

URBAN ECONOMY  
AND SOCIETY IN CANADA

# Flows of People, Capital and Ideas



BY **MERIC S. GERTLER**

**RÉSUMÉ** ► Le Canada est l'une des sociétés les plus urbanisées au monde. Au fil du temps, la nature de nos villes et le rôle qu'elles jouent n'ont cessé d'évoluer. À l'aube d'un nouveau siècle, la place centrale occupée par les villes dans la société contemporaine prend de plus en plus d'importance, tout comme l'interconnectivité entre les aspects économique et social au plan local. Nous examinerons la nature de cette interconnectivité par rapport à trois grands courants, qui ont chacun modifié en profondeur la nature de nos villes et continuent de le faire: la circulation des personnes, celle des capitaux et celle des idées. Nous examinerons ensuite certains des grands enjeux des politiques économiques et sociales actuelles en mettant l'accent sur leur puissante expression urbaine. Vu la place centrale que les villes ont prises dans la définition de la vie sociale et économique au Canada, on ne peut résoudre convenablement ces enjeux politiques sans les aborder sous une perspective urbaine. (Traduction : [www.isuma.net](http://www.isuma.net))

**ABSTRACT** ► Canada is one of the most urban societies in the world. The nature and role of our cities have changed continually over time. The centrality of cities in contemporary society continues to grow as we enter the new century, as does the interconnectedness of the economic and the social at the local level. The nature of this interconnectedness is examined in terms of three key flows, each of which has significantly altered the nature of our cities in fundamental ways, and continues to do so: flows of people, flows of capital and flows of ideas. Some of the major economic and social policy questions of the day are considered with an emphasis on their strong urban manifestation. Because cities have become so central to the definition of social and economic life in Canada, these policy issues can only be dealt with effectively if they are approached from an urban perspective.

**T**HE GREAT URBANIZATION waves of the 20<sup>th</sup> century have made Canada one of the most urban societies in the world. Despite our historic image as hewers of wood and drawers of water, most of us live in cities,<sup>1</sup> and it is there that we make our living. However, it is important to remember that it is also primarily in cities that we raise our families, and shape our social, cultural and political institutions. Cities are as much social spaces as they are economic ones.

While it can be said that cities have always played key roles historically in the emergence of the world's great civilizations, the precise nature of their economic functions and national prominence—in Canada and elsewhere—has changed continually over time. In the first half of the 20<sup>th</sup> century, heavy manufacturing was the dominant employment-generating activity in Canadian cities. Its reliance upon waterways and railways for freight transportation, and the use of pedestrian or (later) streetcar travel for the journey to work kept manufacturing activity strongly centralized within compact, densely developed urban agglomerations.<sup>2</sup>

With the end of World War II, this spatial pattern began to change radically. From 1945 to the mid-1970s, rising real wages and a growing middle class, coupled with a post-war housing boom, increasingly widespread car ownership and large-scale public investment in roads, highways, sewer and water systems, exerted a potent centrifugal influence on the shape and extent of the city.<sup>3</sup> Manufacturing activity shifted to suburban industrial parks as trucking supplanted earlier modes of transportation, and even service activities—traditionally the most centralized of economic functions—began to spread to more peripheral parts of the metropolitan region.

From the mid-1970s onwards, the connection between the city and economic activity appeared to become increasingly tenuous. As globalization processes gathered steam, more and more goods production relocated to exurban sites or headed overseas, driven by the locational logic of an increasingly international spatial division of labour. With the growing use of new information and communication technologies, many service activities showed similar tendencies. By the turn of the millennium, confident predictions about the end of the city as we know it or the 'death of distance' became increasingly commonplace.<sup>4</sup>

And yet, there are many aspects of economic change in the contemporary era which make cities *more*—not less—important as sites of production, distribution and innovation. A central paradox of

our age is that, as economic processes move increasingly to a global scale of operation, the centrality of the local is not diminished but is in fact enhanced.<sup>5</sup> However, it is the *social character* of cities that is responsible for the renewed importance of the local in the global economy. In other words, the foundations of economic success in an increasingly competitive world are the social qualities and properties of urban places. This means that the decisions we make which shape the social character of our cities will also have direct consequences for our overall economic well-being.

#### **Flows of people: immigration, diversity and integration**

One of the most important flows to reshape the character and geography of Canadian cities has, of course, been international immigration, a phenomenon that has been responsible for bringing incredible dynamism and vitality to (especially) our largest metropolitan areas, while also posing some serious challenges for Canadian society and public policy.

Although the impact of immigration is both broad and deep, it has become an overwhelmingly big-city phenomenon in recent years.<sup>6</sup> While immigrants constituted some

17.4 percent of Canada's population at the last Census (in 1996), the figure for the Toronto Census Metropolitan Area was a startling 42 percent—as Ley and Germain note, "the highest proportion in any major centre in North America."<sup>7</sup> The corresponding figure for Vancouver was 35 percent, for Montréal 18 percent and 16 percent in Ottawa–Hull. Moreover, the prominence of our largest centres continues to grow: in 1999, nearly 78 percent of all immigrants to Canada were destined for one of five centres: Toronto, Vancouver, Montreal, Calgary or Ottawa–Carleton. Toronto alone accounted for 44 percent of the inflow.<sup>8</sup>

From an economic perspective, on balance, immigration exerts a strongly positive influence on metropolitan regions. First and foremost, immigration represents a key source of new human capital or talent.<sup>9</sup> In technology hot spots such as California's Silicon Valley, or our own Ottawa–Hull and Toronto, recent immigrants play a prominent role both as skilled workers and as prospective entrepreneurs. For example, Saxenian's most recent work has shown that the flows of skilled human capital from countries such as India and Taiwan to Silicon Valley have helped overcome acute local labour shortages.<sup>10</sup> While many of these immigrants eventually return to their home countries as entrepreneurs, they continue to maintain strong linkages to the Valley through branch operations, labour mobility and other connections—prompt-

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ing Saxenian to eschew the commonplace language of “brain drain/gain” in favour of “brain circulation.”

Second, there is now compelling evidence that immigration flows to large cities in North America enrich their cultural economies by endowing them with distinctive forms of cultural capital.<sup>11</sup> In cities such as Toronto and Vancouver, the influence of immigrant talent, creativity and dynamism is strongly felt in key sectors such as specialty food and beverage production, publishing, film-making, recording and related activities. In short, immigration enhances the diversity and distinctiveness of these places, further strengthening their long-run economic prospects.

What about the larger impact of immigration on the spatial structure and neighbourhood character of Canadian cities? In fact, the internal social geography of Canada’s metropolitan areas is considerably more complex than simple stereotypes would lead us to believe. There can be no denying that one of the most significant demographic phenomena of the second half of the 20<sup>th</sup> century was the marked and sustained outward expansion of the urban population, with the most rapid growth rates being achieved at the relatively low-density suburban edge of Canada’s metropolitan regions.<sup>12</sup> However, this process has *not* resulted in a simple spatial dichotomy of white, non-immigrant, affluent suburbs versus central city neighbourhoods with a preponderance of visible-minority, relatively poor, new immigrants. Rather, the picture is considerably more complicated.<sup>13</sup>

First, ethnic segregation in Canadian cities, while certainly evident, has rarely reached the degrees of spatial concentration commonly found in many American cities. Moreover, it varies significantly from one ethnic group to another. Second, many immigrants share residential space with others of different national origins, creating “more cosmopolitan landscapes and widespread multiethnic neighbourhoods.”<sup>14</sup> Third, immigrants—even recent immigrants—are not confined to central city residential locations. Immigration has changed the social character of both mature inner suburbs and the new suburban fringe. As Bourne *et al.* observe in their recent study of the social geography of Greater Toronto, “immigration has become increasingly a suburban phenomenon,” with the highest rates of suburbanization exhibited by immigrants from Hong Kong and India.<sup>15</sup> They conclude: “In effect, there are virtually no neighbourhoods in Toronto that are homogeneous in terms of their ethno-cultural character.” Ley and Germain argue that this characteristic is by no means unique to Toronto,

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but is also evident in Vancouver, Calgary, Montreal, Ottawa–Hull and other Canadian cities.

Despite the positive aspects of immigration to Canadian cities, it must also be acknowledged that the process of integrating new immigrants into our society is not inexpensive and takes time, especially when English is a new language.<sup>16</sup> As the immigration statistics reviewed earlier suggest, this cost is disproportionately borne by certain provinces (Ontario and British Columbia, in particular) and city-regions (especially Toronto and Vancouver).<sup>17</sup> One indicator of the scope of the challenge is that recent immigrants (normally defined as those who have been in Canada for 10 years or less) are consistently amongst the most economically disadvantaged groups in Canadian (urban) society. A recent study of urban poverty in Canada finds that recent immigrant communities exhibit amongst the highest poverty rates<sup>18</sup> of those Canadians residing in urban areas (52.1% for recent immigrants, compared to 24.5% percent for all city residents). For non-permanent residents (including refugee claimants, foreign students and foreign workers), the urban poverty rate was even higher—62.4 percent. These findings echo the results of earlier work based on changes in Canadian metropolitan areas between 1981 and 1991, which found that recent immigrants were associated with urban poverty—notably in mid-size cities such as Winnipeg and Québec City.<sup>19</sup>

While Ley and Germain argue<sup>20</sup> that the average incomes and socio-economic status of most immigrant groups have historically tended to increase the longer they are in Canada, it is clear that impediments to the integration of recent immigrants into the labour market and Canadian society more generally pose significant challenges for public policy. In this regard, it should be noted that the public school system plays an *absolutely vital* role in meeting the challenge of integration and social cohesion in such regions—and, in essence, for the entire country—in two important ways. Most obviously, well-designed programs in English as a second language (ESL) as well as a high-quality, publicly funded education system perform a crucial levelling role for recent immigrants, facilitating their access to opportunities in the labour market and the wider society.

The public school system plays another role that is equally important, though less obvious, through its impact on the character and quality of urban neighbourhoods. High-quality public schools—and a strong, equitable public system in which quality differences between individual schools are minimized and resources are allocated according to local

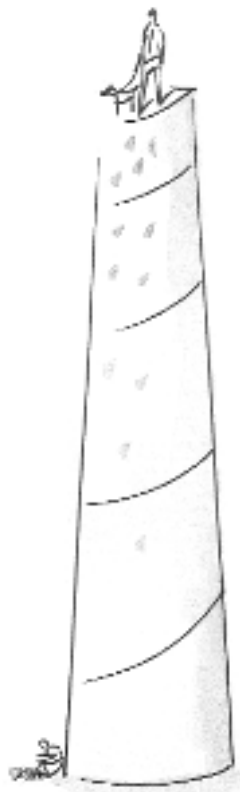
need—are instrumental in keeping neighbourhoods diverse by remaining attractive to non-immigrant families across the socio-economic spectrum, thereby encouraging greater mixing and social integration across ethnic and socio-economic divides. Such systems are therefore essential institutions in discouraging the formation of ghettos and in maintaining the integrity and stability of diverse urban neighbourhoods. The figures cited above suggest that, at least until the late 1990s, Canadian cities have done a remarkable job of absorbing and integrating this major influx, with relatively few negative consequences in terms of discord and segregation. A vitally important question for public policy (to which we shall return below) is: can we continue to succeed in this process in the future?

#### Flows of capital: embeddedness or hollowing out?

The influence of foreign investment and ownership on the economy of Canada has remained a dominant topic for both academics and policy makers since at least the earliest days of the 20<sup>th</sup> century, when Harold Innis began his studies of the historical economic evolution of Canada's regions.<sup>21</sup> Innis was keenly aware of what was already a time-honoured Canadian practice of importing capital and technology—embodied in the fixed capital for resource exploitation, transportation and manufacturing—from the “metropolitan powers” abroad. In their classic study, Britton and Gilmour brought the story up-to-date, showing how Canada's post-war manufacturing economy remained locked in the same pattern of reliance on foreign sources of product and process innovation, and arguing that the resulting truncated domestic value chain was stunting the country's long-term developmental potential.<sup>22</sup> In the current era, when the knowledge-based economy is said to be ascendant, Canada's longstanding legacy of technological underdevelopment would seem to matter more than ever.

In the manufacturing sector, where foreign ownership remains prominent, the transition to a knowledge-based economy has raised—at least in theory—the potential for foreign-owned establishments to embed themselves within a network of stronger, learning-based relationships with indigenous suppliers, customers and institutions of research and education. As Florida, Morgan and others have recently argued,<sup>23</sup> there is an increasingly compelling logic for foreign-owned operations to avail themselves of the opportunity to become more deeply integrated into such ‘learning regions.’ Furthermore, the region-state performs a crucial function in building up the panoply of institutions for

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research, training and technology transfer, while assuming the key role of *animateur* to catalyse the formation of innovation-supporting associative links among firms and institutions within the region. Moreover, in the wake of NAFTA and its earlier precursor, the geographical reorganization of production systems on a continental rather than national scale would seem to create possibilities for those foreign-owned establishments remaining in Canada to pursue such a strategy with new vigour. This would be especially true for those sectors in which the trend toward more decentralized, market-based research and development is growing.

What does the recent evidence tell us about the extent to which such relationships have in fact begun to emerge in Central Canada? Thus far, the consensus view is that foreign-owned manufacturing establishments have *not* overwhelmingly rushed to embrace these new possibilities.<sup>24</sup> To the extent that they have formed collaborative relationships with other entities (whether these be firms or institutions), their partners tend to be found outside Canada. For American-owned firms, these links are strongest with innovation partners in various regions of the United States, following paths that are well-established through existing corporate relationships.

Set alongside further evidence documenting the hollowing out of foreign-owned corporations' Canadian headquarter operations,<sup>25</sup> this evidence would suggest

that in the post-NAFTA era foreign capital is no more deeply embedded in Canada's learning regions than it was before. On the other hand, Gertler, Wolfe and Garkut find that Canadian-owned firms in their sample have begun to develop close, collaborative ties with local customers, suppliers and innovation-supporting institutions (universities, research labs, technology transfer centres) in their home city-regions.<sup>26</sup> They conclude that, despite the pervasive rhetoric about the global economy, nationality of ownership does still influence the behaviour and practices of private businesses.

What are the implications of these developments for Canada's cities? Traditionally, Canadian headquarters of foreign-owned subsidiaries have tended to cluster in Toronto, Montreal, Vancouver and Calgary. Recent evidence from a detailed study of the Toronto economy suggests that the impact has been significant.<sup>27</sup> Based on the analysis of listings in the *Financial Post 500* for 1989 (the year the Canada–U.S. Free Trade Agreement went into effect) and 1999, the following trends emerge.

First, the Toronto region's share of the top 500 firms' headquarters in Canada declined from 200 (40% of the



national total) to 177 (35%) over this 10-year period. Looking at the ownership composition of this headquarter activity by nationality, while the number of headquarters of Canadian-owned firms in the region increased marginally (from 89 to 91), the number of headquarters of foreign-based Canadian subsidiaries declined from 105 to 85. For U.S.-based firms, the number of Canadian headquarters in the region dropped from 62 to 55. For British firms, the decline is from 16 to 7. The comparable figures for firms based in Japan and Southeast Asia (from 15 to 12) and in continental Europe (from 12 to 11) suggest that this process of decline is a general one, and not restricted to firms of American origin. This is an interesting finding: after all, in the wake of NAFTA and the FTA, the hollowing out thesis would lead us to expect a certain amount of corporate rationalization, in which head-office functions previously performed in a (Toronto-based) Canadian subsidiary headquarter location may have been repatriated to the home country (i.e., United States) headquarters location. Nevertheless, while the figures for U.S.-based firms are consistent with this scenario, the similar (and in the case of the United Kingdom and Japan/Southeast Asia, proportionally larger) declines evident for firms of other nationalities suggest that this decline might be part of a more general trend toward consolidation and concentration of corporate control worldwide (through, for example, mergers and acquisitions). At the same time, the figures reviewed above tell us little or nothing about the actual functions being performed within those subsidiary headquarters that remain in the Toronto region. Although the lights are still on and the sign is on the wall, these operations may still be subject to downsizing, hollowing out and other processes that could have unwelcome effects on the Toronto economy.

Therefore, the overall picture emerging from this analysis is somewhat mixed. The Greater Toronto Area has held its own (even growing slightly) as a head office centre for Canadian-based *Financial Post* 500 firms, although the number of foreign-controlled headquarters is down overall in the region. From a broader national perspective, Toronto's decline as a headquarter centre has been offset to some extent by growth elsewhere. Other Canadian cities— notably Calgary, Vancouver and Ottawa—have seen their headquarter activity grow relatively quickly in the past five to 10 years, in both the domestic and foreign-owned categories. Hence, while Toronto's traditional position as a control centre for foreign firms in the Canadian marketplace has slipped, organizational changes at the continental scale

## THE GEOGRAPHIES OF PROSPERITY AND POVERTY ARE NOT DISSIMILAR. BOTH ARE URBAN PHENOMENA... CONNECTED IN VERY DIRECT WAYS.



have produced an increasingly complex and variegated geography of corporate control functions. At the same time, the findings of Gertler, Wolfe and Garkut imply that, as the direct foreign presence in the central Canadian economy contracts, a commensurate growth in domestically based business networks may be helping to offset this effect. As the role of the emerging knowledge economy is likely to be central to this process, we turn now to an extended consideration of this phenomenon.

### Flows of ideas: innovation and culture in cities

While the global nature of today's economy is perhaps its most obvious characteristic, the consensus among economic theorists is that the true defining feature of capitalism at the start of the new millennium is something far more fundamental—namely the central importance of knowledge and learning in the creation of economic value and the determination of competitive success.<sup>28</sup> There are several distinct dimensions of this transition. First, competition between firms is increasingly being waged on the basis of the qualitative characteristics of products (goods or services), and the ability to bring new or improved products to the marketplace quickly. Moreover, innovations in the production process are often just as important as innovations in the products themselves, since they enable both the rapid shift to the production of new products and the

attainment of quality standards and performance which consumers now expect. Firms which compete most successfully are no longer simply those that offer their product at the lowest price: rather, their ability to generate new product and process innovations in a timely and effective fashion has become equally, if not more, important.

Second, while major research institutions such as universities, public research centres and corporate R&D facilities play a pivotal role in the production and dissemination of knowledge, it is now widely acknowledged that for economic players, social processes of learning have become considerably more important than before.<sup>29</sup> This is based on the recognition that a very large and growing proportion of innovation occurs through the process of interaction among economic players: between technology users/customers and technology producers, or through the collaborative interaction among partnering technology producers. The players engaged in these processes include private firms large and small, colleges and universities, stand-alone research centres, technology transfer organizations, producers' associations, unions and other institutional forms.

Third, intangible assets have attained unprecedented levels of importance in the determination of competitive success for firms. As Leadbeater has recently argued in his felicitously titled book *Living on Thin Air*, most of us earn our living by producing intangible rather than physically tangible things.<sup>30</sup> This is not to deny the continuing importance of tangible commodities in our lives, but merely to emphasize that the arbiter of competitive success, even for those producing tangible commodities, is the extent to which products can be imbued with desirable intangible assets. Accordingly knowledge—that is, ideas, know-how, creativity and imagination—has become the most important resource for economic prosperity.

In turn, each of these characteristics of the learning economy benefits cities as the principal sites of innovation and production of knowledge-intensive goods and services.<sup>31</sup> Given the interactive and social nature of innovation, city-regions provide the ideal space in which social learning processes can unfold. The sheer density and concentration of economic players in large cities offer multiple opportunities for contact, interaction and information circulation over time. Supporting this interaction is a large concentration of specialized providers of services and goods operating within a well-defined social division of labour in the city.<sup>32</sup> Furthermore, while the simple geographical concentration of economic players facilitates productive interaction, spatial clustering provides another ingredient which is essential to the innovation process.

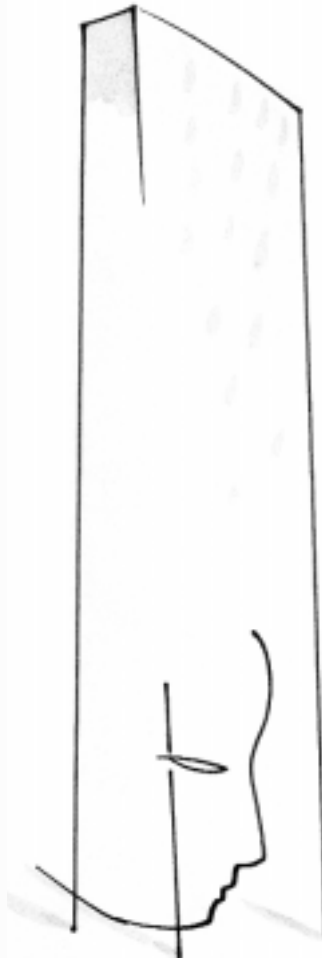
In many sectors of the economy, innovation depends on the sharing of both explicit or codified knowledge as well as tacit knowledge. The latter form of knowledge is not readily transmitted between players unless they share a common code of communication and shared norms and expectations governing the practices of individual firms. Recent empirical work on the geography of innovation confirms that these commonalities are most likely to arise when the parties concerned are located in the same region. Regional institutions play a key role in producing and reproducing these shared codes and norms (taken by some as signifiers of a unique regional culture), whether in California's Silicon Valley, in the fabled industrial districts of Europe and Asia, or in Canada's own centres of knowledge-intensive production.<sup>33</sup> Moreover, these commonly shared codes of communication and norms of behaviour do themselves constitute an important, regionally specific intangible asset which enables and facilitates the establishment and maintenance of collaborative, social learning

relationships by reducing uncertainty, building trust, and enhancing the sharing of tacit knowledge between local economic players. This set of arguments is also captured by the increasingly familiar term of "social capital" which conveys the same idea of intangible assets that support productive social interaction. Thus, city-regions are places where social capital is generated most easily.<sup>34</sup> As a result, they have become places where socially organized learning processes take root and flourish—what some have called "learning regions."<sup>35</sup>

Another distinctly urban advantage of city-regions is their ability to produce, attract and retain those workers who play the lead role in knowledge-intensive production and innovation—who provide the ideas, know-how, creativity and imagination alluded to above. Because production in many growing sectors of the economy is increasingly oriented to non-tangible assets, the locational constraints of earlier eras—for example, the access to good natural harbours or proximity to raw materials and cheap energy sources—no longer exert the same pull. Instead, what matters most now are those attributes and characteristics of particular places which make them attractive

to potentially mobile, much sought-after talent. The most recent research on this question indicates unequivocally that talent is attracted to and retained by cities, but not just *any* cities. In particular, those places that offer a richness of opportunity, a high quality of life and diversity—that is, low barriers to entry for newcomers—are the most popular.<sup>36</sup>

There is one further attribute of cities which makes them leading centres of dynamism and growth, today and for the foreseeable future. I have already discussed how the production of intangible assets and products has become central to the vitality of contemporary market economies. One particular subset of these activities has, according to some well-respected analysts, assumed a position of increasing prominence in contemporary capitalist economies—that is, the production of cultural products. Included here are activities as diverse as book and magazine publishing, television, film and video production, live and recorded music performance, multimedia, advertising, design of apparel, footwear, jewellery and furniture, live theatre, museums, and specialty food and beverage production. The common attribute shared by all of these activities is their high cultural content. In other words, their competitive success rests on their originality, distinctiveness, and the creativity and imagination of their producers. As Scott, Hall and others have recently argued, cities have long been the pre-eminent centres for the pro-



duction of such products.<sup>37</sup> As their production increases in importance, so too do the cultural economies of cities.

Taken together, these processes and dynamics provide the answer to one of the great paradoxes of contemporary times: why it is that, despite the advent of globally organized economic activity and the increasingly widespread use of the Internet and other forms of information and communications technology, innovation and knowledge-intensive production have become *more*, not *less*, geographically concentrated, above all in city-regions. In short, city-regions have become key nodes in the production and flow of ideas.

### The geography of prosperity and poverty: new challenges for governance

As evident from the preceding analysis, the major policy questions emerging from Canadian cities can no longer be tackled separately from the most pressing issues for economic and social policy confronting the nation. It is also clear that the individual spheres of economic and social policy can no longer be considered in isolation from one another if Canada is to continue to prosper in the 21<sup>st</sup> century.

Let us consider one currently prominent example: the brain-drain debate. Notwithstanding the very important questions surrounding the true nature and extent of this phenomenon, and whether it actually exists at all, much of the public discourse surrounding the issue has focused on personal income tax rates and the relative (un)attractiveness of Canada versus the United States. The analysis provided here, and the new literature on the learning economy and its geography, strongly suggest that arguments which focus on the tax issue are misguided or worse.<sup>38</sup> We have seen that the generation, attraction and retention of potentially footloose talent—the most crucial resource in the knowledge-based or learning economy—depend much more on considerations such as local quality of life: the attractiveness and condition of the natural environment and built form, the quality of schools and the richness of cultural amenities.<sup>39</sup> They also depend heavily on the diversity of available opportunities for subsequent career advancement (and related to this, the potential that one's spouse will also be able to find appropriate work in the same local labour market). Also important are social harmony and safety from crime—both arguably the result of social and economic policies that prevent economic disparities from growing to socially destabilizing levels.

Let us revisit the diversity issue. As noted earlier, Florida's pioneering work on the geography of talent provides very strong empirical evidence for the importance of local social



diversity as a drawing card. His focus group research reveals that cities with great diversity are understood as places “where people from different backgrounds can easily fit in...reflecting a high degree of openness.” Interestingly, his quantitative indicator of this was a city’s “gay index” (measuring the prevalence of gay males in the local population), but the quality it seems to reflect has less to do with geographical variations in sexual orientation and more to do with openness to newcomers of diverse backgrounds: “Places that are open to and supportive of a gay population are likely to be open and supportive of other groups. ... Simply put, the gay index reflects an environment that is open to diversity, high in urban oriented amenities, and characterized by low entry barriers.”<sup>40</sup> Of all the variables introduced into his quantitative analysis, no other variable predicted the geographical distribution of talent better than this index.

At the same time, Florida’s analysis shows that cost-of-living questions are practically irrelevant. In fact, median house price is actually *positively* correlated with the location of talent, because high housing values reflect the quality of life and local amenities. In other words, the most desirable places in which to live are also the most expensive!

Taken together, Florida’s findings hold some striking implications for public policies aimed at promoting economic prosperity and social cohesion. First, they underscore that economically dynamic places are those that are most accommodating of a diverse collection of talented newcomers. This suggests that the ability of our cities to continue to attract *and integrate* a diverse flow of talented immigrants is a crucial determinant of their future economic well-being. This has obvious implications for the importance of local educational systems which, as noted earlier, have traditionally performed this absolutely crucial function of social integration. It is therefore more than a little ironic that, at a time when the country is confronting the challenge of competing in the knowledge economy, these very programs are under siege in Canada’s largest cities, due to punitive funding formulas imposed by senior levels of government. Cities such as Toronto, Vancouver, Montreal and Ottawa-Hull have undoubtedly benefited enormously from their past ability to integrate newcomers into local economic and social life. The key question for the future is: Can we devise the right mix of public policies to ensure that they will be able to continue to do so?

Second, this research suggests that the question of comparative income tax rates ought not to be receiving anything like the kind of attention it has garnered in recent

debates on the brain drain. For starters, more attractive places are generally more expensive places in which to live—and there can be no better example of this than Silicon Valley and the greater San Francisco Bay region at the moment. But more to the point, places with a high quality of life don't come cheap: they require continual reinvestment in public infrastructure and services, which must be financed from tax revenues.<sup>41</sup>

Let's examine another important public policy issue—poverty—which also demonstrates the value to be gained by taking an explicitly urban perspective in the appraisal of social policy questions, while providing a further illustration of the interconnectedness of the economic and the social. It has now been well established that, during the 1980s and 1990s, the distribution of income within Canadian society became distinctly more polarized: incomes for the wealthiest segment of the population grew at far faster rates than did those in the poorest segment of the distribution, and the relative size of the middle class also declined substantially over this period.<sup>42</sup> A spate of recent studies concerning the urban dimensions of poverty in Canada

income inequality within the urban populace, and this polarization now appears in danger of becoming entrenched.

Second, the accentuation of poverty in urban areas has also come to exhibit a distinctive geographical form *within* the metropolis. Examining the decade between 1980 and 1990, Hatfield found compelling evidence of increasing spatial polarization and concentration of poor households. Although the national family poverty rate barely changed over this decade,<sup>45</sup> the proportion of poor urban families living in very poor neighbourhoods (those with more than double the national low-income rate) increased from just under 12 percent to more than 17 percent. In other words, Hatfield documented a growing tendency for the urban poor to become spatially concentrated within the poorest neighbourhoods of Canada's cities. Moreover, while Montreal stands out as the city with the highest rate of spatial concentration of poor families (40% of which were living in very poor neighbourhoods by 1990), Hatfield's analysis demonstrates that this process was not exclusively a big-city phenomenon. For example, very poor neigh-



sheds a different light on this phenomenon, producing consistent and striking conclusions at two different spatial scales.<sup>43</sup>

First, the polarization dynamics evident at the national level are even more accentuated when one considers Canada's cities. As Lee points out, while the total population in metropolitan areas grew by 6.9 percent between 1990 and 1995, the poor population in the same areas grew by 33.8 percent. At the same time, the corresponding figures for non-metropolitan areas were 4.7 percent and 18.2 percent respectively. More recently, in its latest report on the quality of life in 18 large and mid-size Canadian cities, the Federation of Canadian Municipalities has found that these trends have continued into the second half of the 1990s.<sup>44</sup> The Federation's report concludes that although incomes began to grow again in the 1996-1998 period after enduring stagnation or real decline in the first half of the 1990s, this has done little to change patterns of relative disadvantage along the urban social gradient: "The income gap has not narrowed. The improvements at the bottom end of the scale were often not as great as those at the top end." Hence, even several years of general prosperity and falling unemployment have not been sufficient to reduce

neighbourhoods in Winnipeg were home to 23.5 percent of the city's poor families in 1980 and 39 percent by 1990. Even more dramatic increases occurred in Calgary and Edmonton.<sup>46</sup>

Furthermore, other studies of the urban geography of poverty imply a tendency for the poorest neighbourhoods to be clustered in the innermost parts of metropolitan areas. Using the Toronto Census Metropolitan Area as an example, Lee points out that "the poverty rate in the [central] city of Toronto was 27.6 percent, compared to Oakville's rate of 9.9 percent."<sup>47</sup> He also observes that the incidence of this poverty is very unevenly distributed across social groups, with urban Aboriginal people, recent immigrants (as previously noted), visible minorities and people with disabilities, single-parent families, unattached individuals, children and elderly women exhibiting rates of poverty well above the national average for urban dwellers. Picking up on the ethnic dimensions of this, Kazemipur and Halli evoke terms such as "ghetto" to describe the increasing spatial concentration of poverty which they find to be especially marked for Aboriginals and recent immigrants of Vietnamese and Hispanic origin.<sup>48</sup> Similarly, in his earlier study, Hatfield finds that distressed neighbourhoods are charac-



terized by concentrations of Aboriginal peoples (particularly in Winnipeg) and recent immigrants.

On the other hand, this spatial pattern may not be universal.<sup>49</sup> Bourne *et al.* find the same association between urban poverty and the social groups listed above.<sup>50</sup> However, in what must be regarded as the most detailed, comprehensive study to date of the social geography of the Toronto region, they conclude that—like spatial patterns of ethnicity and immigration—the urban geography of social deprivation in Canada’s largest urban region is far more complex than a simple inner-city/suburban dichotomy would suggest. Noteworthy in this regard are the older inner suburbs (in the outer fringe within the City of Toronto) and newer centres such as Brampton and Mississauga to the west, which are home to neighbourhoods equally as disadvantaged as any found in more central parts of the region.<sup>51</sup>

All signs indicate that the distinctive geography of poverty in Canada sketched out above has become more, not less, sharply defined. If this is the case, then this holds very important implications for the way we conceive of and deliver social and economic policy. First, if poverty (like immigration) has become overwhelmingly an urban phenomenon,<sup>52</sup> then it requires urban-based solutions and strategies for its alleviation. Increasingly, analysts of this issue identify syndromes of poverty in which a consistently similar set of social attributes are found to be present simultaneously in poor urban neighbourhoods: low levels of educational attainment, high rates of unemployment, high levels of housing need, a preponderance of elderly residents (particularly elderly women), single-parent families, recent immigrants, non-permanent residents, and (in some cities) people of Aboriginal origin. The fact that this collection of indicators of social deprivation is becoming more spatially concentrated likely means that existing social problems are becoming more intractable, while new forms of social dysfunction are emerging in the same neighbourhoods.<sup>53</sup> In other words, the geography of this phenomenon affects both the nature of its evolution and the ease with which it can be countered.

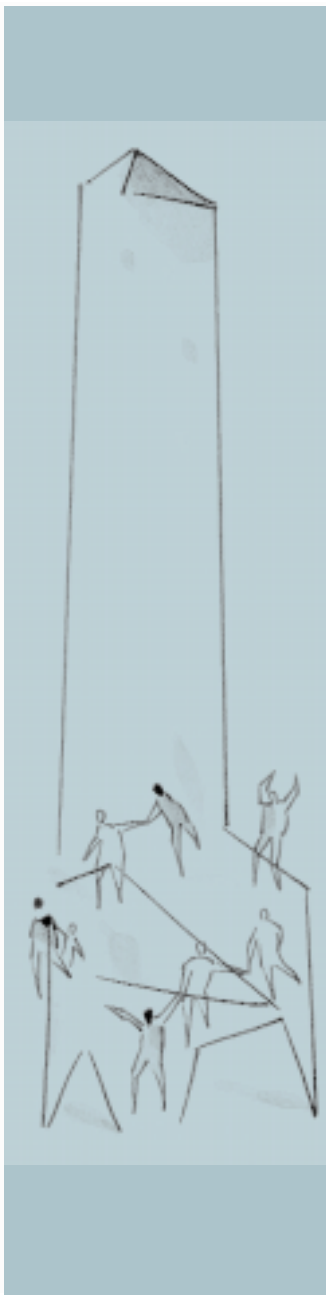
Second, it should be apparent from the above discussion that the geographies of prosperity and poverty are not dissimilar. Both are urban phenomena. This suggests that they are also connected in very direct ways. Most obviously, diversity is a double-edged sword. While it has been shown to fuel the creative dynamics of innovative places, much depends on a city-

region’s institutional capacity to absorb, welcome and integrate newcomers such as recent immigrants into its social and economic systems. Moreover, the quality of life which has been shown to be increasingly crucial to a region’s continued prosperity depends to a very large degree upon social cohesion, which may itself be radically undermined by rising levels of spatially concentrated poverty.

For these reasons and more, we need to ask some very searching questions about the governance of our cities. As the noted urban affairs columnist John Barber has recently put it, “When the social health of our most productive urban areas declines in the midst of an economic boom, something is terribly wrong.”<sup>54</sup> The increasing spatial concentration of poverty (whether in the inner city or elsewhere) is doubly pernicious when local governments—which depend almost exclusively on the property tax for their revenues—are spatially fragmented. In the absence of governance mechanisms that redistribute these revenues from wealthier to poorer jurisdictions within the same city-region, the problems of social deprivation are likely to worsen over time. The potential for vicious circles and downward spirals seems to be higher than it has been at any time since the Great Depression.

Recent experiments to ‘reform’ urban governance in Toronto, Ottawa–Carleton, Montréal, Halifax and elsewhere have focused almost exclusively on reducing the number and increasing the size of local governments, through amalgamation or *fusion*. While this strategy would appear to have the potential to achieve the redistributive goals discussed above, the early results have been disappointing in this regard. In the case of Toronto, for example, the megacity created in 1998 by merging the six local governments within the former Metropolitan Toronto has failed to include the most rapidly growing and prosperous communities located in the region’s 905 belt, setting up an American-style dichotomy between fiscally flush suburban governments serving relatively modest social needs and a financially strapped central city government facing mounting social service demands and costs.

At the same time, the new structure appears to have failed to deliver the efficiencies and cost savings expected by its creators.<sup>55</sup> Moreover, it appears to have brought Torontonians the worst of both worlds. Many argue that it is too small to deal effectively with the most pressing urban development issues of the day, such as continuing low-density urban sprawl



and transportation congestion, which require a truly region-wide scale of management.<sup>56</sup> At the same time, it may have become too big to be sufficiently responsive to the needs and preferences of distinctive local communities within the (new) City of Toronto, or to motivate its citizens to engage themselves civically. In this sense, by dismantling the old two-tier (local-Metro) structure which—for its time—managed these competing demands for comprehensiveness and responsiveness so well, the provincial government may have pursued a strategy which ignores the success of similar two-tier models in other regions such as Greater Vancouver.

A further implication arising from this discussion is that the time is right to reassess the roles of provincial and federal levels of government. After all, it is now apparent that many of Canada's most pressing social problems—as well as its greatest prospects for prosperity—are focused in urban areas. Neither prosperity nor poverty take place just anywhere. Moreover, there is a strong justification for financing urban social welfare policies and programs from revenues derived from more progressive (and elastic) sources than the property tax.<sup>57</sup> There is also a growing sense that the emerging needs for reinvestment in our most basic urban infrastructure systems have now reached such a magnitude as to require a radical change in our approach to financing them. Berridge advocates both an expanded role for senior governments as well as experimentation with innovative new mechanisms for public-private financing of infrastructure investments.<sup>58</sup> In doing so, he alludes to similar developments in both the United States and the United Kingdom, where the highest levels of government have accepted major responsibility for the management of their cities' problems and prospects.<sup>59</sup>

### Conclusion

For the future, if the goal for economic policy is to promote the continued transition of the Canadian economy towards more knowledge-intensive, high-wage production (whether in manufacturing or in services), then the key to ensuring Canadian cities' continued prosperity will be found in achieving the right balance between dynamism and stability. The former encompasses the openness to flows of new people, new ideas and new ways of doing things, as well as access to opportunities for advancement. The latter addresses stable family life, neighbourhoods and schools, but also the business networks and social capital which facilitate social learning and innovation. Seen in this light, and given the already established centrality of cities to the current and future prosperity of the country, then all of the great social policy questions of the day—education, health, poverty, housing and immigration—become urban policy questions. Perhaps this suggests that the time has come to rethink the traditional frameworks and structures for developing and implementing public policies at our most senior levels of government.

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### Endnotes

1. The most recent figures (1996) indicate that nearly 78 percent of the Canadian population lives in urban areas, defined as communities with at least 1,000 inhabitants and with a density of at least 400 persons per square kilometre. Using a more restrictive definition, in 1996 some 62 percent of Canadians lived in the 25 city-regions with populations in excess of 100,000 (known as "census metropolitan areas", or 'CMAs'). See L.S. Bourne, "Urban Canada in Transition to the Twenty-first Century: Trends, Issues, and Visions," in T. Bunting and P. Filion (eds.) *Canadian Cities in Transition: The Twenty-First Century*, 2<sup>nd</sup> ed. (Toronto: Oxford University Press, 2000), pp. 26-51.
2. At the same time, while a large proportion of the Canadian economy was still dedicated to the extraction of mineral, timber and other natural resources, much of this activity was controlled by firms headquartered in the downtowns of the country's largest cities. See P. Filion, T. Bunting and L. Gertler, "Cities and Transition: Changing Patterns of Urban Growth and Form in Canada," in Bunting and Filion, eds., *op. cit.*, pp. 1-25.
3. Bourne, *op. cit.*, p. 28, points out that, during the 15 years following the end of World War II, Canada's urbanization rate increased sharply, creating what he terms an "urban explosion." While the urban share of Canada's population stood at 54.5 percent in 1941, it had grown to nearly 70 percent by 1961. See also B. Donald, *Economic Change and City-Region Governance: The Case of Toronto*, unpublished PhD Dissertation, Department of Geography, University of Toronto, 1999.
4. W.J. Mitchell, *City of Bits: Space, Place, and the Infobahn* (Cambridge, MA: MIT Press, 1995); F. Cairncross, *The Death of Distance* (Boston: Harvard Business School Press, 1997).
5. For a compelling review of the arguments behind this position from an economist's perspective, see E.L. Glaeser, "The New Economics of Urban and Regional Growth," in G.L. Clark, M.P. Feldman and M.S. Gertler (eds.), *The Oxford Handbook of Economic Geography* (Oxford: Oxford University Press, 2000), pp. 83-98.
6. Thanks to the Metropolis Project, supported by the Government of Canada, we now have an increasingly well-grounded understanding of the urban dimensions of immigration. The statistics cited in this section are drawn from D. Ley and A. Germain, "Immigration and the Changing Social Geography of Large Canadian Cities," *Plan Canada* Vol. 40, no. 4 (2000), pp. 29-32, whose work has been funded through Metropolis.
7. Ley and Germain, *ibid*, p. 29.
8. Citizenship and Immigration Canada, *Facts and Figures 1999: Immigration Overview* (Ottawa: Minister of Public Works and Government Services Canada, 2000).
9. Recent data from Statistics Canada, "Brian Drain and Brain Gain: The Migration of Knowledge Workers into and out of Canada," *The Daily* (24 May, 2000), confirm this unequivocally. Between 1991 and 1996, Canada's total employment of computer engineers, systems analysts and programmers grew by 39,000. Recent immigrants (arriving since 1990) made up roughly *one third* of this increase. Moreover, it is clear that highly skilled immigrants show an even stronger preference to live in large cities than do immigrants as a whole. While Vancouver, Montreal and Toronto together attracted 71 percent of all immigrants to Canada in 1999, their combined share of "economic" immigrants (i.e., skilled workers and business immigrants) was 77 percent. For comparison, these three metropolitan areas constituted just under 33 percent of Canada's total population at the time of the 1996 Census.
10. A. Saxenian, *Silicon Valley's New Immigrant Entrepreneurs* (San Francisco: Public Policy Institute of California, 1999); A. Saxenian and J.-Y. Hsu, "The Silicon Valley-Hsinchu Connection: Technical Communities and Industrial Upgrading," *Industrial and Corporate Change* (forthcoming). In fact, S. Cohen and G. Fields, "Social Capital and Capital Gains in Silicon Valley," *California Management Review* Vol. 41 (1999), pp. 108-130, argue that one of the most important specialized services which has been key to the continued growth of the Valley is expertise in immigration law among local legal

firms. They consider this local capability to be of the same order of importance as local sources of venture capital.

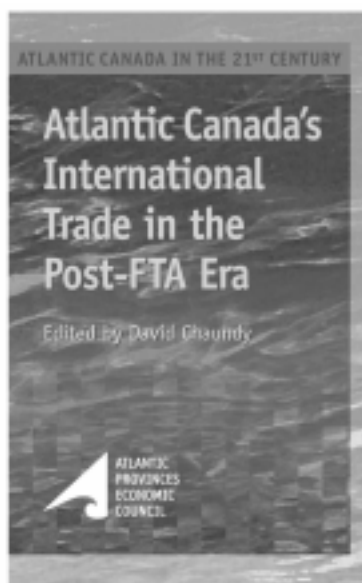
11. J. Kotkin, *The New Geography* (New York: Random House, 2000).
12. Bourne, 2000, *op. cit.*; J. Mercer and K. England, "Canadian Cities in Continental Context: Global and Continental Perspectives on Canadian Urban Development," in Bunting and Filion, eds., *op. cit.*, pp. 55-75.
13. The following discussion draws from: L.S. Bourne, S. Starkweather and R. Basu, *People and Places: A Portrait of the Evolving Social Character of the Greater Toronto Region* (Toronto: Neptis Foundation and Department of Geography, University of Toronto, 2000); Ley and Germain, *op. cit.*; Mercer and England, *op. cit.*, and R. Murdie and C. Teixeira, "The City as Social Space," in Bunting and Filion, eds., *op. cit.*, pp. 198-223.
14. Ley and Germain, *op. cit.*, p. 31.
15. Bourne *et al.*, *op. cit.*
16. *Ibid.*
17. Ley and Germain, *ibid.*, report that the top three origin countries for recent immigrants to Toronto (arriving between 1991 and 1996) were Hong Kong, Sri Lanka and the People's Republic of China. For Vancouver, the top three were Hong Kong, the PRC and Taiwan. Compare this to Montréal, where Haiti, Lebanon and France constitute the top three source countries; or to Ottawa-Hull (Somalia, PRC, Lebanon).
18. K.K. Lee, *Urban Poverty in Canada: A Statistical Profile* (Ottawa: Canadian Council on Social Development, 2000). Poverty rates for this study were measured by applying Statistics Canada's Low Income Cut-Off standards to the 1996 Census.
19. M. Hatfield, "Concentrations of Poverty and Distressed Neighbourhoods in Canada," W-97-1E (1997), Applied Research Branch, Strategic Policy, Human Resources Development Canada, Ottawa.
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22. J.N.H. Britton and J. Gilmour, *The Weakest Link: Technological Perspectives on Canada's Underdevelopment* (Ottawa: Science Council of Canada, 1978) Background Report 29.
23. R. Florida, "Toward the Learning Region," *Futures*, Vol. 27 (1995), pp. 527-36; K. Morgan, "The Learning Region: Institutions, Innovation and Regional Renewal," *Regional Studies*, Vol. 31 (1997), pp. 491-503.
24. M.S. Gertler and S. DiGiovanna, "In Search of the New Social Economy: Collaborative Relations Between Producers and Users of Advanced Manufacturing Technologies," *Environment and Planning A*, Vol. 29 (1997), pp. 1585-1602; J.N.H. Britton, "Does Nationality Still Matter? The New Competition and the Foreign Ownership Question Revisited," in T.J. Barnes and M.S. Gertler (eds.), *op. cit.* pp. 238-264; M.S. Gertler, D.A. Wolfe and D. Garkut, "No Place Like Home? The Embeddedness of Innovation in a Regional Economy," *Review of International Political Economy*, Vol. 7 (2000), pp. 1-31.
25. H.W. Arthurs, "The Hollowing out of Corporate Canada?," in J. Jenson and B. Santos (eds.), *Globalizing Institutions* (Aldershot, UK: Ashgate, 2000), pp. 29-51.
26. Gertler, Wolfe and Garkut, *op. cit.* The sample for this study was drawn from Southern Ontario, and included firms in major communities such as Toronto, Ottawa, Hamilton, Kitchener-Waterloo-Cambridge, Guelph, London and Windsor, as well as in smaller cities and towns. See also Britton, 1999, *op. cit.*
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28. On the transition to a knowledge-based economy, see OECD, "Special Theme: The Knowledge-based Economy," Chapter 5 in

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29. For the classic statement on the social nature of learning, see Lundvall and Borrás, *op. cit.* A more recent, comprehensive treatment can be found in M.S. Gertler and D.A. Wolfe, (eds.), *Innovation and Social Learning* (London: Palgrave, 2001, forthcoming).
30. C. Leadbeater, *Living on Thin Air* (London: Viking, 1999).
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33. The now-classic study of Silicon Valley can be found in the work of A. Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (Cambridge, MA: Harvard University Press, 1994), who develops the concept of the local industrial system to encompass a region's industrial structure, local institutions and unique business culture. Other classics covering innovative regions in Europe include R. Putnam, *Making Democracy Work* (Princeton, NJ: Princeton University Press, 1993). Recently, the concept of the regional innovation system has been coined to capture the full institutional support structure for innovation at the local level. See H.-J. Braczyk, P. Cooke and M. Heidenreich, (eds.), *Regional Innovation Systems* (London: UCL Press, 1998). For a recent analysis of similar phenomena in Canada, see the papers in J.A. Holbrook and D.A. Wolfe, (eds.), *Innovation and Territory: Regional Innovation Systems in Canada* (Kingston: School of Policy Studies and McGill-Queen's University Press, 2000).
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44. *Ibid.* Cities included in the FCM study were: Vancouver, Burnaby, Calgary, Edmonton, Regina, Saskatoon, Winnipeg, Windsor, London, Waterloo Region, Greater Sudbury, Toronto, Halton Region, Peel Region, York Region, Hamilton, Ottawa and Halifax Region.
45. Hatfield, *op. cit.*, employed Statistics Canada's Low Income Cut-Off definitions, and equated census tracts with neighbourhoods. Nationally, 13 percent of families were classified as low income in 1980, and 13.2 percent in 1990.
46. Taking a similar approach, but extending the analysis into the 1990s, Kazempur and Halli, *op. cit.* and Lee, *op. cit.*, reach conclusions consistent with Hatfield's study.
47. Lee, *op. cit.*, p. 91.
48. Kazempur and Halli, *op. cit.*
49. Murdie and Teixeira, *op. cit.*
50. Bourne *et al.*, *op. cit.*
51. Gertler, Levitte, Moylan and Spencer, *op. cit.*, find a very similar pattern in their analysis of the geography of unemployment rates within the Greater Toronto Area. Donald, *op. cit.*, also singles out the emergence of social and economic deprivation in Toronto's older inner suburbs as a relatively recent phenomenon demanding the attention of local and provincial decision makers.
52. Lee, *op. cit.*, p. 91 notes: "While most CMAs had at least some high-poverty neighbourhoods, three-fifths (60.0%) were located in Montréal and Toronto."
53. On the recent debate concerning the possible emergence of a Canadian urban underclass, with reference to similar American debates, see D. Ley and H. Smith, "Is There an Immigrant 'Underclass' in Canadian Cities?" Working Paper 97-08 (1997), Vancouver Centre of Excellence for Research on Immigration and Integration in the Metropolis.
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