Leveraging Southwest Ontario's Assets to Build a Global Region

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Outline: Why are we here?

1. Need to understand why places prosper if we want to help them prosper: **Compete or Retreat!**
   - Regions compete nationally and internationally
     - Not just London vs. Hamilton, but also London vs Beijing
     - Regions that don’t rise to this competition as good place for business and a quality place to live will decline.
     - People, entrepreneurs, and investment will flow elsewhere.
       - Matters for both rural & urban areas
   - **Moral will be get the basics right, be patient and don’t be fancy for fancy sake.**

Of course, I do not have the solution to every community’s current woes and path to long-term sustainability. Yet, rural researchers have learned a great deal of looking at the path of North American rural development over the last 75 years. I am talking about how to increase community’s odds of having a sustainable future. The way I would look at my advice as being akin to a doctor advising you not to smoke. Of course we can find smokers who live long healthy lives and we can find non-smokers who experience an early death, but quitting smoking greatly increases your odds of surviving a long time.
Motivation--continued

My point: We need to understand bad policy, because they distract us from good policy. So,

2. Too many communities skip the basics.
   • We ‘want’ a quick fix!

3. Jump on the latest fad w/o even knowing if the previous fad even worked.
   • Alternative energy, ethanol, immigrants, creative class, clusters, tax incentives, etc.
   • Gut hunches are used rather than economics—or hire a ‘bad’ consultant.
   • Color graphics & facilitation replace economic reality

Does a consultant have good messaging, so you use them over the doctor?
Vancouver, Toronto, Montreal are dynamic world class cities and they are very different than 20 years ago. Montreal has fallen from the top-tier Canadian city to an uncertain status regarding separatism to one of the more creative cities in North America.

Motivation--continued

4. Rearview mirror: ‘Regain a historical legacy.’
   In SW Ontario, it’s manufacturing, in NFLD, fishing, in BC, timber, in Sask, farming, etc.
   • These are great legacies, but winners in the 21\textsuperscript{st} Century will differ from 19\textsuperscript{th} Century winners.
   • Need to leverage historical legacies and current assets to prosper in the 21\textsuperscript{st} Century.
Motivation--continued

5. Forward-looking roadmap for SW Ontario to be a global region
   - SW Ontario is well placed to be a global leader, but it needs to come together to leverage its regional assets.
Let’s first beat up some less than ‘perfect’ ideas

- **Bad Idea 1:** We need a quick fix.
  - If it was easy, wouldn’t someone have already done it?
  - Truth is that it takes time to attract new knowledge workers, entrepreneurs, & physical capital. 5 years is realistic for tangible effects.

- **Bad Idea 2:** Ignore economic fundamentals and rely on gut hunches w/o foundation.
  - Economics doesn’t have all the solutions, but neither does your local doctor for medical care.

- **Bad Idea 3:** Jump on the latest trendy fads
  - Good ideas may not affect overall econ. activity.
Rural=nonmetropolitan in this discussion.

Ethanol boom is busting as few new plants are being constructed:

See: “Ethanol Is Dream Deferred for Farming Towns Too Late to Biofuel”

Other sources are on the next slide.
Opportunity costs of subsidies?

"Direct employment in the plants is not large, typically averaging about 35 jobs per plant. The 88 nonmetro plants employ about 3,100 workers. Seventy percent of the nonmetro ethanol plants in operation are located in counties that declined in population from 2000 to 2006, whereas just half of all nonmetro counties lost population. Of new ethanol plants under construction, nearly four-fifths (67) are in nonmetro counties and 75 percent of these are in counties with declining population. (In economic development, weigh the opportunity cost of the subsidy vs. other things that could be done in rural America. Is this a net gain?)" From Rural America at a Glance.

Of 26 million jobs, 3,100 nonmetro jobs represents 0.01% of total rural employment using REIS data form 2005.

For work of Caution on Ethanol, see....

For more details of how ethanol affects the Iowa economy, see David Swenson, The Economic Impact of Ethanol Production in Iowa is available at: http://ideas.repec.org/p/isu/genres/12865.html

Here is the associated press release: from SSTI, 5015 Pine Creek Drive, Westerville, Ohio 43081
Phone: (614) 901-1690 http://www.ssti.org

Iowa Researcher Finds Limits to the Economic Impact of Ethanol

In recent years, Iowa, like many midwestern states, has experienced a boom in ethanol production. Iowa's natural competitive advantage in growing and processing corn has helped it to move to the forefront of the emerging biofuels industry. The state provides numerous incentives and assistance programs through its Department of Natural Resources to help spur the creation of ethanol-related companies and jobs. A new report by Iowa State University economist David Swenson, however, argues that even if these programs are successful at building a strong ethanol industry, the overall economic impact of this success would be smaller than predicted.

Swenson argues in The Economic Impact of Ethanol Production in Iowa that many projections of the economic impact of corn ethanol suffer from improper input-output modeling and frequently overestimate the number of jobs that could be created by the industry. He found that the ethanol boom that occurred between 2000 and 2005 did not lead to the creation of many construction jobs. Instead, much of that construction work was undertaken by out-of-state firms that brought specialized workers with them.

Once an ethanol plant is finished, it rarely requires many workers. A 50 million-gallons-per-year (MGY) ethanol plant requires only 35 direct workers, while the more intensive 100 MGY plants still only require 46 employees. In addition, the number of full-time employees required for these plants is expected to decline as the technology becomes more advanced.

Some of the other most frequent errors made in modeling the impact of ethanol pointed out by Swenson include:

• Corn Production – Models often include the corn grown for ethanol as a new activity. In most cases, this corn is already being produced. In cases in which new corn would have to be grown, that land would have previously been used to produce other crops.
• Transportation – Many models include new jobs in transportation and trucking, under the assumption that ethanol plants will need new supply lines. Farmers, however, already use trucking companies to move their corn. In fact, by building local ethanol plants, the state may even see a reduction in the demand for transport services.
• Regional Offsets – Other industries that compete for many of the same input resources, such as hog and poultry producers, will have to pay more for resources and services. Also, the cost of corn-based feeds will increase for these industries.

Since corn production in Iowa – and any other state – is naturally limited by the availability of land and other resources, the number of ethanol plants a state can accommodate is finite. According to Swenson, even if farmers were able to produce two billion bushels of corn, the state would still only require 55 plants averaging 90 MGY in size. In 2006, the state grew only 400 million bushels. In 2009, 42 ethanol plants will already be operational, and the state appears to be approaching its ceiling for ethanol production and employment.

Swenson does not propose ending state support for the biofuels industry, but he does suggest that some of the state's justifications for its ethanol programs are based on misleading employment indicators. The overall impact may be smaller than expected in the state, even though Iowa has long been a national leader in biofuels production. For other states, with even less land dedicated to corn production and with less focus on ethanol, the employment impact may be even more limited.
Voting with their feet: Are more people moving in than moving out as economists best signal of whether a place is prospering in terms of economic and quality of life.

I picked a year where the bio-fuels rage was going quite strong—with heavy construction to maximize the impact. Note in the red ‘circle’ of the greatest intensity of ethanol plants that there is still broader out-migration in rural America—even during the construction phases. Also, this reaffirms that ethanol may be an excellent farm/energy/environmental policy, but it does not substitute for a rural policy.

Note the yellow patterns in the Great Plains and the red/blue growth near urban areas and high amenity areas. Those trends overwhelm other demand shocks.
The notion that clusters would fail would date back to Jane Jacobs notion that large diversified cities will perform better. The evidence supporting Jacobs is fairly strong:
Finding Better ideas

- **Bad idea 4**: Rearview mirror-backward-looking
- Keep doing the same thing over and over, long after it makes sense.
  
  – Could result from a legacy industry becoming so productive, fewer workers are hired—which allows the industry to remain competitive
The Rearview Mirror: It’s still 1950!

• The rearview mirror overlooks 21st Century opportunity. Examples:
  – Ex: SW Ontario’s prosperity only relies on autos
  – Ex: Rural Ontario’s prosperity solely relies on natural resource sector.
    – Common media story—e.g., Globe and Mail, New York Times
  – Too often, federal and provincial policy is aimed at making places ‘healthy’ by supporting past-legacy industries. They forget that sectors prosper in healthy places.
    • Confuse sector prosperity with place prosperity.
Note the secular decline of agriculture in Canada and Ontario, where Ontario forms a benchmark. Canada and Ontario mirror each other.
Unlike 1950, ag and other primary is a small share of even rural and small town Ontario which is defined after taking out CAs/CMAs or towns/cities>10,000 and their tight commuting zones.
Okay, let’s build a global region!

- A global SW-Ontario region is forward looking, not based on a 1950 world view.
  - You have a treasure-trove of data from the Conklin and Holburn Ivey report. Let’s use a little of it in a ‘suboptimal’ manner.
  - Let’s do a bad ‘consultant’s’ view of the world—Ergo: a perfect version of a 1950 SW Ontario.
Manufacturing dominates SW-Ontario—source Conklin and Holburn.
Auto exports play key role for SW-Ontario—source Conklin and Holburn.

**SWEA Exports to U.S.:**
**Trucking Shipments by Commodity**

- 36 – Vehicles
- 33 – Articles of base metal
- 42 – Misc. transported products
- 26 – Wood products
- 34 – Machinery
- 24 – Plastics and rubber
- 35 – Electronic and electric equipment
- 39 – Furniture and lighting products
- 32 – Base metal in primary forms
- 41 – Waste and scrap
- 99 – Others

Conklin and Holburn
What did we find?

- Ok, SW Ontario has an “auto” cluster and an “agriculture” cluster. So publicly support them.
- But, these sectors face:
  1. Rapid productivity growth employing fewer workers (good, but not job creators)
  2. Manufacturing under global pressures
  3. Strong Canadian $ will be a fixture for years.
- They are key sectors, but won’t create large numbers of new jobs for SW Ontario.
- **SW Ontario needs 21st Century jobs**
What are the region’s assets?

• Access to Toronto’s markets, services, and amenities.

• Research has shown that it is a critical advantage to be near a major city \[\text{source: Partridge et al., 2007,}
\]

  – Businesses and (say) knowledge workers still have access to Toronto, but without the congestion and hassle.
SW Ontario’s Assets—cont.

• Strong educational assets: Western Ontario, Guelph, U. of Waterloo.....
  – Business, science, bio-technology, etc.

• Unlike industry clusters, I strongly believe in knowledge workers and occupational clusters.
  – Ed Glaeser says attract a bunch of smart people and get out of their way.
SW Ontario’s Assets—cont.

- Transportation hub and central to markets.
  - I don’t want to oversell. Access to markets matters most when transport costs are HIGH.
  - It isn’t 1950 in terms of transportation costs.
  - Yet, rising energy costs will help return some of the location advantage back to places like SW Ontario or Ohio. There will be some unwinding of global supply chains in an effort to localize them.
  - Great access to U.S. market—but need to work on American security paranoia.
How does SW Ontario capitalize?

You don’t have to pick the next hot industry, just be sure they want to be in your community. e.g., Seattle 1978 and Microsoft

1. Recognize you’re a region and build regional links and governance

- In 1950, communities detached from neighbors
- 21st Century communities are linked in webs
- If someone can commute, they shop, utilize health care, participate in service organizations, etc.
- Such regions share common interests that should be exploited regionally.

I often get asked, what can we do? What industry should be go after? I point out that this is the wrong question, you should ask, how can we make it so that all of the best industries want to come here? One answer is how can we make it good for people to live there, and the jobs will follow.
Regionism—cont.

• Canada’s unique pattern:
  • Cities are Canada’s engine of growth
    • Not as true in the U.S.
    • Build critical mass
  • Evidence: growth does not end at city border!
    • Growth spreads out for hundreds of kms, though the growth effects decrease with distance
    • Both rural and urban participate in growth.
  • This North American pattern underlies why rural & urban communities should work together.
    • E.g., Link SW Ontario to form a growth cluster
Eastern Canada’s Engines of Growth
2001-2006 Population Growth
2001-2006 Population Growth in S. Ontario:
With 100 km rings around Large CMAs

SWEA
Percent of Local Labour Force Commuting to Kitchener, ON CMA—CCS Level Data

Percent Commuting to Kitchener CMA

0.0 - 1.0
1.1 - 5.0
5.1 - 25.0
25.1 - 50.0
50.1 - 75.0
75.1 - 100.0
City of Kitchener
Kitchener CMA
Commute in the Kitchener Region
CMA in the Kitchener Region
30km Radius
50km Radius
75km Radius
Highways
Major Roads in CMA
Water

Percent Commuting to the Kitchener CMA - 2001
This table is by way of summarizing some of the relationships. As researchers in rural development, we seem to spend quite a lot of our time convincing rural and urban audiences, and especially the latter that the interdependence is mutual, that a regional approach makes sense. This table can be used to illustrate the interdependence. The shading on here was initially designed to signify demand and supply though I am not sure that is entirely applicable. But I think of the white as the demand side of both product and factor markets and the shaded as supply. So the rural population, at least within commuting distance depends on urban for employment, for private and public services, and for urban amenities. Extending out some distance from the urban centre, the rural population is on the demand side for these goods and services. From the perspective of the urban centre, they depend on the rural labour force for some of their workforce, the rural population forms part of the market for the private and public goods and services provided in the city, as well as the urban amenities.

On the other hand, Urban residents have a demand for recreation in rural areas, for food safety and security, for a maintained environment, and for land for residential, industrial and commercial development beyond their current boundaries if they are to expand in an orderly way. From the rural perspective each of these can be seen as the basis for supplying recreation activities, food, environmental stewardship, and some arrangement for realizing tax revenues or proceeds from the sale of land.

A full understanding of these relationships is necessary in order to elicit the kind of cooperation or joint effort that is required to realize the mutual benefits of this interdependence. Mutual benefits as well as conflicts—both call for cooperation. Ultimately governance of urban and rural areas is involved.

<table>
<thead>
<tr>
<th>Rural Depends on Urban for:</th>
<th>Urban Depends on Rural for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>Labor Force</td>
</tr>
<tr>
<td>Private and Public Services</td>
<td>Market for Private and Public Goods and Services</td>
</tr>
<tr>
<td>Urban Amenities</td>
<td>Market for Urban Amenities</td>
</tr>
<tr>
<td><strong>Market for recreation activities</strong></td>
<td>Recreation</td>
</tr>
<tr>
<td><strong>Market for agriculture products</strong></td>
<td>Food Safety and Security</td>
</tr>
<tr>
<td><strong>Demand for Environmental Stewardship</strong></td>
<td>Natural Environmental</td>
</tr>
<tr>
<td>Property taxes/land market</td>
<td>Land for Residential and Industrial Expansion</td>
</tr>
</tbody>
</table>
Rural-Urban Shared Fates--cont

- Economists contend that gov’t jurisdictions should reflect common interests & spillovers.
  - Gov’ts may or may not need to overlap
  - Spillovers need to be minimized with a regional authority. Avoid pushing costs onto other places.
    - Tax sharing of common economic gain to share costs
    - Environmental costs and sprawl
    - Infrastructure is inherently regional
    - Economic development

- Yet, for SW Ontario to be a global region, it must leverage these policies
• This can be a formal consolidation of gov'ts or it could be REAL collaboration. Need a consensus!
  – Why rely on borders drawn for the needs of the 19th century? Why govern that way when the rest of world is adapting to 21st Century?

• Regions that realize they are linked will have a competitive advantage in the global economy.
  – Lower taxes, better infrastructure, better public services, stronger economic development
  – Just being a little more competitive will shift capital from around the world at the click of a mouse.

• Regionalism is the real sleeping giant for rural communities for sustainability.

Increased political clout in Toronto and Ottawa.
Weakness of Conference Board of Canada (Globe and Mail) ‘cities’ approach. What’s in it for the rest of the Country?

Does not consider smaller hubs (just big 10) and does not require cities to share their prosperity with rural residents.

Provinces are amazing creatures. They jealously guard their interests and autonomy from the federal government, but they are reluctant to share their power with their own local governments. Quebec is increasingly an exception in their development policies in that the province devolves more authority to local levels of government.

By not planning, we get communities pitted against one-another. The outcome is a zero-sum game where all parties lose out. Rural communities, in their quest for growth, can lose their identity without cooperation. Moreover, sprawl can be a wasteful development that is not friendly to the environment and is expensive to provide infrastructure.
Example of Action

- Japan, France, etc.
- Indiana realizes it has too much local gov’t for its own sake and proposes the elimination of 1,000+ units.

  "Despite the enormous economic, social, and technological changes that have occurred..., Indiana’s system of local government would still be very recognizable to Hoosiers from the Civil War era..." Indiana Commission on Gov’t Reform, p. 42.

  There may be a different “SW Ontario solution”, but you need to realize the world is moving forward and becoming more competitive.
2. 21\textsuperscript{th} Century will belong to places that use their knowledge to leverage their assets.

- Quality of life, pleasant environment, sustainable development—this is good economics!
- Strong research centers and access to Toronto
- US counties with greater shares of knowledge workers grow faster than those that do not have knowledge workers.

good schools implies skilled workers & attract their parents.
3. **Business retention and expansion makes much more sense than tax incentives for outside investment.**
   - Treat all businesses alike.
   - If you build a good climate for investment, your own businesses will thrive and STAY.
   - Innovation comes from small firms. It is better products and lower costs. Not necessarily the next bio-tech invention.

Small businesses create more jobs on net--Birch.

Business Retention and Expansion Programs
Conclusions: What have we learned?

• Drop the silly fads and focus on the real fundamentals that make your community attractive to firms and workers.
• Lose that rearview mirror and focus on the 21st Century.

Don’t try to reshape the future so that it makes you more comfortable. Besides being futile, it will be ineffective.
Places don’t have to figure out the winning firms, but make it so that they will want to be where you are.

Conclusions

• Focus on realities such as emerging regions that the people have self formed—the politicians often lag what the people are doing.
  – SW Ontario Economic Alliance is an example of moving forward

• Good strategies don’t require perfect foresight.
  – You just need to make it such that the best firms want to be where you are.
  – Education & entrepreneurship are keys.
Thank you

Presentation will be posted at The Ohio State University, AED Economics, Swank Program website:

http://aede.osu.edu/programs/Swank/

(under presentations)

- For commuting maps for all Canadian urban areas & details of Infrastructure Canada project:
- *Canada Rural Economy Research Lab (CRERL)  Mapping the Rural Urban Interface Project.*
  http://www.crerl.usask.ca/infra.php