

Future State

INEQUALITY HAS A POSTCODE



URBIS

FOREWORD

This report comes as the world reflects on the inequalities exposed and compounded by the COVID-19 pandemic. While Australia has fared better than many nations, throughout 2020 and 2021 Sydney and Melbourne's most vulnerable neighbourhoods experienced among the highest COVID-19 mortality rates. Meanwhile, lockdowns and border closures have weakened the economic prospects of these communities, with many workers over-represented in the most hard-hit industries.

It should go without saying that where a person lives should not dictate their chances in life. Equal access to decent work, education, health care, and other goals set out in the United Nations' 2030 Agenda for Sustainable Development¹ is in keeping with a central tenet of the Australian social contract – that everyone should be given a 'fair go' no matter their circumstances.

At Future State we are committed to helping government and business leaders tackle the world's most pressing urban challenges and making an impact where it matters most – improving lives, building strong economies, and protecting the planet. We prepared this report because we believe inequality to be among the most pressing issues of our times – an issue that could grow under the weight of COVID-19. Our hope is that it will provide a starting point for greater public discourse on spatial inequality and the need for new measures and place-based interventions to steer us towards more inclusive growth.

In a highly urbanised country like Australia, how inequality plays out nationally will largely depend on what happens in our cities. Now is the time to challenge the status quo and take action to ensure everyone has access to the enormous economic opportunities that our cities offer.



James Tuma
Group Director, Future State

¹ The United Nations, Transforming our world: the 2030 Agenda for Sustainable Development. sdgs.un.org. Retrieved 15 November 2021.

INEQUALITY HAS A POSTCODE

EXPOSING SPATIAL INEQUALITY

COVID-19 has brought to light the significant geographic disparities in Australia's two major cities. Sydney's south and south-west suburbs and those in the north and west of Melbourne have been disproportionately impacted by the pandemic. The mortality rate for people living in these communities was not only twice that of those in more affluent areas², but they also took the brunt of the pandemic's impact on employment. While the reasons for these disparities are varied and complex, they can largely be explained by unequal access to the economic opportunities, goods and services that some of us take for granted.

Spatial inequality is a persistent urban problem that is etched into the economic geography of our cities. Gough Whitlam raised the issue some 50-years ago in his 1972 campaign speech delivered at Blacktown in Sydney³:

"...increasingly, a citizen's real standard of living, the health of himself and his family, his children's opportunities for education and self-improvement, his access to employment opportunities, his ability to enjoy the nation's resources for recreation or culture, his ability to participate in the decisions and actions of the community are determined not by his income, not by the hours he works, but by where he lives..."

In the almost half century since Whitlam's speech, the problem has widened as our cities have grown outwards. It has also deepened as lower income households have increasingly concentrated in areas with poor access. If left unchecked, spatial inequality can entrench disadvantage and harm economic growth. It can also suppress human capital formation, entrepreneurship, and intergenerational mobility. The significance of this is amplified when it intersects with other forms of inequality.

NEW MEASURES ARE NEEDED

Despite the clear need for action, there are few tools to systematically analyse the nature and extent of the problem. Traditional inequality metrics based on wealth and income do not paint a clear picture of urban life. This dampens efforts to address spatial inequalities - an issue the United Nations Department of Economic and Social Affairs highlighted in its 2020 World Social Report⁴.

We believe unambiguous metrics are crucial to driving change. So, we created a simple yet robust way to quantify spatial inequality in our cities. What we developed seemed so obvious that we assumed it must have already been considered and dismissed by policymakers. However, we've yet to find evidence of this.

We developed a single measure of spatial inequality based on the Quintile Share Ratio (QSR): a measure of income or resource inequality that is calculated by dividing the income or resource share of the top 20 per cent of a population by that of the bottom 20 per cent⁵. As an example, if the top 20 per cent has access to half of the total resources of a population, while the bottom 20 per cent has one-tenth, the QSR would be 0.5 divided by 0.1, which is 5. The larger the number, the greater the inequality.

Our approach uses a similar formula but looks at the share of opportunities and resources afforded to households by a location – what we call their 'spatial wealth' – relative to other locations in a city. For instance, to measure spatial inequality of employment, we first establish the number of jobs that can be reached within a reasonable travel time from a location. We then compare this to the aggregate spatial wealth of a city as it relates to employment, which is calculated by adding up the number of jobs accessible to each household in each location. From here we can derive the equivalent of a Spatial QSR for employment.

2 Australian Institute of Health and Welfare (2021), The first year of COVID-19 in Australia: direct and indirect health effects. Cat. no. PHE 287. Canberra: AIHW.

3 The Whitlam Institute, Cities & Suburbs. whitlam.org. Retrieved 15 November 2021.

4 United Nations Department of Economic and Social Affairs (2020), World Social Report 2020: The challenge of inequality in a rapidly changing world. New York: United Nations.

5 The Equality Trust, Notes on Statistical Sources and Methods. equalitytrust.org.uk. Retrieved 15 November 2021.

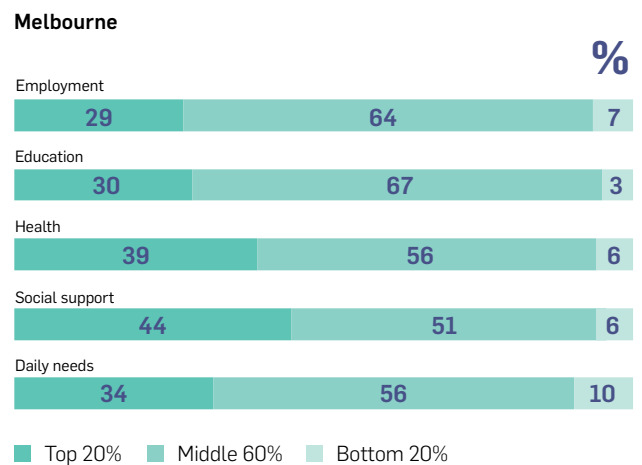
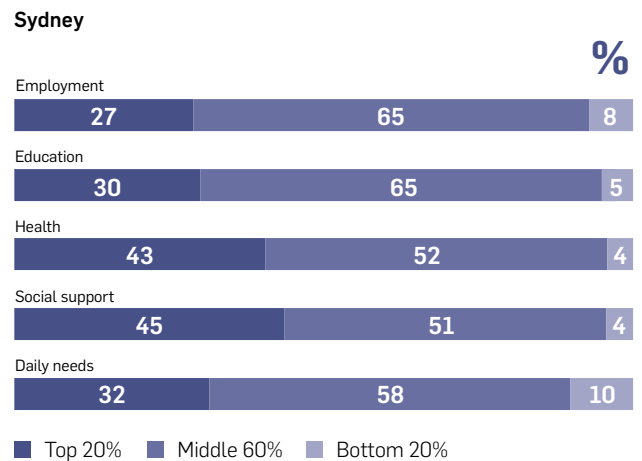
A TALE OF TWO CITIES

Given the pandemic's impact on Australia's two most populous cities, we were eager to understand the extent of geographic imbalances across five dimensions: jobs, education, healthcare, social support and everyday goods and services.

To measure the spatial inequality of employment and education, we estimated the number of jobs and tertiary education opportunities accessible within a 30-minute-drive, consistent with the average one-way commute using Marchetti's Constant⁶. For healthcare, social support and daily needs, we estimated the number of general practitioners, social support workers and retail floorspace a household can access within a 15-minute walk.

Figure 1 illustrates the distribution of spatial wealth in Sydney and Melbourne. Across every dimension we found stark differences between the top and bottom quintiles of both cities.

Figure 1: Distribution of spatial wealth



*Percentages may not sum to 100 due to rounding.

⁶ In his 1994 paper, "Anthropological invariants in travel behavior", Italian physicist Cesare Marchetti showed that the average commute from antiquity to today is around half an hour. ⁸⁷ Canberra: AIHW.

The stark spatial divide is evident across multiple dimensions of access to social and economic opportunities.

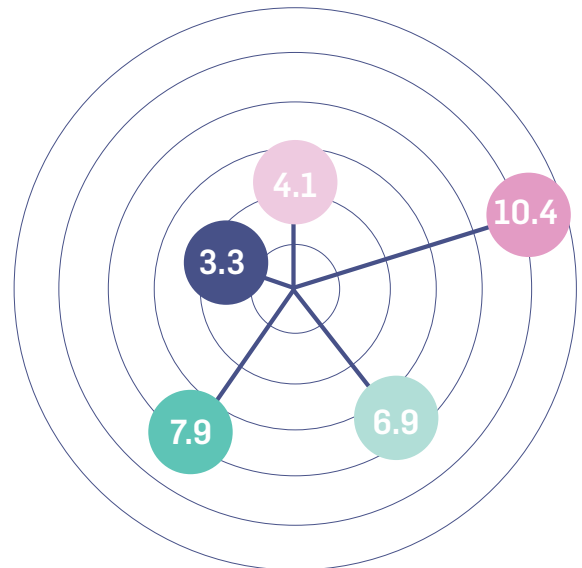
The QSRs plotted in Figure 2 show the magnitude of these spatial disparities. Employment access for the top quintile in Sydney is more than four times that of the bottom. In Melbourne it is more than three times. The daily needs accessible to the top 20 per cent in both cities is roughly three times greater than the bottom. Other measures tell similar stories, with education, healthcare, and social support strongly weighted towards the upper quintile.

The most geographically-advantaged households in Sydney can access 10 times more education opportunities and almost eight times the social support than the bottom percentile. Access to education in Melbourne is six times that of the bottom percentile, while access to social support is more than 10 times.

Melbourne privileges healthcare access for those in the top 20 per cent by almost ten times those in the bottom. For Sydney it is nearly seven times. As an example of what this means in practical terms, Sydney households in the upper quintile have on average around 130 doctors located within a 15-minute walk. Conversely, those living in the lowest quintile have around 11. When controlling for population, this equates to about 18 doctors for every 1,000 households for the upper quintile, and three for those in the lower.

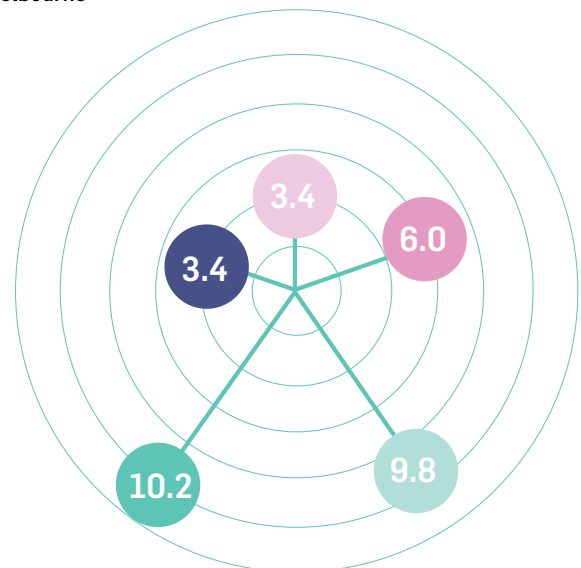
Figure 2: Spatial wealth quintile ratios

Sydney



Employment Education Health
Social Support Daily Needs

Melbourne



Employment Education Health
Social Support Daily Needs

Lower income households are disproportionately represented in neighbourhoods with lower levels of access.

Using house values as a proxy indicator of income, we found a strong correlation between house prices and access to social and economic opportunities. We did this by developing a composite measure of spatial wealth for each Statistical Areas Level 2 (SA2). We used the average score of the five dimensions, scaled from 1-5 based on spatial wealth quintiles (see Figure 1). We then calculated the median house price for SA2s in each 0.2 increment.

Figure 3 illustrates the strength of the relationship between income (as evidenced by house prices) and the composite measure of access to jobs, education, healthcare, social support and daily needs. Neighbourhoods that have more affordable housing options tend to have an overrepresentation of lower income households. Those same neighbourhoods also tend to have much lower levels of access. Recent growth in house prices will only exacerbate spatial inequality, with many households struggling to access housing in locations where jobs and services are abundant.

It should come as no surprise that a combination of income, wealth and geographic disparities can create a vicious cycle of inequality that can further entrench disadvantage and limit opportunities for social mobility across generations. Recent policy and infrastructure measures – like Sydney's 'Metropolis of Three Cities' and the 'Suburban Rail Loop' in Melbourne – will no doubt make a difference to geographic disparities in those cities. However, we need to question the role that underlying growth management practices and policies play in creating and deepening economic and social divides.

Figure 3: Income and spatial inequality manifest in housing markets

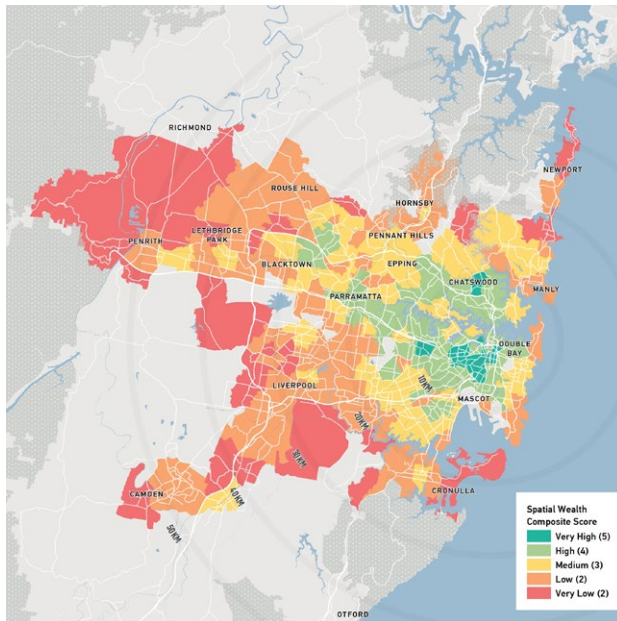


INEQUALITY HAS A POSTCODE

How inequality plays out in everyday life in Australia's two biggest cities

We chose two neighbourhoods in Sydney and Melbourne at opposite ends of the spatial wealth composite score to highlight how spatial inequality intersects with other measures of inequality. In Sydney, social and economic outcomes for those living in Double Bay – one of the most spatially advantaged areas of the city – are on average substantially higher than those living in Lethbridge Park – one of the most spatially disadvantaged. Similarly, life in Delahey on the northern fringes of Melbourne differs markedly from that of Malvern in the city's leafy inner east. With a few exceptions, spatial wealth is highly concentrated in the more affluent suburbs of both cities.

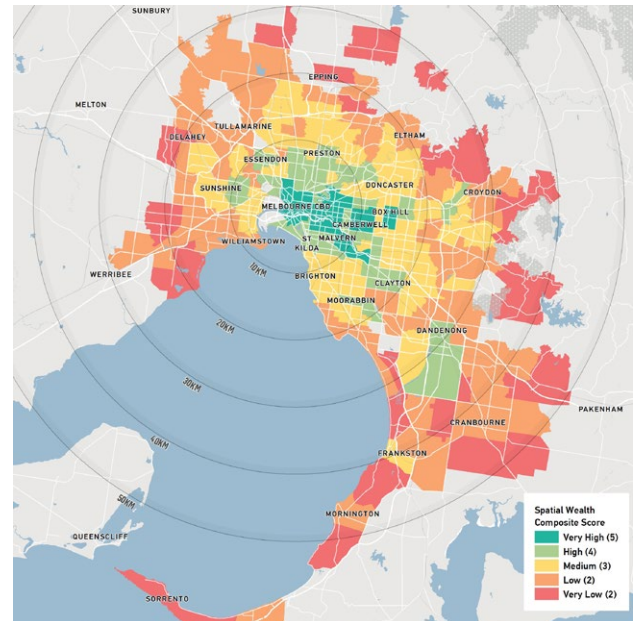
Sydney



Socio-economic measures	Lethbridge Park	Double Bay
Median house price (\$)	\$550,000	\$6,500,000
Median equivalised household income (weekly)	\$674	\$1,853
Persons earning \$2000 or more a week	2.9%	29%
Workers in low-skilled occupations	56%	23%
Unemployment rate (%)	10.8%	3.3%
Adults with bachelors degree or above	11%	53%
Persons on disability support pension	4.9%	0.6%
Completed year 12 or equivalent (%)	39%	75%
Taxpayers with private health insurance	11%	64%
Aboriginal and Torres Strait Islander population	10%	0.5%
Not proficient in English	7.2%	2.2%
Access to internet	76%	91%
Most common occupation	Machinery operators and drivers	Professionals
Spatial wealth composite score	1.2	4.4

Source: Australian Bureau of Statistics, Data by Region, multiple years

Melbourne



Socio-economic measures	Delahey	Malvern
Median house price	\$600,000	\$3,500,000
Median equivalised household income (weekly)	\$702	\$1,416
Persons earning \$2000 or more a week	1.7%	21%
Workers in low-skilled occupations	56%	26%
Unemployment rate (%)	11.2%	6%
Adults with bachelors degree or above	13%	49%
Persons on disability support pension	1.1%	0.9%
Completed year 12 or equivalent (%)	53%	76%
Taxpayers with private health insurance	4%	51%
Aboriginal and Torres Strait Islander population	0.1%	0.0%
Not proficient in English	24%	7.7%
Access to internet	83%	92%
Most common occupation	Labourers	Professionals
Spatial wealth composite score	1.4	4.8

Source: Australian Bureau of Statistics, Data by Region, multiple years

WHAT CAN BE DONE?

Like the global financial crisis did just over a decade ago, COVID-19 has exposed and amplified inequalities in our cities. This should compel us to question whether current settings are capable of generating prosperity that benefits all members of society.

Inclusive growth – which aims to achieve growth and equity simultaneously – has been increasingly discussed by governments and international organisations over the course of the pandemic. But we need clarity and consensus on how it should be measured and the policies to achieve it. With social discontent bubbling just below the surface of Australia's political landscape there is an urgency to this task. We see four opportunities to create more equitable cities:

1. Measure what matters

No serious examination of inequality is complete without a focus on the geographic disparities in access that exacerbate disadvantage and limit inclusive growth. The approach set out in this report provides a starting point for government to measure these disparities at increasingly precise and granular levels.

Clearly there is a need to go into greater detail of the dimensions and metrics used so they adequately capture the spatial constraints on inclusive growth and reflect government priorities. What's important, however, is that the pursuit of any metric used to define success has real-world implications. Adopting spatial equity as a key metric can help policymakers prioritise inclusive growth and align efforts across all levels of government.

2. Balance efficiency and equity gains

The ability to measure spatial inequality with greater precision means that governments can generate concrete insights into the extent of the problem. It also provides a fact base crucial to decision making on spatial policies and infrastructure investments, as well as testing and tracking initiatives over time.

A key challenge for government projects and programs is that the distribution of benefits and costs for the most economically efficient option might worsen inequality. When combined with traditional decision criteria, like net present value and benefit cost ratio, measures of spatial inequality can highlight how best to balance economic efficiency with broader societal objectives.

3. Pursue place-based initiatives that work

Place-based approaches to tackling inequality have had a bad rap over the years⁷. Many economists have historically favoured programs that target individuals over those targeting places. But with the inequality gap widening and a growing evidence-base of interventions that work, there is potential for place-based interventions to lessen geographic disparities and empower local communities.

Infrastructure investment has a big role in supporting local economies and reducing spatial inequalities. This is particularly true when social procurement requirements ensure benefits accrue locally through employment, training, goods and services purchasing, and other initiatives.

Policymakers can also support local enterprise growth by reducing barriers to new business formation and delivering community programs that teach the basics of starting and running business. This could be accompanied by place-based training programs specific to skills that are in high local demand and maximise future employability.

4. Adopt inclusive growth as Australia's North Star

Our country has long prided itself on being the land of the 'fair go'. But the case for Australia's egalitarian exceptionalism is weakening. Before COVID-19, the top 20 per cent of Australian households earned on average six times more than the bottom 20 per cent⁸. With lower-paid workers disproportionately affected by the lockdowns, the pandemic will only serve to widen this gap and exacerbate inequality across a range of measures.

Economic growth should not be seen as an end in itself, but rather a pre-condition for creating a society where every Australian has access to resources and opportunities that allow them to share in the nation's prosperity. COVID-19 has created a moment for reflection and a chance to reset. We have an opportunity to adopt inclusive growth as a 'North Star' that guides the actions of government, business, and civic leaders in achieving greater equality through our cities, regions, and economic systems.

⁷ Edward, L. Glaeser, E.L. & Gottlieb, J.D. (2008), *The Economics of Place-Making Policies*. Brookings Papers on Economic Activity, Economic Studies Program, The Brookings Institution, vol. 39(1), pages 155-253.

Kline, P. & Moretti, E. (2014). *People, Places, and Public Policy: Some Simple Welfare Economics of Local Economic Development Programs*. *Annual Review of Economics*, Annual Reviews, vol. 6(1), pages 629-662.

⁸ Davidson, P. Bradbury, B. Wong, M. & Hill, T. (2020), *Inequality in Australia, Part 1: Overview*. Sydney: Australian Council of Social Service and UNSW.

INEQUALITY HAS A POSTCODE

LAST WORD

Understanding the scope and scale of a problem is the first step in solving it. One of our objectives for this report was to bring focus to the spatial dimension of inequality and the 'left-behind places' that have borne the brunt of the COVID-19 crisis, many of which will continue to feel its economic ripple effects for years to come. The other was to look at ways to define and measure spatial inequality so that urban policy and investment decisions can better support all communities, no matter the location.

We believe a person's chances in life should not be determined by circumstances beyond their control. Where someone is born, their family's socioeconomic status or their postcode should not limit their access to education, health, income, and other resources. Without these fundamental ingredients communities are unable to improve living standards and achieve intergenerational mobility. Put simply, a city that does not provide the same opportunities to all its residents is fundamentally unfair.

Leaders across all sectors have an opportunity to reshape the value system that has led to these gaping inequalities and give credence to the Australian maxim that everyone in life deserves a fair go. Inequality is not inevitable. It is the result of the choices made by those who have the power to choose.

ABOUT FUTURE STATE

Future State is the strategic advisory arm of Urbis. We operate at the intersection of policy and commerce to help government and business leaders improve the performance of cities and harness their potential as engines of sustainable prosperity.

We work side-by-side with our clients and their stakeholders to diagnose multidimensional challenges, identify trends that will shape the future of cities, and unlock bold strategic moves that will generate positive and lasting change. We do this by integrating disciplines, data, and methods to create new insights and strategic tools that offer game changing potential for cities, communities, and our clients.

Our interdisciplinary team combines capabilities in policy and strategy, economics, spatial data science, design and systems thinking, and behavioural insights. We are passionate about tackling the world's most pressing urban challenges and making an impact where it matters most – improving lives, building strong economies, and protecting the planet.