Productivity and geography

John Daley, CEO, Grattan Institute
Productivity Commission Conference, Canberra
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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
Services growth accelerated in the last 5 years

Cumulative employment growth since 2010
000 people, trend

Source: ABS 6291
Australia’s economy is now dominated by its big cities

SGS Economics & Planning, GDP by major capital city, 2015-16
The geography of job growth changed about 2008

Employment growth, Sydney and Melbourne

<table>
<thead>
<tr>
<th>Category</th>
<th>Sydney</th>
<th>Melbourne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner (~0-2km)</td>
<td></td>
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<tr>
<td>Middle (~2-15km)</td>
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<tr>
<td>Outer (&gt;15km)</td>
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Employment growth, United States

<table>
<thead>
<tr>
<th>Year</th>
<th>City centre</th>
<th>Metro ex centre</th>
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<tbody>
<tr>
<td>2002-07</td>
<td></td>
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<tr>
<td>2007-11</td>
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</tbody>
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Grattan analysis, BITRE

City Observatory, *Surging city centre job growth*
Small business is increasingly dispersed

Change in number of businesses
Payroll < $500,000

Bruce Rasmussen, VU, using Workcover data,
Big business is increasingly centralised

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

Bruce Rasmussen, VU, using Workcover data,
Economic output per hour is particularly concentrated in Melbourne

Economic activity per working hour, 2011-12, Melbourne

Grattan analysis of ABS data in Mapping Australia’s Economy
Sydney is a little less concentrated, with an unusual “northern arc”

Economic activity per working hour, 2011-12

- Parramatta: $68
- Macquarie Park: $81
- North Sydney: $91
- CBD: $100
- Airport: $65

Grattan analysis of ABS data in *Mapping Australia’s Economy*
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
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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

SGS Economics & Planning
Women in poorly-connected areas face especially difficult compromises

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

Grattan analysis of ABS data in Productive Cities
Population density has increased, but not much in the middle ring

Population density, 1981 and 2011

Distance to GPO, km

Source: Coffee et al, "Visualising 30 Years of Population Density Change"
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Political geography in Australia is reflecting economic and social trends

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

- 85%
- 80%
- 75%
- 70%
- 65%
- 60%
- <60%

“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)

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)

Source: AEC, Grattan Institute analysis
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