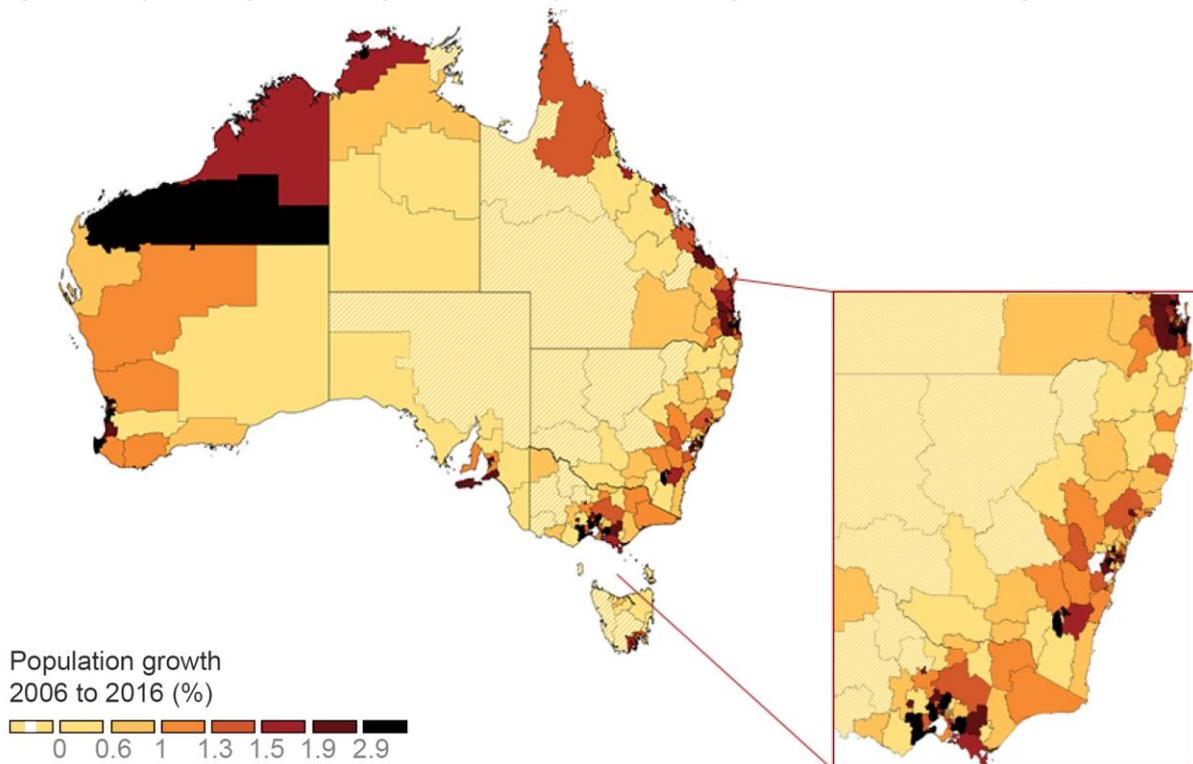


Pushing water uphill

Geography is destiny, or so we are often told. In which case, what do geographic trends in population and economic activity tell us about Australia's future policy challenges?

Australia is highly urbanised, and becoming more so. The most densely populated parts of the country house 80 per cent of the population but occupy less than 1 per cent of the land mass. And population has grown faster in the cities than elsewhere over the past decade. The Pilbara mining region and the major regional centres – such as Bendigo in Victoria and Wollongong in NSW – have also added to their population, but the population of much of the rest of regional Australia is either stagnant or declining (Figure 1).

Figure 1: Population growth is highest in the capitals, some regional centres and mining areas



Source: ABS (2017), *Census of Population and Housing, Time Series profiles 2006-2016*.

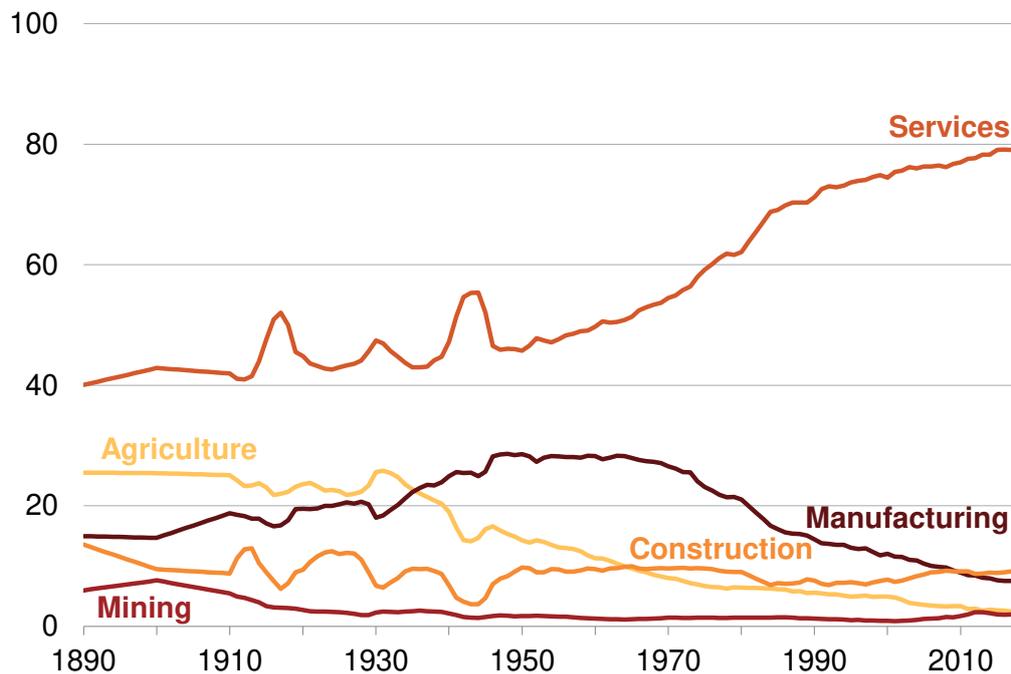
These regional differences in population growth reflect longer-term structural changes in the Australian economy.

As in other developed economies, an increasing proportion of the Australian workforce is employed in service industries. Over 50 years, employment in services has risen from 5 in 10 workers to 8 in 10 workers (Figure 2). Service jobs, particularly professional services, tend to cluster in cities and their centres. This is because there are big benefits to ‘agglomeration’ – being close to lots of other service firms.¹ These services jobs attract people both from overseas and within Australia who are younger and more educated than the general population. So it is not surprising that cities have a higher proportion of young people, immigrants and people with a tertiary education than regional areas.²

¹ Romer, P. (2015) *Urbanization Passes the Pritchett Test*, <http://paulromer.net/urbanization-passes-the-pritchett-test/>

² Daley J., Wood, D. and Chivers, C. (2017), *Regional patterns of Australia's economy and population*, Grattan Institute <https://grattan.edu.au/report/regional-patterns-of-australias-economy-and-population/>, pp. 24-29.

Figure 2: More and more Australians work in services
Share of workforce by sector, per cent



Notes: Data for 1981-83 are interpolated using 1980 and 1984 data.

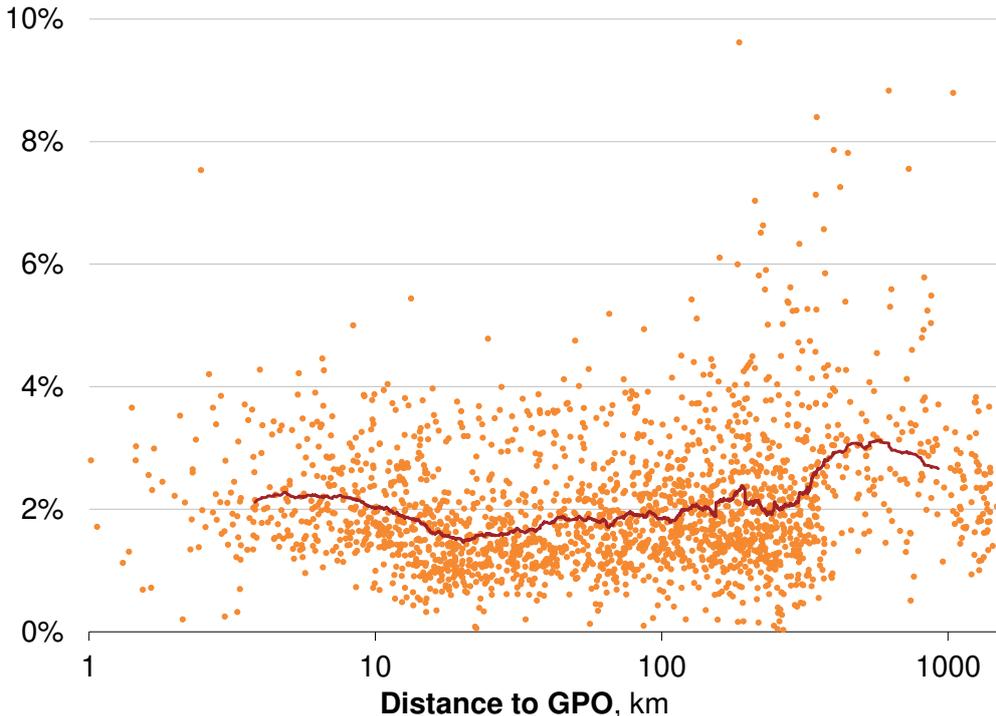
Sources: Withers, G., Endres, T. and Perry, L. (1985). *Australian Historical Statistics: Labour Statistics, Source Papers in Economic History, Source Paper No.* https://www.rse.anu.edu.au/media/118715/SP07_001_Contents.pdf; ABS (2017). *Labour Force, Australia, Detailed, Quarterly, May 2017. Cat. 6291.0.55.003.*

In contrast, the loss of agricultural and manufacturing work is felt most keenly in regional and outer-suburban areas. Populations in these areas tend to be older and have a higher proportion of the population born in Australia.

But it's not all bad news for the regions. Analysis of tax return data by postcode shows that while incomes are on average higher in the cities, income *growth* per person has been similar in the regions and the cities over the past decade (figure 3). And nor is unemployment notably worse in the regions.³

³ Daley J., Wood, D. and Chivers, C. (2017), *Regional patterns of Australia's economy and population*, Grattan Institute <https://grattan.edu.au/report/regional-patterns-of-australias-economy-and-population/>, pp. 16-19.

Figure 3: Income growth has been similar in the cities and the regions
Annual growth in real taxable income per tax filer 2003-04 to 2014-15, by postcode



Notes: The growth rate is calculated as the compound average growth rate (CAGR) in income per tax filer 2003-04 to 2014-15. A small number of outliers have been excluded from the chart to make it more readable.
Source: ATO (2017). *Taxation statistics 2014-15*. Australian Taxation Office. <https://data.gov.au/dataset/taxation-statistics-2014-15>.

So where does this leave policy makers?

Governments should not fight the “gravitational” pull of the cities and major regional centres. Past attempts at intervention have been expensive and done little to increase regional growth and productivity.⁴ Governments are better off focusing on building and maintaining transport infrastructure links (but only where the benefits outweigh the costs) and improving the quality of services in regional areas.

Governments should also do more to ensure our cities remain resilient and productive.

The disconnect in Australia’s major cities between where the people are and where the jobs are is a major policy problem. Most city jobs have been added within 10kms of the CBDs. But, other than high-rise apartments in the centre, almost all of the population growth has been added 20kms or more from the city centres, with housing estates being built on what was farmland.⁵ There has been some medium-density development in middle-ring suburbs, but not enough to keep up with population growth.⁶

Australia’s large cities remain particularly sparsely populated compared with cities of similar size.

⁴ Daley, J. and Lancey, A. (2011), *Investing in regions: making a difference*, Grattan Institute, https://grattan.edu.au/wp-content/uploads/2014/04/086_report_regional_development.pdf.

⁵ Kelly, J.-F and Donegan, P. (2015) *City Limits: why Australia’s cities are broken and how we can fix them*, Melbourne University Press, pp. 33.

⁶ Daley, J. Coates, B. and Wiltshire, T. (forthcoming), *Housing Affordability*, Grattan Institute.

The failure to build many more new homes in desirable areas near high-paying jobs has contributed to strong increases in house prices in our cities. And limiting housing near high-paying, productive jobs reduces economic growth.⁷

State and Territory governments (with Commonwealth incentives if necessary) should reform planning and zoning regulations to increase density in the middle-ring suburbs of our cities. The focus should be medium-density development: townhouses and terrace houses, which is what people say they want.⁸

Governments should also act to limit growing road congestion in our major cities.

In Sydney and Melbourne, some trips into the CBD take twice as long during the morning and afternoon peaks as in the middle of the night. And the problem is getting worse as the population grows.⁹

Congestion charges in the most congested areas of each city during peak periods would help improve travel times and spread traffic across the day.

Ultimately policy makers must work with, not against, the forces shifting Australia's economic geography. Governments can't push economic water uphill, but they can smooth the transition by ensuring that regional areas have access to good-quality services and that our cities are flexible enough to cope with growing numbers of people and activity.

⁷ Daley, J. Coates, B. and Wiltshire, T. (forthcoming), *Housing Affordability*, Grattan Institute.

⁸ Kelly, J.-F., Weidmann, B. and Walsh, M. (2011) *The housing we'd choose*, Grattan Institute, <http://grattan.edu.au/publications/reports/post/the-housing-we-d-choose/>

⁹ Terrill, M., Batrouney, H., Etherington, S., and Parsonage, H. (2017). *Stuck in traffic? Road congestion in Sydney and Melbourne*, Grattan Institute, <https://grattan.edu.au/wp-content/uploads/2017/10/892-Road-congestion.pdf>