

FUTURE MELBOURNE

Speaker's Notes: Forum 2: Sustaining Melbourne's Prosperity - 20 June 2007

By Professor John Freebairn

Melbourne's future involves an intense competitive game for businesses and people. Not only does the city have to offer advantages over other Australian cities such as Sydney and Brisbane, but also against cities in other countries, including, for example, Singapore, Hong Kong, London, Rome and San Francisco. Foot-lose global businesses choose cities where they can make money. People, including employees, locate where they find attractive jobs and enjoyable lifestyles. For Melbourne to be an attractive location and to sustain prosperity, marvellous one day and magnificent the next, it has to invest in building on its comparative advantages.

Most of the projected growth in Australia's population over the next few decades will locate in the large cities. Large urban areas provide for the economies of scale, scope and agglomeration that are important to most manufacturing and services industries, and to the provision of recreation and entertainment activities. Further, with advances in technology and communications, together with more intense international competition, the importance of economies is expected to increase in the future. As income levels rise, people demand better quality and greater variety in the options for recreation and entertainment. The greater Melbourne metropolitan area is well placed to expand into high skilled and innovative business activities.

In the comparative competitive game with other Australian and global cities, Melbourne has a number of relative strengths and weaknesses. It has strong and robust institutions, political systems, and social cohesion. Victoria has a good natural resource base, including transport links, serviced land, a convivial even if fickle climate, and many scenic options. Over the last century and a half, Victoria, and

Melbourne in particular, have built a strong business base, there is a diverse and skilled workforce, and Melbourne is acknowledged as one of the world's "most liveable cities".

On the other hand, Melbourne has some comparative disadvantages. Relative to the emerging countries of Asia and elsewhere, Australian labour is expensive and the process of movement off shore of Victorian labour intensive and low technology industries will gather steam over the next decade. To hold high skill and innovative industries and people it becomes important not only to offer high wages, but also high amenity values. Melbourne becomes more attractive when we find solutions to traffic congestion, and if we continue to offer a safe, stimulating and exciting environment for recreation and entertainment. Visions of the "Garden State", or the "Place to Be", are hollow if we do not develop water supply to sustain and enhance our leafy avenues, sporting fields and personal gardens.

If moves over the past decade for greater centralisation of government in Canberra, and away from the states, continue into the future, the role of state governments, and the number of state employees, will fall, or at least not grow. This places more weight on the expansion of Melbourne as a preferred location for private businesses for its future prosperity.

What might the state and local governments do to foster the future prosperity of Victoria in general and Melbourne in particular? Primarily, what governments can do is provide an attractive environment for high skilled businesses and high aspiring citizens to locate in Melbourne rather than in Sydney, Brisbane, Singapore, Rome, San Francisco, and wherever. This does not involve picking winners or selective subsidies.

From a business location perspective, governments can do much to provide a transparent, explicit and well thought-through regulatory system. As argued in the Banks report to the Australian government earlier this year, regulations in this country are far from world best practice. More importantly, bad regulations are a major hurdle and disincentive for innovative and high productive new business ventures which are key to Melbourne's future prosperity. All levels of government need to ask what are

the objectives of the regulations, how can these objectives be met, how can compliance costs be contained, and how can the regulations be administered and monitored? Governments have important roles in the provision of key infrastructure services, including the various modes of transport, energy, communications, and the development of new areas. Also important is a well educated and skilled workforce. Given an attractive set of regulations and infrastructure, individual businesses are then the best judge of the specific industries, products and production measures to choose.

A liveable city, and a stimulating city, will become even more important in the future to attract people to Melbourne. Melbournians include those who work in the city, those who live in the city, and those from the wider metropolitan area, interstate and overseas who visit for leisure and recreational activities. Here governments have important roles in providing safety, a pleasant natural environment, limited traffic congestion and ease of access, and incentives for a wide range of stimulating and exciting cultural, sporting, dining, and other recreational and leisure offerings.

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