport is also very important. If you think about it, you've got a growing divide between people and jobs, one of the ways to bridge that divide is with better transport.

Now, Melbourne's a mature city and in particular the inner city is very mature, that doesn't mean there will be lots and lots more roads and train lines. There's certainly a case for improved public transport access in outer areas that are very poorly served at the moment. New roads and train lines are very expensive, not especially easy to build. We need to be thinking much, much more about how we better use our existing transport network so essentially it gets more people through; using the road space that we have more judiciously; enabling public transport to use the infrastructure that already exists to get more people through. And putting Marion Terrill, the Grattan Transport Program Director, on the spot, I'm confident she will have more to say about how that occurs in due course, but be assured that Grattan is thinking very carefully about these issues. But transport is not a panacea.

The other important things to think about that shape that dynamic in the housing market are tax and tax informs the fact that we're seeing fewer households being able to make the choice they'd like to make around owning their home and it's also affecting the dynamics we're seeing about these dramatic price gaps between inner and outer areas. So John, you might elaborate on some of these tax issues that are shaping decisions?

JOHN DALEY: Well very briefly, we massively advantage home ownership through our tax system and we massively advantage investor house ownership through our tax system as opposed to other asset classes.

So in particular if you own your own home you don't pay tax on the capital gains on that house, that encourages it obviously very significantly, and the combination of our capital gains tax regime which gives you a discount on any capital gains that you earn and our negative gearing regime that essentially allows you to claim the costs of purchasing an investment property, particularly the interest costs, against your income at your marginal rate. So if you're a top marginal taxpayer paying tax at 49c in the dollar you're claiming those costs of interest at 49c in the dollar, but because of the capital gains tax regime you're only paying tax on the gains that that enables when you sell the house at 25c in the dollar. And as somebody who used to run margin lending for a bank, I can tell you we spoke every day to our customers about the way that that arbitrage made that kind of investment look quite attractive, much more attractive than it would be otherwise.

It's that mismatch in our tax system, amongst other things, that we need to look at. And I'd stress, changing our tax system is not the only part of this puzzle, but it is a part of the puzzle and we need obviously to keep looking at the transport and planning issues we've raised as well. Well Paul, I think we've probably spoken long enough.

PAUL DONEGAN: That's right.

JOHN DALEY: Why don't we open it up at this point to anyone who's got a question, observation, thought?

AUDIENCE: Paul, you talked a lot about the discrepancy between people's choices, aspirations and housing availability on that middle ground between Point Cook and Docklands. Admittedly, I haven't read the book, so bear with me. What you didn't talk about is how population growth met against that. The city is increasing in population and where is that population met against those building styles? Is it realistic? Even if all the restrictions were removed from building exactly what people want, is it physically arithmetically possible?

PAUL DONEGAN: We don't propose to be prescriptive about where people should live. I guess what we do identify is what has happened now is that more than half of Melbourne's recent population growth has occurred broadly at the outer fringe in recent years while more than two-thirds of the jobs growth has happened in the inner area. We haven't done the "what's the greatest physical number of people who could live in a particular area", although there is some very interesting –

AUDIENCE: But others have.

PAUL DONEGAN: Yes, you know, Rob Adams at the City of Melbourne.

JOHN DALEY: Yes, and the short answer, a way of looking at it is Melbourne's got, by international standards, and enormous footprint, it's larger than London, and yet in terms of people the population is much smaller. So could you fit a vastly greater number of people into the existing Melbourne footprint? The answer is of course you could and the same is true of Sydney. Our cities are not very dense by global standards. The inner city, the CBD is now actually quite dense by global standards. A place like South Yarra, quite dense, where we are today, but as soon as you go any further out to the Glen Iris and Camberwells of this world you wind up with areas which are really very, very sparsely populated by the standards of cities internationally and that's a huge opportunity. And, of course, that is a vast area in the scheme of things.

So I'm sure there are limits to Melbourne's population if you think about it that way, but even if we continue to see very fast population growth, provided we do some of the things that Paul's been talking about, we are not going to hit those limits for a very long time.

PAUL DONEGAN: And it's worth emphasising that this is not shoving people into different areas against their will. People are identifying that they would wish to live in these areas if given the choice.

AUDIENCE: I was just going to ask for your comment on the issues of the zoning that's taken place in the middle suburbs. I'm from the Government Architect and we get told by the development industry quite a lot that we have to really build up these urban renewal areas because we've basically got the whole middle ring suburbs tied up as being two storey. And from my point of view I think there are all sorts of very interesting international models of density which are not Melbourne's model of density and I'm always really disappointed that we don't have them, and I suspect that's what you're talking about, that there is an appetite for that different type of home that the contemporary family would be very interested in having, but there's not much of it out there.

Is it because the suburbs are tied up?

PAUL DONEGAN: Yes, that's one of the case studies cited in the book that absolutely, with the caveat that I speak on behalf of Grattan and as an individual but not on behalf of my new employer, it identifies that the zoning arrangements ended up acting as quite a constraint on doing as you've described, and there are other places where the settings are different and that enables more choices to be made. The zoning is not the be all and end all. There are other process aspects, the complexity of the planning system and the difficulties and uncertainty inherent in the decision making process have impacts right across the metropolitan Melbourne area. But if you look at something and ask whether it helped or it hindered the problem, it wasn't the right thing to do.

AUDIENCE: Zoning is really fundamental though, they are really fundamental. We've got this tension about the fact that people should have the right to do what they want to do with their own block of land, but also implied property rights of I bought here and there was nothing here around me when I bought it and so there should be nothing around from now on. The reality is there's a collective good here which is about if we're going to live in the city we are going to have to face the reality of either 40 storey buildings with people hanging out the edges or doing some good design medium density in our leafy suburbs and keeping as much of the leafiness as we can, in Sydney and Melbourne and Brisbane.

JOHN DALEY: I think you're absolutely right and I think there's a subtle political economy problem here which is that the loud voices in this debate tend to be the well-organised voices, so either, one, essentially residents' groups who have a lot to lose or at least they perceive they have a lot to lose, or, secondly, large property developers.

Now this kind of urban infill doesn't help the average large property developer very much. Their business model is either do a very big tower or do a lot of houses all in one place and, either way, do a lot of building in one place. Whereas a lot of this suburban infill, as the name suggests, is infill, it's one block at a time and we have, in fact, an extremely efficient by global standards small tradies, small developers sector, but inherently they're much less organised and they have much less of a voice. And in the absence of getting changes in the planning scheme, they spend their time and effort

essentially doing renovations on existing houses rather than pushing to be allowed to do this kind of small-scale subdivision, which is where most of the potential lies.

I've got no doubt that if we changed the rules they'd all flood into that if they thought they could make any money out of it and I'm sure they could, but they tend to be less politically organised and that's one of the reasons why it's not happening.

PAUL DONEGAN: One of the things that can ease that transition, we've probably not touched on, is one way we are and making this kind of change more acceptable to incoming residents is with design and creativity that respects an area, but enables it to change organically rather than in a terrifying fashion.

AUDIENCE: But then you need examples for people to see. That's the thing, people don't have imagination so where are the examples? And they need to be out there enough in the right places for people to see because there's definitely an appetite for it.

JOHN DALEY: And I would suggest that there are plenty of examples in Melbourne, just not enough of them and we probably don't celebrate them enough.

AUDIENCE: It's probably called marketing.

JOHN DALEY: Yes, thank you.

AUDIENCE: John, when you were talking about this heading towards the centre what I thought about that, I was of course in finance and finance isn't very popular these days. The reason it's not very popular is that we all understand that a great deal of the incomes that are made by people in finance are not from improving productivity but from capturing rent. And the reason people are in the CBD in finance is precisely as you say, to be close to other people in finance and also in large industries in broader terms, but then you have to think that closeness when it's in Silicon Valley often translates in a higher productivity which then is of benefit to the whole community. I'm just asserting finance the opposite is the case, and as you were talking I wondered how many other high-scale service industries are more like finance than they are like Silicon Valley, and I can certainly think that law is similar; finance, architecture, not that that's a high rolling profession except for one or two.

I don't know what that means in terms of policy, but in a sense it's imposing such costs that Paul and Jane-Frances have exposed in their book that simply trying to service it is costly in itself. Now, whether you can come up with any intervention that's better than that I don't know, but I just wanted to share those thoughts.

JOHN DALEY: It's a really interesting observation about how much of this is rent and how much of this is productive and, of course, when we try and measure productivity, and we do, it's some of the work that we've done, it's essentially by looking at incomes which, of course, most probably just reflect the rent, it's a bit circular. On the other hand, can you have too much finance? I think the evidence is yes, actually that's possible and the same I'm sure is true of the law. On the other hand, the evidence is overwhelming that you can have far too little and you don't have to spend very long –

AUDIENCE: We're not at all close to that.

JOHN DALEY: We're not at all close to that, not at the moment, but certainly having efficient and effective high-end service industries is important and I'd suggest to you there are plenty of these service industries which are not obviously purely about capturing land. If you look, for example, at the engineering firms that we have, as I said, interestingly they have all moved into the centre of our cities. If you look at marketing, depending on how you think about it, whether that's rent capture, but a huge number of these services do exist, it's not just lawyers and banks, although obviously they are material. And I would also suggest this is a global phenomenon.

AUDIENCE: I'm not telling you I know that I'm right and you're wrong, but I can make a very plausible story which is essentially a rent-seeking story about the engineers. It's important for the engineers in big high-end firms to go and have lunch with and be with the big clients, so the rent is in the marketing. And the counterexample of this is Warren Buffett who sits in an office in Omaha and he used to have 19 people working for him in the office and now it's 36 or something like that. So it's not absolutely necessary and I kind of think that there's something funny going on. But, as I say, in the absence of some clever intervention that would deal with it – I'm not suggesting I've got some alternative way, but I think it is worth keeping in mind.

AUDIENCE: Your argument in fact that life's rent-seeking, I'm not sure what isn't rent-seeking.

AUDIENCE: I meant in the spirit of theology.

PAUL DONEGAN: One of the things to bear in mind as well though is that in the book we take the world as it is, that we don't kind of pass a judgement about whether it's most efficient or most productive or otherwise that, as a city, firms have chosen to configure themselves and locate themselves in a particular way. And I've got my own contention that, all other things being equal, it's probably better that a business has more rather than fewer potential employees to draw upon and vice versa, but we just took the world as this is what's happening. Whether it's good or bad or not, it's happening, this is having some profound social consequences and profound economic consequences, and the choices that it's giving households with people and the kind of stressors that this juncture is imposing on households. To some extent that household's not going to consider whether they wish to become a grubby rent-seeker or a highly productive member of society that's pushing all sorts of exciting frontiers, but they want to make a living.

So that's the kind of lens that we've taken to the issue. Whether it's good or bad this incorporation is occurring, it is occurring and people need to be able to access it for their own benefit as well as for the community.

AUDIENCE: John, you mentioned you something about Glen Iris and Camberwell, you said that they're not dense at all. I say that's rubbish. You can't get a park in front of Café Max at all. When there was a proposal for a four storey apartment building on Camberwell Station, the ideal place for density, I've got Barry Humphries and Geoffrey Rush on speed dial to say smash. It's gone. I don't care about the public group, the common group, that's rubbish. What's in it for me? Is there any benefit at all to the type of housing that you're saying you need in my area?

PAUL DONEGAN: I'm really glad you've proposed that proposition because it gets to the nub of how do you change this. There are a number of issues that arise that affect the well-off household in the circumstances you've described. One, that the increased traffic on the roads is not something that's a

function of the high-rise apartment that is or isn't getting built next door, because the jobs are in the city and the people are in the outer suburbs, the people getting through are commuting. So that's something that's a bit of a furphy to contend that increased local traffic from building a high-rise at Camberwell Station, for example. It's as much a function of these trends that are developing.

The other things that arise, one is households in those areas need change too. We profile a household in the book in suburban Sydney. They settled, built a home themselves, a big home in what is now an established suburb of Sydney, brought up their children, brought up their family there. They're getting older, the kids have moved out, one of them's retired, the other one's about to retire. So they've decided that they would like to live in a home that doesn't require as much maintenance, they've got a pool out the back, they don't want to maintain that anymore, and live in a home that's a bit safer as they age. They have steps and they don't want to live in a place with steps. But they've built that whole life in that neighbourhood, so they want to live nearby, be near their friends, be near the community and so forth. But because the arrangements around getting permission to build new homes in that area are so restrictive the kinds of home that they're looking for aren't getting built nearby, so they're not able to make the choice that they want. On the rare occasion something does get built, because they and their peers settled the place at the same time they all just fall upon it like wolves and so only one can afford it and the prices are incredibly high.

So to some extent people are being cut off from choice in the medium term even if they're happy right now. The other is – and this is an argument that resonates more with some households than with others – many households consider it important that their children are able to live nearby, to see the grandkids, for the kids to be able to get informal support from their parents, staying connected to the community as well. If we're making these decisions we're making a deliberate decision to price those children out of the area, but often there's a kind of dissonance there. I was talking to a family friend who lives in McKenna who was on one hand lamenting the kind of homes getting proposed to be built in her street, and on the other hand lamenting the fact that her daughter and her son-in-law are quite far away from them in Endeavour Hills.

Actually, those are two sides of the same coin. And to some extent we need to do more work around illuminating that these are the decisions you're making when often what is a natural knee-jerk reaction to change that might be seen to be imposed.

AUDIENCE: Who does that work of illumination?

JOHN DALEY: We're working on it.

AUDIENCE: It's interesting though to observe, and you're sort of taking the model that the centre of Melbourne is an intrinsically magnetic force that is sucking everything else into its vortex, transport, house prices, higher density and so forth, and that hasn't been the model forever. I can remember Postcode 3000. It was a wonderful policy that might have almost got over beyond its wonderfulness. It came into the centre at a time when Melbourne was a dead place, I mean, we've got journalists that lamented the nature of central Melbourne and so forth, and it's been a wonderful successful place-making venture to create this centre. It's become an economic success as a result of all of that, and people might talk about Rob Adams or Ron Jones and we seem to now think that that's it forever.

What you're trying to tell us and what I would agree with you about if you are coming from the Metropolitan Planning Authority, is that we now have to take that success story and put it into the middle ring suburbs. And John, you will tell people that the economic changes that have happened in Melbourne as we restructured our economy, we're currently abandoning our manufacturing economy and out in our suburbs our vast swathes of ex-manufacturing economy, just as there were vast swathes at the time of the early '90s of ex-office space that needed to be repopulated and reimagined by the creatives that were colonising then and now, the kind of mainstream that are inhabiting, the Mirvac and so forth in the centre.

So we need, as a group here, to think about how we take a Postcode 3000 type of a thing, a different, whatever suits it, and take it to our middle, not Boroondara and Glen Iris. Forget them, go out to McKinnon, go out to Chelsea, go out to Blackburn, go out to Croydon or wherever. How do we take advantage of that changing economy and start to build the stuff that we think should be built and can be built there? Doesn't have to be the Mitcham Towers that sunk Melbourne in 2030, it doesn't have to be the Eureka Tower; it needs to be something else which can be supported in the sort of bases that are there. I now that your book is identifying the issue. I want to find the solution and I want to find a way forward.

AUDIENCE: Isn't it a problem with employment though?

AUDIENCE: There is more employment in the suburbs. We talk about this wonderful vortex of the centre, but we know that it is only a proportion, it's less than 20%, it's 15% I think - you'll know it better than me. The central Melbourne area, the employment that it has there, there are more jobs outside of central Melbourne but it's obviously spread like butter over a bigger area, but there are nodes as you get into that. It is important to locate at the top, so we've got to do that.

JOHN DALEY: Can I suggest it's not really spread like butter; it's spread like – I'm trying to think of a sensible analogy I'm allowed to use. But you're right, 15% of the CBD. But then Paul, what is it in the 10km around?

AUDIENCE: Most of them are accountants. The whole of our transport system that takes us into the middle is to deliver accountants primarily to the centre.

JOHN DALEY: You've got 15% in the CBD but, Paul, what is it in the 10km around?

PAUL DONEGAN: It's very substantial, but I think the way to think about this is that the whole point of cities is jobs and people. The fact that a job is further out, is in, say, Broadmeadows, isn't actually of use to someone on Frankston, notwithstanding them both living 12km or more from the city centre. So if you think about the people in that inner ring, there's almost a job for every resident. Middle ring, within that ring, three or four jobs for every resident, but they're also pretty approximate to the access to the opportunity in the middle. Go further out, two or three jobs for every 10 residents, which means that the choice isn't there. We can say that in aggregate there are a larger number of jobs in the outer ring suburbs. There's a hell of a lot more people and so that kind of choice and access isn't really there, which is why people want to move inwards.

AUDIENCE: But we try to lump it with education and health, which we see is the growth potentially growing, things that maybe not quite so many accountants are involved in but in Monash and in La Trobe and in Sunshine they're sitting there. I just want to find an enthusiasm to say let's work on that.

JOHN DALEY: I think you're absolutely right. Doing what we can for those areas, both in terms of creating employment precincts that firms want to locate to, because that's ultimately the question: why would I as a business want to be there as opposed to Bendigo, as opposed to the CBD or as opposed to St Kilda Road?

PAUL DONEGAN: Or Shanghai.

JOHN DALEY: Or Shanghai, that's question one, and then question two is how can we shape the residential areas around them, understanding that some of the people who live there may have, for those very reasons, good access to transport links that then do provide access to the centre. And I'd stress it's not just the CBD; it's also the 10km around it. You can see it in the Parkfield spine, in the St Kilda spine. These are places that now have enormous important and figuring out a way to do that is absolutely a challenge, I guess one of the points of the book is to suggest. On the other hand there's a really big thing going on here, no matter how hard we work on these things further out we do have to deal with this very substantial trend at the centre that's unlikely to go away any time soon.

You're right, maybe in 50 years' time our economies will suddenly work somehow differently, but we've got to deal with the world we're in at the moment.

AUDIENCE: I'm just wondering, I agree with tax and all of the rest of it, but one aspect that I think we probably can bring a bit more attention to is thinking about the building of the city. You mentioned before different groupings and so on and I think that as urbanists perhaps we don't often think systematically enough about, in a sense, the production of space. Because many of the developers, for instance, on the fringe, they just deal in land and then they go off and they deal with builders who whip up these catalogues and you then place your houses on smaller and smaller blocks and so off. That group and that process is quite different to the CBD high-rise towers and is quite different to the middle ring suburbs. In a sense, they're different groups of people and in a way if we're going to have a different type of sitting I suggest we need an industry policy type of framework about what do we want the producers of the city, what sort of industry structure do we want to be able to produce the sort of denser, more friendly city that I think we probably are in agreement about in this room?

I think there are probably two policy elements to this. One is the relationship of all these producers in the city to the finance system, to the banking system, and to the way that risk is seen in the production process. I'm doing a little bit of work at the moment interviewing; indeed I've done one today talking to an outer suburban land developer. In a sense what they've done is the separation now between that group of people and the banking system is as great as it's ever been. They're working on accumulated capital. The banks are the last in and the first out in terms of the investment in the land and the whole process post-GFC and I think that's a factor running through the system. The whole approach to pre-sales in the middle ring suburbs, it's a disaster in terms of the way in which we go about, I think, designing and building those spaces.

AUDIENCE: Because of access to finance.

AUDIENCE: Because of access to finance. So in a sense our public policy frame has to, I think, think about the way our finance system deals with the build environment and I think there's a lot that needs to be done in that space. And I think the second thing, in a way it's picking up the Postcode 3000 type of idea. Essentially that's about land use and we can have housing but it all sits on land and how we think strategically and the zoning is, it seems to me, a dreadful way that we've gone about doing that. Yet we've also forgotten the capacity of estate agencies, whether it's local government or Places Victoria operations that we've had in earlier years, to be able to actually come in and reorganise the land upon which we do this so that we go beyond and we guide the market, we bring the developers in, in a sense, once we've done some more strategic reorganisation of the land use using the powers that government have got.

I'd make one other further comment, and it's the one that Marcus Store often makes, is the government framework that we have to work with in a place like Melbourne or Sydney, it's a state government and we have incredibly fragmented institutional arrangements within our large metropolitan city that actually doesn't allow us to have these sorts of conversations in a strategic way to be able to intervene. I come back, I guess I wish, in a sense, for a metropolitan government where you can actually do some of this stuff more systematically than what we've got currently.

JOHN DALEY: Thank you, those are fantastic points. Other questions?

AUDIENCE: You talked about different examples and when you wrote the book – and, again, I confess to not having read it yet, I'm looking forward to it – did you look globally, and settled in Melbourne but looked all over the world. Have you picked any examples of cities that have developed that have started from a very similar circumstance, because globally everyone is going through the same transitions with the exception of China to a services economy, and looked at cities that have worked really well and those cities that haven't worked really well in terms of their evolution?

PAUL DONEGAN: We tried to look at cities that have similar experiences to Australian ones, not just in their economic circumstances but also decision making. So we stuck to democracies and –

AUDIENCE: Did you find any good or bad examples?

PAUL DONEGAN: So that pushes us, a lot of the comparisons were with North America and there are examples of both. There are many dimensions, no-one gets everything right, and so there's no, "We must be like X" because everyone's grappling with their own problems.

Having said that, we identified that if you're looking, for instance, on a housing affordability lens that the cities which do choose to respond to the concerns of incumbent residents, make it very difficult to build new homes are some of the most affordable ones. But if you look at it from a question of how did cities change, and this might be change in response to some of the forces we've described, it might be in response to economic decline or rapid population growth, the ones that did this well were not necessarily ones with a particular form of government, but one where there was deeper engagement of a level that we haven't really seen in Australia of the community to own the difficult trade-offs that are inevitably involved in this thing about well, if we have less housing over here, we have more housing over here. And that's a trade-off we've chosen to make implicitly in Melbourne where we're seeing 7% year on year population growth in the city of Wyndham and less than one in Boroondara.

These cities actually open these conversations up between residents within those cities to have those arguments on trade-offs that work for everyone within the frame of well, we want affordable housing and this is the economy that we're stuck with to some extent and we can change to some extent. And then and only then do you then start having the micro level conversations within a local area and that's about well, within this frame as a whole city, as a metropolitan area we've agreed how do we give effect to that in a way that's most respectful of our neighbourhood, that preserves the values that we choose to value as a local area, but we don't get to opt out of what the broader city has decided?

And so there are examples of that with varying levels of success in Vancouver, Chicago, Seattle and Portland. I'm not holding these up as examples of perfection, in Vancouver the housing affordability now is as bad as some of the worst Australian cities, but there are lessons that we can learn there about if you're going to make trade-offs you need to present the options to the community and they have to own them, because otherwise the potential for political opportunism is so strong. If it's something that is seen as a government thing and the government's telling the community how it should organise itself. What we've seen in Melbourne and Victoria is that we've had a number of these kinds of things where the proposal gets put forward, there's political value in opposing it and it kind of fizzles out and doesn't have the intended effect. So it really has to be a lot more bottom-up than what we do in Australia.

JOHN DALEY: I think we'd better finish it up there.

AUDIENCE: Can I just ask where Grattan is taking the Cities urban program. What are your plans?

JOHN DALEY: So we're continuing to talk about it obviously. We're continuing, and I have noticed it's been in the news today, we have essentially set up instead of the Cities Program a Transport Program. We came to the conclusion that a huge number of the issues that were alive in this space were essentially around transport and how we set up our transport assets and networks. So, as Paul mentioned, we've recently appointed Marion Terrill to run that program and she's obviously busy working out what to do and then getting started on her first project. So we'll continue to talk about the productive aspects of cities, particularly through Jim Minifie's Productivity Growth Program, the tax aspects I mentioned briefly through the tax budgets work that I'm doing, more generally the Cities Limits work and Cities work which I'll and others at Grattan will continue to talk about, it's an essential background to many of the things that we're doing, and that's how we're hoping to take it forward. I'd love to be running the Cities Program as well but, as with many other things, you've got to make some tough choices and that's a choice that we've had to make.

So on that note, I might finish up apart from to mention that you can purchase a copy of the book at the back from Alex if you would like to at the end of proceedings and to say thank you very much everyone for coming in. Thank you.

END OF RECORDING