

Human Capital and Economic Growth in Global Cities

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Executive Summary

Global cities in developed economies have many attributes that contribute to their success, but human capital will be the most critical element for economic growth going forward. Civic leaders in global cities, specifically government officials and business executives, should prioritize developing and attracting skilled human capital to achieve continued economic growth.

The importance of human capital to global cities is not a new concept. In fact, the need for human capital is widely accepted and discussed in any report on global cities. However, this paper argues that human capital should be at the top of the agenda, with other civic policies deliberately supporting the creation of human capital.

The prioritization of human capital for existing global cities in developed economies requires a new approach as we rapidly shift to a knowledge economy where these cities are less focused on the production of physical goods and increasingly produce the ideas and information that shape the world. Global cities in developed economies must focus on enhancing human capital to achieve continued economic growth in the knowledge economy. These cities are well-positioned to thrive as the global economy shifts to a model where ideas and information are most important and the highest value.

Global cities in developed economies are different from their emerging market counterparts. They are less focused on the actual production of physical goods and instead

place greater emphasis on their most important asset: their talented workforce. While human capital has always been important, changes in the global economy mean that people are by far the most critical ingredient for economic growth in the future. For that reason, any strategy for economic growth must focus on human capital. Specifically, all civic decisions must be driven by the priority of developing and attracting skilled human capital.

Strong human capital in turn spurs economic growth, which is critical because it allows a global city to maintain its position in the world. A vibrant economy supports all other aspects of a global city by growing the tax base and supporting institutions. Well-paid workers support other businesses and institutions as consumers, which leads to more jobs.

Global cities are key participants in the global economy. Current global cities in developed economies face challenges to economic growth. It is imperative that these cities be able to grow over an extended period of time, even if their home countries face economic headwinds because of demographics and slowing productivity. The only way to do this is by developing and attracting global talent.

Human Capital and Economic Growth

Global cities in developed economies have benefited disproportionately from globalization and technological advances that have occurred since the collapse of communism. Undoubtedly, there have been challenges,

Figure 1



Source: Richard Longworth, *On Global Cities*, 2015

particularly around income inequality, but global metropolitan regions in developed economies have thrived and are well positioned as we continue to transition to a knowledge economy and increasingly urban world. However, given that the era of global cities is a relatively recent phenomenon and is rapidly evolving, even developed cities need to be mindful of their growth strategies going forward.

Saskia Sassen, a Columbia University sociologist and leading theorist of global cities, defines global cities as the strategic sites that manage and guide the global economy:

- as highly concentrated command points in the organization of the world economy
- as key locations of finance and specialized service firms, which have replaced manufacturing as the leading economic sectors
- as sites of production, including innovation, in these leading sectors
- as markets for the products and innovations produced

The free flow of goods, capital, information, and people are what define and link global cities, which act as hubs in the global economy. Of these elements, people are the most important and will only increase in importance.

There are many rankings and lists (see figure 1) of global cities. When one looks at these lists, it is clear that a large share of identified global cities are in developed economies. These global cities are different than their developing economy counterparts because their economies are less focused on the production of physical goods and more dependent on professional services. They have already begun to recognize that it is the workforce that drives new ideas, creates new businesses, and elevates a city to global status.

Therefore, global cities in developed economies will have different growth strategies and different priorities than their developing economy counterparts. For example, fast growing cities in developing economies must prioritize building out basic infrastructure to accommodate rapidly

growing populations. This is very different from upgrading existing physical and technological infrastructure, which cities in developed economies will need to do to attract people.

While global cities in developed economies are each unique, they all share a common goal: to sustain economic growth while transitioning to a knowledge economy. Many have existing attributes already to support this position, but nonetheless, these cities need to be mindful of the levers they pull in order to drive equitable and sustainable economic growth. Specifically, cities must prioritize developing and attracting top talent by using all policy levers available.

The Changing Global Economy and Urbanization

Global cities in developed economies are positioned to do well as the global economy evolves. Klaus Schwab, founder and executive chairman of the World Economic Forum, articulated a vision of this changing global economy in his book *The Fourth Industrial Revolution*:

We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before. We do not yet know just how

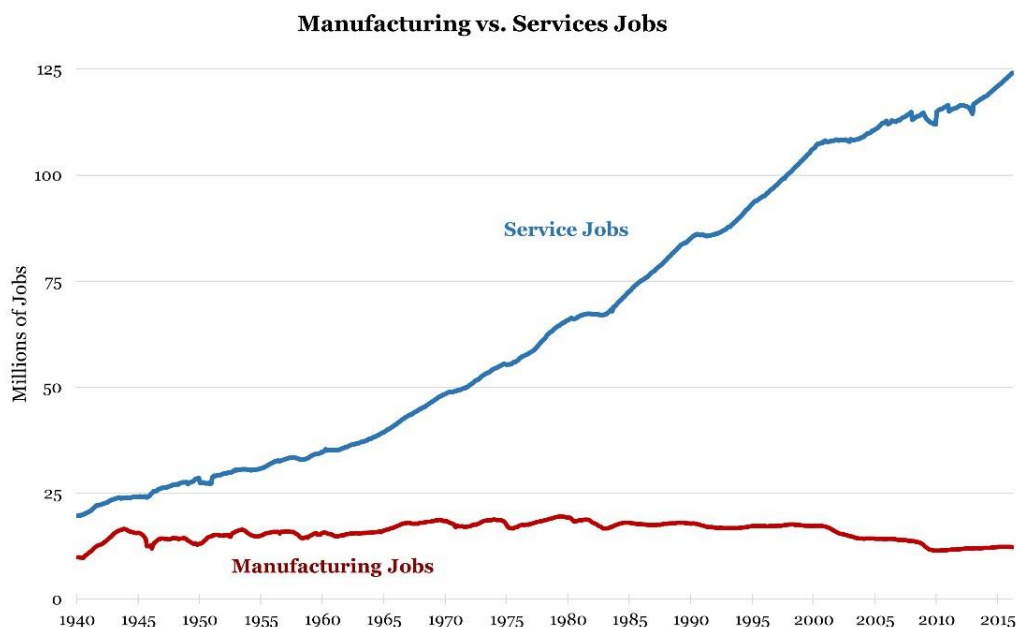
it will unfold, but one thing is clear: the response to it must be integrated and comprehensive, involving all stakeholders of the global polity, from the public and private sectors to academia and civil society.

The First Industrial Revolution used water and steam power to mechanize production. The Second used electric power to create mass production. The Third used electronics and information technology to automate production. Now a Fourth Industrial Revolution is building on the Third, the digital revolution that has been occurring since the middle of the last century. It is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres.

To meet the challenges of this new knowledge-based economy and digitally enabled world, global cities in advanced economies can no longer rely on the manual labor that powered the manufacturing industries of the past (see figure 2). Rather, it is now imperative that cities have the infrastructure, amenities, resources, and tools to attract the right people with the right skills to lead in this new economic reality. Michael Bloomberg, the former mayor of New York City, wrote in the *Financial Times*:

Many newly successful cities on the global stage have sought to make themselves attractive to businesses based on price and infrastructure

Figure 2



Source: Bureau of Labor Statistics

subsidies. Those competitive advantages can work in the short term, but they tend to be transitory. For cities to have sustained success, they must compete for the grand prize: intellectual capital and talent.

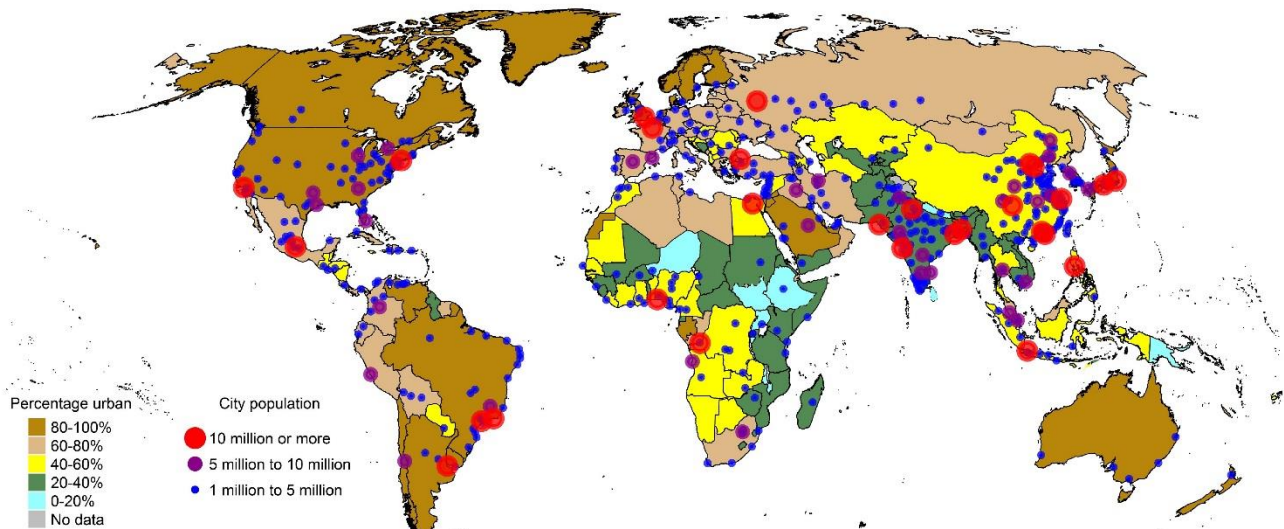
With the right solutions in place, cities can compete for talent that is increasingly flooding the urban centers of the world. More so now than ever before, people are looking at cities for opportunities to connect with one another, trade

in markets, finance investments, gain an education, and access other resources that create economic benefit for the individual and, in turn, for the city.

Human capital, as Claudia Goldin, Henry Lee Professor of Economics at Harvard University, notes, “encompasses the notion that there are investments in people (e.g., education, training, health) and that these investments increase an individual’s productivity.” By creating the right opportunities focused on human capital, cities cannot only

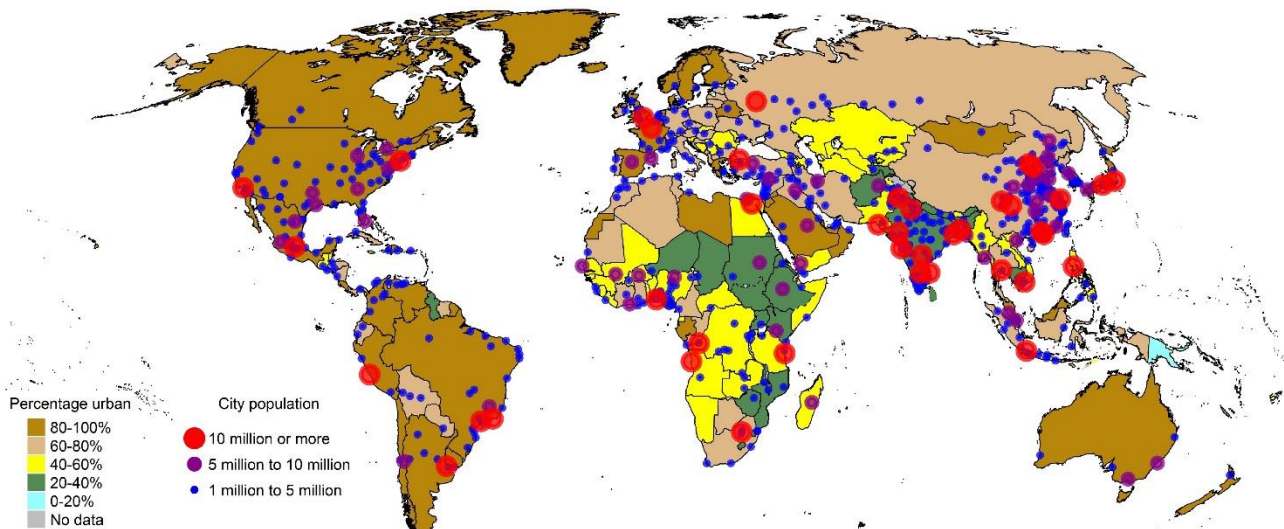
Figure 3

Urbanization 1990



Data source: World urbanization Prospects: The 2014 Revision
 The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.
 Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan.
 The final status of Jammu and Kashmir has not yet been agreed upon by the parties.
 Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined.

Urbanization 2030



Data source: World urbanization Prospects: The 2014 Revision
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attract more people but also develop them into the engines that sustain continued growth.

Nearly all global cities rankings consider elements of human capital. Those typically include education, population diversity, size of working-age population, healthcare, safety, and wages. The Economist Intelligence Unit notes the following about human capital in its rankings:

A large, skilled, healthy and productive labour force is a key driver of competitiveness. . . . [T]o study the attractiveness of a city on this dimension, we gathered information on the size of working-age population, quality of education and healthcare. . . . [W]e believe the strength of a city’s labour force is not limited to its resident population. Ease of hiring foreign nationals, defined in our study as low immigration barriers and flexible regulations over hiring foreigners, makes a city more attractive to businesses (e.g., Singapore).

However, when considering other elements in these rankings (e.g., presence of global corporations, innovation and entrepreneurial activity, strength and size of economy), it becomes clear that human capital will be foundational to all other measure of success in the future for global cities in developed economies. Particularly in the evolving landscape of today and even for the emerging economies of the future, global cities need to anchor on human capital in order to successfully adapt and ultimately lead.

The onset of the digital revolution and increasing migration to urban centers (see figure 3) means it is more critical than ever to evaluate the strategies for continued growth. If the most important asset in the global economy is people, and global cities are hubs of the global economy, then these cities must focus on developing and attracting human capital so they can compete in this new digital economy.

Developing and Attracting Skilled Human Capital

Global cities in developed economies must focus on developing and attracting skilled human capital to achieve continued economic growth in the knowledge economy. Economic growth is critical because it allows a global city to remain a global city.

The Chicago Council on Global Affairs has classified the primary resources and institutions of global cities into four pillars: civic, commerce, education, and culture. For any global city with a growth strategy, it is important that these four pillars are structured to develop and attract human capital.

The pillars are critical to attracting talent and sustaining a global city. These four pillars must be strong and interconnected for global cities in developed economies. A growth plan for an existing global city in a developed economy must focus on human capital, and the four pillars can create a framework to do that. Making a city global and livable attracts talent and produces economic growth that reinforces the four pillars.

Four Pillars of Supporting Human Capital			
CIVIC	COMMERCE	EDUCATION	CULTURE
An effective city government supported by institutions of civil society provide the stability and policy framework to develop and attract human capital.	Businesses are attracted to, and created in, cities with strong human capital; those businesses then employ people, which makes the city an attractive place to live, thus attracting more talent and businesses.	Higher education and K–12 are critical to developing local young talent, attracting students from all over the world, and making the city an attractive place to raise a family.	The arts, entertainment, and recreation that people enjoy in their free time attract talent and create an environment for new ideas and innovation.

The relationship between talent and businesses in global cities cannot be understated. Thriving businesses provide jobs and attract talent to global cities. For global cities in developed economies, it is critical to create an ecosystem that absorbs its human capital: local small and medium enterprises and large national and international companies with the service clusters that support them. These businesses create an ecosystem that allows talented workers to move between the various types of businesses, from a financial services firm to the headquarters of a multinational corporation to a startup.

These workers, along with tourists from around the world, also want to enjoy recreational activities like museums, restaurants, and nightlife. A thriving cultural scene is critical to making a global city livable. A strong education system is also critical to attracting and developing talent in the region. A functioning K-12 and community college system prepares people for the global economy and allows young families to stay in the region, while strong universities attract people from all over the world. Collectively, these institutions are critical to developing and attracting talent for the new economy.

Attributes

Many attributes of a city are required to strengthen human capital and support the four pillars. It is critical that leaders develop policies that prioritize expanding human capital using the four pillars as a foundation. Many of these attributes apply to multiple pillars, which is why civic leaders must have an interconnected approach to policymaking. Each city will have a different growth strategy, but any plan will require the following attributes.

Proportion of population of working age

Many developed economies have populations whose average age is increasing, resulting in a smaller share of people of working age (e.g., 15 to 64 in the United States). Attracting young, talented workers allows global cities in developed economies to overcome the larger demographic trends in their countries.

Strong educational system in region

Global city regions must have strong educational systems—including K-12, community colleges, and universities—to develop their human capital. This is important because it allows a global city region to constantly replenish its human capital from within, and it makes it an attractive place for people from outside the region.

Share of population with college degree

In addition to having strong universities in the region to educate its people, a global city region must attract workers with college degrees from other parts of the world.

Diversity of population

A diverse cultural and multinational population helps attract the most talented workers from all over the world.

International companies' global, national, and regional headquarters

The presence of global and national headquarters of international businesses is important not just for jobs that are directly created. These headquarters also help build the ecosystem of services firms that support them.

Top professional services firms

Law, information technology, consulting, accounting, and marketing firms all serve large corporations because the global economy is so complex that having all that knowledge in-house is prohibitively expensive even for the largest corporations. These well-educated employees are mobile and want to be in global cities.

Banks, investment firms, and other financial market participants

Financial market participants are another critical element of the ecosystem that supports large corporations. Global cities must have deep financial markets and often are home to exchanges that are linked with other exchanges around the world.

Access to capital

Strong capital markets allow businesses to raise money to finance growth and expansion globally.

Infrastructure—physical and technological

Physical infrastructure has always been critical to the economic growth of large metropolitan areas because it is what facilitates the transportation of goods and people. In addition to physical infrastructure, technological infrastructure is now critical to global cities in developed economies because they increasingly produce ideas and information for the rest of the world. It is also critical in connecting capital markets, which are spread among the world's financial centers.

Commercially appropriate space

Global cities in developed economies have legacy assets, including commercial space. It is important that the existing and developed commercial space is adapted to meet the needs of the new economy's businesses.

New companies started annually

A strong entrepreneurial business culture is most recognized for producing small high-growth companies. Importantly, it also produces new traditional businesses. Both types of businesses are critical to replacing the businesses that fail each year. This churn creates a dynamism that allows the economy to continually adapt.

Strength of technology industry

A strong technology industry not only creates high-growth companies, it also creates products that can be used by other businesses locally and globally.

Research and development and patent-filing activity

Research and development and patents stimulate economic activity and the development of new technologies. Global cities in developed economies need to be the center of innovation and technology, which requires a strong research-and-development environment.

Venture capital investment

Venture capital investment is critical to financing high-growth companies in global cities. Access to capital can make these cities a destination for entrepreneurs and investors and discourage talent from leaving for other global cities.

Research institutions

Partnerships between research institutions and the private sector can provide a great source of technology transfer. Proximity of research institutions is critical to creating these ecosystems.

Challenges

A growth strategy using the four pillars must also address challenges, not just strengthen attributes. Global cities in developed economies have many advantages that they continue to build on but they also face many challenges. Three challenges in particular can significantly undermine the growth of global cities in mature economies.

Inequality

Inequality is a global challenge, and increasing inequality in developed Western economies impacts global cities. There is a risk in these cities that globalization and technology create a bifurcated employment structure, with high-skill jobs participating in the global economy and low-skill jobs primarily providing services to high-skill workers. This hollowing out of middle-income jobs is being driven increasingly by automation. Rising inequality could undermine the economy, as well as the social and political fabric that has made these cities so attractive.

Cost of living

The already high and rising cost of living in global cities makes it difficult for low-income and young families to stay in these cities. Furthermore, it discourages people from outside the region, especially overseas, from moving there.

Immigration rules

Immigration policy is set at the federal level but has a direct impact on cities. Rules restricting immigration make it harder for cities to attract global talent and diversify their populations.

Realizing the Opportunity

Global cities have benefited over the last twenty years from a period of globalization, rapid technological advances, and urbanization. These drivers will remain in place as the global economy evolves. Global cities in developed economies are positioned to benefit as ideas and information play a greater role in driving economic growth. The key to taking advantage of this opportunity is to focus on developing and attracting skilled human capital, which will lead to economic growth.

Civic leaders in global cities in developed countries have an opportunity, but they must make human capital their top priority. These cities have the benefits and burdens of legacy assets and liabilities. These cities should continue to reposition these legacy assets and focus on human capital, which will allow these cities to build on their success over the past two decades.

The Emerging Leaders Program

The Emerging Leaders (EL) Program prepares the next generation of leaders in Chicago's public, private, and nonprofit sectors to be thoughtful, internationally savvy individuals by deepening their understanding of global affairs and policy. During thought-provoking discussions, dinners, and other events, ELs gain a broader world view, hone their foreign policy skills, and examine key global issues. Emerging Leaders become part of a network of globally fluent leaders who will continue to raise the bar for Chicago as a leading global city.

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Their efforts have resulted in another great group that the Council on Global Affairs is proud to have as Emerging Leaders. Our sincere appreciation goes to the Patrick G. and Shirley W. Ryan Foundation for their support of the Emerging Leaders Class of 2016.

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