

---

# Discussant comments

*John Daley*

Grattan Institute

Professor Arnott gave us an economics view of the world, which is, I guess, exactly what we were hoping for. I would like to overlay a political process view of the world, a political reality view of the world and a wellbeing view of the world, and see how that might shift our thinking.

Using Professor Arnott's economics approach, many things struck me as interesting.

His logic suggests that we should, if anything, encourage agglomeration. That runs counter to the history of Australian policy, where we continue to spend in the order of \$3 billion each year trying to promote regionalism — and that only includes the direct funding. By contrast, Professor Arnott's analysis suggests that policy should promote more growth in cities to correct for the market's failure to capture all of the positive externalities of agglomeration.

He also encourages us to implement congestion pricing. He encourages us to price energy and water. However, Australia is further down the water-pricing track than many other countries, and it is emerging that pricing water effectively in urban areas is a lot harder than it looks.

Professor Arnott also encourages us to release or relax a lot of zoning controls, particularly where there are not real externalities. He encourages us to increase mixed-use and mixed-income districts. To add a little to his ideas about the value of mixed-income suburbs, there is some interesting work on their value for education outcomes. Richard Kahlenberg from the Century Foundation suggests that students from low-income backgrounds do better than you would expect if they go to school with students from high-income backgrounds (Kahlenberg 2000; Schwartz 2010). Having genuinely mixed background schools means that your school results are better than they might be otherwise.

These economic insights generally make a lot of sense to many people, particularly economists. They lead one to ask, 'If it's all so obvious, why hasn't it happened already?' Of course, the answer is, 'The politics is hard.'

---

That should not surprise us. Cities are highly contested policy spaces and political spaces. In the city, everywhere is somebody else's backyard. Furthermore, we have lots of public space in cities. Consequently, the first of Professor Arnott's assumptions does not always hold: there are many public goods in cities, and policy must take them into account.

This political contest is not an exogenous variable. It is not something we can simply assume away — but we *do* have some control over it. We can set in motion political processes that will probably lead to different economic outcomes than otherwise. Professor Arnott talked about Vancouver. The Grattan Institute study, *Cities: Who Decides?* examined a number of successful cities around the world (Kelly 2010). Vancouver was the *only* city where urban travel times had actually decreased. It was also the only city, apart from Portland and Seattle, that had gone through very deep citizen engagement processes to get to the outcomes. The study was highly suggestive that those two things are related. Nobody likes density very much, at least not in their own backyard, and nobody wants to pay for infrastructure like public transport. It is only when you push the tradeoffs down to the very local level and get people to genuinely engage in those tradeoffs that you have some chance of making choices with obvious losses and less obvious gains. Only then can you, for example, substantially increase density and thereby reduce average commuting times.

So I would like to suggest that, as we think about Professor Arnott's economic prescriptions, we should also think about encouraging particular political structures or processes so that the economically rational result becomes more likely. The catch with such deep citizen engagement processes, as one public servant put it to me, is 'What if they choose the wrong answer?' And that is a real possibility when many people came to Australia precisely because they were attracted by wide-open suburban spaces. We must be open to the outcome that, as we push tradeoffs down to the local level, people may choose to live with lower densities and higher commuting times, and perhaps fewer agglomeration benefits. Nevertheless, the process may well alter the outcome. In that sense, the political process is a variable that we can influence and that might ultimately change the kinds of policy choices we make.

Second, I would suggest that the optimal policy choice in one area may well depend on what we think is a politically achievable policy result in another. So, for example, although a few cities have succeeded in setting congestion charges, many cities have tried to do so but never quite got there. While personally I would encourage congestion charging in Australia, I am not holding my breath. It is inherently a difficult thing to pull off politically.

---

If you cannot get the money for infrastructure and for congestion pricing and for migration integration services, then the costs of migration are substantially higher. This raises the question: does the failure to optimise these policies change the optimal policy choice on migration? This problem of ‘second best’ needs to be considered in setting population policy.

I also want to overlay a wellbeing approach. As Professor Arnott suggested, economists tend to be very focused on choice. A broader definition of wellbeing might shift some of our economic analysis of cities. In his paper, Professor Arnott used Rawls’ ‘veil of ignorance’ to suggest that we would always prefer a society that maximised choice and equality. But I am not sure that is right. From behind the veil of ignorance, I might well be prepared to have a bit less choice but more parks and street trees. Indeed, the fact that I live in Melbourne and Professor Arnott lives in Los Angeles suggests that we might actually make different choices about that tradeoff.

This implies that we must ask how to value such things as parks and trees relative to individual choice. That is particularly difficult, I would suggest, when we come to the value of shorter commuting times, which is so central both to Richard’s paper and to thinking about cities in general. A paper from Germany uses panel data on wellbeing to suggest that, in general, people tend to underestimate the costs of commuting time on their lives (Stutzer and Frey 2008). People tend to make upfront choices for a longer commute, which on average makes them more miserable than they would have been if they had chosen shorter commuting times. That is after taking into account that higher commuting times might lead to better jobs or larger houses. Indeed, it even turns out that their families wind up being more miserable as well.

This poses an interesting issue for public policy. If we know that people tend to make upfront choices about congestion that are not optimal, how does that shift the policy environment we want to create for them? How much do we value their choice relative to promoting an outcome that will leave them and their families happier? There is at least an argument for preferring an outcome that increases wellbeing even if it leaves people with fewer choices.

Professor Arnott’s stimulating paper encourages us to understand the economic consequences of the choices we make about cities. Some of the results are counterintuitive, or run counter to conventional wisdom. They suggest fruitful directions for cities policies. However, approaches taking into account political processes, political realities and wellbeing might in some cases lead to slightly different answers to the purer economic analysis that Professor Arnott presented.

---

## References

- Kahlenberg, R. 2000, *All Together Now: Creating Middle-Class Schools Through Public School Choice*, Brookings Press, Washington DC, 2000.
- Schwartz, H. 2010, *Housing Policy is School Policy: Economically Integrative Housing Promotes Academic Success in Montgomery County, Maryland*, The Century Foundation, New York, <http://tcf.org/publications/pdfs/housing-policy-is-school-policy-pdf/Schwartz.pdf>.
- Kelly, J. 2010, *Cities: Who Decides?*, Grattan Institute, Melbourne.
- Stutzer, A. and Frey, B. 2008, 'Stress that doesn't pay: the commuting paradox', *Scandinavian Journal of Economics*, vol. 110, no. 2, p. 339.