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The Changing City

An Australian Political Economic Perspective

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Abstract

Capital accumulation is the driving force of urban economic development. Many contemporary urban problems—including rapid land price inflation, greater socio-spatial inequalities, and the stresses of middle-ring suburbs—are traceable to the forms that the accumulation process is taking. Changes in the relationships between industrial capital, financial capital, and property capital underpin these stresses. Changing consumption patterns and the impact of neoliberal economic policies also are accelerating urban economic restructuring. This article reflects on the challenges generated by these structural and spatial changes, drawing on Australian examples.

Keywords: Capital Accumulation, Structural Economic Change, Spatial Competition, Socio-Spatial Inequality, Urban Policy

Introduction

To effectively manage cities and suburbs, it is critical to understand their economic base. Both economic tools and policy expertise are needed for such understanding. This requires focus on the informational, analytical, and structural constraints that currently limit our capacity to steer the modern urban economy.

The basic challenge is to understand the processes of change that are reshaping cities and their suburbs—the big shifts

in the sectoral and spatial forms of capital investment and employment, rapid technological changes, property price inflation, growing land use and transportation issues, and the various tensions between urban economic interests and environmental quality. Most of the time—as sites for production, distribution, and exchange of goods, services, and information—our cities work. But sectoral and spatial economic shifts have changed for whom they work, producing distinctive

groups of winners and losers. There is growing concern that, while urban society may be becoming more affluent in the aggregate, urban economies are becoming more insecure, more unequal, and less sustainable.

Our capacity to understand these processes of spatial change and respond to the challenges is limited by the state of urban analysis. Urban economic analysis is a particular problem. Most economists in academia remain wedded to their orthodox equilibrium theories, usually ignoring the spatial dimension of economic activity that makes key neoclassical assumptions like perfect mobility and perfect competition logical impossibilities. Their recent territorial expansion into “new geographical economics” is largely an extension of formal neoclassical modeling, remaining innocent of the specificities of actual urban places. Their occasional genuflections to the importance of interdisciplinary urban studies also tend to involve little more than the extension of neoclassical economic theory to social phenomena—a form of academic imperialism. Fortunately, urban geographers and other social scientists with a spatial perspective have partially filled the void, generating useful descriptive data on urban and regional structures, development processes, and policy responses (of which recent Australian examples include Gleeson and Low 2000; Murphy and Wu 2001; O’Connor, Stimson, and Daly 2001; O’Neill and McGuirk 2002; Troy 2000).

Understanding and controlling the economic forces impacting cities and suburbs require reconsideration of conceptual issues, as well as detailed empirical research. This article makes three small steps in the former direction by: (1) reflecting on how we can analyze the fundamental drivers of capital accumulation that shape urban form; (2) considering how those processes are being affected by interacting contemporary political economic phenomena, such as the globalization of capital, the spread

of consumerism, and the influence of neoliberal economic policies; and (3) analyzing the principal policy challenges presented by the resulting tensions in urban change. Brief conclusions follow, including some suggestions for future directions in urban research. The article’s overall perspective is Australian, reflecting the author’s vantage point, but the principles, patterns, problems, and policies that are probed have potentially broader applicability.

Capital accumulation and cities

It is not difficult to construct a list of contemporary urban issues and problems requiring analysis by urban economists and attention from policy makers. Ongoing trends include:

- The restructuring of the urban economic base, resulting from business relocations, mergers, and takeovers; and a relative decline in the share of total output produced by manufacturing industries, a decline that is balanced in the aggregate, but not spatially, by service-sector growth (O’Connor, Stimson, and Daly 2001)
- Changes in employment structures, increasing the dualism between casual and part-time jobs and an elite set of higher order technical, managerial, and professional jobs (ACRT 1999)
- A corresponding polarization in the distribution of income, manifest in more marked socio-spatial inequalities and more fragmented cities whose subregions have contrasting economic characteristics and social identities (Baum 2003; Raskall 2002; Searle 2002)
- Significant shifts in the relative economic buoyancy of suburbs, as gentrification continues in inner areas and new developments proceed apace on the urban fringe, leaving many of the older middle-ring suburbs in limbo (Randolph 2004)

- Surges of land price inflation, with corresponding problems of housing affordability for aspiring urban property owners (Berry and Hall 2001; Stilwell 2003b)
- Stresses on the capacity of existing urban infrastructure to cope with the pressures of growth and the changing urban and suburban spatial distributions of that growth (Neutze 1997; Troy 1999)
- Problems of sustainability associated with existing and projected patterns of transport, energy use, building construction, water use and waste disposal (Australian Urban and Regional Development Review 1995; Stilwell 2000, Ch. 21)

To go beyond this simple check-list approach to urban problems and policies requires the development of an explicit framework for analysis. How that is constructed reflects the way in which we visualize the character of the prevailing economic arrangements. From an economic perspective, the principal contrast is between the neoclassical and political economic approaches.

Neoclassical economic theory interprets cities primarily as markets. Emphasis is put on the role of the price system in facilitating mutually advantageous exchanges, reconciling conflicts, and promoting efficient resource allocation. This way of seeing fits comfortably with neoliberal conceptions of the virtues of a market economy, implying a generally *laissez-faire* orientation. Urban policy becomes a matter of accommodating to economic change or, at most, steering change through adjustments to the price mechanism. "Urban economic fine-tuning," it may be called. A liberal-interventionist variation on this theme, putting more weight on the sources and problems of market failure in cities, leads to a stronger emphasis on concerns with equity, externalities, and environmental quality. The pioneering work of Max Neutze

provides the clearest illustration of this latter approach in Australian urban studies (1978, 1997, 2000).

An urban political economy approach digs deeper, emphasizing the property rights, economic interests, and structures of economic power that underpin markets. It thereby seeks to identify the driving force of a capitalist economy—the process of capital accumulation—and its spatial manifestations. This emphasis on accumulation is distinctive. Political economists contend that the process through which capital is accumulated has its own systemic logic as the expression of the profit-seeking motive. Markets make economic activities subject, to some degree, to the disciplines of competition, but capital accumulation is the engine of economic growth. From a political economic perspective, this accumulation process is nowhere more evident than in major cities. It drives urban economic change and the dislocations and conflicts that accompany it. It creates *continuity* between past and future, as previous investments shape the possibilities for new investments and spatial forms, while it also generates *discontinuity*, continually confronting spatial inertia with the restless dynamic of urban change.

Understanding capital accumulation and its spatial manifestations requires an analysis of how capital undergoes a process of self-expansion—such analysis can illuminate the processes through which an economic surplus is generated and distributed. The political economic analysis also needs to be situated in both a social and environmental context, revealing how the accumulation process relates to consumer spending, class structures, and the physical environment.

Contemporary urban economic changes

How are we to interpret the changing forms that capital accumulation takes as the process comes to be more global

in character, facilitated by neoliberal policies and further fuelled by the spread of consumerism? Some contemporary commentators (such as Ohmae 1995) see the globalization of capital eradicating the significance of space and place. However, it is equally plausible to interpret globalization as making space and place *more* important as determinants of where economic activities are located and how their costs and benefits are distributed. As the options available to the owners and managers of capital become less spatially constrained, the features of particular cities, suburbs, and regions that either attract or repel investment become crucial determinants of urban and regional growth and decline. Analyzing what is actually occurring can usefully distinguish between the aspects of the accumulation process that are centered on industrial capital, financial capital, and property capital.

Industrial capital. Political economy, as a means of understanding how capitalism works and the processes of economic change, has traditionally focused on the primary circuit of industrial capital. The emphasis is on how value, and therefore wealth, is created therein through the use of labor, in combination with land and capital, to produce goods and services. Historically, the development of these industrial activities has been a propulsive element—even a defining feature—of major cities. Global integration today has its most obvious effect in the intensification of the spatial competition for them. Countries compete increasingly vigorously for international investment, especially by transnational corporations, according to spatial price differentials (e.g., wage rates, raw materials prices), corporate tax rates, the severity or otherwise of environmental regulations, and a host of other factors. The urban dimension is significant in this context primarily because cities, as the main focal points of industrial development, prosper or decline according to their capacities to adapt to the changing

requirements of industry. In the Australian case, this has been a particular challenge for the specialized secondary industrial centers, such as Newcastle, Wollongong, and Geelong, although the more industrially diversified metropolitan areas of Sydney, Melbourne, Brisbane, Perth, and Adelaide also have been drawn into the process of spatial competition.

To the extent that it is now cities and regions, rather than whole nations, that compete economically, each becomes more susceptible to international competition. Greater rivalry for transnational capital therefore has intranational reverberations. In Australia, it is made more acute by the federal organization of government. “Beggar-thy-neighbor” relationships between the subnational state governments are a familiar consequence, as the states compete to attract mobile capital investment. This is the aspect of the accumulation process that most obviously leads to a “race to the bottom” among the regional and urban economies, including downward pressure on wage rates and environmental controls as well as tax rates. Concurrently, “location by negotiation” creates the basis for ongoing subsidies to individual businesses where regional economies are vulnerable to potential capital flight. Retaining existing industry becomes the dominant urban economic policy concern. For example, the dependence of Adelaide’s economy on jobs in car manufacturing gives Mitsubishi considerable power in its negotiations with the South Australian government. Meanwhile, globalization makes it increasingly difficult for Australian cities in general to attract new industrial capital, other than in particular niche sectors based on local entrepreneurship and innovation, without eroding the wage, tax, and environmental standards established by labor, community, and governmental action in previous eras of economic and social development.

Financial capital. Circuits of financial capital are an equally important feature of contemporary capital accumulation. Indeed, the globalization of capital has made them disproportionately more so (a trend that was recognized early in Australian research by Daly and Logan 1989). In principle, the institutions of financial capital are ancillary, even subordinate, to industrial capital. The basic rationale of banks and other financial institutions is to serve the requirements of businesses making goods and services, alongside their broader responsibilities to their general customers. However, the greater global integration of financial institutions, the proliferation of financial instruments such as derivatives, and the increased opportunities for financial speculation on a global scale have created conditions in which financial capital plays a more central, even leading, role in shaping the forms that accumulation takes. Various studies by Australian political economists (e.g., Bryan and Rafferty 1999, Ch. 7; David and Wheelwright 1989, Ch. 9) have emphasized the importance of the ascendancy of financial capital in the globalization process. The relationship between industrial and financial capital has been significantly re-oriented as a consequence.

These changes in the relationship between fractions of capital also have had their urban manifestations. The most obvious aspect is the growth of the financial services sector whose presence has become emblematic of central business districts. In Australia, Sydney has emerged as the nation's principal financial center. Before the 1980s, Melbourne had been at least on a par with its rival to the north, based on the number of financial institutions that had their regional headquarters in each city (Stimson 1995). Sydney's current claim to have become a "World City" (albeit in the global second division) depends substantially on its having taken over the leading financial role. However, its economy has become more dependent on

the conditions in global financial markets as a consequence. Being locked in to markets whose inherent instability is leading to calls for stricter regulation, even from the speculators themselves (see Soros 1998), is a matter of significant concern, even at the moment of celebrating success. The competition to attract financial institutions also generates other spatial tensions. The concentration of financial institutions in the major centers has as its corollary the marginalization of peripheral regions. This is manifest in the closure of rural and suburban bank branches: between 1993 and 2002, the number of bank branches in Australia fell by nearly 33 percent, mainly in non-metropolitan areas (Connolly and Hajaj 2002).

Property capital. Property capital also requires attention in contemporary urban economic analysis. This third form of capital is the most place-specific. Its foundation is that ultimately most immobile of resources—land. It also includes the associated physical assets (housing, commercial property, etc.) that are integral to giving land, both urban and rural, additional income-generating capacity. Real estate is particularly central to the processes of capital accumulation in cities, and is the focal point of major challenges for urban policy. Issues of economic and political power are at stake. The owners and managers of large-scale property capital constitute a powerful interest group—comprising urban developers and the real estate industry—but there is also a much broader group of homeowners who see themselves as having a stake in the escalation of land values. Urban boosterism—the promotion of urban growth to serve these vested interests—is a predictable consequence. Even more fundamentally, the increased importance of property capital reflects the inherent demand–supply imbalance in land markets resulting from urban growth. In the American TV program *The Sopranos*, when a fellow mobster asks Tony Soprano "What is the best type of investment?" Tony

replies “land, ‘cos they ain’t making no more of the stuff.” The housing affordability crisis in cities is ultimately traceable to a failure to address this down-home insight.

The other reason for particular concern with property capital is the cyclical character of urban property markets, as David Harvey emphasized in his seminal works on urban political economy (1982, 1989). How and why capital shifts between its industrial, financial, and property forms is crucial to understanding the rhythms of urban development. The increased focus on financial capital is a general feature of contemporary globalization, as already noted, but this long-term trend is overlaid by shorter swings between investments in industrial and property capital. The most striking manifestations of the latter in Australia were the urban real estate booms of 1987–89 and 2000–3. In both cases, major falls in share prices precipitated the switching of capital from industrial stocks into real estate, leading to surges in land and property prices and corresponding slumps in housing affordability. Land and property prices have not slipped back following the peak of each boom, tending instead to remain relatively stable pending the next boom. Thus a ratchet effect on prices has operated. The relationship between average household incomes and housing costs has been substantially changed as a consequence, resulting in a widely acknowledged crisis of accessibility to affordable housing. In the case of Sydney for example, the ratio of median house prices to average yearly earnings was under 4 to 1 in 1986; by 2003 it had risen to over 12 to 1 (Stilwell 2003b).

The problems of urban housing markets—and the impediments facing aspiring first-time home purchasers in particular—are thereby innately linked to broader economic conditions. In Australian cities, people on low to middle incomes usually pay between a quarter and half of their income for housing, either as rent or mortgage

payments. Among first-time home buyers, 47 percent was the average proportion of income going toward mortgage payments in 2003 (Wade 2004). Such “housing stress” (typically referred to in the United States as “housing cost burden”) has distinctive local patterns (as illustrated by Randolph and Holloway 2002). The middle-ring suburbs also have come to be characterized by infrastructure stress. They have aging schools, hospitals, water and sewerage systems, and other physical infrastructure, but their local tax base is shrinking relative to the other urban localities that are attracting gentrifiers and other affluent social strata. They have not experienced the dramatic surges in property price inflation that have occurred in the gentrifying suburbs in the inner-city areas. The capacity of local governments in these areas to effectively manage the maintenance of high residential amenity has become increasingly problematic (Gleeson 2004; Randolph 2004).

Consumption. Alongside analysis of capital accumulation processes, a comprehensive understanding of spatial change requires analysis of consumption patterns and their urban effects. Political economists always have emphasized that consumption and production must have a degree of harmony—both in absolute volume and in composition—if the economic system as a whole is to satisfy its own systemic conditions for reproduction and expansion. However, major disjunctures between spatial patterns of production and consumption are evident in practice. Spatial specialization according to socioeconomic function of land use is nothing new, of course. “Dormitory suburbs” in which little marketed production occurs have long been part of the urban landscape. But globalization accentuates the tendency for the “where” of production and the “where” of consumption to respond to different logics of accumulation. Increasing specialization between cities, regions, and even whole nations according to different economic

functions is the most obvious outcome. There is increasingly intense spatial competition for consumption activities, including competition among cities to attract tourists and to host urban spectacles ranging from international sporting events to flower shows. This competition has become a key element in contemporary place marketing (documented for the case of Melbourne, for example, by Engels 1999).

The consumption of housing is of particular significance in shaping urban development and policy (as noted by Mullins 1995). Increased land prices and urban consolidation policies, other things being equal, would push people into smaller lot sizes—and a rising proportion into apartments—but expectations of the physical housing itself have evidently escalated. Four bedrooms have become the social norm for detached dwellings in Australian suburbs, despite falling average numbers of persons per household (Troy 1996, 14). In rapidly expanding suburbs, like Baulkham Hills on Sydney's northwestern fringe, what cynical commentators have labelled the "edifice complex" is much in evidence. Housing expenditure—and the array of consumer goods with which the houses are filled—is clearly a focus for conspicuous consumption behavior. It is also driven by the popular use of housing expenditure as a vehicle for personal capital accumulation. It is a form of investment that is tax-favored in Australia because of the exemption of owner-occupied property from land tax and capital gains tax. These conspicuous consumption and tax-favored-investment aspects of housing combine to produce a dramatic spiral of property prices, expectations, aspirations, and household debt. The goal of universal access to affordable housing becomes ever more elusive as a consequence. Public concern over this issue has recently led the Australian government to initiate a major inquiry into the financial impediments facing first-time home buyers (Productivity

Commission 2004), notwithstanding the role that its own policies have played in creating the conditions for land and house price inflation.

Neoliberalism and cities. The dominant effect of the prevailing neoliberal approach to public policy is to facilitate the capital accumulation processes that have been reshaping cities. For example, the Australian federal government has made the movement of capital between the circuits of industrial, financial, and property capital largely free from regulation. Regulations on land use remain central concerns of local government, of course. But the implementation of neoliberal policies at the federal government level has meant that the drivers of capital accumulation and economic restructuring are subject to less overall control. The privatization of public enterprises, together with the deregulation of finance capital, have further undermined the capacity of the state to develop urban policies that reflect broader public concerns beyond the pursuit of profit. The commitment by both federal and state governments in Australia to reduce public debt to zero is also significant in this respect. It undermines governmental capacity to finance direct provision of public infrastructure, leading to greater reliance on public-private partnerships for this purpose, particularly in urban transport facilities (Stilwell 2004). Privatizing the profits and socializing the risks is a familiar outcome.

Two decades of economic policies shaped by neoliberal ideology have made Australian urban forms even more directly dependent on private capital-accumulation processes. This reflects the dominant neoliberal concern to avoid problems of "government failure" (Self 2000). The underlying rationale is, implicitly at least, to create more individual economic incentives and to avoid the fiscal stresses associated with a more interventionist state. Therein also lies the source of greater tensions between capital accumulation and labor, nature, and broader societal goals.

Political economists long have emphasized that a generalized process of labor exploitation underpins the production of an economic surplus. This does not necessarily imply the inappropriate exercise of power by particular employers. Rather, it is to recognize that it is normal in a capitalist economy for some part of the wealth created in the production of goods and services to be retained in the form of profits, rather than returned to labor as wages, and for those profits then to be allocated according to the class interests of their recipients rather than any broader democratic determination (Stilwell 2002, Ch. 14). The appropriation of income and its redistribution between social classes is integral to the process of capital accumulation. The evidence on the growing inequality of incomes (Pappas 2001; Stilwell 2003a) suggests an intensification of this redistributive process in the past two decades. Greater socio-spatial differentiation is its urban manifestation.

Meanwhile, the exploitation of nature is accelerated. As a general phenomenon, this process is also embedded in capital accumulation, as natural resources are used as inputs into the production and transportation of goods and services produced for profit (Stilwell 2002, Ch. 34). The spatial dimension of the resulting tension between economy and environment is illustrated in its simplest form by the concept of an urban ecological footprint. One study of Sydney's resource usage, for example, found its ecological impact, in broad terms, to be 35 times its own metropolitan land area (Beale and Dayton 1996). Notwithstanding some substantial problems with this footprint concept and its measurement, here is a clarion call to recognize the challenge of sustainability in a spatial context.

The capital accumulation process butts up against some important social constraints in the urban context, giving the challenge of sustainability a significant social dimension

too. The inherent limitations associated with "positional goods" (Hirsch 1977) is particularly problematic. We cannot all enjoy the ambience of living beside Sydney's beautiful harbor and beaches, for example. Nor can all businesses occupy prestigious downtown locations. The contest for these positional goods creates an inherent demand—supply imbalance, accentuating the rapidly rising land and property prices. Australian cities, like cities elsewhere, have always had their fashionable and unfashionable suburbs, but higher land and property prices constitute ever more powerful forces of segregation. One consequence is that a growing proportion of society's resources is used for the purposes of social control, protecting those in the wealthy areas from the more economically marginalized social strata. Gated communities, in which the relatively affluent seek to insulate themselves spatially from the underclass, are becoming more common in Australian cities, following the trend previously set in the United States.

Urban economic policy challenges

What does this analysis suggest are the key policy challenges today? One hesitates to generalize about Australian cities, still less about cities in general, since each has its own specific features, experiences, and problems. However, five challenges are broadly common, albeit with locally specific manifestations: (1) securing the economic base, (2) appropriating the economic surplus, (3) rebalancing competition and cooperation, (4) harmonizing production and consumption, and (5) emphasizing equitable redistribution.

Securing the economic base

First is the challenge of *consolidating and diversifying the economic base of the cities*. This aspect of urban policy has a necessary connection with industry policy. Indeed,

it is no coincidence in the Australian case that, currently, there is a vacuum at the national level in both industry policy and urban policy. Both are incompatible with neoliberal ideology and policy practices. So modern urban political economic analyses that emphasize the importance of policies to foster “capital embeddedness” (Low 1995), “industry-clusters” (Dicken 2003, Ch. 4), and “knowledge-intensive” (Bunell and Coe 2001) and “innovative industries” (Phillimore 1998) cannot readily be translated into practical policy measures. The common element of these modern urban analyses is the recognition that success in market competition requires institution building, within and between businesses, and a significant role for the local state rather than the pure market competition advocated by proponents of *laissez-faire*. As even conventional neoclassical economic theory notes, locational interdependencies among business and external economies make systematic government policy intervention a necessary condition for achieving economically efficient outcomes.

In the Australian case, a more interventionist approach to industry policy could involve, for example, the creation of a national investment fund as a vehicle for financing spatially targeted industry initiatives. The national fund could draw on the savings currently held in private retirement funds, the volume of which has grown rapidly since the Australian government effectively privatized pensions by making retirement contributions compulsory for all employees (Gallery, Brown, and Gallery 1996). Were the private funds combined into a national investment scheme, they could then be allocated according to criteria such as spatial competitive advantage, the need for local job creation, and their contribution to greater ecological sustainability. There has recently been increased support for some such alternative to the prevailing neoliberal policy approach (e.g., Frankel 2001, 154–161). Developing a coherent industry policy is inherently difficult, since it straddles the

rights, responsibilities, and interests of public and private sectors, but it is hard to envisage establishing a more secure long-term basis for the urban economies without it.

Appropriating the economic surplus

Second is the challenge of *securing more of the privately appropriated economic surplus for public purposes*. At present, much of the wealth generated by urban growth is being captured by interest groups that make no direct contribution to economic progress. Particularly problematic is the ability of landowners to derive income from the economic surplus because of inherent characteristics of their land (e.g., its location). The value of land, and hence its rent-earning capacity, derives mainly from societal processes—urban growth and the provision of public infrastructure, for example—rather than individual effort. The classical political economist David Ricardo, writing nearly two centuries ago, analysed the process through which landowners capture substantial parts of the economic surplus that would otherwise flow as returns to capital and labor. Henry George subsequently inspired a movement for land taxation to redress the inefficient and inequitable consequences of this process of private appropriation, a movement that had considerable force in Australian cities early last century. The revival of interest in these issues (Day 1995; Laurent, forthcoming) is not altogether surprising because of the rapid increase in urban property prices in recent years.

The amount of wealth diverted to land ownership can be gauged by examining land values in Sydney and, more broadly, in the state of New South Wales (NSW) over the past decade. The total value of land in the state rose by approximately \$361 billion over the ten years prior to 2003 as a result of residential property price inflation. The state government got less than 10 percent of this economic surplus through land taxation and

stamp duties on property transfer (Stilwell 2003b). That proportion could be raised if the exemption from land taxation currently applied to owner-occupied properties were removed, but such a policy switch would require more political courage than one can anticipate from the major parties. It would need to be a nationwide policy, since any individual state government pursuing it would otherwise put itself at a disadvantage in the process of competing with other states for new investment. Meanwhile, in the absence of any such policy, most of the economic surplus arising from the process of urban growth continues to flow into the accumulation of private wealth, rather than into government revenues that could finance more public housing or improvements to urban infrastructure in the middle-ring suburbs and on the metropolitan fringe, for example.

Rebalancing competition and cooperation

Third is the challenge of *overcoming the tendency toward "beggar-thy-neighbor" competition*. This is particularly problematic in the Australian case because of the existing structures of federalism. "We've got to drive down the cost of investing in this State," said the current premier of NSW, "so that it can seize job-generating investment from the other States" (quoted in *Sydney Morning Herald*, March 31, 1995). This is a frank admission of the State's role in accentuating spatial competition in the context of the globalization of capital. Strong pressure for moderation of wage rises, lower corporate tax rates, and less stringent environmental regulations are the normal outcomes of adopting such a stance, as previously noted. However, the effects can be counter-productive. To the extent that the resulting race to the bottom simultaneously makes that locality, city, or region less attractive for consumption-oriented activities and higher-order corporate control functions, the pitch to attract industrial capital may be at the expense of other forms of investment.

The prospects for more balanced forms of development are thereby impaired.

The Australian experience indicates that intensified spatial competition tends to lead to greater territorial specialization according to economic function. For example, Sydney's central area, harbourside, and northern and eastern suburbs attract distinctively different types of investment than the more working-class suburbs to the west of the city and the industrial towns like Newcastle and Wollongong farther afield in NSW. Capital accumulation in the former areas focuses on investment in office development, business and financial services, and tourist facilities, while industrial activities remain characteristic of the latter areas. The case for cooperative interstate agreements to limit the beggar-thy-neighbor competition thereby links up with concerns about urban and regional economic balance. As Troy (1995) has emphasized, creating more cooperation between governments requires many problems to be addressed, but it is essential if a coherent national urban and regional strategy is to be developed.

Harmonizing production and consumption

Fourth is the challenge to *spatially synchronize consumption and production activities*. Continued capital accumulation uninterrupted by periodic economic crises requires a temporal balance between the overall levels and patterns of production and consumption. There is no equivalent imperative for spatial balance. But coping with the consequences of greater territorial specialization is a challenge that has important implications for the detailed planning of urban development and transportation infrastructure. It has important health implications, since there is growing evidence of the link between residential and transportation patterns adopted by suburban residents and their incidence of personal health problems such as obesity (Capon 2003). The spatial

disjuncture of production and consumption also generates high transportation demands for both freight movement and commuting. Urban workers in Australian cities are traveling in ever-increasing numbers from outer metropolitan areas, such as the Blue Mountains and the Central Coast of NSW, which are more than 100 kilometers from Sydney's central business district.

The challenge goes beyond the cities and suburbs, even beyond the outer metropolitan areas. The whole eastern seaboard of Australia is becoming consumption-focused (particularly, but not exclusively, the Sunshine Coast north of Brisbane, the Gold Coast south of Brisbane, and the Northern NSW Coast), together with coastal areas around Perth in Western Australia (such as Mandurah and Busselton). The rapid population growth, driven by the strong attraction of these coastal areas to retirees and tourists, is creating major pressures on the limited coastal land and natural resources. Part of the attraction is the absence of heavy industry in these localities, but a broader array of local employment opportunities and service provision is needed if they are to reduce the high rates of unemployment and welfare dependency that are now evident. The sustainability and infrastructure stresses of these coastal developments are also at issue (Manning 2003).

Decentralization of jobs must necessarily be on the policy agenda in these circumstances. It is a long-standing policy commitment in Australia, as discussed by Self (1995), but one more honored in the breach than in the observance. How to make decentralization policy effective is the conundrum. Governments have direct control over the location of public-sector employment and have used this as a policy instrument from time to time to promote selective decentralization. However, in a capitalist economy, private business interests generally have the initiative in matters of locational choice, subject to

regulatory constraints that governments of a neoliberal inclination are often reluctant to impose for fear of provoking capital flight. With few exceptions, locational choices have favored metropolitan business locations. Yet, on the labor supply side, there is some evidence of changing workplace preferences that are conducive to decentralization. Hamilton and Mail (2003) have documented the increased incidence of "downshifting" in Australia—the practice of adopting shorter working hours and a more leisurely lifestyle, even at some substantial sacrifice of income. Downshifting does not necessarily involve spatial relocation, although it commonly goes hand in hand with a preference for non-metropolitan living environments. It could bode well for decentralization policies to the extent that they are more attuned to contemporary household aspirations than has traditionally been thought.

Emphasizing equitable redistribution

Fifth is the challenge of *dealing with the widening urban socioeconomic divisions*. There is little novelty in this respect. Socio-spatial divisions in cities and suburbs reflect the long-standing tendency for the wealthy to shape the use of urban space while the poor remain trapped in it. The analysis and redress of this inherently inegalitarian pattern is a well-established theme in Australian urban studies (e.g., Badcock 1984; Burnley and Forrest 1985; Murphy and Watson 1997). A commitment to the pursuit of greater socio-spatial mix has been a particularly distinctive characteristic of academic writing about urban policy (exemplified by the contribution of Stretton 1989). It is also reflected in the concern with public policies to ameliorate inflation in land and housing prices.

Recent evidence suggests new challenges of monitoring and influencing the forms that these socio-spatial patterns take. The inequalities are not simply a matter of traditional class-based binary divides—

between Sydney's western and northern/eastern suburbs, or between Melbourne's eastern and western suburbs, for example. Contemporary patterns of urban spatial socioeconomic segmentation are becoming more complex, requiring a deeper understanding of the changing character of suburban form. Similarly, policies for redistribution of economic and social opportunities require greater attention to the spatial dimension of the restructuring of economic opportunities and living standards. Whether this requires greater public control over the spatial forms resulting from the capital accumulation process is the policy conundrum. The location of public housing illustrates the tension. In principle, public housing provision can be targeted at suburbs whose residents face difficulties in accessing affordable housing. However, public housing is a diminishing proportion of total housing in the Australian case, now under 5 percent of the total housing stock. Moreover, its administrators in a cash-strapped public sector argue that the pursuit of socio-spatial mix through provision of public housing in the more expensive suburbs has a substantial opportunity cost in terms of the greater number of housing units that might have been provided in less expensive areas. Not surprisingly in these circumstances, public housing provision plays an increasingly marginalized role in dealing with the problems of divided cities.

Evidently, tackling urban spatial inequalities—and all five of the policy challenges enumerated here—cannot be purely a matter for urban policy. The redress of spatial inequalities is necessarily part of a broader redistributive policy program—involving considerations of incomes policies, tax policies, social security policies, and education policies (as argued in Stilwell 2000, Ch.7). Urban policy is likely to be most effective when integrated into a broader national political economic policy program. Therein lies the most fundamental policy challenge, because it is the lack of any coherent national approach

that has been the most striking lacuna in Australian urban and regional policy since the mid 1970s, as it has been in other nations where neoliberal ideologies have delegitimized interventionist approaches to public policy.

Implications and conclusions

It is possible to design a research agenda focusing on those aspects of the five challenges about which a deeper understanding is required to develop more effective urban policy responses. Some possible priorities include research on:

- The relationship between spatial patterns of capital investment and urban employment trends
- The potential for using tax reforms, such as land taxes, betterment taxes, and ecological taxes, as drivers of urban spatial change
- The structures of economic and political power associated with different fractions of capital—industrial, financial, and property—shaping the accumulation process and its urban form
- How the global mobility of these various fractions of capital impacts on economic security within urban economies, and possible policy responses
- How housing and household consumption patterns are changing and how the changes impact the well-being of urban citizens/consumers
- How urban socio-spatial inequalities respond to policy changes, such as policies promoting homeownership or education or providing for urban infrastructure.

There is no single touchstone to the truth here. Rather, the dominant emphasis is on widening and deepening our knowledge of the urban economy and its relationship to

the ecological, social, and political aspects of cities, their suburbs, and adjacent regions.

Enormous challenges currently confront researchers and policy makers dealing with these issues. The analysis developed here, focusing on Australian cities, suggests that, if current trends are allowed to continue, urban areas will become increasingly unequal, insecure, and unsustainable, even if there is prosperity and a remarkably good life for some of their inhabitants in the short term. The further development of urban political economic analysis, and its application in policy practice, is necessary for understanding and re-shaping these processes. We need, dare I say it, a different "road map." Now is a good time to begin developing it as a collective research and policy process.

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