Economic Development Strategies for Mid-Sized Cities in the Global Knowledge Economy

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Introduction

Contemporary democratic-capitalist institutions are under serious threat as wide swaths of society are instinctively gravitating to populism. There is a stark geography to these forces which have been evident in political events of the past year such as the BREXIT referendum and the US, Dutch, and French elections. Geography is not a passive delineator of growing divides but a highly active participant. Similar patterns are evident across many national contexts whereby large, diverse, and well-connected cities are the main drivers of the economy as well as at the forefront of cultural evolution. In terms of soft power, they have won. More often than not, smaller and mid-sized communities have found themselves falling further behind economically and have begun to object by asserting their political power. This is often characterized by a rejection of the institutions, such as immigration policies and free trade, which have tended to provide advantages to big cities. If this rift is to be healed, the precise nature of these advantages need to be better understood. From there, mid-sized and smaller communities can begin to craft strategies that better connect them to the global economy.

In the context of Ontario, the Greater Toronto Area (GTA) economy is doing relatively well and will likely continue to do so into the foreseeable future. The same can be said for Ottawa and its immediate neighbours. Meanwhile, mid-sized city-regions such as London, Peterborough, St. Catharines, and Thunder Bay are having a tougher time. Halting this growing divide is arguably the most pressing challenge facing the province. There are stubborn structural imbalances reinforcing these geographic patterns. Connective infrastructure such as major airports, broadband, key institutions, and urban environments themselves fuel these disparities. Business, especially the most productive and knowledge intensive, are disproportionately drawn to Toronto’s core and a few well-connected suburbs. Location is not just a preference, but offers the necessity of connectivity. The symptoms of these divides are not just economic but run the risk of becoming cultural. Persistent inequality leads to deeply ingrained resentment. When these patterns are geographically based they run the risk of creating political fault lines that further increase the schisms. Such patterns were largely evident in the US presidential election as well as the Brexit referendum in the United Kingdom. The most recent provincial election results demonstrated a similar pattern with large and mid-sized cities almost universally electing Liberal and NDP MPPs while rural areas went almost completely Conservative. This precise pattern will surely not hold in every future election but it is, for the time being, an important benchmark. While the cities of Toronto and Ottawa are the most left-of-centre and rural areas are the most right-of-centre, sways in the balance of power will come from suburban areas but also mid-sized city regions. If mid-sized regions increasingly feel they have more in common with their rural neighbours than the large metro areas, this could tip the scales and lead to a decoupling of economic power from political power.

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The risk to the provincial economy in this scenario is that the policies and institutions that enable the Toronto and Ottawa economies to thrive will be eroded. Free trade, open immigration, and key institutions have come under threat in other national contexts after experiencing such a decoupling. While longer term economic implications have yet to reveal themselves, it is not likely to be a happy story. There is a very real danger that Ontario could follow a similar trajectory if it does not address these growing imbalances. The way
forward requires a strategy to ensure that mid-sized and smaller communities do not fall further behind large global centres. Crafting such a path requires developing a better understanding of the specific processes that are providing big cities their economic advantage. From there, policies can be created that act to compensate for the structural disadvantages facing mid-sized cities. This paper provides a historical overview of the academic literature on urban hierarchies with an emphasis on the processes of creativity and innovation in urban environments. It then explores basic data that describe the socio-economic divides across Canadian city-regions of various sizes. The paper concludes by offering ways forward for policy makers.

The current state of knowledge

There has been a great deal written on the key mechanisms of the contemporary knowledge-based economy and how they influence regional economic development. As it is vast, the literature is characterized by both complexity and subtlety, and therefore requires careful distilling. The aim of this section is to present an understanding of the structural dynamics of regions that generate greater advantages for larger and more connected cities. The purpose is to situate the fundamental economic challenges being faced mid-sized cities so that appropriate institutional responses can be crafted.

As the basis for economic competitiveness has shifted from land, labour, and capital factors to knowledge-based processes of innovation and creativity, there has been a renewed interest in the impacts of city size and position.

One of Jane Jacobs's (1969) key insights was that cities have always been the focal point of economic development. She contended that cities provided opportunities for exchange of goods and information and played a direct role in the production of knowledge by providing the space where new hybrids are formulated. Alfred Marshall (1907) was one of the first to recognize that cities offered the ability for people and firms to specialize by vocation. This specialization led to a deepening of knowledge as well as greater interdependence. Wirth (1938) articulated that the
the technological revolution that brought new forms of digital communication to the world, predictions of ‘the death of distance’ (Cairncross 2001) and the ‘world is flat’ (Friedman 2005) suggested that socio-economic interaction would no longer be constrained by location. If these hypotheses proved true, it would mean a waning of the power of agglomeration. In the intervening years there is much evidence to suggest the opposite – that the death of distance is exaggerated (Morgan 2004) and the world is indeed ‘spiky’ (Florida, Mellander, Gulden 2008). Much of this owes to the understanding that technologically mediated interaction does not diminish the importance of face-to-face interaction (Storper and Venables 2004). The key theory in this respect is that much of human knowledge cannot be easily codified (and therefore digitized) in a truly meaningful way. Instead, the tacit dimension of human knowledge remains supremely important as do the social relations that facilitate its exchange (Gertler 2003). Though advancements in information and communications technologies have changed the dynamics of human interaction, physical proximity continues to be vitally important (Boschma 2005).

Much of the economic geography literature on creativity and innovation processes in cities owes a large debt to economic sociology. The notion that economic activity does not simply conform to neoclassic models of exchange but is greatly complicated by being embedded in social relations (Granovetter 1985) is a foundational theory with significant implications for the study of places. Approaching economic geography through such a framework leads to understanding the importance of social networks and how their structure influences the transmission of information and the production of new knowledge (Castells 1996; Uzzi 1997; Gordon & McCann 2000). Social network analysis can provide insight into who is optimally positioned to access more and better information. Granovetter’s (1973) ‘strength of weak ties’ hypothesis demonstrates that those with less social proximity tend to be better sources of information. By possessing knowledge of network structures, individuals and firms can strategically position themselves to
gain informational advantage (Burt 2004). As social relations exist in physical space, networks have a recursive relationship with the places they inhabit (Storper 1995; Gluckler 2007). In other words, ‘what you know’ is highly correlated with ‘who you know’, and ‘who you know’ is strongly related to ‘where you are’.

As the internal knowledge bases of region differ, so too do the local learning opportunities. Regions must continually produce new knowledge in order to maintain their economic vitality (Morgan 1997; Maskell & Malmberg 1999). Current industrial and occupational structures have been shaped by historic path-dependent processes and will continue to shape structures going forward (Martin & Sunley 2006). Evolutionary economic geography (EEG) has emerged as an important sub-field over the past decade (Boschma & Frenken 2006). This literature has put a finer point on the traditional debate over the relative merits of localized diversity versus specialization (Beaudry & Schiffauerova 2009) while placing an emphasis on processes of change (Neffke, Henning & Boschma 2011). Evolutionary economic geography leans heavily on the notion that new knowledge is most often the product of novel combinations of existing knowledge (Weitzman 1998). Further to this point, the most valuable innovations come from combining existing knowledge sets that are of ‘optimal cognitive distance’ (Nootboom et al 2007). The idea is that combinations involving small differences do not produce significant novelty while combinations involving large differences are unlikely due to incompatibility. Instead, the greatest value comes from a middle ground of novelty and compatibility. At the regional scale this concept is articulated as ‘related variety’ (Frenken, Van Oort & Verburg 2007) whereby local economies evolve through the convergence of activities that are ‘similar but different’. Related variety can be measured using trade data (Hidalgo et al 2007), industrial classification systems (Boschma, Minondo & Navarro 2012), patent technology classes (Kogler, Rigby & Tucker 2013) and occupations (Florida, Shutters & Spencer 2016).

Economically ‘successful’ regions develop particular strengths over time. These strengths, often referred to as ‘industrial clusters’ account for a greater share of the local economy and typically propel growth (Porter 2000; Spencer et al 2010). Higher concentrations of highly skilled workers also develop and tend to accrue to larger cities with greater amenities (Florida 2002; Berry & Glaeser 2005; Bacold, Blum & Strange 2009). While the internal structure of regions is vitally important, it is essential to understand how clusters, skilled workers, and regions connect to the global economy (Scott 2001; Wolfe & Gertler 2004;
Scott & Storper 2007; Sassen 2011). The transmission of knowledge between regions is as important as knowledge circulation within regions (Ernst & Kim 2002; Bathelt, Malmberg & Maskell 2004). Connections between regions tend to conform to network patterns that reinforce a hierarchical power structure that favours centrally positioned ‘world cities’ (Beaverstock, Smith & Taylor 1999; Smith & Timberlake 2002; Taylor et al 2002). While central positions in world city networks are reinforced by key physical assets such as airports and digital infrastructure (Brueckner 2003; Choi, Barnett & Chon 2006), it is the geographic relationships of business functions that predominantly shape global city networks. The concept of ‘global value chains’ (GVCs) reflect the understanding that value is produced and captured at various stages of the overall production process and that these stages take advantage of varying local characteristics as well as international governance systems (Gereffi 2001; Ponte & Gibbon 2005; Sturgeon, Van Biesbroeck & Gereffi 2008). The concept of ‘global production networks’ builds from the GVC literature by making more direct connections between global networks, regional development, and local cluster dynamics (Henderson et al 2002; Coe et al 2004). As local conditions and capabilities differ between cities, places offer varying functional specializations within global production networks. As these functional specializations generate and capture varying amounts of value, inequality is (re)produced and exploited within the global urban system (Levy 2008).

The contemporary global knowledge-based economy favours large, diverse, and centrally connected cities. Intra-regional and inter-regional network effects reinforce the economic advantages of interaction (Pan et al 2013). It has long been realized that cities enhance productivity levels and that these benefits tend to accrue to non-manufacturing sectors of the economy (Moomaw 1981; Ciccone & Hall 1993). This is linked to wage inequality across the urban hierarchy (Baum-Snow & Pavan 2012; Florida & Mellander 2016) which tends to worsen as manufacturing employment declines in overall share. Evolutionary change processes also have a tendency of reinforcing economic and power imbalances if left unchecked by intervening institutions (Sheppard 2002; Essletzbichler 2009). The role of institutions in regional economic development is a complex and sometimes contradictory one (Gertler 2010; Rodríguez-Pose 2013) as different functions and different scales of institutions can have divergent goals. Regional development institutions have the goal of promoting local growth, but this could be working against national level institutions that seek to spread growth more evenly.

The key message for mid-sized cities is that there are very significant structural forces working against them. They must develop a strong understanding of these forces in order to develop appropriate institutional strategies that chart a course for continued prosperity.

The impact of scale and centrality on regional economic development has profound implications for mid-sized cities. While there is a great deal of literature to suggest that large and well-connected regions enjoy superior network effects in the global knowledge economy, the situation for mid-sized cities is not straightforward. Not all industries are influenced by scale and centrality in the same manner (Schoales 2006). Scale can also be a function of proximity to other nearby regions (Burger et al 2015). Furthermore, institutions matter and can compensate for the structural shortcomings of regions. The key message for mid-sized cities is that there are very significant structural forces working against them. They must develop a strong understanding of these forces in order to develop appropriate institutional strategies that chart a course for continued prosperity.
The way forward

We know that the largest cities in Canada typically have higher levels of productivity. The most knowledge-intensive jobs and sectors cluster in the biggest cities. The labour force in these cities is the most highly trained and educated. The infrastructure and institutions that offer the most global connectivity are disproportionately found in such places. Taken together, these elements generate a virtuous cycle of economic growth. This cycle is not without countervailing forces such as inflated land prices, congestion, and extreme local inequality, but in Ontario’s case growth continues to be centred in Toronto and its neighbours. The policy challenge is to find a way that smaller and mid-sized city-regions (and their hinterlands) can increasingly participate in the global knowledge economy without being punitive towards the GTA. The following points provide a starting point for a discussion on how this can happen.

1. Local knowledge in a global context

Places need to understand their strengths in order to build on them. Communities know themselves in absolute terms better than anyone from the outside ever could. The issue however, is understanding oneself in relation to others. It is not just a matter of ‘knowing your competition’ but understanding where you fit into a global production system. From there, specific opportunities need to be identified and tackled with explicit formal strategy.

2. Regional governance for economic development

In the global knowledge economy, scale matters. It is difficult for individual municipalities to navigate an increasingly complex world on their own. Local economies do not generally conform to local administrative boundaries as specific municipal polices have minimal day-to-day impact on the decisions of businesses and workers. For these reasons, it makes sense for municipalities within metro areas to band together on economic development policy rather than compete against one another. The newly created Toronto Global is structured this way as a partnership between Toronto and its neighbouring municipalities. It should be closely watched as a potential model for other regions in the province.

3. Infrastructure for global connectivity

Key infrastructure that enables full participation in the global knowledge economy, such as international airports, top-end internet technology and learning institutions does not come cheap. It is unlikely that individual municipalities can build them on their own. They need to work together regionally but also with higher levels of government to identify specific needs and get necessary infrastructure built in an efficient manner. However, not all places can have international airports since there will always be cases where it is not practical. In such scenarios mid-sized cities need to find ways to connect themselves to the nearest large metropolitan area in order to borrow from their scale.

4. Align local institutions around existing knowledge-based strengths

Local learning institutions such as universities, colleges, and innovation hubs are vital aspects of building a strong knowledge economy. These are particularly important to mid-sized cities as they are not necessarily linked with any city-size advantages especially when they are publicly funded institutions. However, on their own, they do not automatically create economic prosperity. For this to occur they must have strong ties to local industry and coordinate their offerings with the needs of businesses. This is not to say that the entire focus of universities and colleges should be geared to businesses but that some degree of research and teaching strategy should closely consider important local industries.

5. Make demographic trends work for the community

Smaller and mid-sized communities tend to have net negative migration of people aged 18-34. On the flip side, they tend to gain in all other age cohorts. This is true in many national contexts and is quite pronounced in Canada. While youth retention strategies can help, they are unlikely to fully stem the loss of young people to the largest cities. Mid-sized cities should recognize and (up to a point) accept these trends and work with them by gearing policies to attracting mature families with
children as well as people in older cohorts looking for a lifestyle change. Entrepreneurship is not just for young people. Many people who have established successful careers in their field can often be looking for a new direction or challenge at later stages. Mid-sized cities can do more to capitalize on these trends.

6. Be open to new people and ideas
Ontario is generally a very open-minded place. It is essential that the province and its mid-sized cities remain committed to eagerly welcoming new people and new ideas from elsewhere. The sort of populism that has recently taken hold in other countries leads to a closing down of borders and disrupts flows of people, trade, and ideas. This is a recipe for economic stagnation. Communities cannot take their commitment to openness for granted and must continually work towards being welcoming places.

7. Specialize and build a brand
Ultimately, mid-sized cities need to take many of the individual elements of the first six points and organizing them into a coherent strategy. This requires identifying key strengths and building upon them in a way that is globally competitive. Once such strategies gain traction, a community’s specialization(s) becomes an integral part of its brand. This brand can then be further enhanced through additional marketing. In this way, mid-sized cities can create their own virtuous cycles that do not require the same inherent advantages enjoyed by their larger counterparts.

Instead, smaller and mid-sized communities must understand the precise reasons why large cities have certain advantages and explicitly develop strategies that compensate. Regional approaches that identify local strengths, coordinate infrastructure and align institutions need to be developed so that mid-sized cities can prosper in the global knowledge economy.
References


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