

LOCAL GOVERNMENT FORUM

**SUBMISSION ON
WELLINGTON CITY COUNCIL'S
DRAFT ANNUAL PLAN 2004/05**

21 MAY 2004

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1. Introduction

1.1 The Local Government Forum is a group of business organisations with a strong interest in promoting efficiency in the local government sector and contributing to the debate on issues affecting the sector. Forum members include the following:

- Federated Farmers of New Zealand
- New Zealand Forest Owners Association
- New Zealand Retailers Association
- Business New Zealand
- New Zealand Business Roundtable

1.2 Local government is a large sector of the economy and affects the quality of life of communities that councils serve. It is important that local government fulfills its proper role in the economy, uses resources wisely and performs its regulatory activities efficiently.

1.3 Local government can best fulfill its proper role by concentrating on the provision of local public goods. Public goods have two characteristics. First, they are 'non-rival' in consumption – this means that once the product or service has been provided, an additional consumer can be allowed to benefit without imposing any costs on existing customers (e.g., streetlighting). Secondly, public goods are 'non-excludable' in consumption – which implies that it is not feasible to prevent anyone from consuming the product or service once it has been provided (e.g., an open-access park).

1.4 The Forum considers that local authorities should restrict themselves to their core business of providing local public goods and performing its regulatory activities in an efficient manner. However, the opposite is happening, for example:

- The Local Government Act 2002 states that a purpose of local authorities is to promote economic, social, environmental and cultural 'well-being'. As a result, councils are being encouraged undertake a wider and wider array of activities that go beyond their traditional responsibilities.
- Central government is imposing more and more responsibilities on local authorities, many of which should arguably be undertaken by central government agencies.
- Activist philosophies (such as those of Richard Florida on 'creative cities') are currently in vogue among many local authorities, particularly Wellington City.

1.5 As a result, we have watched with alarm as local authority rates have increased by well over two and a half times the rate of inflation. Table 1

shows how rates have risen compared to the Consumer Price Index (CPI) over the past decade:

Table 1: Rates versus CPI 1994-2004

Year ended March	Consumer Price Index (March 1994 = 1000)	Annual % Increase	Local Authority Rates Price Index (March 1994 = 1000)	Annual % Increase
1994	1000	1.3%	1000	3.6%
1995	1039	3.9%	1035	3.5%
1996	1062	2.1%	1065	2.9%
1997	1081	1.8%	1114	4.6%
1998	1095	1.0%	1161	4.2%
1999	1094	0.0%	1190	2.5%
2000	1110	1.5%	1257	5.6%
2001	1145	3.2%	1315	4.6%
2002	1174	2.5%	1363	3.7%
2003	1203	2.5%	1426	4.6%
2004	1222	1.5%	1574	10.4%

Source: Statistics New Zealand

- 1.6 With the exception of 1995, rates have increased at a significantly higher rate than the CPI. Over the past five years the trend has been particularly disturbing – while the CPI has risen by 11.7% since March 1999, rates have increased by 32.3% - almost three times the CPI. Meanwhile, for the year ended March 2004, the first full year since the passage of the Local Government Act 2002, rates increased by over 10%.
- 1.7 The implications of this escalating increase in rates are serious. Statistics New Zealand's Local Authority Rates Price Index is a component of the CPI. As a result, it is obvious that rates are a driver of inflation, meaning that the Reserve Bank has to keep monetary policy tighter than it would otherwise have to in order to control inflation. This means higher interest rates for businesses and households in order to dampen economic activity and thereby squeeze any inflationary pressures from the real economy.
- 1.8 The business community is estimated to pay over half of local authority rates nationwide. While it pays half the rates, business ratepayers are only a small minority of all ratepayers. They are therefore under represented at the ballot box, making it harder for businesses to have an influence over local authority activities, spending, and demand for revenue.
- 1.9 The business community has also been frustrated at a lack of benchmarking of local authorities, which has made it difficult for both business and residential ratepayers to compare their performance. While we accept that there can be significant differences between local authorities, the Local Government Forum does not consider such differences to be a valid reason not to attempt to benchmark. If the New South Wales Department of Local Government can benchmark and report on local council performance then there is no reason why this cannot be done in New Zealand.
- 1.10 For some time now the Local Government Forum has been advocating official benchmarking of local authority performance. However, neither central nor

local government showed any interest in this occurring, so it was in a sense of frustration that we decided to make our own attempt through the recent Hot Councils awards.

- 1.11 The Forum is aware of the strident criticism of the awards made by some local authorities, notably those that were found to perform relatively poorly. For example, we accept that the indicators chosen do not attempt to measure social, environmental and cultural well-being. However, as a business group, the Forum is mostly interested in economic well-being and we also deliberately stuck to using data that is reported consistently across local authorities, most of which happens to be financial. We also note that the performance measures adopted by councils are often subject to similar criticisms to those made in respect of our indicators.
- 1.12 The Forum also accepts that councils are often very different from each other and that this results in different challenges requiring different responses. However, while this is accepted, we nevertheless believe that the 'comparing apples and oranges' argument can only explain some of the differences between councils.
- 1.13 What the Forum would welcome more than anything else is the development of official measures that can take these and other issues into account. The public reaction to the Hot Councils awards confirms to us that there is strong demand for such information. In our view, moves to encourage councils to perform better and which generate more interest in local government issues can only be a good thing.
- 1.14 The remainder of this submission will focus on Wellington City.

2. Wellington – Where is the Growth?

- 2.1 There have been many reports over the past few years about head office closures and job losses in Wellington and that Wellington must therefore encourage new businesses and employment.
- 2.2 Overall, the statistics on business and employment growth for Wellington compared to New Zealand as a whole are sobering (see tables 2 and 3). While both business and employment numbers in Wellington City grew at or above the nationwide average from 1997-2000, Wellington's performance against both measures has fallen well behind the rest of New Zealand since 2000.

Table 2: Number of Enterprises

	Number of Enterprises 1997	Number of Enterprises 2000	% Increase 1997-2000	Number of Enterprises 2003	% Increase 2000-03
Wellington City	15,804	19,091	+20.8%	19,272	+0.9%
New Zealand	256,370	302,887	+18.1%	323,839	+6.9%

Source: Statistics New Zealand Business Demography Statistics

Table 3: Number of Full-time Equivalent Employments

	Number of FTEs 1997	Number of FTEs 2000	% Increase 1997-2000	Number of FTEs 2003	% Increase 2000-03
Wellington City	103,535	109,255	+5.5%	113,010	+3.4%
New Zealand	1,335,175	1,406,255	+5.3%	1,527,185	+8.6%

Source: Statistics New Zealand Business Demography Statistics

- 2.3 Of the 74 territorial local authorities, Wellington's growth in the number of businesses over the period 2000-03 ranked 68th. Its ranking for growth in FTE employment was only slightly better – 60th out of 74.
- 2.4 The number of enterprises and employment in Wellington City broken down by industry sector shows where the growth has been coming from. Tables 4 and 5 on the following page set this out quite clearly.
- 2.5 One of the more noticeable trends has been the revival since 2000 in both the number of enterprises and employment in the government administration and defence sector – with over half of the total increase in Wellington employment during 2000-03 accounted for by that sector alone. Also noticeable are the large increases in employment in the health and community services sector since 1997 – a reflection of ever expanding health and welfare bureaucracies. Culture and recreational services also exhibited strong increases in number of both enterprises and employment.
- 2.6 On the other hand, there have been marked declines in both enterprises and employment in important wealth generating goods producing sectors such as the primary industries and manufacturing as well as in supporting service industries such as transport and storage, communications, wholesale trade, and finance and insurance, particularly since 2000.

- 2.7 In case there was any thought that these sectors are in decline throughout New Zealand and that Wellington's situation is only a reflection of what is happening in the rest of the country, it should be noted that on a nationwide basis during the 2000-03 period only one industry sector had a decline in enterprise numbers (wholesale trade) and that **all sectors** experienced increases in employment.

Table 4: Number of Enterprises by Industry Sector – Wellington City

	1997	2000	% Increase 1997-2000	2003	% Increase 2000-03
Agriculture, Fishing, Forestry & Mining	137	122	-11.0%	121	-0.8%
Manufacturing	650	675	+3.8%	636	-5.8%
Electricity, Gas & Water	19	24	+26.3%	24	0.0%
Construction	1,171	1,406	+20.1%	1,410	0.3%
Wholesale Trade	814	818	+0.5%	729	-10.9%
Retail Trade	1,714	1,773	+3.4%	1,710	-3.6%
Accommodation, Cafes & Restaurants	465	586	+26.0%	606	3.4%
Transport & Storage	575	580	+0.9%	580	0.0%
Communications Services	249	218	-12.4%	187	-14.2%
Finance & Insurance	1,749	1,952	+11.6%	1,837	-5.9%
Property & Business Services	5,269	7,403	+40.5%	7,553	+2.0%
Government Administration & Defence	243	224	-7.8%	251	+12.1%
Education	353	381	+7.9%	403	+5.8%
Health & Community Services	718	890	+24.0%	932	+4.7%
Culture & Recreational Services	718	973	+35.5%	1,208	+24.2%
Personal & Other Services	960	1,066	+11.0%	1,085	+1.8%
TOTAL	15,804	19,091	+20.8%	19,272	+0.9%

Source: Statistics New Zealand Business Demography Statistics

Table 5: Number of FTE Employees by Industry Sector – Wellington City

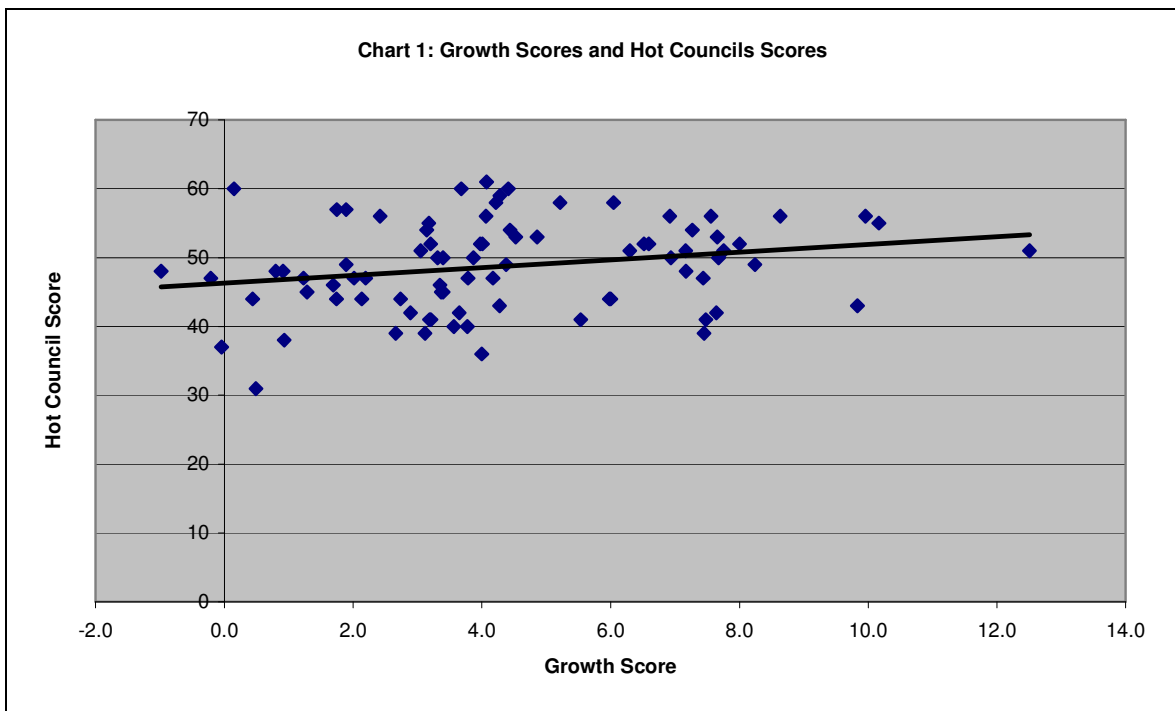
	1997	2000	% Increase 1997-2000	2003	% Increase 2000-03
Agriculture, Fishing Forestry & Mining	195	165	-15.4%	150	-9.1%
Manufacturing	6,690	5,790	-13.5%	5,430	-6.2%
Electricity, Gas & Water	1,090	510	-53.2%	1,010	+98.0%
Construction	3,650	4,410	+20.8%	4,310	0.3%
Wholesale Trade	6,940	5,780	-16.7%	4,720	-18.3%
Retail Trade	8,340	8,770	+5.2%	9,270	+5.7%
Accommodation, Cafes & Restaurants	4,440	5,030	+13.3%	5,180	3.0%
Transport & Storage	5,210	4,310	-17.3%	3,760	-12.8%
Communications Services	3,330	4,940	+48.3%	3,980	-19.4%
Finance & Insurance	12,080	11,200	-7.3%	9,500	-15.2%
Property & Business Services	18,790	23,270	+23.8%	25,090	+7.8%
Government Administration & Defence	12,850	13,280	+3.3%	15,540	+17.0%
Education	6,350	5,570	-12.3%	5,930	+6.5%
Health & Community Services	5,360	7,290	+36.0%	9,240	+26.7%
Culture & Recreational Services	3,250	3,850	+18.5%	4,370	+13.5%
Personal & Other Services	4,970	5,090	+2.4%	5,530	+8.6%
TOTAL	103,535	109,255	+5.5%	113,010	+3.4%

Source: Statistics New Zealand Business Demography Statistics

- 2.8 While Wellington's poor rates of growth for the numbers of enterprises and employment since 2000 may be the result of a number of factors (some of which might be beyond anyone's ability to influence), it seems highly likely that a negative local business environment will be one of those factors.

Wellington is one of the highest spending councils in New Zealand on a per capita basis¹. As well as doubts over the efficiency of such a high level of spending and its likely crowding out of the private sector, the resultant need for high rates (particularly for businesses through Wellington's high rates differential) are, in the Forum's view, stifling growth.

2.9 These statistics confirm the Forum's assessment in the Hot Councils awards of Wellington as being one of the 'colder' councils. When the Forum undertook the Hot Councils awards, we sought to determine whether there was a link between a high hot council score and high growth in indicators such as growth in enterprises and employment. As chart 1 shows below, there did appear to be a mildly positive relationship – councils with higher hot scores also tended to have higher growth (and vice versa).²



¹ Wellington City Council's operating spending in 2003/04 was forecast to be \$1442 per capita, 57% higher than the average for all metropolitan councils. Of all councils, only Thames-Coromandel, Wairoa, Buller, Banks Peninsula, Mackenzie, and Queenstown-Lakes forecast higher operating spending per capita. Source – Council annual plans for 2003/04.

² The chart includes plots for all territorial local authorities and regional councils with the exception of Chatham Islands (which was not included in the Hot Councils analysis) and two outlier councils (Queenstown-Lakes District and Southland District), which were off the chart in terms of growth scores. Each council's growth score is the average of the growth rate in employment and the growth rate in enterprises over the period 2000-03.

3. Wellington City's Draft Annual Plan 2004/05

- 3.1 For years now business organisations have been submitting that the best way Wellington City Council can improve Wellington's economic performance and community well-being is to focus on its core functions. As the statistics presented in section 2 describe, Wellington City's growth performance has been very poor over recent years. The Hot Councils data is one attempt to explain why this might have been the case.
- 3.2 The Forum would have expected Wellington City Council's Draft Annual Plan for 2004/05 to put a priority on improving the competitiveness of Wellington's business environment and therefore its growth performance. However, readers would not have gained much of a sense of urgency in the introductory passages in the Draft Annual Plan, which tends to read more like a promotional advertisement extolling the virtues of Wellington City than an important planning document.
- 3.3 While the Forum certainly agrees that Wellington has many of the virtues set out in the introductory section and that it is important to celebrate what makes Wellington a good place in which to live, it is important that this does not draw attention from the critical issues, such as spending and rates.
- 3.4 For example, rates are mentioned only once in the first 42 pages of the Draft Annual Plan – in the Chief Executive's message on page 5 where he mentions that the real average rates increase for 2004/05 will be 1.7%, much less than what had been forecast in the 2003/04 Annual Plan. While this message is welcomed by the Forum, the complete lack of any discussion on rates in the 'Setting the Scene', 'Sense of Place', and 'What's New' sections is disappointing.

Florida-ism

- 3.4 What we have seen instead is an emphasis on what the Forum describes as 'Florida-ism'. These are the ideas of Richard Florida, a Carnegie Mellon professor whose book *The Rise of the Creative Class* argues that cities must become 'trendy, happening places' to compete in the 20th century.
- 3.5 Florida spoke at last year's Knowledge Wave Conference and we understand that a study group from the Wellington City Council visited the United States shortly afterwards to study his approach.
- 3.6 Not surprisingly, Florida's theories appeal to advocates of a more active government. He argues that cities should dispense with what he regards as old-fashioned theories of economic development, such as low taxes, business-friendly regulation and good infrastructure. Instead, he believes that they should spend heavily on cultural events and amenities, such as cycle paths and ice-rinks. Florida believes that doing so will attract a bohemian 'creative class' and as a result will become economic powerhouses.

- 3.7 Despite the dubiousness of this hypothesis, Wellington City Council admits that Florida's ideas have "influenced its direction" – although it has stopped short of saying that it has completely bought into Florida-ism
- 3.8 Florida's ideas sound appealing and there is no doubt that he has been a passionate advocate of the 'creative class'. However, they don't work. Critics, such as Stephen Malanga, have pointed out that American cities ranking highly in Florida's indexes of creativity have actually been chronic under-performers. They score badly for job growth and entrepreneurship, and there is little evidence that people or businesses set much store on Florida's prescriptions. Only the Internet bubble gave brief credence to them³.
- 3.9 The Local Government Forum submits that instead of continuing to have flights of fancy – from Sesquis to Florida's follies – Wellington City Council should be addressing obstacles to development.
- 3.10 For example, recent projections by the New Zealand Institute of Economic Research suggest that the growth rate of the Wellington region over the next 20 years, at 2 percent a year, is likely to lag far behind Auckland's growth rate of 3%. Auckland's infrastructure problems are appalling, but Wellington's are growing fast. The inner city bypass was first mooted nearly 40 years ago but has been stymied by duplicative layers of consultation and vexatious legal action. We ask how much longer will it take before the Council pours a lot more of its energies into its core business?
- 3.11 The Wellington City Council should be concentrating on performing its proper role of seeing to the provision of public goods like infrastructure. The Forum is not saying "let's leave everything to the market", but at the same time the Council should not be about trendy fads, which may look appealing but will ultimately fail to deliver. We are therefore extremely sceptical about proposals such as establishing an 'arts incubator', an ice skating rink and attempts to 'pick winners'.

Rates

- 3.12 With regard to rates, the Local Government Forum welcomes the Council's intention to confirm that the commercial and residential rates differential will be reduced in stages from 5.50 in 2004/05 to 2.80 in 2009/10. While we prefer a far more rapid reduction to a much lower differential, we submit that the Council should at the very least confirm this phased reduction. The Forum also agrees that capital value should remain the base for the setting of general rates (we note that capital value reduces any justifications there might be for retaining a differential).
- 3.13 The Forum notes that the Council does not intend to apply a Uniform Annual General Charge in 2004/05. The Forum considers that the use of a UAGC

³ Refer to article 'The Curse of the Creative Class', Stephen Malanga, City Journal Winter 2004 (<http://www.manhattan-institute.org/cfml/printable.cfm?id+1203>) . The article has been attached to this submission.

could be appropriate for those Council services that all ratepayers gain equal benefit from and notes that most councils use them to a greater or lesser extent. An example where the use of a UAGC might be appropriate in the Wellington context would be to recover the \$8.8 million budgeted for 2004/05 for city governance and decision-making.

- 3.14 The Forum considers that while targeted rates might be an improvement on the use of general rates for paying for the costs of services such as sewerage, water and storm-water, we consider that it would be better to make a greater use of user-charges.

Financial Statements

- 3.15 The Local Government Forum supports the use of 10-year projections for financial statements. However, we found during our Hot Councils analysis that some councils were better than others in making realistic projections. Some even assumed the same amounts going forward in out-years, particularly for those beyond a 3-year horizon.
- 3.16 Wellington City's financial statements do not fall into this trap, although we note that after increases in 2004/05, 2005/06 and 2006/07 there are decreases in expenditure and revenue projected for 2007/08 over 2006/07. Is this because the 2007/08 amounts had been projected from a lower base when the Long Term Council Community Plan was adopted and that more recent Council decisions have increased spending over the next three years by more than initially expected? Or are the increases over the next three years simply a case of 'front-loading' expenditure and that spending and revenue will actually reduce in 2007/08?

Assets

- 3.17 The Forum continues to take the view that the Council should divest itself of non-core assets, particularly its shares in Wellington International Airport Ltd. Studies have shown that public ownership of commercial enterprises is, over time and on average, less efficient than private ownership.

4. Conclusion

- 4.1 The Local Government Forum submits that Wellington City Council should recognise that the city's poor growth performance over recent years requires a credible strategy to address the city's competitiveness and improve its local business environment. Such a strategy should include refocusing activities and spending on core business, undertaking its regulatory responsibilities in an efficient manner, and on reducing the rates burden for all ratepayers, particularly for the business community.

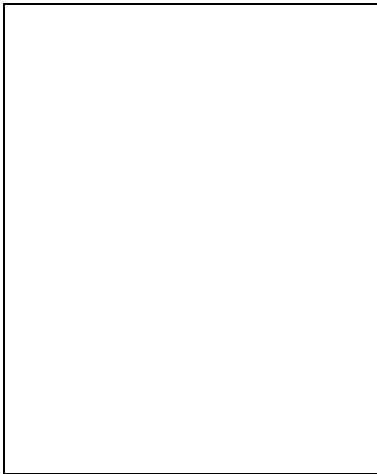
Annex 1 – see: <http://www.manhattan-institute.org/cfml/printable.cfm?id=1203>



City Journal
The Curse of the Creative Class
Steven Malanga
Winter 2004

Providence, Rhode Island, is so worried that it doesn't appeal to hip, young technology workers that local economic-development officials are urging a campaign to make the city the nation's capital of independent rock music. In Pittsburgh, another place that fears it lacks appeal among talented young people, officials want to build bike paths and outdoor hiking trails to make the city a magnet for creative workers. Meanwhile, a Memphis economic-development group is pressing that city to hold "celebrations of diversity" to attract more gays and minorities, in order—in their view—to bolster the local economy.

If you think these efforts represent some fringe of economic development, think again. All of these cities have been inspired by the theories of Richard Florida, a Carnegie Mellon professor whose notion that cities must become trendy, happening places in order to compete in the twenty-first-century economy is sweeping urban America. In his popular book *The Rise of the Creative Class*, which just appeared in paperback after going through multiple hardcover editions, Florida argues that cities that attract gays, bohemians, and ethnic minorities are the new economic powerhouses because they are also the places where creative workers—the kind who start and staff innovative, fast-growing companies—want to live. To lure this workforce, Florida argues, cities must dispense with stuffy old theories of economic development—like the notion that low taxes are what draw in companies and workers—and instead must spend heavily on cultural amenities and pursue progressive social legislation.



A generation of leftish policy-makers and urban planners is rushing to implement Florida's vision, while an admiring host of uncritical journalists touts it. But there is just one problem: the basic economics behind his ideas don't work. Far from being economic powerhouses, a number of the cities the professor identifies as creative-age winners have chronically underperformed the American economy. And, although Florida is fond of saying that, today, "place matters" in attracting workers and business, some of his top creative cities don't even do a particularly good job at attracting—or keeping—residents. Before the rest of urban America embraces the Pittsburgh professor's trendy nostrums, let's take a closer look at them in practice.

Richard Florida's work first began attracting attention because he sought to explain what new-economy workers and their companies valued to a generation of urban politicians and policy wonks baffled by the late-1990s tech boom. Many municipal officials during those heady years suddenly

found their cities populated with youthful entrepreneurs whose new companies had struck it rich in the stock market or with venture capitalists. These Internet kids, largely playing with other people's money, sought to move their hot businesses into cool neighborhoods with architecturally rich traditions, where they installed basketball courts in their new offices, held meetings with their dogs prancing about, and hired young, single workers like themselves, who worried more about a city's music scene than its personal income—tax rates.

Florida, who started his career as an academic economist writing dry treatises on industrial production, began contemplating this world when Carnegie Mellon enlisted him to help Pittsburgh attract and retain more educated workers and high-tech firms. He observed in the mid-1990s that cities reputed to be cool, “in” places seemed to be incubating many of the hottest new technology companies, and he began to wonder if, in the jargon of academia, some new paradigm was emerging, based on the “lifestyle choices” of a new generation of workers. In 1998, he met a Carnegie Mellon graduate student, Gary Gates, who was tracking U.S. gay communities using Census Bureau statistics on unmarried same-sex households. In what he describes as a major revelation, Florida noticed that Gates's list of America's most gay-friendly cities closely matched his list of hip technology centers. Looking for other ways to measure the distinguishing characteristics of the new-economy cities, Florida developed a so-called Bohemian Index, which counted the number of artists, writers, and performers in a city. He added a Creative Class Index to measure a city's concentration of knowledge workers—scientists, engineers, professors, think-tank employees. Each index, Florida was stunned to find, correlated highly with the other indexes. Cities with many gays were also places with lots of performers, creative workers, and tech companies.

At this point, Florida made two big—and dubious—leaps in logic. First, he assumed that there was some causal connection linking all of these indexes to economic growth. Then he decided he could infer just what it was about these cities that helped power this growth. He concluded that in the new economic order, the engine of growth wasn't individual companies but, rather, creative workers, who came to live in cities they admired and then started their own firms or attracted businesses seeking educated workers. What enticed these workers, the professor concluded with very little evidence, was that the cities were “tolerant, diverse and open to creativity.”

Florida found a ready audience for his ideas on the lecture circuit, then refined and expanded them in *The Rise of the Creative Class*, which reads more like a pop cultural and social history of the Internet generation than an economic-development treatise. Sprinkled with references to Baudelaire, Bob Dylan, T. S. Eliot, and Isaac Newton, *The Creative Class* is largely a recounting of the 1990s technology explosion, with chapters devoted to such already familiar subjects as the casual dress revolution (“The No-Collar Workplace”) and the tendency of young tech workers to toil long hours (“The Time Warp”). Eager to demonstrate that he is as hip as the people he writes about, Florida describes talented young software engineers as rock stars, labels one of his chapters “a rant,” and approvingly describes a business conference where attendees were issued wiffle balls to pelt speakers with whom they disagreed.

While much of *The Creative Class* is little more than Florida's depiction of the Internet bubble's go-go culture, the last third of the book offers urban policymakers a seemingly dazzling new economic-development agenda derived from these observations. To capitalize on the hot new economy, Florida tells policymakers, they must reach out to the creative class, whose interests are different from those of the buttoned-down families that cities traditionally try to attract through good schools and low taxes. The new creative class craves a vibrant nightlife, outdoor sports facilities, and neighborhoods vibrant with street performers, unique shops, and chic cafés. In Florida's universe, the number of local bands on the pop charts becomes more important to the economy than tax codes. “It is hard to think of a major high-tech region that doesn't have a distinct audio identity,” Florida writes, sounding more like a rock critic than an economics prof. Creative workers want to live and work in “authentic” neighborhoods of historic buildings, not areas that are “full of chain stores, chain restaurants and nightclubs,” he asserts. Accordingly, cities should stop approving expansive new condo developments on their outer boundaries and instead focus on retooling former warehouse and factory districts.

It isn't all rock music, antique architecture, and snowboarding, however. Workers also seek enlightened communities and employers who encourage differences. In focus groups, Florida says, young knowledge workers say that they are drawn to places “known for diversity of thought and open-

mindfulness.” For example, young heterosexual workers tell Florida that they seek out companies that offer domestic-partner benefits, not because they plan to use them, but because such benefits signal that the company practices the kind of tolerance they approve of.

According to Florida, the winners in an age that values these attributes include gay-friendly San Francisco, laid-back Austin, multiethnic New York, and progressive Minneapolis. Florida advises leaders of cities trying to emulate this group to ensure that their towns remain “open to diversity” by promoting laws that creative types see as welcoming while guarding against social legislation that makes their cities seem less tolerant. (Although the professor isn’t explicit in his book about what kinds of laws attract the creative class, this summer he told a Canadian newspaper that “the legalization of gay marriage is one of the great talent attraction packages of the last hundred years.”) Political leaders should also invest in “lifestyle amenities,” like bike paths (an obsession of Florida’s) and running and rollerblading trails. Cities should follow the example of Austin, where public television features live music festivals, and where city leaders require companies that want to expand downtown to contribute to an arts and culture fund.

Following this prescription, Florida tells us, there’s hope for any city, even his decidedly unhip hometown. Under the professor’s spell, Pittsburgh is working on becoming a creative talent magnet. One sure sign that its prospects are brightening, Florida tells us: the Showtime cable network chose the city as the location for the series *Queer as Folk*. Can prosperity be far behind?

It’s not hard to see why Florida’s ideas would have wide appeal. His book has struck a chord among a generation of young, tech-oriented workers and entrepreneurs—the *Fast Company* magazine crowd that Florida is writing about—because rather than bash their go-go, Silicon Valley culture, as critics from both the Left and the Right have done for different reasons, Florida celebrates it. *Creative Class* also appeals to a broader group of young, educated workers, who, as David Brooks describes in *Bobos in Paradise*, have managed to combine two traditions that had previously been at odds—the bourgeois work ethic with bohemian culture—into something new, which Florida calls his “creative class.” To such people, work offers spiritual as well as economic gratification. They may come to the office dressed in jeans and sneakers, but they happily work 12-hour days, view their co-workers as close friends, and look to their jobs for a sense of personal fulfillment, growth, and even identity (see [“Ecstatic Capitalism’s Brave New Work Ethic,”](#) Winter 2001). Unlike Brooks, who gently satirizes these bobos, Florida regards them as a powerful and admirable new capitalist class that state and local policymakers should court enthusiastically.

Florida’s ideas also spark enthusiasm among the advocates of public funding of cultural institutions and the arts. Florida gives them a rationale for ever more government support. Iowa’s director of cultural affairs, Anita Walker, spouts pure Floridese when she declares, “Culture is no longer a frill. It is [economic] fuel.”

But most important, to a generation of liberal urban policymakers and politicians who favor big government, Florida’s ideas offer a way to talk economic-development talk while walking the familiar big-spending walk. In the old rhetorical paradigm, left-wing politicians often paid little heed to what mainstream businesses—those that create the bulk of jobs—wanted or needed, except when individual firms threatened to leave town, at which point municipal officials might grudgingly offer tax incentives. The business community was otherwise a giant cash register to be tapped for public revenues—an approach that sparked a steady drain of businesses and jobs out of the big cities once technology freed them from the necessity of staying there.

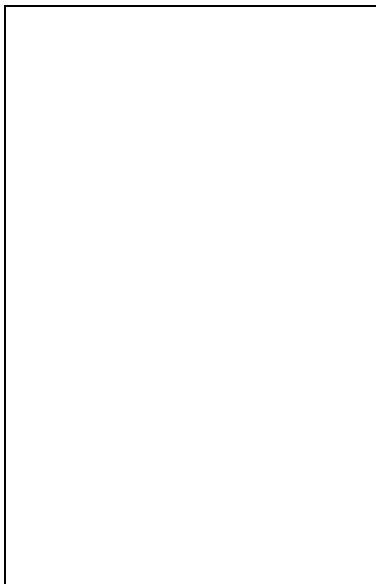
Now comes Florida with the equivalent of an eat-all-you-want-and-still-lose-weight diet. Yes, you can create needed revenue-generating jobs without having to take the unpalatable measures—shrinking government and cutting taxes—that appeal to old-economy businessmen, the kind with starched shirts and lodge pins in their lapels. You can bypass all that and go straight to the new economy, where the future is happening now. You can draw in Florida’s creative-class capitalists—ponytails, jeans, rock music, and all—by liberal, big-government means: diversity celebrations, “progressive” social legislation, and government spending on cultural amenities. Put another way, Florida’s ideas are breathing new life into an old argument: that taxes, incentives, and business-friendly policies are less important in attracting jobs than social legislation and government-provided amenities. After all, if

New York can flourish with its high tax rates, and Austin can boom with its heavy regulatory environment and limits on development, any city can thrive in the new economy.

Armed with such notions, cities across North America, Europe, and as far afield as New Zealand are rushing to implement the professor's ideas. Cincinnati, its image battered by race riots just two years ago, is in the process of being Floridized: it invested \$1.3 million in the requisite bike path and in a recreation area stretching from downtown to the airport, and it has put another \$2.2 million into a cultural fund, which it plans to invest in "edgy" arts groups in an effort to create a bohemian "street culture." Among its grants: \$40,000 to a local blues music society. Supporters of a Florida-inspired group, Cincinnati Tomorrow, are also lobbying to overturn legislation, spearheaded by local black churches, that opponents say makes the city less gay-friendly.

Despite a budget deficit, the state of Iowa has put aside tens of millions of dollars for a cultural/economic plan, including \$45 million for "community attractions," ranging from hiking trails to entertainment districts in the state. Advocates of Richard Florida's ideas in Iowa managed to win the money even though, as a sympathetic state legislator recounts, "We have a hard time convincing rural legislators that arts and culture are key to future economic growth." One can just imagine that conversation.

Austin, already one of the winners in Florida's world, is working hard to keep its edge. The city sets aside taxes on hotel rooms and car rentals to support local artists. A city-council economic-development subcommittee has adopted the slogan "Keep Austin Weird" to emphasize its belief that support for offbeat culture is essential to the city's economic future. One defining assertion of that conviction, as Florida approvingly reports, is that Austin has erected—right smack in the midst of its downtown jogging trail—a bronze statue honoring not Sam Houston or Jim Bowie, but rock guitarist Stevie Ray Vaughan.



Florida's ideas are making headway in Canada, too. Winnipeg mayor Glen Murray, who recently delivered a stirring keynote address at a creative-class conference in Toronto, nearly doubled arts spending, despite the city's tight budget and complaints from businesses and residents about high taxes and inadequate basic services. Responding to critics of proposed tax increases to pay for his nostrums, Murray recently said in pure Floridese: "What kills a city are people who want only low taxes, only want a good deal and only want cities to be about . . . pipes, pavement and policing."

But cities rushing to embrace Florida's ideas have based their strategies more on wishful thinking than clear-eyed analysis. Neither the professor nor his most ardent adherents seem worried that the Internet generation formed its eccentric capitalist culture during a speculative bubble, when billions of

dollars of free-flowing investment capital gave workers and their bosses the freedom to ignore basic economic concerns, and that now, with that money vanished and many companies defunct, a focus on such old-economy ideas as profits and tax rates has re-emerged.

Moreover, as Florida's ideas reach beyond urban-planning types and New Age liberal politicians, they are at some point likely to find resistance from the hard-core urban Left, composed increasingly of social-services activists and representatives of public-employee and service-industry unions, who demand ever more government spending for social programs, not art and culture. Indeed, the professor's relentless argument that governments should help furnish bobo-friendly amenities ultimately comes to sound like a new form of class warfare: old-economy workers have no place in his utopian dreams.

But a far more serious—indeed, fatal—objection to Florida's theories is that the economics behind them don't work. Although Florida's book bristles with charts and statistics showing how he constructed his various indexes and where cities rank on them, the professor, incredibly, doesn't provide any data demonstrating that his creative cities actually have vibrant economies that perform well over time. A look at even the most simple economic indicators, in fact, shows that, far from being economic powerhouses, many of Florida's favored cities are chronic underperformers.

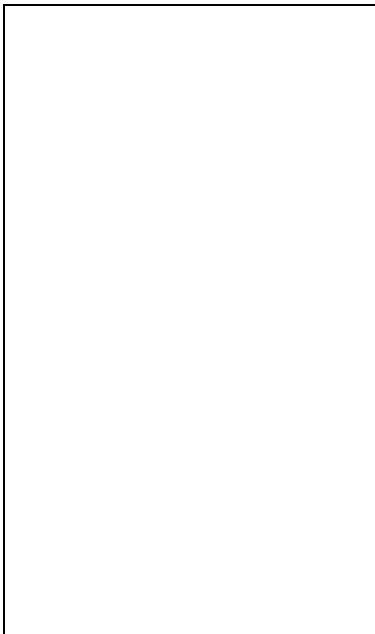


Exhibit A is the most fundamental economic measure, job growth. The professor's creative index—a composite of his other indexes—lists San Francisco, Austin, Houston, and San Diego among the top ten. His bottom ten include New Orleans, Las Vegas, Memphis, and Oklahoma City, which he says are “stuck in paradigms of old economic development” and are losing their “economic dynamism” to his winners. So you'd expect his winners to be big job producers. Yet since 1993, cities that score the best on Florida's analysis have actually grown no faster than the overall U.S. jobs economy, increasing their employment base by only slightly more than 17 percent. Florida's indexes, in fact, are such poor predictors of economic performance that his top cities haven't even outperformed his bottom ones. Led by big percentage gains in Las Vegas (the fastest-growing local economy in the nation) as well as in Oklahoma City and Memphis, Florida's ten least creative cities turn out to be jobs powerhouses, adding more than 19 percent to their job totals since 1993—faster growth even than the national economy.

Florida's ten most creative mid-sized cities are even less impressive economic engines. Since 1993, these cities, which include such underperformers as Albany, New York, and Dayton, Ohio, have increased their job totals by about 16 percent—less than the national average.

But Florida rarely lets basic economic data get in the way of his theories. Since the Internet meltdown, for instance, he has said that, although some of his most creative cities don't seem to be doing very well these days, their performance shouldn't be viewed so narrowly. "These places have been growing for decades building solid new industries that have helped to strengthen our economy," he writes. But this simply isn't true. Jobs data going back 20 years, to 1983, show that Florida's top ten cities as a group actually do worse, lagging behind the national economy by several percentage points, while his so-called least creative cities continue to look like jobs powerhouses, expanding 60 percent faster than his most creative cities during that same period. None of this is surprising: given that many of Florida's most creative cities are so tech-oriented, the further back one looks, to the days before the tech boom, the less impressive their performance is likely to be. In fact, the economics of Florida's theories look good only if you take a snapshot of the numbers in a narrow time range—just before the Internet bubble burst.

It's no mystery why the numbers turn out this way. Florida's basket of indexes selects cities that participated in that bubble. The professor focused on these cities in developing his theories: it was their characteristics that he sought to identify when he constructed his various creativity indexes, so it's predictable that they wound up scoring highest. Florida's entire theory, in other words, is based on circular logic.

Jobs don't tell the whole story. Florida likes to talk about his most creative cities as centers of innovation, and, based on his writings, one would assume that these cities would be home to thousands of fast-growing companies.

But many are not. In fact, according to one recent independent study of entrepreneurship in America, Florida's most creative cities are no more likely to be powerful incubators of fast-growing businesses than those at the bottom of his rankings.

In 2001, a National Commission on Entrepreneurship study entitled Mapping America's Entrepreneurial Landscape ranked U.S. cities on how well they hatch high-growth companies. Unlike Florida, the commission developed a precise method of measuring high-growth centers: it calculated the percentage of companies in a local economy that grew by 15 percent a year for five consecutive years in the mid-1990s. Unlike Florida's anecdotal observations of places where he assumes that plenty of entrepreneurial activity is taking place, the commission's numbers-oriented approach precisely charts America's entrepreneurial topography. Unexpectedly, the study concludes that "most fast-growing, entrepreneurial companies are not in high tech industries," but rather "widely distributed across all industries."

Among major cities, Detroit—omitted from Florida's most creative cities—finished second in the commission's report, incubating about 50 percent more fast-growing companies than the average of all major cities, with a particular strength in nurturing high-growth manufacturing businesses. By contrast, New York, which is among Florida's most creative big cities, finished at the bottom of the commission's study, producing fast-growing companies at less than half the rate of all big cities. The results were much the same for midsize cities. While Florida-favorite Austin scored well, finishing Number One among midsize cities, Las Vegas also shone, coming in second, despite ranking as one of Florida's least creative cities. Other inconsistencies abound. San Diego, perennially one of Florida's top-ranked cities, scores way below average in producing fast-growing companies, while Grand Rapids, Michigan, one of Florida's least creative cities, was well above average. The study demonstrates how Florida's theories aren't even good at predicting the most fundamental measure of entrepreneurship.

If Florida's cities can't produce jobs or high-growth companies at a rapid rate, you would think they would at least do a good job of attracting and retaining people, given the professor's notion of the importance of place in the new economy, as a magnet not just for the talented but for residents of all kinds. But Florida is wrong again. Many of his "talent magnets" are among the worst at attracting and, more importantly, hanging on to residents. Just look at the 2000 census reports on domestic migration, which follow the movements in and out of metro areas by U.S. residents. That report found that New York, among Florida's top talent magnets, lost 545,000 more U.S. residents than it gained in the latter half of the 1990s, the worst performance of any U.S. city. The greater San Francisco metro

area was close behind, with a negative domestic migration of more than 200,000 people. In fact, five of the ten places atop Florida's creativity index had steep losses of U.S. residents during that period, while some of Florida's creative losers—including Las Vegas, Memphis, and Tampa Bay—were big winners.

The only thing that keeps some of Florida's "ideal" cities from population loss is that they attract large numbers of foreign immigrants, who replace fleeing U.S. citizens. But cities that operate this way can hardly be called talent magnets or economic engines, because the U.S. residents they lose are, by and large, better educated and wealthier than the immigrants they attract. To illustrate: an Empire Foundation study of New York City's out-migration during the mid-1990s found that those leaving Manhattan earned, on average, about \$60,000 a year, while studies of IRS data have shown that foreign immigrants who move into New York typically earn just \$25,000 their first year here, which puts them among the city's lowest 25 percent of earners.

It's no coincidence that some of Florida's urban exemplars perform so unimpressively on these basic measures of growth. As Florida tells us repeatedly, these cities spend money on cultural amenities and other frills, paid for by high taxes, while restricting growth through heavy regulation. Despite Florida's notion of a new order in economic development, the data make crystal-clear that such policies aren't people- or business-friendly. The 2000 census figures on out-migration, for instance, show that states with the greatest loss of U.S. citizens in 1996 through 2000—in other words, the go-go years—have among the highest tax rates and are the biggest spenders, while those that did the best job of attracting and retaining people have among the lowest tax rates. A study of 1990 census data by the Cato Institute's Stephen Moore found much the same thing for cities. Among large cities, those that lost the most population over a ten-year period were the highest-taxing, biggest-spending cities in America, with per-capita taxes 75 percent higher than the fastest-growing cities. Given those figures, maybe Florida should have called his book *The Curse of the Creative Class*.

The city that sits at the pinnacle of Florida's list, often jokingly referred to as the "People's Republic of San Francisco" because of its socialistic political culture, is the perfect example of what happens to cities that follow this heavy-handed governing philosophy. While San Francisco sports taxes higher than all but a few U.S. cities, and passes laws forcing business to boost wages, San Francisco's jobs economy has expanded at only one-fourth the rate of the national economy over the last 20 years. Similarly, high-tax New York has been caught in a cycle of boom and bust that has produced no net job growth in 40 years. During the mid-1990s, the city briefly got back to basics when the Giuliani administration focused on fighting crime and cutting some taxes and spending, and—presto!—for the longest period since World War II, the city's economy outpaced the nation. However, now that the city's political culture has veered sharply to the left again, with a mayor who declares that taxes don't matter to businesses or residents, New York is once again an economic slacker, having lost 200,000 jobs, or nearly 6 percent of its jobs base, in the current recession.

These examples only accentuate what is otherwise obvious: that there is little evidence that people or businesses set much store on what Florida is prescribing. A *Money* magazine poll rating dozens of factors that people consider in choosing a place to live found that the top ten reasons fell into two broad categories: low costs (including low property and sales taxes) and basic quality-of-life issues (good schools, low crime, clean air and water). By contrast, such Florida-esque issues as diversity ranked 22nd on the list, while cultural amenities like theaters and museums ranked 27th and lower, and outdoor activities even lower.

The *Money* list illustrates an underlying problem with Florida's whole approach. Not only does he believe that marginal attractions like an idiosyncratic arts scene can build economic power, but he thinks that government officials and policymakers like himself can figure out how to produce those things artificially. He doesn't seem to recognize that the cultural attributes of the cities he most admires are not a product of government planning but have been a spontaneous development, financed by private-sector wealth. While Florida's writings denigrate efforts of cities to power their economies by building sports stadiums and convention centers, the professor thinks that he, by contrast, has found the philosopher's stone that will turn public spending on amenities into economic-development gold.

It is exactly because Florida is an exponent of this kind of aggressive, government-directed economic development (albeit with a New Age spin) that liberal policymakers and politicians have latched on to his theories so enthusiastically. To them, an expanding government is always more interesting than an expanding economy—especially if economic growth depends on something so very uninteresting as low taxes and small government. But it is just as likely that the Floridized brand of aggressive governing will get things as wrong as the builders of sports stadiums and convention centers.

One clear example of how things are likely to go wrong is in Richmond, Virginia, where the city fathers and local economic-development types—touting Florida’s ideas—are trying to revive their downtown by making it a trendy arts district. To finance its efforts, the town recently passed a restaurant tax and is now contemplating raising its hotel taxes—to the howls of local businesses. “They haven’t figured out that those tax increases will probably kill as many jobs as their plan will create,” says Scott Moody, a senior economist with the Tax Foundation.

If Richmond’s city leaders have their priorities askew, they are not alone in the creative age. Concerned with inessentials, cities under Florida’s thrall can easily overlook what residents really want. Consider Winnipeg’s mayor Glen Murray, one of Canada’s chief Florida fans, who even brought the professor north to tout his ideas to Canadian political leaders. While Murray invests in cultural amenities and derides people who only want cities to focus on “pipes, pavement and policing,” the most distinguishing characteristic of Murray’s mayoralty has been this: for several consecutive years, Winnipeg has been the murder capital of Canada.

Welcome to the creative age.