

ECONOMICS OF SECOND CITIES

National Powerhouses?

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HUNTER RESEARCH
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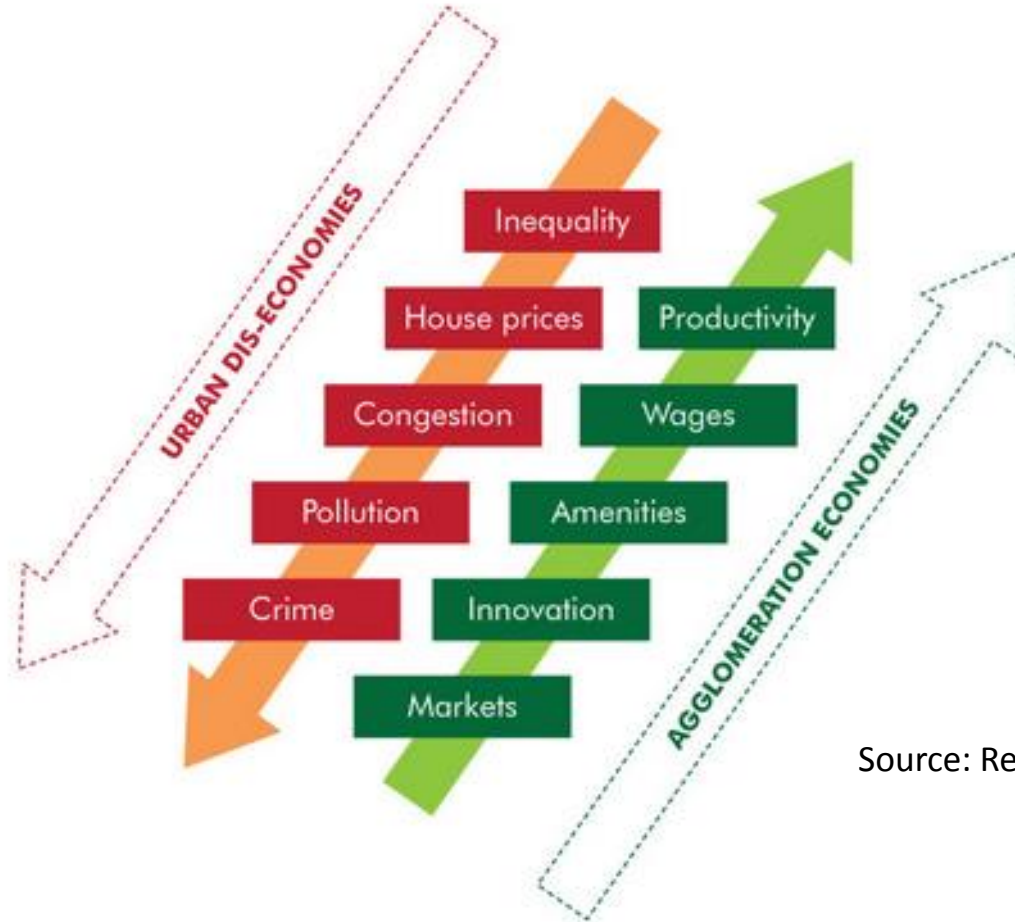


THE UNIVERSITY OF
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ECONOMICS AND CITIES: KEY CONCEPTS

- **Economies of scale, scope and agglomeration economies (Krugman, 1991)** – firms gain advantages when they co-locate due to the presence of externalities (spillover of knowledge and labour).
- **Henderson (2000)** two main effects of the agglomeration economies on cities: accumulation of capital, reflected in economic growth and size; economic specialisation, or economic profile, of each city.
- **Dis-economies** – negative externalities from clustering, such as increased land value, pollution, congestion and crime, phenomena related to overcrowding (Villamil, 2010).

ECONOMICS AND CITIES: KEY CONCEPTS



Source: Regional Australia Institute, 2016.

COST OF DISECONOMIES IN OUR MAJOR CITIES

- Higher than average **congestion**, lower than average public transport coverage and growing commuting distance
- **Housing affordability** concerns – 12.1 years to save deposit in Sydney; 49% median income required for repayments.
- **Infrastructure investment playing ‘catch up’**
- Small city growth can also play a role in **reducing congestion problems** in Australia’s major cities.
- RAI (2018) for every **100,000 people** who choose small cities instead of big cities **\$50 billion** is released into the economy through avoided congestion and mortgage costs.

SECOND TIER CITIES

“Contain major concentrations of economic activity, substantial wealth creation potential, human capital and creativity. They contain higher order services and offer firms better local access than if they were all concentrated in the capital.

Second tier cities can achieve many of agglomeration effects of capitals, if they have the right infrastructure, facilities, capacity and powers. And they can lift the economic performance of their regions and reduce inter-regional inequalities, promoting territorial and social cohesion” .

ESPON Programme (2012:3) quoted in Correia *et al.*, (2016), ‘Winning from Second’.

SMALL CITIES: PRODUCTIVITY DEBATE

- Regional Australia Institute (since 2016) has documented a significant regional productivity catch up in regional Australia.
- Identified a network of great small cities where GVA per worker exceeds outskirts of large metropolitan cities
- Higher output per worker in health care services and manufacturing industries. Higher productivity in mining and agricultural industries than the big five.
- Good prospects for this medium-term economic performance to continue.

CAPITAL VS SECOND CITIES: PRODUCTIVITY DEBATE

	GRP* per capita	GRP per capita (nearest capital city)	Ratio
Gold Coast	\$58,000	\$85,000	0.682
Newcastle	\$46,000	\$48,000	0.958
Wollongong	\$61,000	\$48,000	1.271
Townsville	\$70,000	\$85,000	0.824
Geelong	\$74,000	\$65,000	1.138
Cairns	\$56,000	\$85,000	0.659
Toowoomba	\$89,000	\$85,000	1.047
Ballarat	\$64,000	\$65,000	0.985
Bendigo	\$52,500	\$65,000	0.808

* GRP= Gross Regional Product.

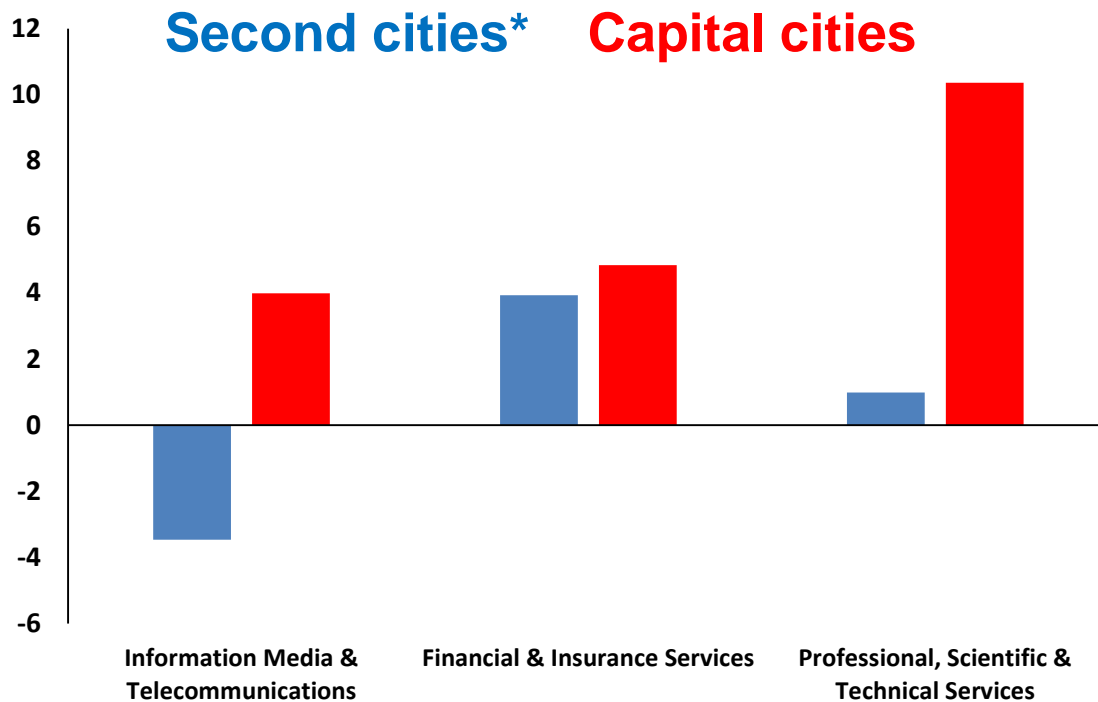
Source: HRF Centre, REMPLAN Economy; id Consulting.

SECOND CITIES: PRODUCTIVITY DEBATE

- SGS Economics (2018) labour productivity past twenty years - productivity cities and regions diverged significantly.
- They argue the divergence is mostly due to major cities increasing their labour productivity at a faster rate than smaller cities and regional areas.
- Mining boom drove increases in labour productivity in some key parts of regional Australia; masking structural changes in their wider economies.
- Productivity in big cities driven by relative concentration of high labour productivity industries.

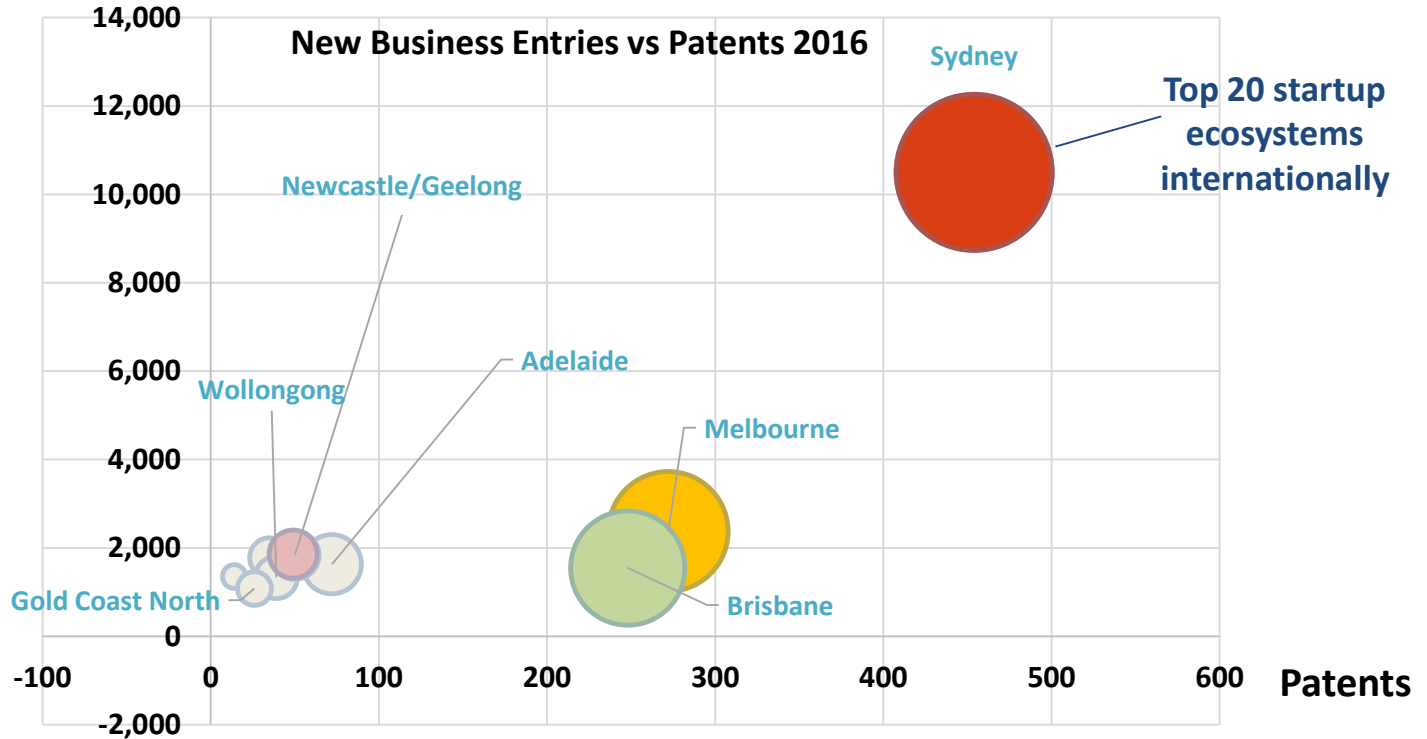
DATA INSIGHTS: KNOWLEDGE INTENSIVE SERVICES

% Growth, 2011-16.



INNOVATION: SYDNEY'S DOMINANCE

New Business Entries



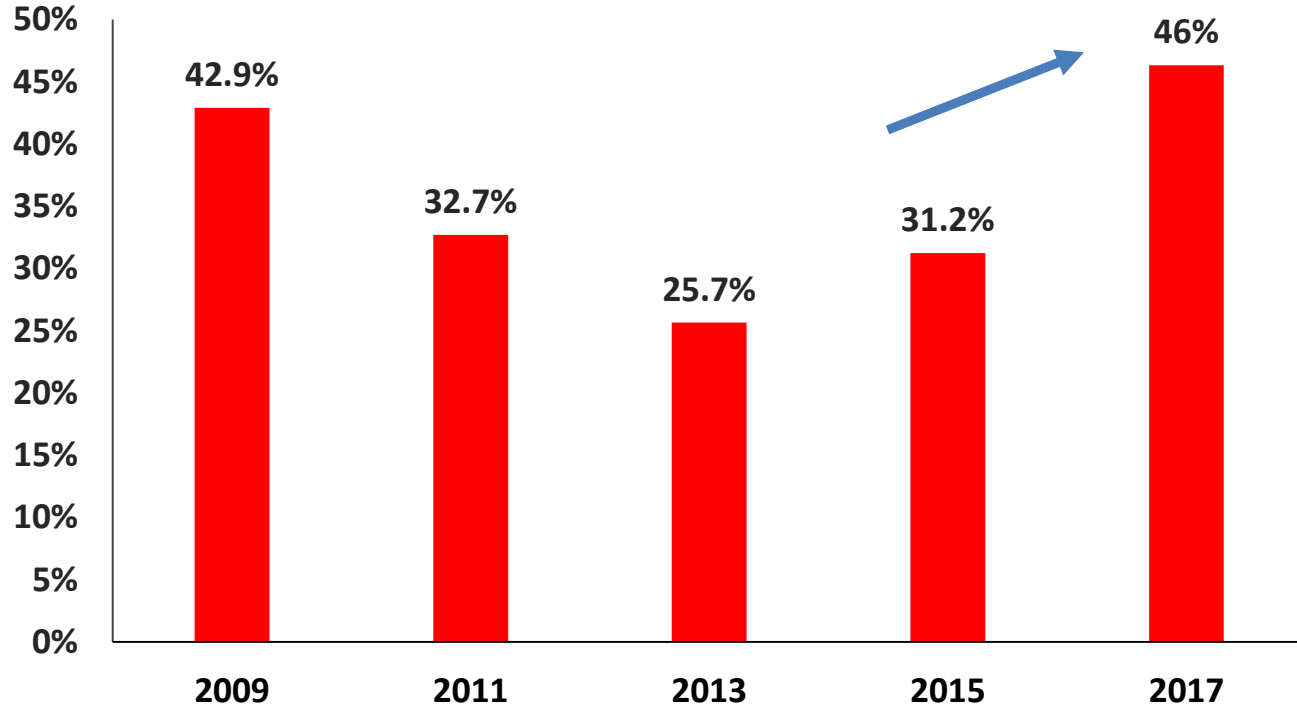
VENTURE CAPITAL PER CAPITA ^{14 15 16}

Silicon Valley	\$4,241
Israel	\$183
USA	\$81
Switzerland	\$74
Norway	\$54
Melbourne Cup Bets	\$52
Australian Bio-tech	\$44
Sweden	\$40
Finland	\$28
Denmark	\$16
France	\$15
Britain	\$15
2012 Aus Olympic Team	\$14
Ireland	\$14
Netherlands	\$14
Belgium	\$12
New Zealand	\$11
Austria	\$8
Perth (incl govt)	\$6
South East Queensland	\$5
Australia	\$4
South East Queensland (Excl Govt)	\$4
Perth (excl Govt)	\$3
Regional Queensland	\$1.2
Regional Queensland (Excl Govt)	\$0.8

Source: Boundlss, *Regional Queensland, Startup Ecosystem Report 2015.*

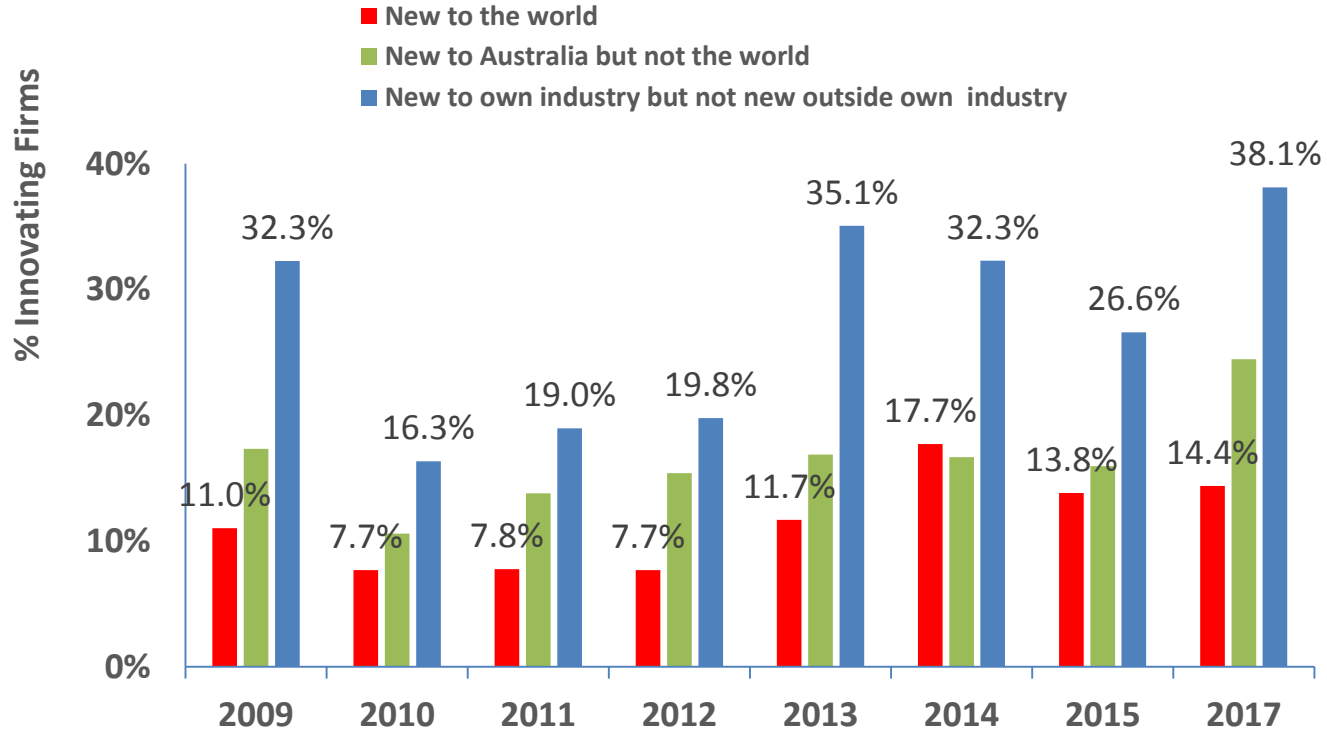
HUNTER REGION: INNOVATION

% New or significantly improved goods and services



Source: HRF Centre, Hunter Pulse Business Survey 2009-17.

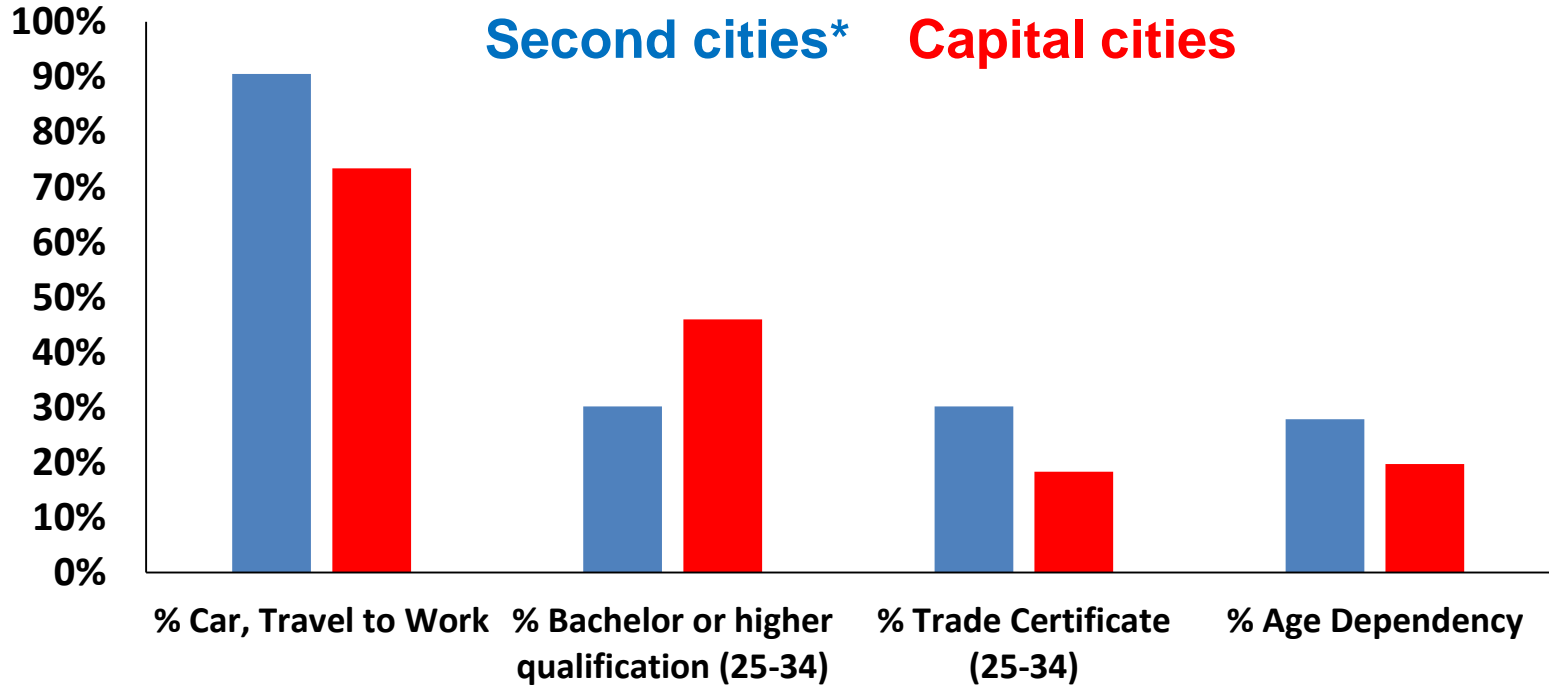
HUNTER REGION: STATE OF PLAY



BARRIERS TO INNOVATION – OUTSIDE METROS

- Known barriers exist to innovation in regional Australia. Barriers include:
 - fewer **economies from agglomeration** due to a **lower density of businesses** and population,
 - **fewer internationally syndicated firms**,
 - real or perceived **infrastructure deficits**, and
 - **smaller and less specialised labour markets** than are offered in large metropolises’.
- **Market failure** - to grow innovation outside capital cities requires extra assistance in the provision of *hard and sort infrastructure needed to develop a regional innovation ecosystem*.

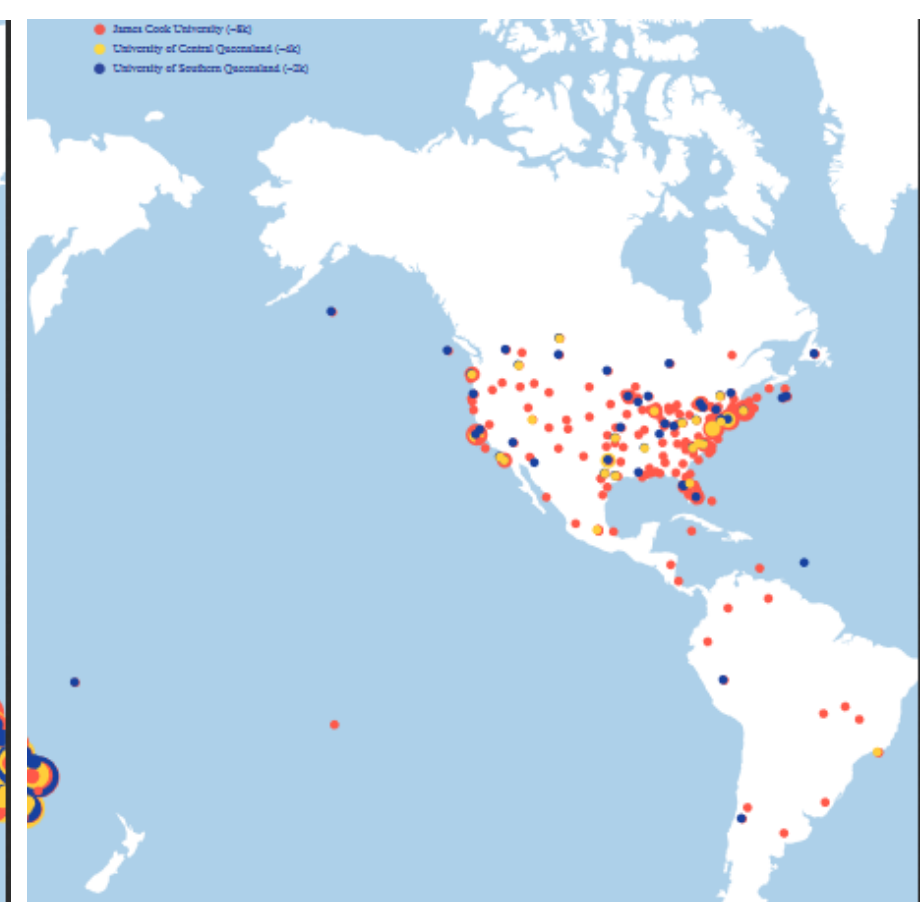
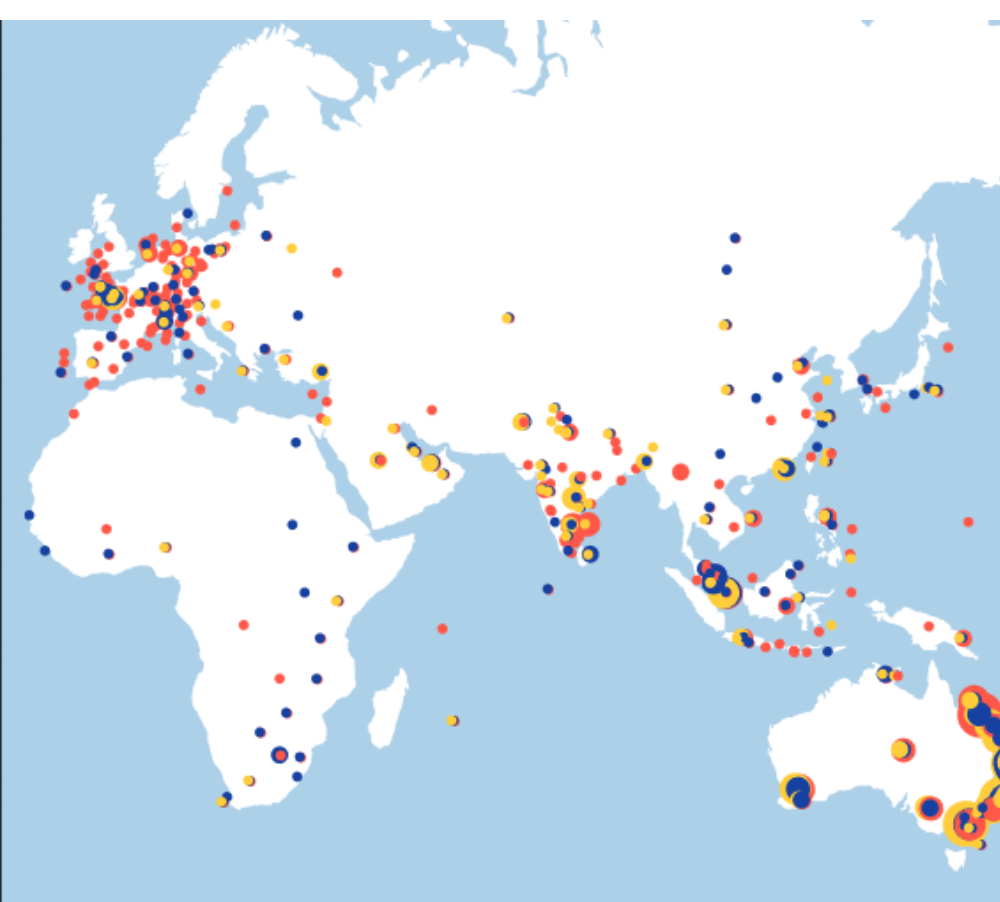
DATA INSIGHTS - SECOND CITY SPEED LIMITS



Source: ABS, Census 2016; UCL geography. *Population approx. 100,000 persons or greater.

SPEED LIMIT: TALENT ATTRACTION & RETENTION

- **Not an Australian specific problem – faced by other regions nationally and internationally.**
- **Big cities as ‘escalators’ - arguments UK (London School of Economics, Ian Gordon)**
 - Big cities reward (wages, training and skill acquisition) the young and talented quicker and faster
 - Deeper labour pools – greater range of jobs, occupations and skills.
 - Firms are more likely to invest in training – workers get better experience and training.
 - Greater intra and inter-firm mobility
- **Classic chicken and egg problem – which comes first talent or jobs?**



HOUSING AFFORDABILITY

	Dwelling Price to Income Ratio (JUNE, 2018)
Newcastle	8.4
Wollongong	10.4
Sydney	9.1
Regional NSW	7.2
Geelong	7
Melbourne	8.1
Regional VIC	5.5
Townsville	4.5
Toowoomba	5.3
Gold Coast	7.7/7.1
Cairns	5.2/4.9
Brisbane	6
Regional QLD	6.3

Source: Core Logic, 2018 - Housing Affordability Report

CHALLENGES AND OPPORTUNITIES

- **Second cities** - per capita productivity is sound, natural assets & amenity, cheap land, relative affordability.
- Capacity to exploit **pull factors/ capital city push factors** (although housing affordability benefits have eroded in Newcastle & Wollongong)
- Speed limits – high productivity or knowledge intensive jobs/growing innovation; talent attraction & retention; risks in changing nature of jobs.
- Solutions:
 - Infrastructure – build connections to external markets
 - Range of specialities that can built on natural/historic advantages
 - Investments in ‘place-making’ and growing innovation ecosystem
 - Improving connectivity – intra and inter key to enhancing agglomeration



THANK YOU

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