

Regional Inequality in Australia

Submission to the Senate Economic References Committee
on Economics
May 25, 2018

Regional Inequality

The Australian Chamber welcomes the opportunity to respond to the Senate Standing Committee on Economics on Regional Inequality in Australia.

The Australian Chamber notes that regional Australia cannot be thought of as one homogenous area. Nor can regional Australia necessarily be thought of, or referred to, as a remote area. Characterising or stereotyping areas as such leads to incorrect analysis and poor policy outcomes. For instance many regional towns and cities are in very close proximity to the major state capital cities.

Generally however, regional areas¹ tend to have lower median incomes, lower educational attainment, poorer health outcomes and health service distribution (health inequality), lower growth rates, higher rates of illicit drug use, higher rates of unemployment, youth unemployment and long-term unemployment.

The causes of this clear inequality are complex and the Australian Chamber does not profess to capture them all in this submission. We would note however that inequality of *opportunity* in towns and cities outside of the major state capitals is likely a significant causal factor.

This inequality of opportunity arises because policy makers and planners – who are predominately based in major state capitals – have not and do not provide the necessary social and economic infrastructure for regional towns and cities to grow at their potential and thrive.

Instead, resources are focussed on the major state capitals. In the case of Sydney and Melbourne these resources are increasingly focussed on dealing with congestion. Yet infrastructure to offset productivity losses from congestion is not nation building or productivity enhancing. It is simply money and resources used in an attempt to deal with diseconomies of scale.

A circularity is often at work. A lack of social and economic infrastructure (schools, first rate health facilities, recreational facilities or easy and rapid access to these facilities), fewer employment opportunities (and other problems mentioned above), means that that skilled labour and their families, may not be attracted to live regional cities and towns.

¹ Stat.abs.gov.au and ABS Catalogue 4102.0, the Regional Australia Institute, The Australian Psychological Society, Vichealth, ABS Catalogue 6291.0.55.001

Data is scarce, but there are numerous case studies² and anecdotes of businesses in regional areas finding it difficult to find skilled labour. In turn, this makes it difficult for business to grow or relocate, or even start-up in regional towns and cities.

This in turn dis-incentivises planners, bureaucrats and policy makers from making the necessary investment these towns and cities need to realise their potential - and address regional inequality.

Instead these groups focus on the major capitals...and the cycle goes so on.

The flipside to this lopsided planning, the other side of the coin, is that the major state capitals – Sydney and Melbourne in particular - are confronted with their own avoidable problems. These problems largely stem from diseconomies of scale.

Diseconomies of scale

In a submission made to the Standing Committee on Infrastructure, Transport and Cities on January 24, 2018, the Australian Chamber highlighted that:

“Australia’s population is concentrated. Of an approximate population of 24 million³ currently, around half live in the three state capitals of Sydney, Melbourne and Brisbane.

On current Australian Bureau of Statistics projections, Sydney and Melbourne could each have a population around 8 million by 2050 and – assuming a similar trajectory - over 10 million each by 2075. Brisbane’s population could be between 6.5 and 7 million.

The development of cities is not simply a question of housing a growing population through ‘vertical densification’ or high density apartment living. It is not about transforming already high density areas into ever higher density areas– a one size fits all policy of more apartments as populations grow.

While there are certainly benefits to agglomeration⁴, these come with diminishing returns or diseconomies of scale⁵.

These diseconomies of scale present because land is finite in supply and space – and so if a long-term growth plan simply relies on transforming, over time, urban areas into increasingly higher densities as the decades roll on, there comes a point where these densities become too great or excessive. They already are in some urban areas in our major cities.

This has a number a number of very serious negative consequences (or negative externalities) – these include:

- **Congestion** – traffic congestion, congestion on public transport, urban greenspace congestion, congestion in schools.
- **Resource misallocation** – congestion leads to a misallocation of resources. This is because it requires an increased proportion of resources and infrastructure to be devoted simply to alleviating congestion rather than efficiently and intelligently growing and developing Australian cities and towns. That is, it merely involves playing catch-up. As congestion increases, an ever larger amount of resources gets diverted to increasingly expensive infrastructure projects (tunnels etc., stadium refurbishments) simply to deal with congestion.

² Kishor Sharma Edward Oczkowski John Hicks, Skill Shortages in Regional New South Wales: The Case of the Riverina.

³ Australian Bureau of Statistics Estimate.

⁴ Productivity and Agglomeration Benefits in Australian Capital Cities, SGC Economics, June 2012

⁵ Urban Agglomeration and Economic Growth - 1995

- **Productivity** – this misallocation of resources negatively effects productivity. While dealing with congestion goes some way to restoring productivity or reducing the productivity cost of congestion, there is an opportunity cost to productivity overall. This is because an ever greater proportion of resources is devoted to reducing congestion rather than using infrastructure for more productive purposes – e.g. Nation Building or promoting tourism.
- **Housing affordability** – inappropriate planning and population densities are the main cause of housing affordability issues. Concentrating half of Australia’s population in three cities (with the bulk of those in two) was always going to lead to affordability issues and social conflict. It’s a threshold issue. This was entirely predictable on even the simplest economic models – demand and supply – and yet in some cities we currently have severe affordability issues. Indeed Sydney is the second most unaffordable city in the world⁶ and there is a distinct absence of affordable options. This is a clear policy failure. Land is finite in supply - smarter long-term solutions are required in order to deal with the simple reality that land in any particular space is limited in supply. Without viable alternatives, economic growth leads to increased demand for land. This invariably leads to an increase in prices.
- **Liveability, environmental degradation and environmental costs** -Theories such as “Smart Growth” and “Urban Intensification” suggest that high density cities are more sustainable and environmentally friendly. This finding is based primarily on petrol usage from suburban areas. Consequently these theories don’t accurately factor in the spatial displacement of a broader range of environmental costs⁷. Not to forget that increased petrol usage may simply reflect bad planning, poor public infrastructure choices and a lack of alternative public transport options. That is, higher petrol usage is likely a symptom of poor planning in lower density areas.
- **Intensified competition over land use (or less flexibility on land use)** - Some of the problems of this were discussed above. Other problems include trading off park, commercial or residential space for congestion infrastructure (tunnels, toll roads, light rail).
- **National debt** - Positive house price growth is desirable yet excessive house price growth not only risks a boom bust cycle, but it has also led to a surge in household debt, increased regulation and a divisive social debate.
- **Tax policy** – This divisive social debate has had direct implications for national tax policy, with many arguing for higher taxes on property in order to slow house price growth, deal with affordability and perceived in quality and to improve the Commonwealth Budget. The Australian Chamber has long held the view that higher taxes are harmful to economic growth and national prosperity.
- **Pension assets tests and superannuation policy** - A lack of affordable housing has contributed to calls for more restrictive pension asset tests and for a change in superannuation policy to allow first homebuyers access to their superannuation to buy property.
- **Public health and well-being** - The World health Organisation suggests⁸ that adequate greenspace is important for mental health and overall wellbeing. Greenspace that is too congested however is not fit for this purpose. For instance - greenspace such as ‘green roofs, green walls and pocket-parks’ may be green, but are they fit for purpose in providing adequate space for vigorous recreational activities – exercise? So not only must cities have ample

⁶ 14th Annual Demographia International Housing Affordability Survey: 2018

⁷ Mitigating Climate Change: The Emerging Face of Modern Cities, pg 52.

⁸ <http://www.who.int/sustainable-development/cities/health-risks/urban-green-space/en/>

greenspace, this greenspace must be large and low density in order to provide users with adequate recreational space to maximise health benefits.

We noted in that submission that there were better alternatives that:

- Are cheaper.
- Are easier.
- Have a longer-term horizon planning horizon.
- Are more effective at dealing with congestion over the long-term.
- Don't result in a needless misallocation of resources and that utilise existing infrastructure more efficiently.
- Are less likely to exacerbate housing affordability.
- Yield higher productivity benefits from infrastructure instead of just offsetting (often inadequately and even then only temporarily) the productivity cost of congestion.
- Don't come with some of the problems that urban planning in high density cities do. For instance, the provision of urban greenspace in high density cities (while desirable) can also lead to gentrification of those areas that allocated more greenspace, displacement⁹, rising inequality and intensified affordability problems. In turn this creates heightened social tensions. Again this only happens if households don't have other options, don't have choice or somewhere else to go that provide them with the amenities they want and need. High density cities with tight land restrictions and increased competition over land use, generally provide far fewer options and choices for household's overtime. Citizens are increasingly forced to 'make do'.
- Utilise a key comparative advantage that Australia has - space.
- Are less damaging to the environment and more allow a more accurate measure of environmental costs.
- Are better for the economy and economic growth – e.g. are more likely to attract tourists and skilled and unskilled labour.

The Australian Chamber advocates for a more integrated, holistic and coordinated approach to the planning and development of our cities and regions. Such an approach would provide solutions to all of the above factors and cannot reasonably be achieved by state and local government authorities alone.

We suggested that these alternatives would recognise “that cities and towns outside of Sydney and Melbourne are being underutilised”.

A good way to overcome the underutilisation of regional cities and towns – and to address regional inequality - is through greater connectivity of the major state capitals to satellite cities in close

⁹ David Dodman, Urban Density and Climate Change (Paper 1), United Nations Population Fund (UNFPA) Analytical Review of the Interaction between Urban Growth Trends and Environmental Changes (2009) – high urban density can lead to the displacement of greenhouse gas emissions to other locations within the same country or internationally

proximity. In turn, greater connectivity between towns and those satellite cities (physical and virtual) would do much to overcome this inequality of opportunity.

The Australian Chamber suggests that a critical component of any long-term plan should be to distribute growth more evenly. This would involve linking the major population centres with adequate and *rapid* transport infrastructure which, if executed well, has the capacity to eliminate the problems noted above.

As a good starting point, the Australian Chamber would encourage policy makers to provide fast links between our largest cities (Greater Sydney and Melbourne) and other cities in close proximity. Such as Newcastle, the Central Coast and Wollongong. In the case of Melbourne that would be Ballart, Geelong and Bendigo.

As we noted in our submission to the Standing Committee on Infrastructure, Transport and Cities, such links do not necessarily require expensive fast train technology (although this would clearly be optimal). In the first instance, it merely requires trains that can travel faster than their current average speed on some routes of 30 to 40km per hour. This technology is available now and each of those major areas should be able to be connected to Sydney and Melbourne in well under an hour. Thirty minutes should be the target.

In turn, connectivity between surrounding suburbs and towns - to those satellite cities - should be improved as part of regional development plans.

Greater connectivity between population centres will only encourage economic growth and productivity, while allowing for a much greater diversity of living options. This diversity will allow the market, rather than bureaucrats, to determine the optimal living conditions, congestion levels, densities etc. that citizens want.



About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian Businesses at home and abroad.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

Telephone | 02 6270 8000 Email | info@australianchamber.com.au
Website | www.australianchamber.com.au

ABN 85 008 391 795 © Australian Chamber of Commerce and Industry 2018