AIMS Commentary
Atlantic Institute for Market Studies

Are big cities really saving the Canadian economy?

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Over the past few years, I have written about 'the new urbanism' – a phrase to describe the idea that cities of the future will be driven by so-called 'creative industries'. The notion is an appealing one: cities that attract and keep creative workers and thinkers will be the winners both nationally and internationally. They will be able to compete in a world as long as they can attract talented, well-educated workers. And where do these workers want to live and work? According to some urban thinkers, these workers want to work in what are called 'cool' or 'hip' cities.

A 'cool' or 'hip' city is normally defined as one that employs a lot of people in education and training, arts and culture and technology. The city also has to be characterized as open and tolerant to different immigrant groups and lifestyles. The future, then – at least according to this theory – lies in attracting an educated, high-earning, creative class. According to one estimate, this so-called creative class makes up to one-third of all workers but earns half of all income. This new way of thinking about cities has captured the imagination of city mayors in the United States and Canada. What do these new workers want? The answer is culture. And that means that cities with more museums, symphony halls and art galleries will be the winners in the race for urban supremacy.

There are those who have criticized this new urbanism as a false god of urban economic development. One critic, Joel Kotkin, an urban expert and author of the best-selling book *The City: A Global History,* has taken strong exception to attracting this new creative class to build cities. He argues that cities should concentrate on what he calls 'sewer socialism' – spending on things that make the city cleaner, safer and more efficient such as good roads, water systems and schools. According to Kotkin, spending money on attracting creative classes is an illusion and ultimately a waste of resources. Museums, art galleries are good things in and of themselves, but not necessarily as magnets to boosting local economies. In other words, cultural institutions are an offshoot of economic growth, not the driver of it. [1]

In Canada a number of cities have taken the new urbanism to heart, especially Toronto, Montreal and Vancouver which have been described by urban thinkers, such as Richard Florida as 'cool' and therefore deserving of special attention. Even the Conference Board of Canada agrees that these cities deserve special policy attention. According to this theory, all three have the criteria to best take advantage of the new urbanism given their large, multicultural, well-educated work forces. And based on this theory, this trio of cities should have out-performed other cities throughout the country in terms of growth and employment. Let's see how they stack up with other cities in Canada using recent information and data provided by the Conference Board of Canada.

In the past three years the best performing cities in terms of real gross domestic product were dominated by cities in the West. In 2004, the best performing cities were Vancouver, Edmonton, Calgary, Winnipeg and Regina. In the following year, Western cities again dominated with eight of the nine fastest growing cities in Canada. It was expected that Toronto would perform well in 2006 with a projected growth rate of 3.7 percent, but ended the year with a modest 2.3. Montreal, another of the 'cool' cities, had a miserable year in 2006 with a growth rate of only 1.5 percent. Halifax, not necessarily identified as a place for hip workers, fared relatively well in 2006 and is forecast to remain in the top half of Census of Municipal Areas (CMA) in 2007. Its strong performance was attributed to a healthy service sector, which should drive its growth rate to 2.8 per cent this year.[2]

Growth projections for 2007

The projections for 2007 again see Western cities outperforming cities east of Manitoba with the exception of the Niagara region in southern Ontario. Here are the Conference Board's projected percentage growth rates for selected cities:

Calgary	4.0
Edmonton	3.6
Vancouver	3.1
St.Catharines-Niagara	3.1
Winnipeg	2.9
Saskatoon	2.9
Toronto	2.9
Halifax	2.8
Ottawa-Gatineau	2.5
Quebec City	2.5
London	2.4
Hamilton	2.3
Regina	2.1
Montreal	1.5
Sudbury	1.5

What are we to make of these projections? First, they are just that, projections, and all are subject to change, especially those cities that depend on international demand for natural resources such as Calgary and Sudbury. One has to keep in mind that Vancouver is expected to do well because of construction spending on the 2010 Winter Olympics. It seems that, so far at least, being cool hasn't had the impact many expected in terms of generating economic wealth especially in a city such as Toronto which is undergoing a mini architectural renaissance with new cultural centres such as the new Four Seasons Centre for the Performing Arts, the renovation of the Royal

[1] In a recent *Wall Street Journal* article, Joel Kotkin shows how cities that appeal to couples with children are much faster growing than the so-called 'cool cities'.

[2] Conference Board of Canada News Release: 07-47, December 2006.

Ontario Museum, and architect Frank Ghery's new Art Gallery of Ontario.

Montreal's poor economic performance is particularly noteworthy because the city was identified by new urban thinkers as a real comer based on all the necessary ingredients that would attract a class of educated workers needed to boost its economy. Although the city has undergone a modest economic revival in the last few years, overall the city has lost thousands of talented and professional workers over the years – the very kind Montreal was supposed to be attracting. From 1963 to 2000, Quebec lost more than 600,000 residents. And what politics didn't chase out with the election of the Parti Quebecois in 1976, or language Bill 101, the rest were pushed out by high municipal and provincial taxes. Montreal has one of the highest business tax rates in Canada along with Toronto and Vancouver. Edmonton, on the other hand, has one of the lowest municipal business tax rates. And it's no surprise that business tax rates play an important role in where businesses locate.

In other words, there doesn't appear to be a clear correlation between projected economic growth and 'coolness' of a city. Cities have their own reasons and causes for how fast they grow and develop. Of course one cannot make much from observing only a couple of years of projected growth estimates. Maybe a few more years will tell a different story. But the data do not hold out much promise. What cities have to ask is whether investing in programs to attract 'creative workers' is worth the cost of basing regional economic policy on what seems to be nothing more than a hunch.

Balancing Priorities

Perhaps Joel Kotkin's proposition makes more sense: cities should be allocating their resources to infrastructure. Some studies have argued that the country as a whole faces a municipal infrastructure deficit of $57 billion. For example, the average age of engineering structures – which include streets and roads, parking, water purification and supply and sewage collection – has increased from 14.1 years in the early 1970s to 17.5 years today. And per capita municipal spending nationwide on these items has declined to $181 from $202 from 1988 to 2003 (all in 1997 dollars). Even though others are not convinced that infrastructure deficits are as bad as some would argue,[3] cities may be better off pouring more money into roads and sewer rather than questionable programmes based on an unproven theory of what attracts 'wealth creators'. And Kotkin may be on to something. He makes the case that cities in the U.S. that are growing the fastest are family-friendly cities. According to Kotkin, the ability to lure skilled workers depends more on affordable housing and short commutes to their jobs rather than where one can get a great latte.[4]

Where does this leave city public policy?

Here we have two different views of how cities grow and prosper. The 'cool' city view holds that cities can attract talented, creative workers by supporting cultural institutions; build them and they will come. But what cultural institutions? Just as policy makers can't pick industrial winners, they won't have any better luck supporting the right cultural formula. In other words, municipalities can't do 'cool' and shouldn't even try. Better to lay the foundations of an efficient city with good roads, public transit, safe streets and excellent schools. These are the things that policy makers can control and offer their citizens. Culture will, in turn, follow. What about the idea that public policy should support Canada's three largest cities? The

[3] *"Holes in the Road to Consensus: The Infrastructure Deficit: How Much and Why?"* Jack M. Mintz and Tom Roberts, C.D. Howe Institute, e-briefs, December 2004.
[4] "The Rise of Family-Friendly Cites", Joel Kotkin, *Wall Street Journal*, Nov. 27, 2007 (A19).

Conference Board of Canada, in a recent study entitled *Mission Possible: Successful Canadian Cities* vol. III (See *The Canada Project* www.conferenceboard.ca/canadaproject), makes the case that Canada's major three cities, Toronto, Montreal and Vancouver, are the driving force of the country's economy. Their position is that federal and provincial policy must recognize these cities as different from all others and deserve special attention and greater political and economic powers to raise the revenues they need to compete internationally.

Underlying the Conference Board's study is that immigrants are attracted to Canada's three largest cities. What the study doesn't seem to appreciate is the changing nature of population growth in smaller urban areas around the country. According to the latest Statistics Canada census on immigration patterns from 2001 to 2006, immigrants are also settling in smaller municipalities around large cities. And they are also moving west. In the proportion of foreign-born residents, Calgary now surpasses Montreal. Twenty-four percent of Calgarians are foreign-born compared with twenty-one percent for Montreal. Gone is the notion that immigrants only move to Canada's big three cities. Other cities that have attracted new immigrants in increasing numbers are Edmonton, Winnipeg, London, Guelph, Kitchener and Ottawa.

The same population trends are evident in the U.S. as well. The trend in the past was for the greatest growth to occur in cities close to major urban areas such as New York, Chicago, Miami, San Francisco, and Phoenix. Now the movement is to more distant smaller towns in less populated states.[5] And this trend seems to be accelerating. According to recent census data, demographer Wendell Cox has indicated that 2.7 million Americans have moved out of the largest cities, often to cities with between 50,000 and 500,000 inhabitants.[6] And there's evidence that over the past decade college-educated workers, who once may have moved to large urban areas, are moving to more affordable places.

What are we to make of these developments? One implication is that we need better information to analyze these trends. As the cost of living – including housing prices – keeps rising in our major cities (after all, not everyone wants to live in trendy but pricey condos, especially if raising a family), then the obvious alternative is to leave the downtown for smaller communities. The problem with trends, both in urban thinking and population movements, is that they change. Before we embark on policies that encourage even more growth in Canada's larger cities, let's make sure we understand where people are going and why.

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[5] See "Little Start-up on the Prairie", Joel Kotkin, *The American Interest*, (March/April 2007).

[6] Ibid, pg 78.