Discussant comments

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The urban economics outlined by Professor Arnott will need to be utilised in policy analysis as Australia prepares to cope with the population growth associated with migration, whether the rates are small or large. At the current point in time, most of Australia's cities are growing rapidly. Evidence of house price increases, along with public commentary on congestion levels, provides a general sense that economic activity and community life operate at or near the capacity of existing urban infrastructure. These urban outcomes are felt in particular in the inner and mid-suburban parts of the metropolitan areas. They spill over, to a greater or lesser degree, into an extended urban fringe that is attracting population, but less employment. Beyond that area, in rural and eventually remote Australia, the shares of population change and recent population changes are less, except in a few places with special locational and industrial features (coastal, special agricultural activity, tourism or mining).

So where will the additional population go? What will be the mix of big city and small city in the future? Within big cities, where will the additions be made? Where will we build the schools, shops, medical centres, sporting facilities, office buildings, warehouses and factories that the expanding population will need? The conceptual thinking to provide a sense of priority on policy action to address these questions is not well developed. Urban economics is a potential source of these principles; however, much of that source is derived from a framework built around the dominance of a central city, with precisely specified distance decay curves extending away to the urban fringe. As Professor Arnott made clear, the empirical context has shifted so far from that pattern (which once did serve as an accurate model of most cities). Just two features make that clear. One, suburban job growth has reduced the central city share of all metropolitan employment to around 30 per cent. Two, there are high levels of local and regional self-containment in suburban labour markets, so that daily links to the central city are not as significant as they once were for a considerable share of the population.

Thinking on these new patterns has produced a modern framework of relationships expressed in the form of a multicentred city (Fujita et al. 1999). That framework has been backed with considerable empirical analysis. For example, Glaeser and Kahn

(2001) provide a perspective on the spread of employment in US cities; Davies (2009) shows the outcome in Melbourne. These approaches point to the role of subcentres. Guiliano and Small (1991), among others, give some sense of the number and scale of these centres in a given metropolitan area, and their importance as foci for employment growth. This thinking has been embraced in metropolitan land-use planning strategies in most Australian metropolitan areas, although there is little or no economic rigour in the selection of centres, or understanding of their current size and potential links with a surrounding labour market and community.

In contrast to that set of principles and empirical breadth, current thinking on long-term urban development tends to involve effort primarily to control the location of housing, with little concern for the location of employment. In particular, the emphasis is to influence the balance of population growth between inner and outer areas. These approaches are based on a long heritage of studies that compare the cost of housing development in new areas with the cost in established areas. A very recent example has been carried out by Trubka et al. (2008). Using what they term a 'conservative estimate'(p. 26), they showed that an additional 1000 dwellings in an outer area are twice as expensive as the same number in inner areas. It seems axiomatic, in that new locations call for new construction of all infrastructure and related facilities.

However, that axiom is derived in large part from an understanding that there is surplus capacity in facilities in inner areas, built on observations of population loss over recent decades. It is possible that the effects of several decades of population consolidation have changed that situation. Substantial additional population in the inner areas, especially now with growing numbers of children, means that a major list of new economic, transport and community infrastructure is needed. In some cases, given the price of inner urban land, those services will be very much more expensive to supply than in middle and outer suburbs. So space for new schools, and to expand transport services (providing lines for new train routes and adding new equipment, as well as additional road space) will be very expensive. Hence it is no longer as clear that inner area population development is necessarily so much cheaper than outer (or middle) suburban expansion. Some sophisticated urban economic analysis, taking account of service levels and congestion in inner areas, could provide a refinement to this analysis.

The lack of clarity about the economic issues associated with accommodating population are well illustrated in proposals to accommodate additional population primarily along current transport alignments. What seems like a good design idea faces problems in implementation, as it does not include costs required to expand the transport service and the additional services that extra population will require. Nor does it consider that transport corridors run to a part of the metropolitan labour

market with just one third of total jobs, and so may not suit new residents who may need to travel to work away from the transport corridors.

This discussion indicates that there is a substantial need to develop a deep-seated economic understanding of the role of intrametropolitan job and housing markets as a foundation for policy decisions on the location of investment in public infrastructure and services. The connection with Professor Arnott's computable general equilibrium modelling could be used as a foundation here, building on some earlier approaches developed in Melbourne.

Looking beyond the metropolitan area, a renewed effort in urban economic analysis may be needed to isolate the costs and benefits of providing services to smaller populations. Here (as in the analysis of projects within the metropolitan areas) the new approaches may need to come to terms with the effects of a different timeframe. Public sector investment in urban areas has a long life; many parts of the urban infrastructure built in Australian cities over 100 years ago are still in use; much dates from the early postwar period. Hence, as cost–benefit analysis considers discount rates over time, it may need to acknowledge very long payback periods — something that is not incorporated into standard project evaluation methodologies.

Finally, and perhaps outside urban economics, there is the concern that the nation needs to spend on its urban infrastructure. Meeting that need may depend more on the politics of macroeconomics, but steps towards spending decisions will be strengthened by high-quality urban economic analysis.

References

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