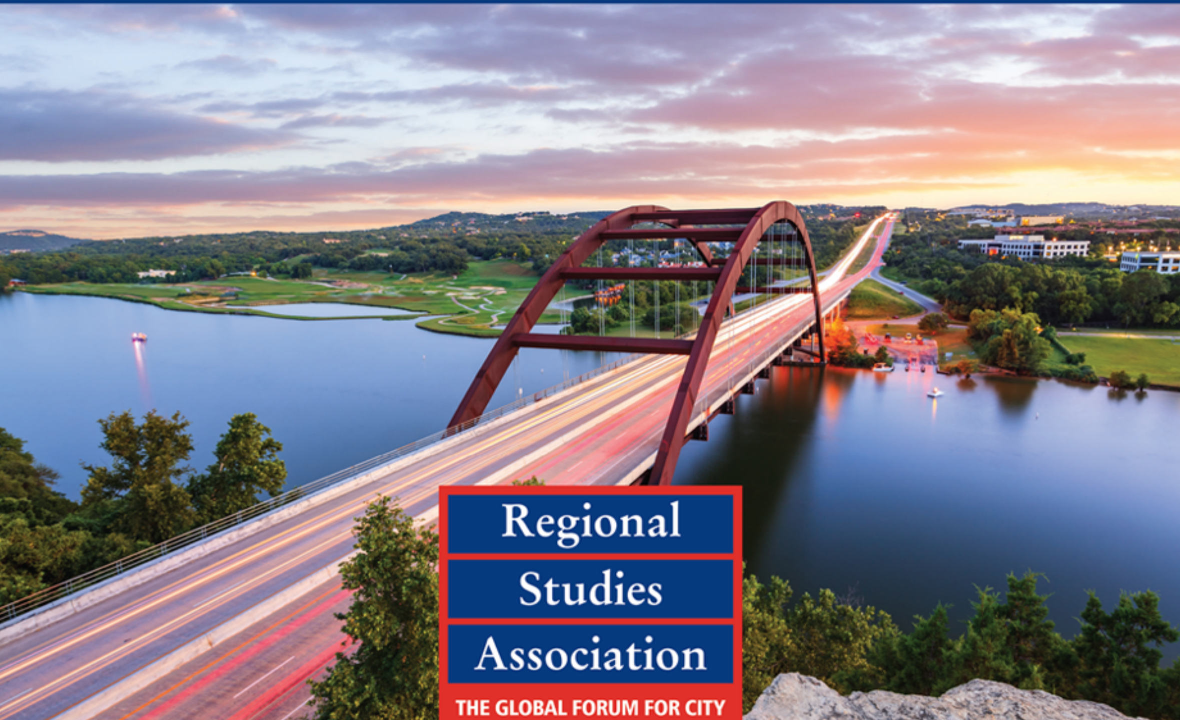
SMALLER CITIES IN A WORLD OF COMPETITIVENESS



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REGIONS AND CITIES

PETER KARL KRESL AND DANIELE IETRI

ROUTLEDGE

Smaller Cities in a World of Competitiveness

Much recent research in Urban Studies has concentrated on the notion of the "global city" but discussion has also covered a larger set of mega-cities, with populations in excess of 10 million. This analysis has raised the question of the optimal size for a city – is larger always better?

Smaller Cities explores the advantages and disadvantages of larger and smaller cities, trying to determine their place in the global economy and hierarchy. How can smaller cities gain or retain their competitiveness in a world of large cities? In a globalized world, the nation has perhaps been diminished as an economic actor, with fiscal shortcomings and political gridlock leaving cities more or less on their own in the task of enhancing their competitiveness and improving the economic lives of their residents. This book argues that smaller cities of varying population can be important actors in competitiveness, and aims to bring attention to an area often overlooked by researchers. In short, are Pittsburgh, San Diego, and Austin less competitive than London and Mumbai?

This volume will be of interest to students, researchers, and city professionals who work in urban economy and urban geography.

Peter Karl Kresl was Professor of Economics at Bucknell University in the US for almost 40 years. He co-founded the Global Urban Competitiveness Project fifteen years ago, and remains its President today.

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Smaller Cities in a World of Competitiveness

Peter Karl Kresl and Daniele Ietri

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1 Introduction to small cities

How to describe/define them?

The emergence of the city, or urban economy, as an economic actor has been chronicled often, but most compellingly by Peter Hall (Hall 2001) and Paul Bairoch (Bairoch 1988). From small settlements in Mesopotamia to the 20 million inhabitant cities of today, the city has been the central actor in economic development, with occasional intrusions by a superior level of government such as the empire or the nation state. One of the most persistent aspects of this history has been the increase in the size of human settlements. Economists have studied agglomeration economies and geographers have developed notions of central place and location theory to understand how they function (Balchin *et al.* 2000, chapters 2 and 5). This is a story that is quite familiar to students of urban economics, so we will not dwell long on it here.

Along with the recognition of growing city size has come, for many, a presumption that large size confers insurmountable advantages on the large city. Saskia Sassen and Peter Taylor wrote of global cities and world cities, respectively. But size was not the crucial factor for them; Sassen was concerned with New York, London, and Tokyo as centers of finance and decision-making and Taylor focused on the position of world cities and their position in the hierarchy of global urban networks (Sassen 1991, Taylor 2013). Peter Hall foresaw that the global economy would be dominated by mega urban regions (Hall 2009). These regions would be composed of up to 50 cities – networked, clustered around one or two world cities and benefiting from a new functional division of labor. A. J. Scott has written of metro city regions as being the structure which cities must seek to create (Scott 2012, pp. 165–168). While all of these writers see benefits from large size, they are also aware of their negative aspects in terms of income inequality and social exclusion, marked by the proliferation of gated communities. Other scholars, such as Joel Kotkin (Kotkin 2014) have contested this, arguing that smaller cities have certain advantages over larger cities in this competitive struggle. His alternative categories of midopolis, similar to Joel Garreau's edge cities (Garreau 1992), nerdistan, and small cities and towns give a range of classifications that include, respectively, (1) suburban Boston, Silicon Valley, and northern New Jersey, (2) Austin, Salt Lake City, and Raleigh–Durham, and (3) hundreds of cities and towns of fewer than 500,000 residents. We will discuss the attractions of each of these three sets of cities in the next chapter, but Kotkin saw smaller cities as being able to avoid some of the negative aspects of larger cities.

It is clear that smaller cities and larger cities have different characteristics, and advantages and disadvantages. Some categories of city size will be attractive to firms in certain specific economic activities, but it is unlikely that any one will be attractive to all of them. Financial markets, automobile assembly, research, product design, data analysis, graphic design, aircraft maintenance, to name just a few, all have specific requirements for inputs and urban assets that make cities of certain sizes attractive or unattractive to them. Firms in these sectors may need an airport hub, or high-speed connectivity, or a set of research universities and institutions, or cultural and recreational assets, or firms in other supporting sectors. Large and smaller cities will sort themselves out according to the attributes they possess. The task of the leaders of smaller cities is that of ascertaining what inputs and assets they have that are attractive to which specific economic activities and firms, as well as being attractive to the skilled labor that will be required by these firms. As we will demonstrate later, there is no correlation between city size and urban competitiveness – some cities may simply be too large to be competitive (Kresl and Singh 2012, The Economist Intelligence Unit 2013, Ni *et al.* 2014).

The concept of size

The definition of small cities, or simply of a small city, is not a straightforward task. The first, and most obvious, approach would be that of simple population size. Mega-cities have captured the imagination of much of the public but also of much of the research community. The simple facts of a large population and the complexities that arise with it capture the imagination of many. This is like going to Africa and being fascinated by the elephants. After a while one discovers there are other creatures in the plains that command a certain interest. So it is with cities. A second approach is that of economic reach. Here one is concerned with the territorial extent of the interaction and command that particular urban economy exhibits. Sassen's world cities had reach that encompassed the entire globe. Other cities, such as Montreal or Barcelona, have a reach that extends throughout the continent in which they are situated. The smallest cities will be limited in their reach to 100 or 200 miles, although one local firm may have a reach that is international or intercontinental. The third approach looks to the economic function of the city in the global hierarchy of cities. Some cities are command centers while others passively accept the direction of the command centers – they have no choice. Financial and business decision-makers situate themselves in cities that have certain assets that are important to the process of making decisions. The fourth, and final, approach to size is that of the mentality of the city itself. Some cities simply "punch above their weight," because of the energy, imagination, assertiveness, and effective planning of their leaders, in both public and private sectors. Other much larger cities find themselves to be incapable of asserting themselves to be anything more than passive followers of more dynamic cities.

The importance of population size will differ between the US and the EU contexts. Comparable data are available for almost 300 metropolitan statistical areas in the US. In a subsequent chapter we will group cities into five classifications according to the number of inhabitants. In the EU, one finds fewer cities in excess of two million inhabitants and city size classifications tend to be greater at those of the smaller city populations. Comparable data however, are not available for large numbers of cities throughout the EU. Reach is primarily the result of the activities of the principal firms in the city's economy. One thinks immediately of the world-wide reach of the entertainment industry of Los Angeles, of the smaller Detroit and its automobile industry during the twentieth century, and of the much smaller Wolfsburg and Volkswagen. Other large cities, such as Mexico City, São Paolo, Mumbai, and Lagos lack this reach. Function can be the result of business and financial corporate decision-making centers that Sassen identified in London, New York, and Tokyo, but also in smaller cities that are the seat of institutions that dominate sectors of global society, such as The Hague (international justice), Nairobi (UN organizations), and Geneva (international diplomacy). Here population and reach are absent with no negative impact on the function of the city. Finally, many cities lacking the three other aspects of size manage to give themselves importance, or "size," by the effect of their own action. In the US and the EU many cities achieve this through the actions of universities that are situated in them. One thinks of Pittsburgh, with its prominence in robotics and information technology based at Carnegie-Mellon University, and other university towns such as Boulder (Colorado), Raleigh–Durham (North Carolina), Lund (Sweden), Cambridge and Oxford (UK), and Rotterdam (Netherlands). Other cities such as Lyon, Milan, Munich, and Boston have asserted themselves through their activities in fashion, culture, and international organizations.

On the other hand, many cities that have been negatively affected by economic misfortune, such as cities in the US industrial heartland, the British Midlands, the German Ruhr, and the industrial areas of the French-Belgian border have not been able to find the direction, leadership, resources, institutions, or energy to regain the "punch" they enjoyed for many decades.

It is clear that size is a more complex issue than it would appear to be at the outset. We have just presented some thoughts on the subject and will continue this discussion in greater precision as we go through this book. Any classification of cities by size will inevitably be somewhat arbitrary and can be contested by other researchers. The first thing that comes to mind is population; however, we will consider several other approaches to this question in a moment. In this effort we will focus in the first instance on US cities, because comparable data for them are relatively easy to obtain and relatively accurate. We exclude analogous analysis of the cities with the greatest populations – the 31 that have populations of over two million – arguing that these should not be considered to be small cities by any standard. However, one of the authors has studied most of these cities in other works, and we will include data for these largest cities in our analysis of how various factors vary by city according to population size (Kresl and Singh 2012). We will, however, exclude the smallest cities, those with a population under 100,000, on the grounds that they are likely to be primarily local or regional in their reach. Furthermore, it would be impossible to compile comparable data for these smallest cities. These smallest cities have their own fascination and place in the competitive world economy and warrant their own separate study. This leaves us with four categories of cities: (1) 100,000–250,000, (2) 250,000–500,000, (3) 500,000–one million, and (4) one–two million, plus the 31 largest US cities we are including for contrast. The number of cities included in each of the four categories is, respectively, 161, 74, 41, and 20, for a total of 299 US cities. We will use data for these categories of cities to examine several commonly held notions about the characteristics and capabilities of smaller cities, primarily in Chapters 3 and 4.

This classification can be linked to that of the McKinsey Global Institute's "middleweight cities" in its report *Urban America: US cities in the global economy* (McKinsey 2012). These are large metropolitan areas with the following populations: small middleweight – 150,000 to two million, midsize middleweight – two to five million, and large middleweight – five to ten million. The three categories of smaller cities in our study are similar to their small middleweight, with a higher threshold at the lower end.

Mega-cities

The UN has just published a forecast of the world's population, and concludes that, while 54 percent of humans live in urban areas today, by 2050 this will rise to two-thirds, with 90 percent of this growth taking place in Africa and Asia. The number of mega-cities will grow from 28 today to 41 in 2050, but only one-eighth of the population will reside in them. If all people had the same individual welfare function, we would all be living and working in the same city or in one that was identical in its essential characteristics to it – but we don't. Fully one half of total city-dwellers will reside in cities of fewer than 500,000 people and "(m)any of the fastest growing cities in the world are relatively small urban settlements" (United Nations 2014, p. 1). Surely, they cannot all be marking time until they have the opportunity to move to a mega-city. Indeed many or most of them prefer to stay where they are, and for sound legitimate reasons, such as family and friends, pace of life, employment, access to recreation and other assets, a good place to raise a family, and so forth.

Mike Davis alerted us to this demographic phenomenon a decade ago, concentrating his analysis on developing areas in Asia, Africa, and Latin America (Davis 2004). He saw a developing rural–urban relationship that led from the existing somewhat symbiotic one of rural areas generating population growth that would feed the needs for labor of the large urban centers, to one in which smaller cities, typically in the interior, would become starved for revenues and resources that could stimulate their growth and the mega-cities on the coast would become overpopulated with low-skill manual workers and to the creation of enormous slums. Indeed the title of his article was "Planet of Slums." One of the crucial factors was "the inherent tendency of silicon capitalism to delink the growth of production for that of employment" as urbanization "has been radically decoupled from industrialization, even from development per se" (Davis 2004, p. 3). This has become a standard depiction of the conditions of life in both rural areas and mega-cities in the developing world. The UN observes the "urbanization of poverty," with migrants from the countryside supporting the urban economy with labor in informal sectors, low-pay jobs in the clothing sector, and low-level service and maintenance work. In many instances their presence is so pervasive that the wealthy class seeks isolation and even protection behind walls and in gated communities (UN 2003, p. xxvi). It anticipates that slum dwellers will exceed two billion if no ameliorative policy initiatives are pursued. While slums are not limited only to larger cities, there is nonetheless an inexorable pull emanating from them to low-skilled and uneducated people situated in rural areas and small towns. This steady flow of people imposes burdens both on the rural area which loses younger and energetic workers and the large cities which have to devote resources to housing, health care, public security, and transportation, if the worst of the consequences are to be avoided.

While the focus of Davis and of the UN report is on the growth of slums and the negative consequences they have on the majority of humans, there is another more positive view of urban development that we will explore in this book. We are taken with the enormous potential there is for smaller cities to create for themselves places in the urban hierarchy, or the global economy, which will bring satisfying and productive lives to their residents. But first we will have to explore the reality in which smaller cities find themselves.

Population and demography

An element that will prove to be powerful in its impacts for smaller cities is population and demography. The fundamental issue here is whether smaller cities will be able to attract and to retain a sufficient number of workers with the necessary skills to create and to sustain an economy that is suited for the coming decades. This will entail the education and training of young people in the city, both native-born and immigrant, and the attraction of skilled and highly mobile younger workers, for whom life holds many options. This is a challenge to all cities, but larger cities hold a natural attraction to these highly desired workers due to their advantages in professional connection and advancement, in entertainment, in establishing a lasting social tie, among other things. Smaller cities have to work to present an attractive image, to create institutions and activities that are attractive, and to realize that as workers advance in age and career, and as they begin a family, smaller cities gain in attractiveness.

All cities are faced with a population that is aging. By 2050, some countries, notably Italy and Japan, will have populations in which the relationship between working and non-working individuals will be 1 : 1. Clearly there are serious fiscal consequences of this. Unless financial planning is done effectively, as it apparently is being done in the Netherlands with its pension system, each worker will be responsible for all of his or her needs plus the health and income needs of one senior. This could in itself present a powerful incentive for the younger worker to emigrate to a less burdensome place to work, live, and raise a family. Fortunately, in 2050 the age dependency ratio for the US will be about 1 : 2.5, and, with its social security system being eminently capable of being made fiscally sound, young workers will be in a relatively good position. Nonetheless, among US cities the share of the population that will be of retirement age will vary dramatically. The least favored cities tend to be those that were strongest during the manufacturing age into the 1980s, while cities that have been able to position themselves well in the new technology-related economy of the twenty-first century will be in a relatively good position. However, given the mobility of individuals to seek out or to escape from cities that please or displease them, it would be impossible and preposterous to suggest which cities might have the highest or lowest worker : retired ratios.

A paradoxical conclusion reached by the authors of this book in another work is that there are positive benefits available to cities from an aging or senior population (Kresl and Ietri 2010). These benefits come from what seniors do with their time and their money upon retirement. Both the US government and the EU have declared that seniors in the coming years will be better educated, wealthier, more mobile, and healthier than has ever been the case (US Census Bureau 2006, pp. 1–2, Commission of the European Communities 2005, p. 9). We found that in many US cities and in some EU cities, seniors prefer to leave a residence in a larger house in the suburbs and to move to a city. These cities can be of all sizes, given that different sized cities offer different combinations of living environment, amenities, and assets. If all seniors had the same personal welfare function they would all live in the same city or at least in similar cities with attributes – but they don't. Movement into the city center or into a town generates an upgrading of the housing stock and prices, to some extent, and to a paradoxical rejuvenation of the city through aging. The lower downtown area of Denver, the area between the University of Virginia and the historic district of Charlottesville, and the mid-town area of Atlanta are all examples in the US. In the EU we can point to HafenCity in Hamburg and the Västerhamn area of Malmö. In addition to urban revitalization through residential decisions, it must be remembered that seniors no longer save – they spend. So their presence boosts retail sales, restaurants, and other business sectors. Media sources report that in the US individuals aged 50 and older have about 70 percent of total disposable income, amounting to 1.6 trillion dollars in spending – hardly an insignificant amount (Boyle 2013).

More specifically, seniors are also the strongest supporters of cultural institutions, with audiences for theater, music, art, and dance benefitting greatly from their presence. The final contribution we discussed in our work was the desire of seniors to participate in adult learning and other educational activities such as discussion and play-reading groups. These two activities are vital for a city that seeks to present itself as a center of learning, research, and culture. These "soft" determinants of urban competitiveness have become more important in recent years and having age groups other than the 5–25 year age cohort involved in these activities enhances the city's competitiveness.

City exposure and response

A century and a half ago, smaller cities were relatively protected from products of other cities. They used local products for the good of local consumers. The railroad brought many changes, such as standardized time, and travel for individuals, as well as both goods and consumers from distant cities (Cronen 1991). Few would dispute the assertion that the changes were, on the whole, beneficial and desirable. Most recently, changes in technologies of communication, transportation, and production have had the effect of destroying spatial distancing of cities and their economic actors. Of perhaps equal importance is the destruction of time, in the sense of the time that is available to respond to these changes in technology. The industrial cities of the post-World War II years were powerfully challenged during the 1970s to the extent that their existing economic strength was converted into an economic weakness in a matter of five to ten years, but their response to the resulting challenges often took decades. While the response was sometimes initiated by local public authorities, in other instances it was largely serendipitous. Sometimes the restructuring of the economy was path dependent, as with Chicago, while at other times it involved a break with the historical strengths, as with Pittsburgh. At other times, the recovery was not achieved for decades, if at all – in the US, Buffalo and Youngstown are examples. What this tells us is that smaller cities now confront greater challenges than has ever been the case, while at the same time the need for focused and determined action with regard to strategic economic planning and mobilization of local assets has never been greater.

The effectiveness of cities' response is affected by some issues within their control – such as effective planning, engagement of the principal actors in the local society and economy, effective governance, and mobilization of financial and other resources. However, in most countries in the developed world, national and sub-national governments are resisting engagement and have chosen to implement policies of austerity and of reduction of fiscal transfers to lower-level governments. In these conditions, economic recovery or development for many smaller cities will be profoundly challenged if not actually impossible. In later chapters we will discuss this situation and suggest some options for these cities that may increase their economic vitality and competitiveness. One option for smaller cities is that of forming networks that facilitate the sharing of ideas with regard to both problems and solutions, and that create structures for cooperative action and joint action. One difficulty is that in many large national or international city organizations the largest cities dominate activities and the smaller cities find that they get lost in the crowd. In many countries such smaller city organizations have been established, sometimes within larger structures. One such structure is the Small Cities Council of the US National League of Cities. This council includes over 150 representatives from member cities with populations of 50,000 or less. In the European Union, at the country level in particular, smaller cities have similar kinds of organizations. As an example, the German Association of Towns and Municipalities (Deutscher Städte- und Gemeindebund) has been operating an office in Brussels since 1991. In Italy the National Association of Italian Municipalities (ANCI – Associazione Nazionale Comuni Italiani) has a section specifically devoted to smaller cities – in that country, in 2012, more than 17 percent of the population lived in the 5,683 municipalities with fewer than 5,000 residents. However, another form of networking is the formation of a group of cities that have a common problem or task and that can be focused entirely on this inter-urban interaction. This can be very important, and we will discuss this in greater detail later in this book.

An issue very specific for the European case is the role and interaction of cities located in a cross-border region. This is quite common in the European area, where many countries are relatively small in size, and borders are very permeable for historic and cultural reasons and also thanks to the role of EU institutions. The most evident case is represented by the large cross-border area between France, Luxembourg, Germany, Belgium, and the Netherlands – one should not be surprised if Luxembourg's six months' presidency of the European Union in 2015 has set a priority on cross-border urban cooperation.

Also, many more geographically defined borders are seeing an improvement of cross-border networks of cities, thanks to better transportation (this is the case of the Øresund region between Denmark and Sweden), for historical reasons, or because of a common language, such as in many Alpine areas (e.g., the Italian-speaking Swiss Ticino and the neighboring Piemonte and Lombardia; the French-speaking or German-speaking areas in the west and center-east; the growing cooperation between Italian, Slovenian, and Croatian cities in the eastern part of the Alpine arc, where a mountainous border gives ends at the Adriatic Sea). Also cities in the new member states are making progress in developing cross-border agreements and projects. Second-tier cities are – for several reasons – key players in this growing feature of the EU cooperation: we will discuss this more in detail when presenting the European cases.

The dynamics of city size

Cities may be considered to be small on the basis of objective considerations. In addition to population, with which we have just dealt, size can be in terms of economic reach – how nationally or globally important is the city – or total output, or strength in some sector that is considered to be crucial for the contemporary or future economy, such as high technology, or information technology and computing, or biopharmaceutical activity. It can also have a position, or lack of one, in national or global decision-making and command – as a headquarters center. Sassen focused in her work on the three principal command centers: New York, London, and Tokyo. These are large cities but not the largest, and their prominence derives from qualitative factors relating to decision-making and command. Something other than merely population was at