



Productivity and geography

**John Daley, CEO, Grattan Institute
Productivity Commission Conference, Canberra
12 December 2016**

Productivity and geography

Allowing jobs to concentrated in the centre of big cities may increase productivity

- Services are growing much faster than other sectors
- This services growth is concentrated towards the centre of big cities
- Employer choices and outcomes suggest that there are productivity benefits (and perhaps rents?) from agglomeration

Government can fail to support central city growth; it can't do much to encourage regional growth

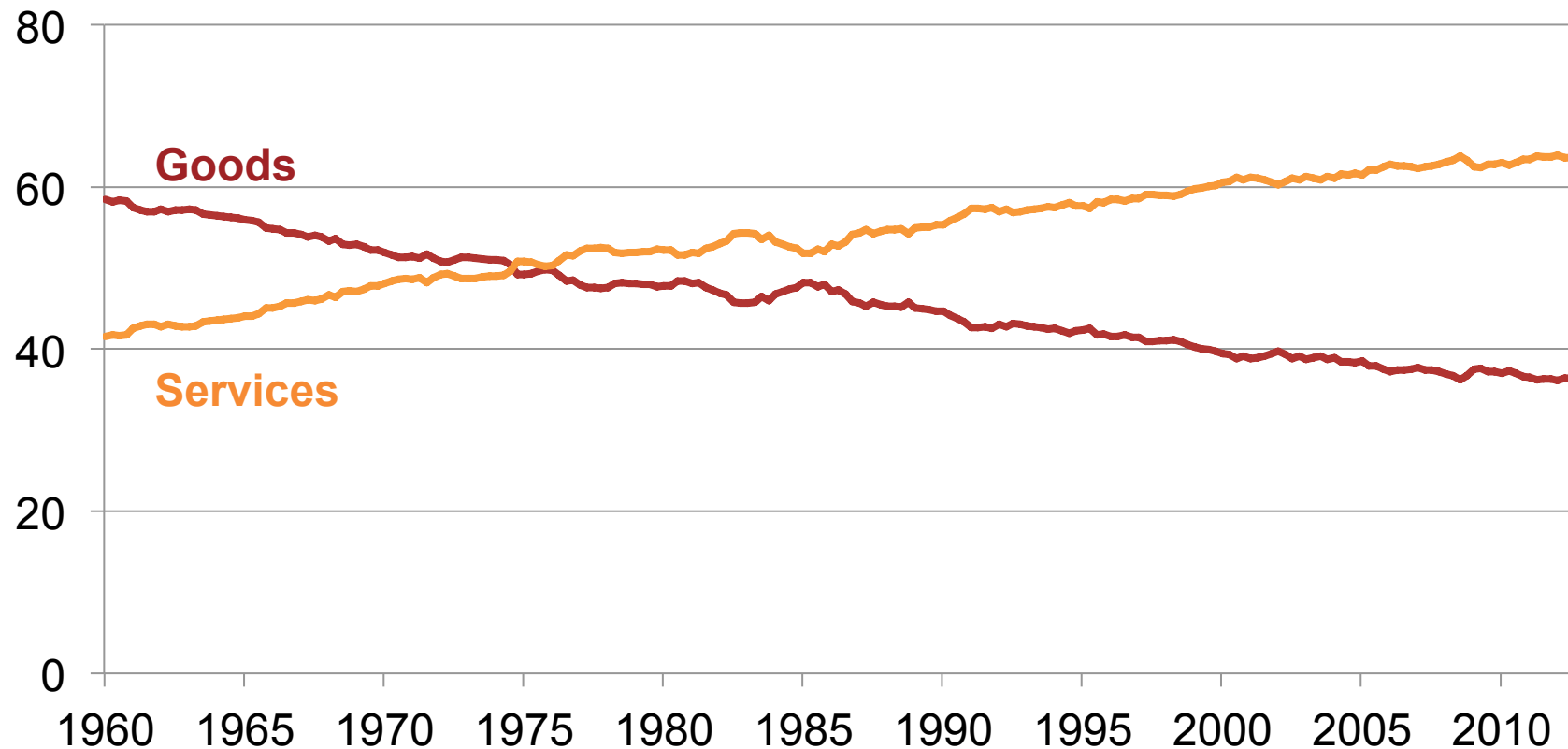
- Infrastructure investment has not matched economic growth
- Reforming planning and housing policy may well yield economic benefits

These economic patterns have political costs

- In Australia and around the world, politics is dividing between cosmopolitanism and nationalism – corresponding to cities and regions
- The divisions are both economic and cultural

People are consuming more services

Share of total nominal household expenditure

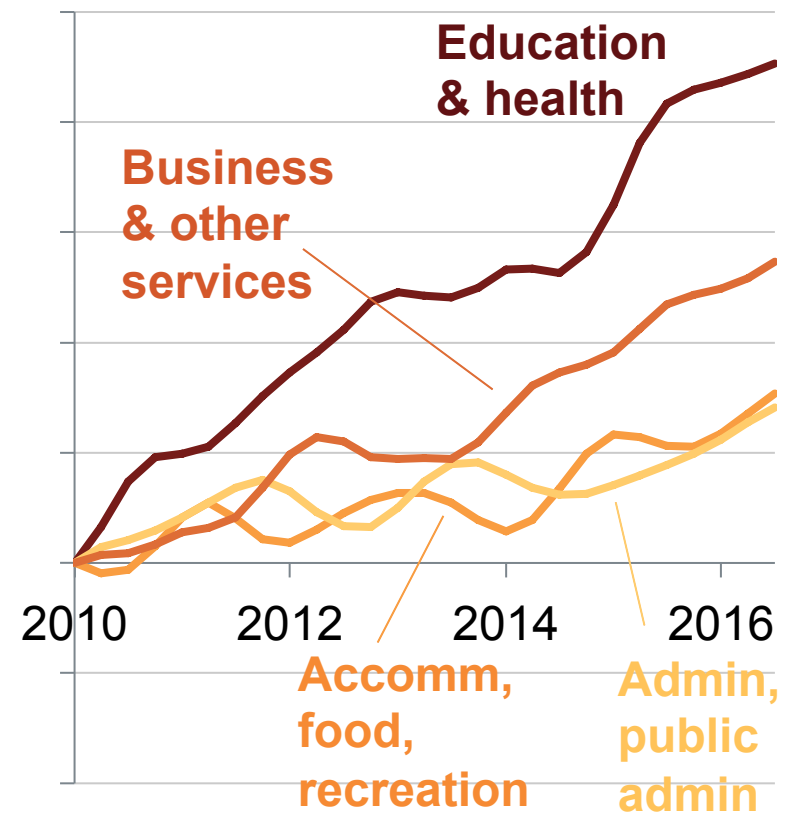
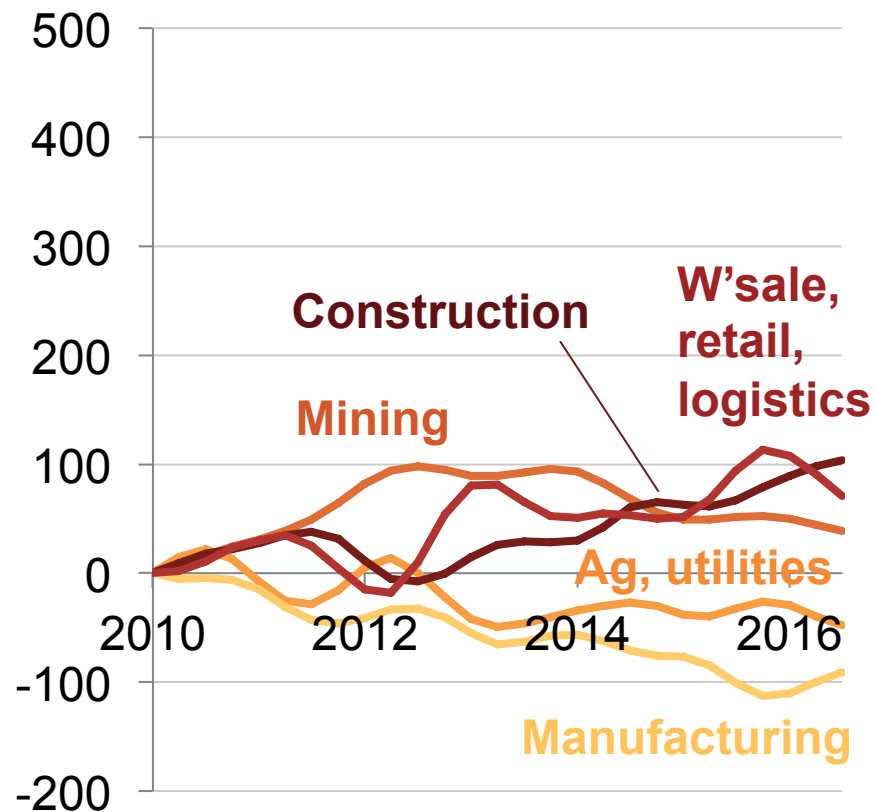


Notes: Excludes "rents and dwelling costs" and "other goods and services". Based on seasonally adjusted current prices data
Source: <http://grattan.edu.au/wp-content/uploads/2015/10/Capital-City-Lord-Mayors-for-web-pptx.pdf>

Services growth accelerated in the last 5 years

Cumulative employment growth since 2010

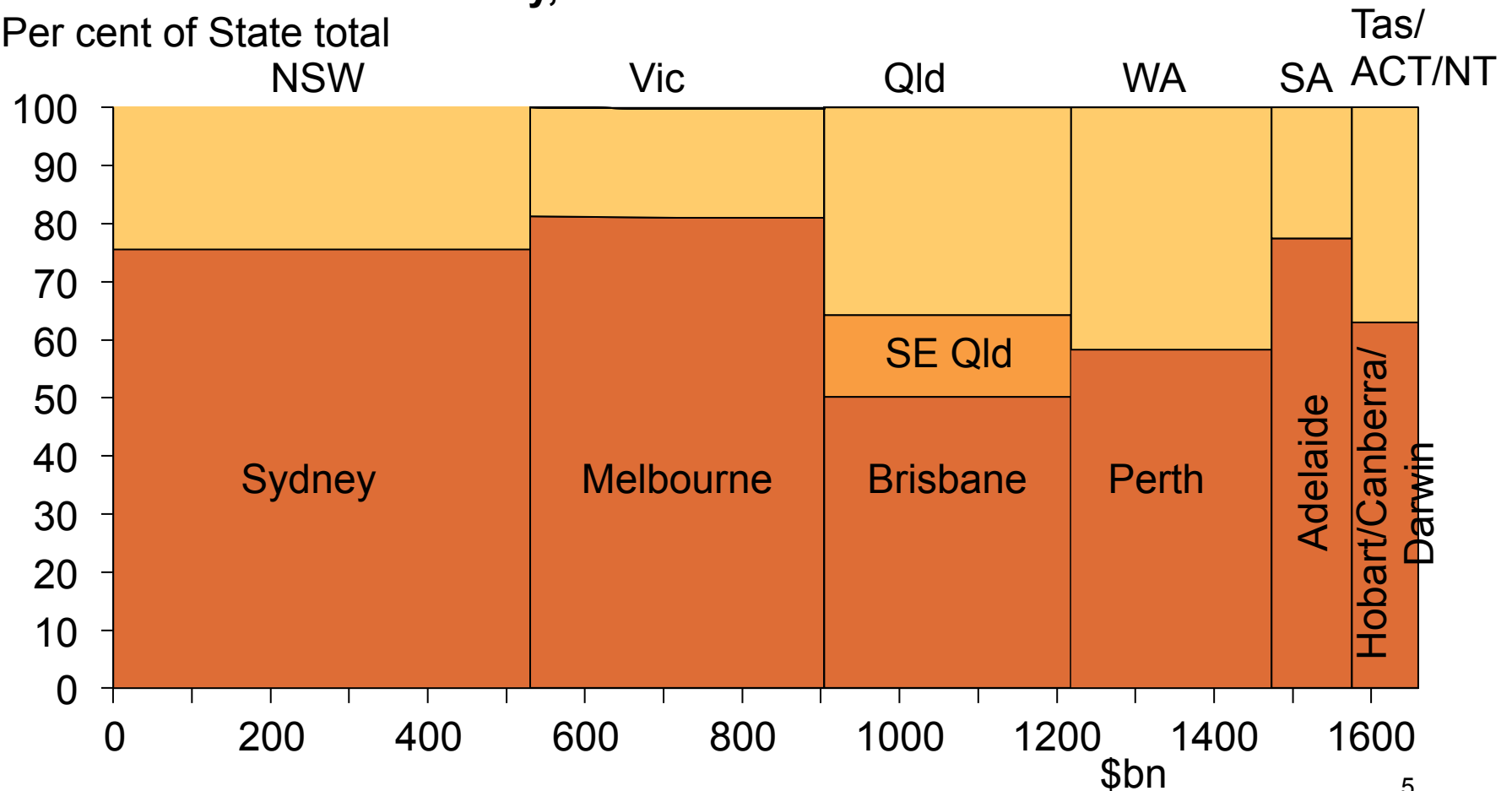
000 people, trend



Australia's economy is now dominated by its big cities

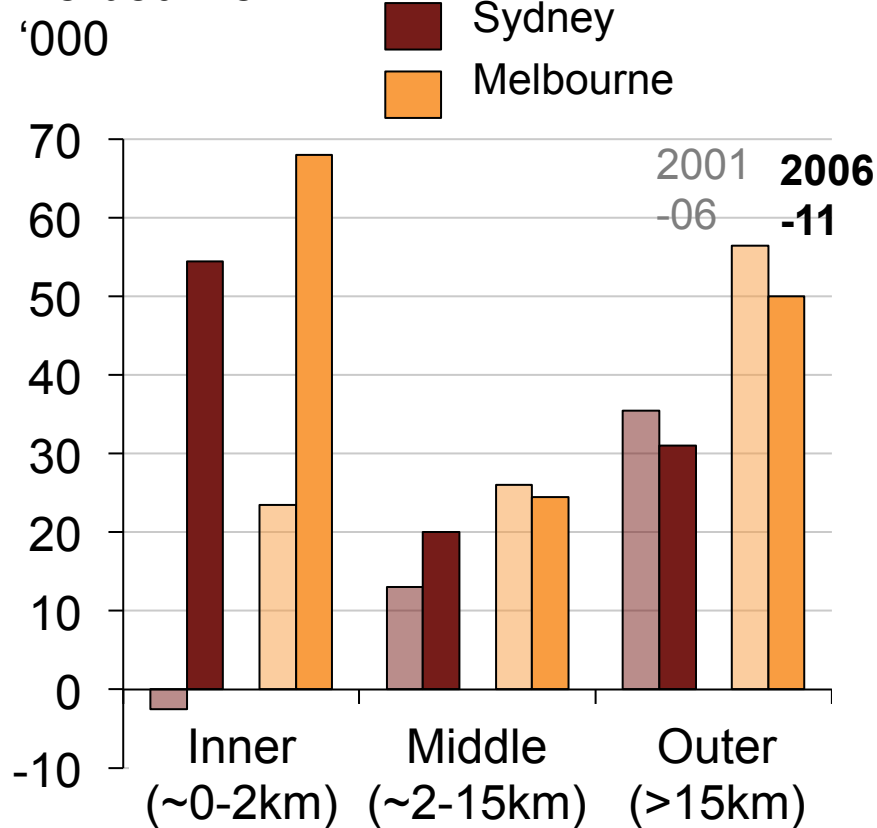
Australian economic activity, 2015-16

Per cent of State total



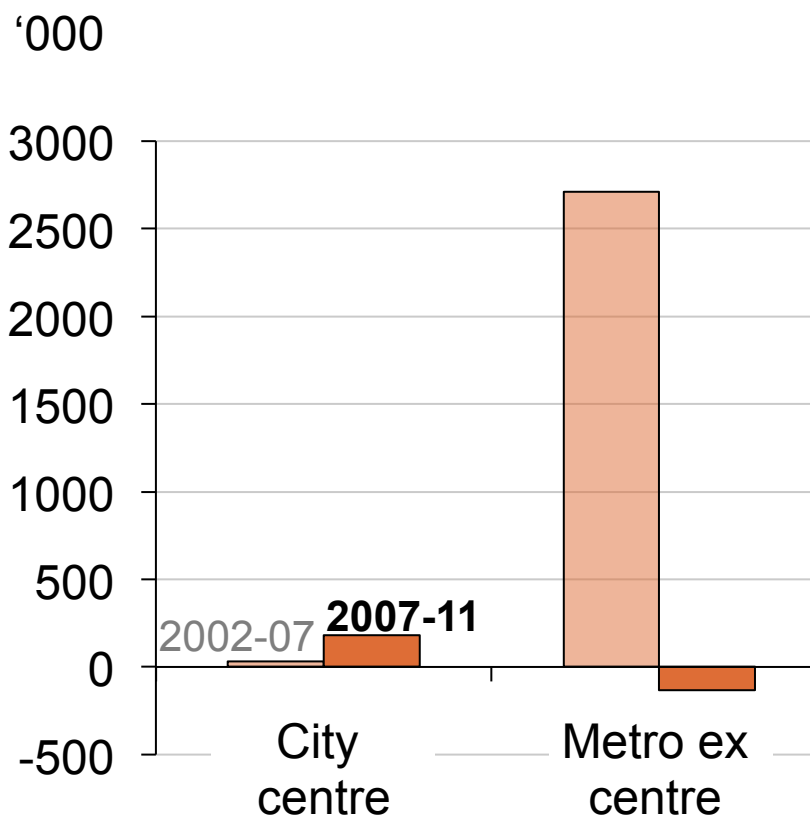
The geography of job growth changed about 2008

Employment growth, Sydney and Melbourne



Grattan analysis, BITRE

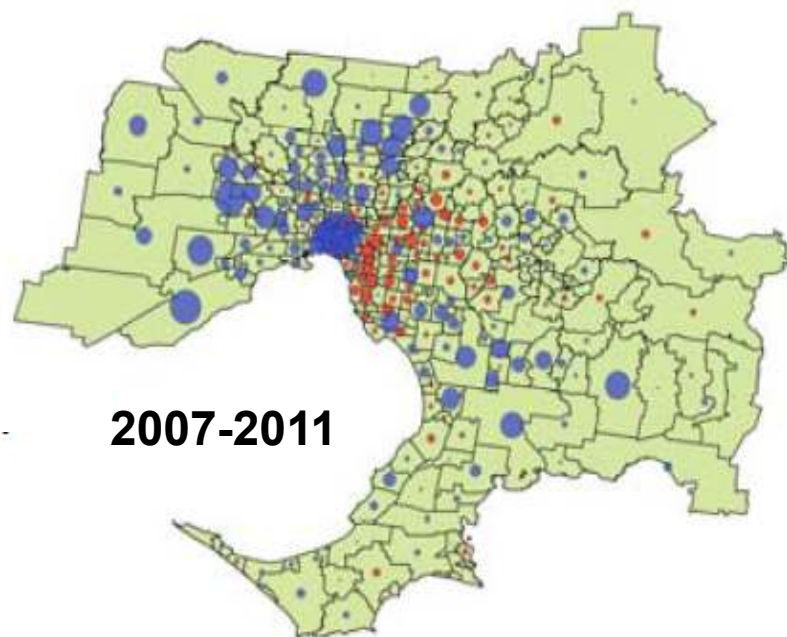
Employment growth, United States



City Observatory, *Surging city centre job growth*

Small business is increasingly dispersed

Change in number of businesses,
Payroll < \$500,000



Change in businesses

Increase

Decrease

● 200

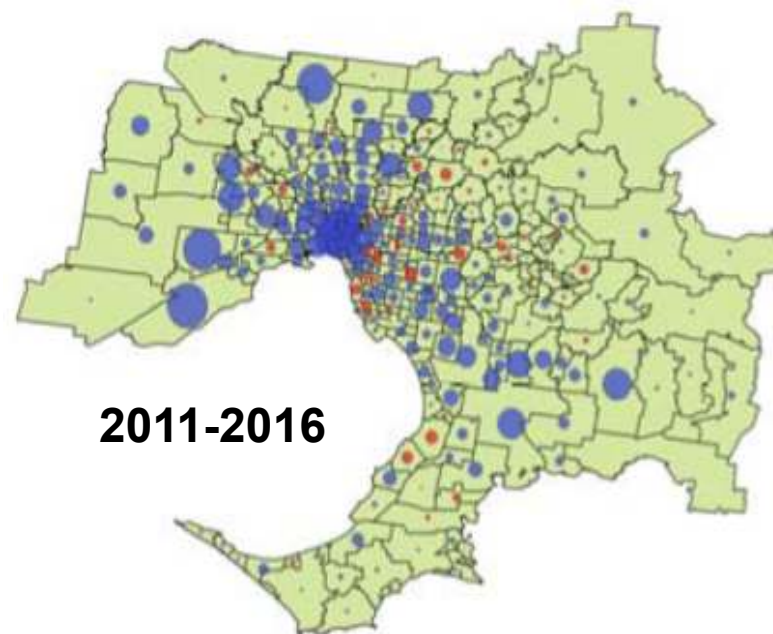
● 200

● 400

● 400

● 600

● 600

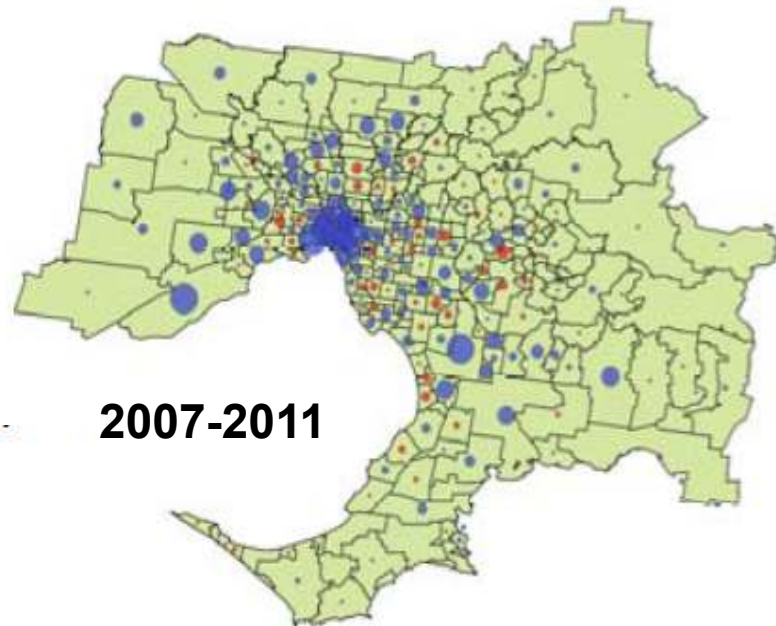


Bruce Rasmussen, VU, using Workcover data,

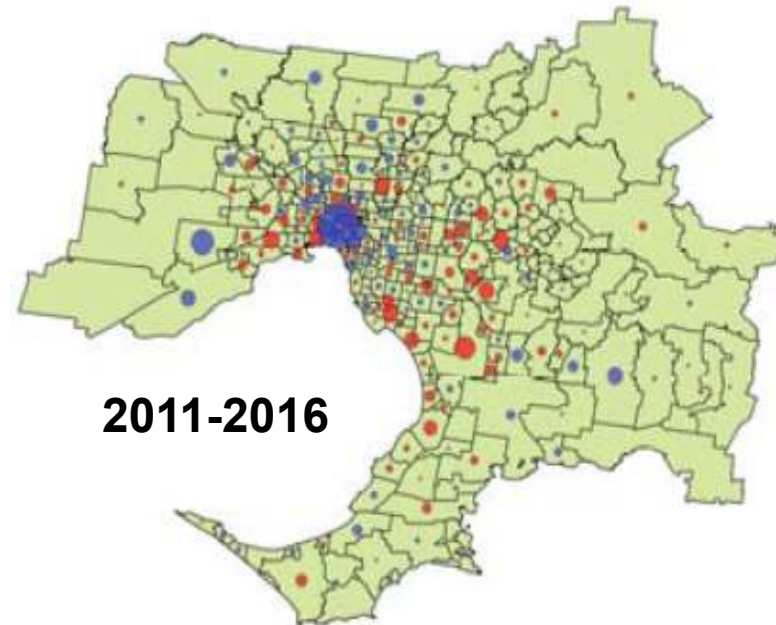
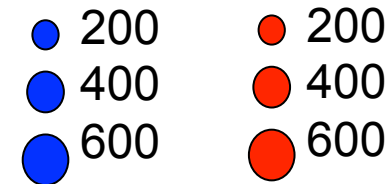
http://www.vises.org.au/documents/2016_%20Rasmussen_MEF_Changing_Business_Location.pdf

Big business is increasingly centralised

Change in number of businesses,
Payroll \$1m to \$10m



Change in businesses
Increase Decrease

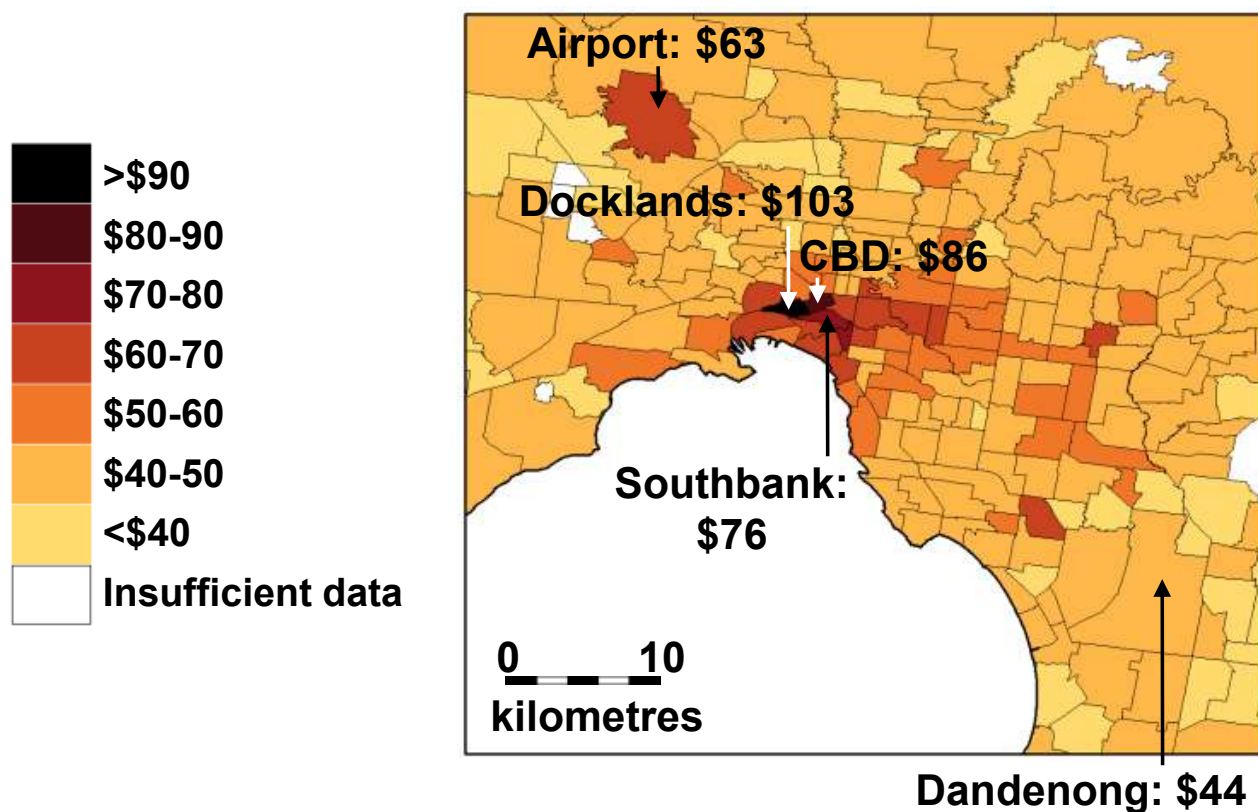


Bruce Rasmussen, VU, using Workcover data,

http://www.vises.org.au/documents/2016_%20Rasmussen_MEF_Changing_Business_Location.pdf

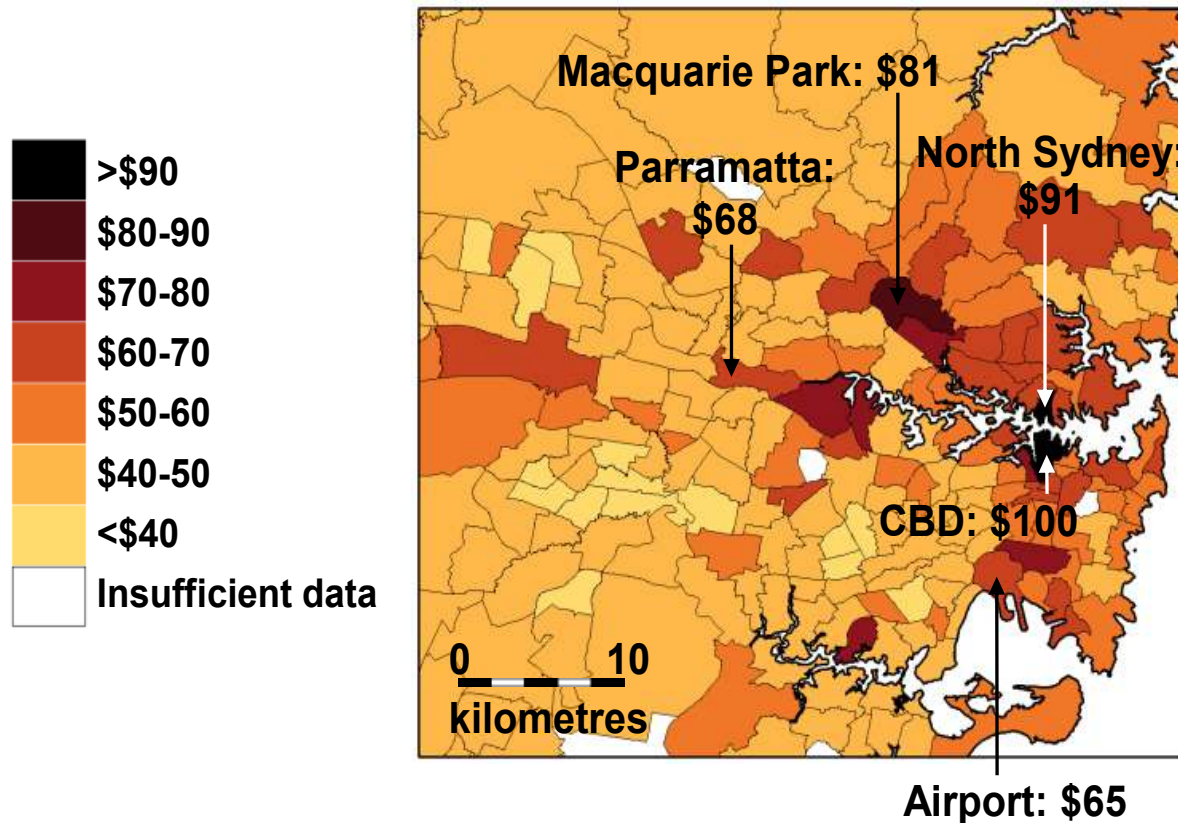
Economic output per hour is particularly concentrated in Melbourne

Economic activity per working hour, 2011-12, Melbourne



Sydney is a little less concentrated, with an unusual “northern arc”

Economic activity per working hour, 2011-12



Why are the centres of big cities growing so fast?

In a services economy, physical proximity matters

- Medial papers are more likely to be influential if the authors sit close together
- People in businesses in bigger cities communicate more with people in other companies – in person, over the phone, and over the internet
- Before we do real business with another company, our first instinct is to meet face to face

Communications technology *increases* the importance of being close to others

- The rise of communications technology (telegraph, telephone, fax, internet) has consistently *increased* the value of being physically close to each other
- The first companies to limit remote working and insist on physical proximity between their staff were ... technology companies

Productivity and geography

Allowing jobs to concentrated in the centre of big cities may increase productivity

- Services are growing much faster than other sectors
- This services growth is concentrated towards the centre of big cities
- Employer choices and outcomes suggest that there are productivity benefits (and perhaps rents?) from agglomeration

Government can fail to support central city growth; it can't do much to encourage regional growth

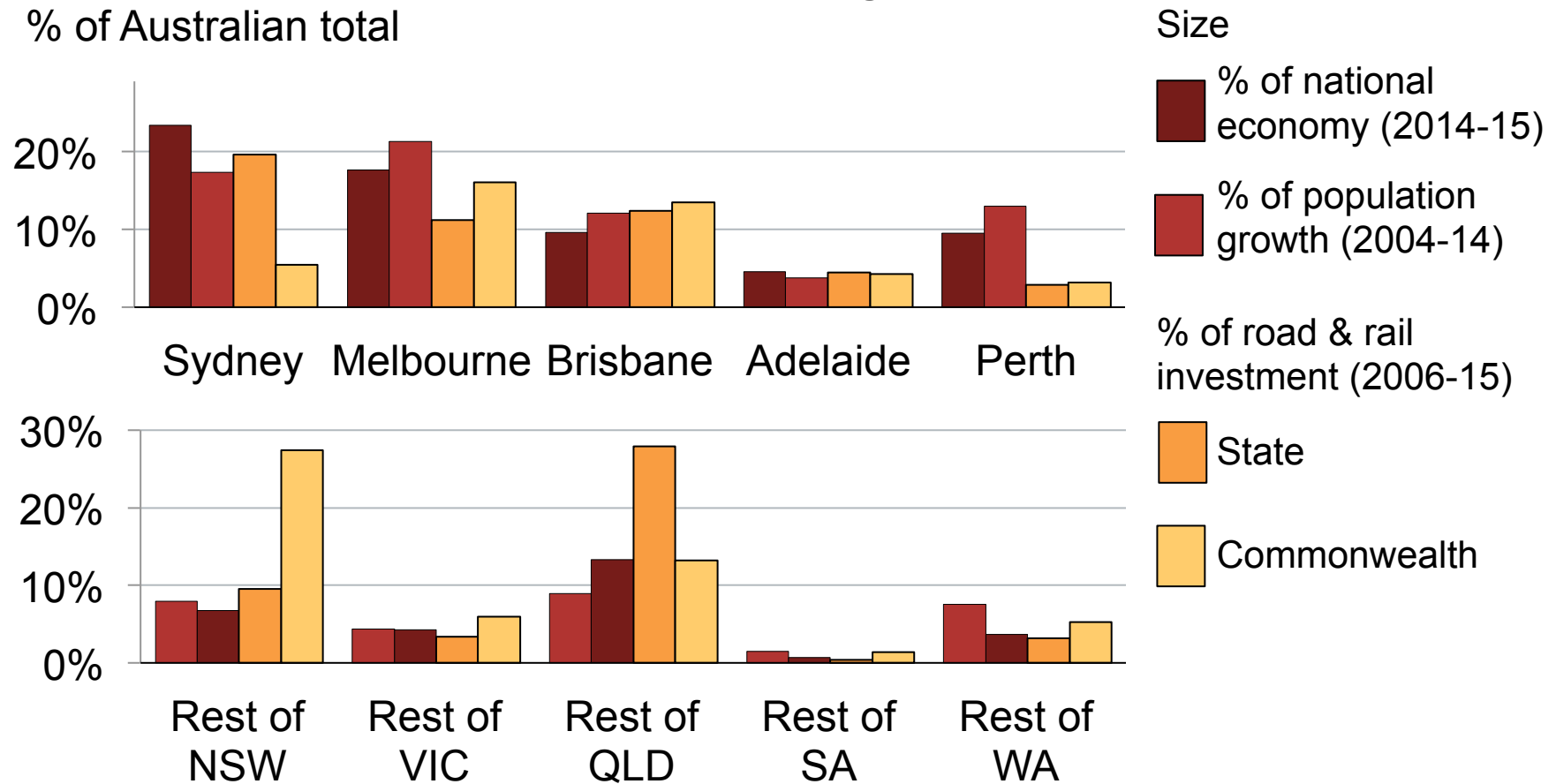
- Infrastructure investment has not matched economic growth
- Reforming planning and housing policy may well yield economic benefits

These economic patterns have political costs

- In Australia and around the world, politics is dividing between cosmopolitanism and nationalism – corresponding to cities and regions
- The divisions are both economic and cultural

Government transport spending has not reflected growth in economy or population

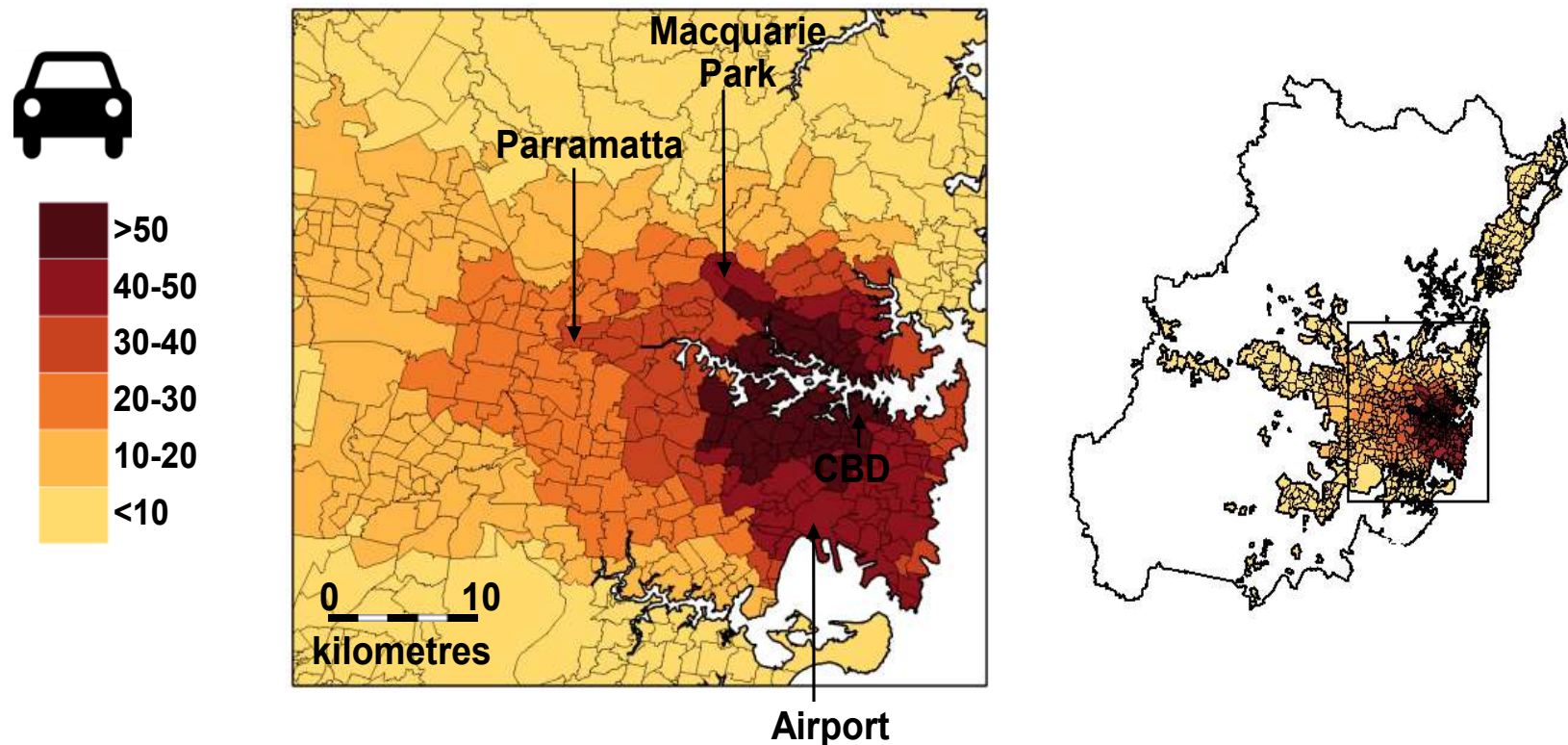
Size and transport infrastructure spending % of Australian total



Source: Grattan Institute, *Roads to Riches*

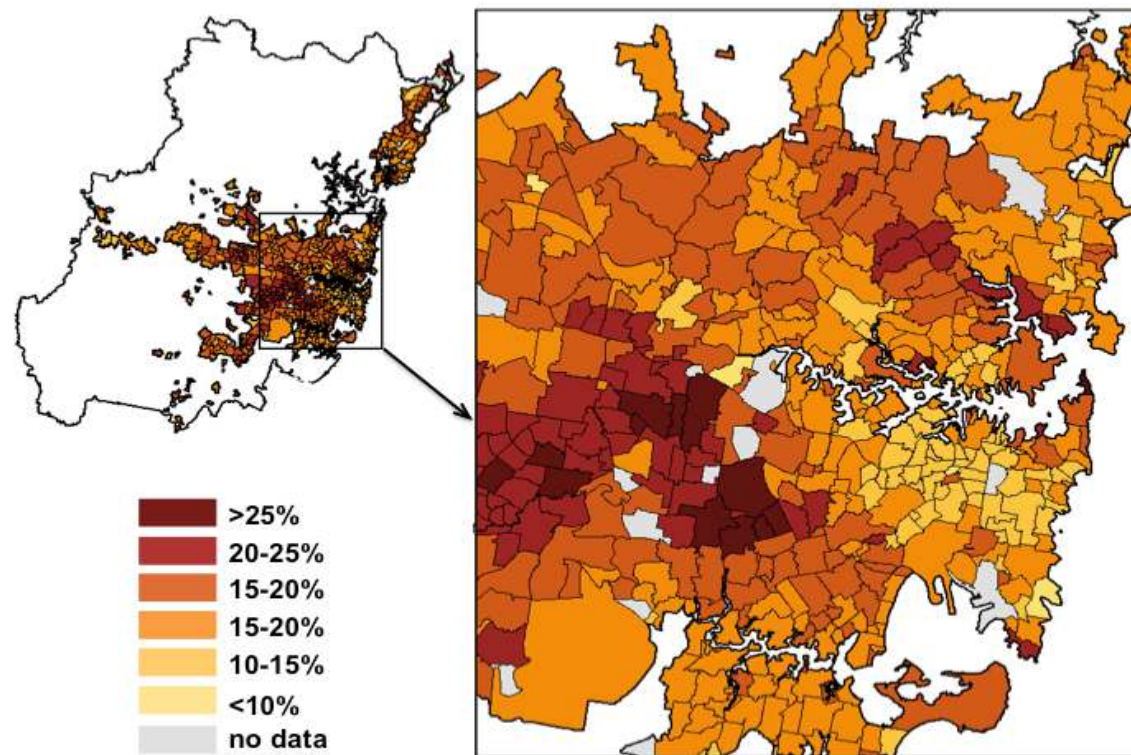
Those living in Sydney's west can't reach many jobs by car

Percentage of Sydney jobs that can be reached in 45 minutes by car



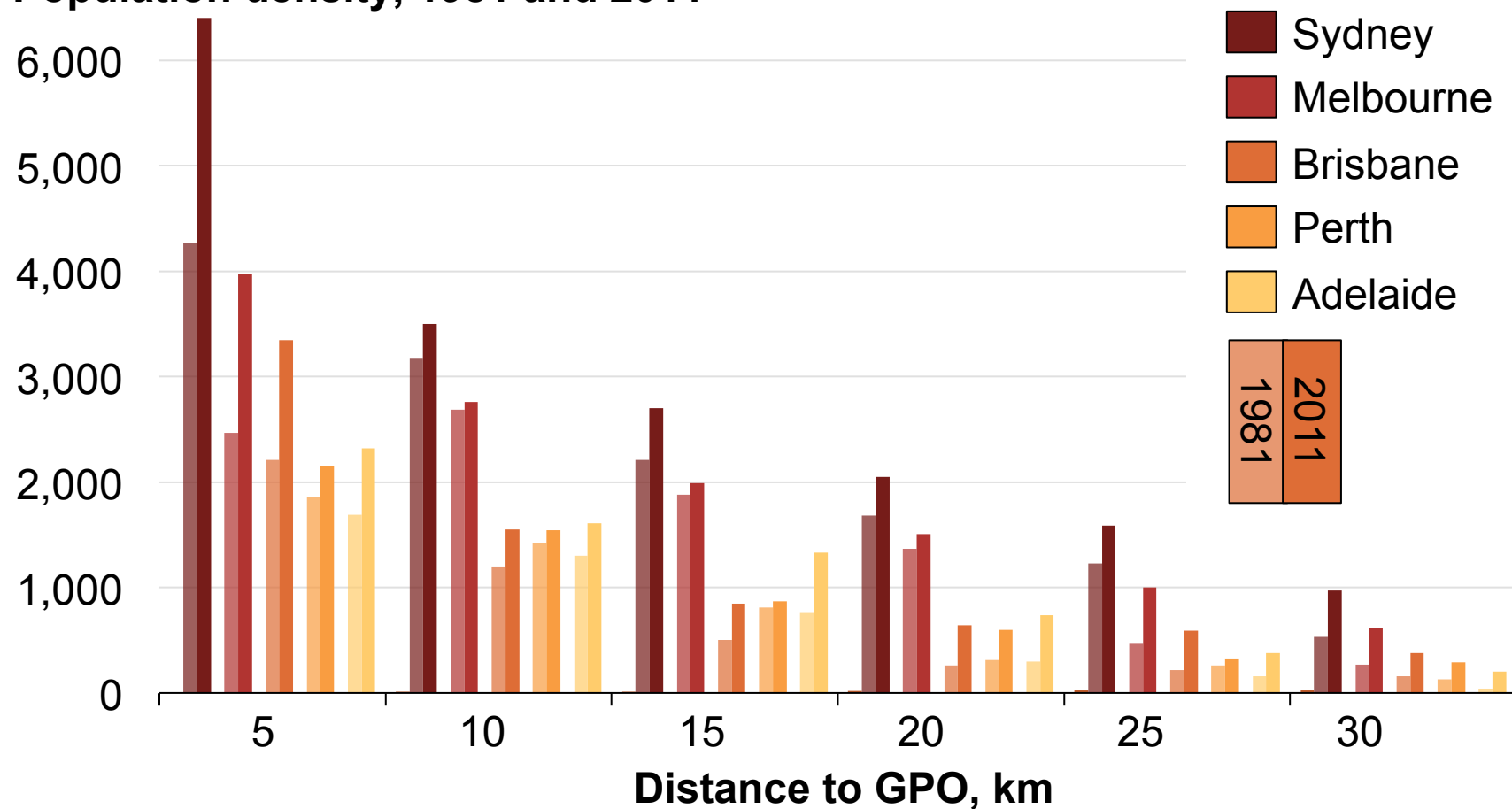
Women in poorly-connected areas face especially difficult compromises

Differences in male and female workforce participation by suburb, Sydney 2011



Population density has increased, but not much in the middle ring

Population density, 1981 and 2011



Source: Coffee et al, "Visualising 30 Years of Population Density Change"

Productivity and geography

Allowing jobs to concentrated in the centre of big cities may increase productivity

- Services are growing much faster than other sectors
- This services growth is concentrated towards the centre of big cities
- Employer choices and outcomes suggest that there are productivity benefits (and perhaps rents?) from agglomeration

Government can fail to support central city growth; it can't do much to encourage regional growth

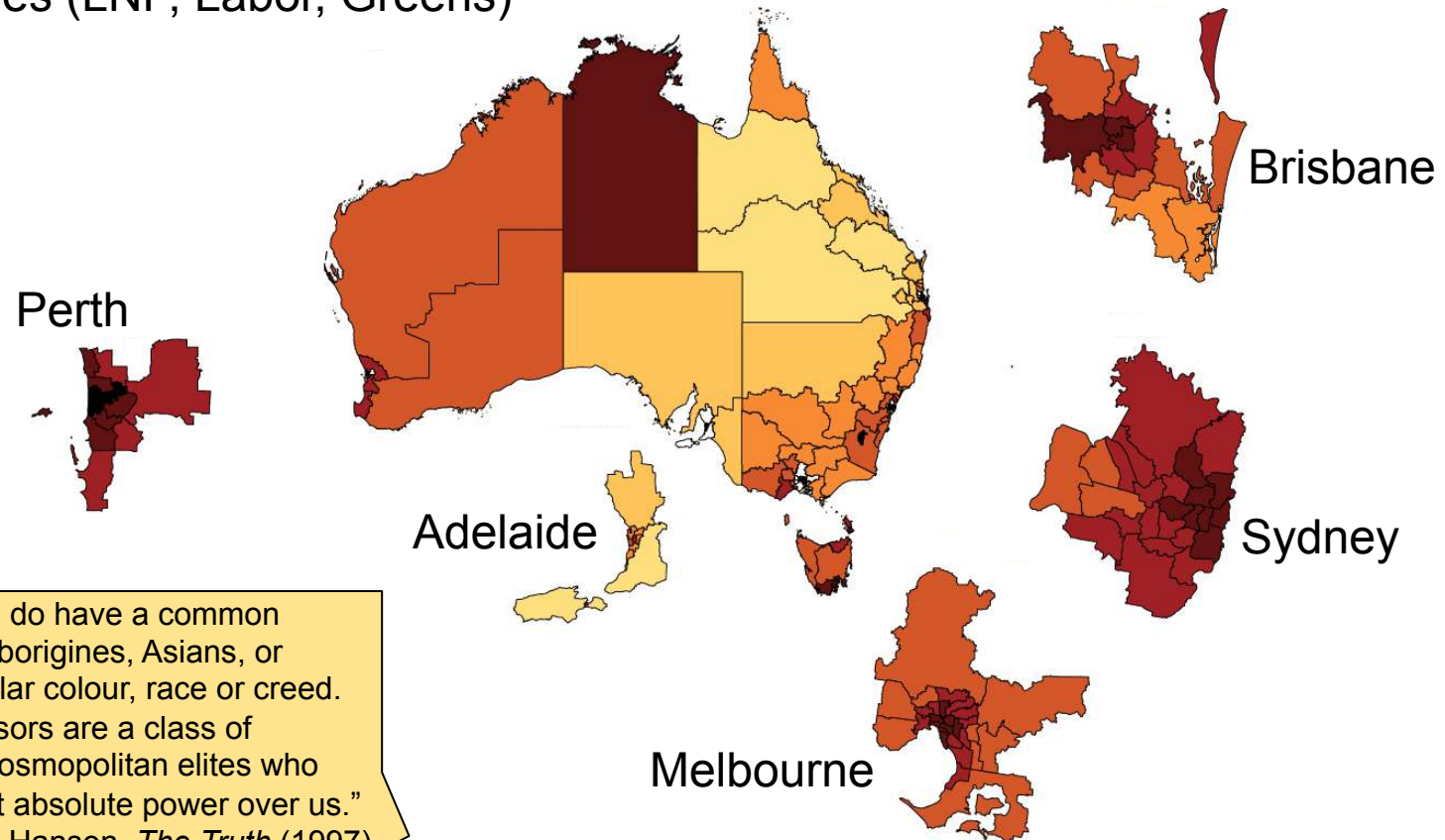
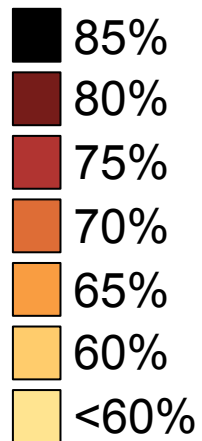
- Infrastructure investment has not matched economic growth
- Reforming planning and housing policy may well yield economic benefits

These economic patterns have political costs

- In Australia and around the world, politics is dividing between cosmopolitanism and nationalism – corresponding to cities and regions
- The divisions are both economic and cultural

Political geography in Australia is reflecting economic and social trends

1st preference Senate votes 2016 to
larger parties (LNP, Labor, Greens)
More than:



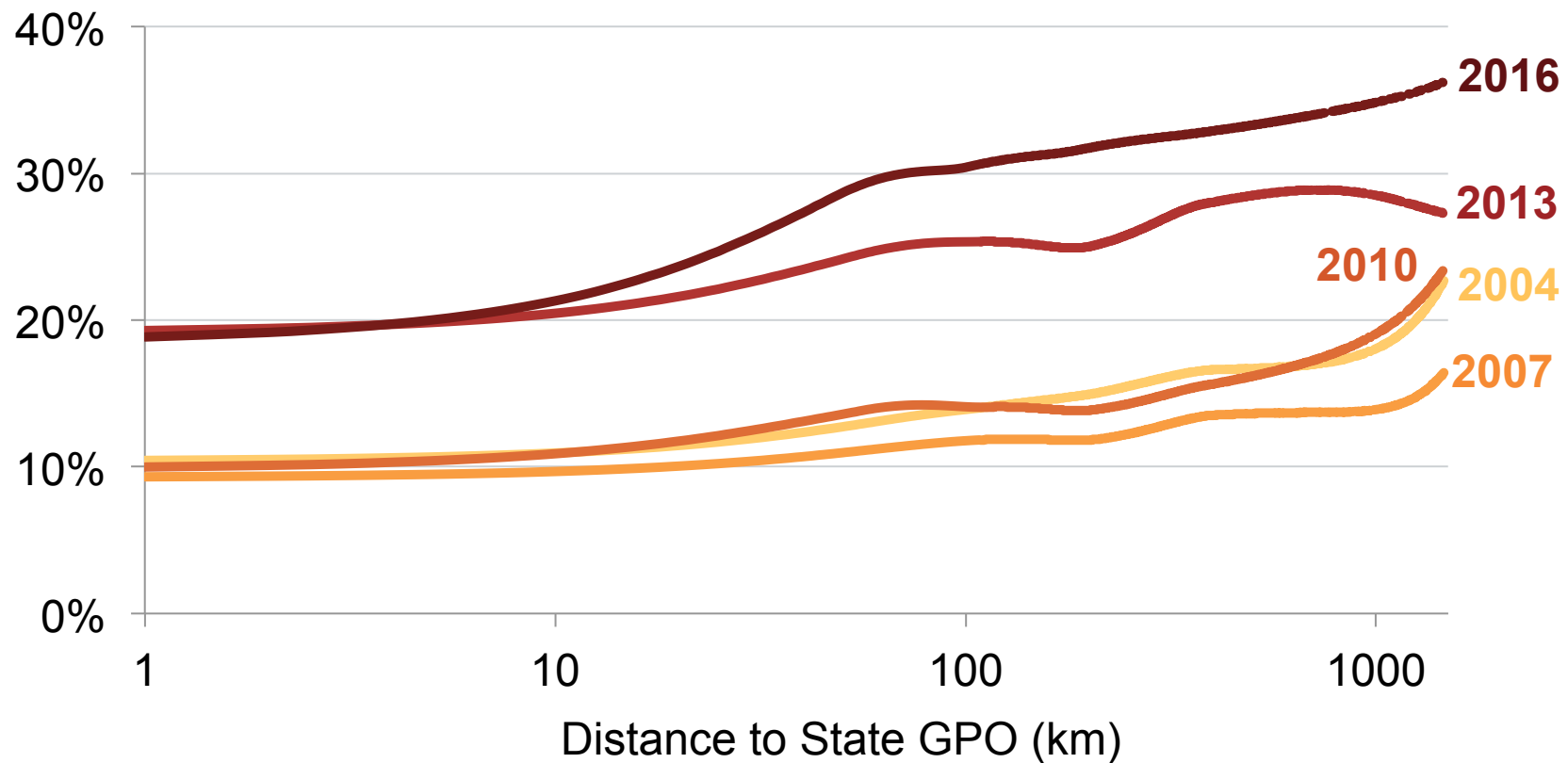
“Ordinary Australians do have a common enemy, but it is not Aborigines, Asians, or people of any particular colour, race or creed. Our common oppressors are a class of raceless, placeless cosmopolitan elites who are exercising almost absolute power over us.”
Pauline Hanson, *The Truth* (1997)

Source: AEC, Grattan Institute analysis

The geographic divide is growing wider politically

1st preference Senate votes to minor parties (not LNP, Labor, Greens)

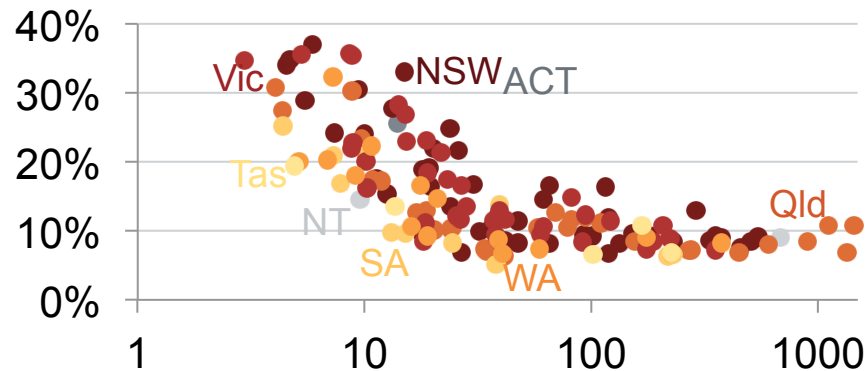
LOIS



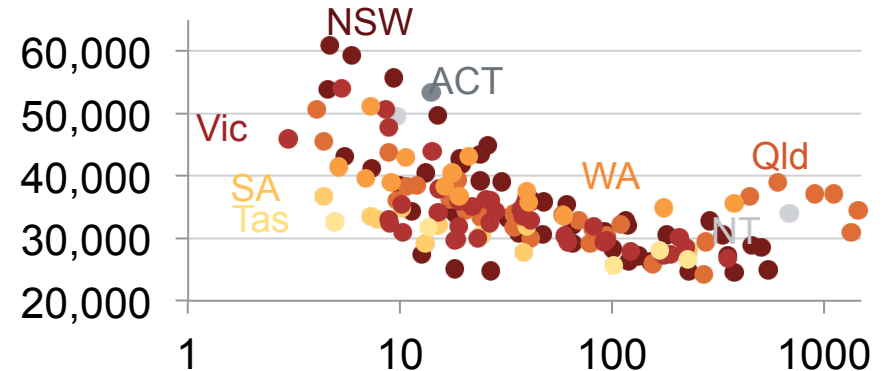
Source: AEC, Grattan Institute analysis

Minor party votes and geography also correlate with education, income, & migrants

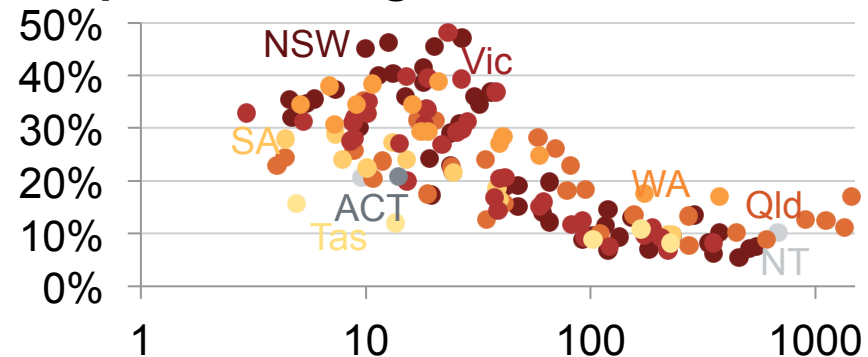
Proportion higher education



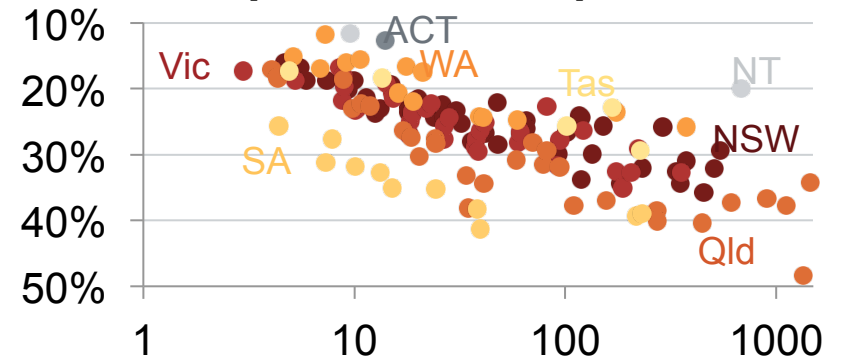
Average income



Proportion foreign born



Proportion minor parties



Distance to State GPO (km) (log scale)

Productivity and geography

Allowing jobs to concentrated in the centre of big cities may increase productivity

- Services are growing much faster than other sectors
- This services growth is concentrated towards the centre of big cities
- Employer choices and outcomes suggest that there are productivity benefits (and perhaps rents?) from agglomeration

Government can fail to support central city growth; it can't do much to encourage regional growth

- Infrastructure investment has not matched economic growth
- Reforming planning and housing policy may well yield economic benefits

These economic patterns have political costs

- In Australia and around the world, politics is dividing between cosmopolitanism and nationalism – corresponding to cities and regions
- The divisions are both economic and cultural