CREATIVE CLASS – NEW CHALLENGE IN XXI CENTURY

Abstract

The aim of this paper is to present the idea of a new theory on regional economic growth defined by Richard Florida - a creative class. Some possible advantages are going to be suggested for the European nation in the twenty-first century regarding its competitive advantage. Firstly, the general idea of a creative class will be introduced together with measure methods of a global creative class index. Next some empirical data on global creative class index of a few developed countries will be presented, following the more in-depth view based on the example of the USA and Holland. Finally, conclusions will be drawn from an issue of aging population in Europe and its impact on our future and changes in production costs of various goods and services.

Introduction

The fact that our world has become a global “village” surprises no one any more. Of course this new perception of our globe, through the continuous shrinking of distance, has been achieved due to technological development. This process has mainly increased the flow of information, which has no borders, nowadays. The invention of computers, mobiles, and the internet has been a milestone in a history of technical and intellectual evolution. Further improvement on these time saving innovations has facilitated a more sophisticated chain of services such as on-line banking, virtual conferences, and wireless communication via phone and television. Thanks to such high-tech solutions, people have gained another competitive advantage by ongoing access to information from all around the world.

However, civilization would never take place without the participation of humankind. The creation of new ideas, know-how, and interaction of various skills are ascribed to human capital, which, according to Robert Lucas, is a “social activity”. He is of the opinion that when highly skilled and educated people interact, they an increase their each other's knowledge, which is later added to the pool of human knowledge.1 But is this already everything that has been achieved in the field of a human capital?

The aim of this paper is to present the idea of a new theory on regional economic growth, defined by Richard Florida as “a creative class”, with methods of measurement of the global creative class index. Next some empirical data on the global creative class index of a few developed countries will be presented, following the more in-depth view based on the examples of the USA and Holland. Finally, conclusions are drawn on the issue of the aging population in Europe, and its impact on our future and changes in production costs of various goods and services.

---

1 R.E. Lucas, On the mechanism of economic development, Journal of Monetary Economics 1988, No. 22, p.3-42
Global Creative Class Index and methods of measurement

Richard Florida, the author of the book “The Rise of the Creative Class,” has popularized a new paradigm for regional economic growth, which is based on a creative class. He theorizes that it is a category of people who are working in knowledge-based professions such as science, law, business, finance, art, as well as related fields in which new ideas, technology, and content are created. In his opinion, working in such creative professions involves complex problem solving and engagement in independent judgment. Thus, in addition to its creativity, this class is innovative and outstanding in its high productivity. The rest of the population, on the other hand, does not contribute much innovation as their focus is more on consumption than production. Whereas, the ones who generate concepts and stimulate creativity are not only creators, but also actively participate in everyday life, as they seek the various sources of inspiration that drive them towards new ideas.

In order to receive a better view of how creative class percentage varies from country to country around the world, a Global Creative-Class Index (GCCI) was established by R. Florida and I. Tinagli. It is measured by the number of people employed in creative job categories, which are defined by the International Labor Organization (ILO) in each country and then divided by the country’s total number of workers. Essentially, GCCI is based on four factors:
1. The creative class share of the workforce.
2. Innovation, as measured by patent activity.
3. The high technology share of the economic base.
4. Diversity based on indexes related to religious and cultural diversity; cutting edge arts and culture; counter culture and “bohemianism” and sexual orientation.

Diagram 1.1 Global Creative-Class Index (GCCI)

---

The general comparison was based on 25 nations, excluding Asian and South American countries. However, the above diagram presents only the first 13 countries. By contrast, in the overall compilation, Russia and Germany were placed 16th and 19th, respectively.

It is surprising that the United States of America, which used to be first in attracting talented immigrants from all corners of the globe, is now in 11th place, with a GCCI of just under 24%. Even such countries as Iceland and Estonia are in front of the USA. The United States is still competitive, but due to the overall size of its workforce rather than its progress in increasing the proportion of people belonging to the creative class. Analyzing the above chart, only four countries among the first 13 ones are not from Europe - Australia in 3rd place, New Zealand - 5th, Canada - 7th one, and finally the USA is 11th. Unfortunately, in this study, Poland does not appear at all. It is not unexpected that Ireland is in the first place, with 33.5%. From what we have observed during the last few years, Ireland has managed to transform itself from a typically agrarian country to a country oriented towards financial consulting, IT, and specialists from other economic fields. The ranking shows that among highly developed and wealthy countries, Germany is in the worst position, having only 20.1% of its population belonging to the creative class. The probable reason is the country’s long tradition in the steel, automotive and white goods industries in which Germany has been in a worldwide leader for many years. Thus the, country’s wealth depends enormously on the world’s economy, as one-third of GDP is achieved through export. As a result, thanks to foreign trade, German economic growth was on a level of 1.7 percent in 2004, which was greater than the 0.4 percent of the previous year. At the same time, there is a worldwide trend of outsourcing production and services to lower labor cost areas like China and India. Consequently, German industry was strongly affected by these changes as it has the highest production and social insurance costs in Europe. Furthermore, Germany strongly limited immigration in recent years, which is perceived there as a threat rather than an advantage. This view may have its origins when incoming Gästarbeiter, who were employed as laborers in order to rebuild the country after The Second World War, remained in the country after their work was completed. Uneducated people from poor countries with basic needs to be satisfied were never determined enough to obtain higher education. While, many of them would take the advantage of country’s still wealthy situation and work for much less than the German citizens, increasing the already high unemployment rate. That notwithstanding, while Germany “successfully” defends itself from the intellectual competitive advantage of immigrants, it suffers as a result from overproduction of tangible goods and a diminished creative class.

Of the first 10 countries presented in the above diagram, 7 of them are from Europe and almost all of these countries are members of the European Union, except Iceland. This fact should underline the fact that Europe is going in a more intellectually diversified direction – more creative class oriented, which should decrease the side effects of reduced birth rates and the aging population in the long term. The U.S. has built its creative infrastructure by acquiring already highly educated people from lesser developed countries. These incoming intellectual migrants were mostly attracted by higher living standards, better salaries, and further development possibilities, and of course stay and work permits. It should not be surprising, then, that the trend of cultivating creative people will continue to grow within Europe as its population ages rapidly. Attracting foreign talent has become more popular and less problematic after another 10 countries joined European Union in 2004. Although, some “old” EU member countries have not opened completely their labor market to newly accepted EU nations due to more competitive labor force of new comers.

---

6 A. Jung, Ökonomische Zeitenwende, Spiegel – Special, das Magazin zum Thema: Die Deutschen 60 Jahre nach Kriegsende 2005, No. 4, p. 116
7 So called guest worker, a German expression used for describing people who are temporary employed in a foreign country and afterward return to their homeland.
These new members still have low labor costs. On one hand this low cost economy is advantageous to foreign investments, but on the other wages are not sufficient enough for creative class to satisfy their living standards as their expectations are higher. It becomes a drain on an economy when many people, whose education was paid for from the national budget, decide to emigrate after graduation. Such massive emigration may have many side effects to still developing national economies. Firstly, their creativity, and knowledge is a contribution to the development of other economies and increases their GDP, and of taxes. Secondly, their national economy is less stimulated and has a lower competitive advantage when it comes to the creativity and sources of ideas, and greater wage share. In other words, it should be a priory to the country not only to generate the creative class but create resources to prevent it from emigrating.

What we have been witnessing during the last decade is a strong tendency in price reduction of mass-produced goods in the developed countries. Due to the technological developments, many basic tasks are being completed by machines, computers, and robots, replacing human labor. Thanks to this progress, goods are produced faster, of higher quality, and more effectively but with less human effort. During the same period, the prices of services have increased. Of course, it is more difficult to substitute services than products. Generally, service performance does not require as much financial investment as production. However, obtaining a qualified intellectual is much more time consuming and costly than training a manual worker. Therefore, as we compare the productivity and input given by an intellectual and a worker, they are not of the same quality. The former is obliged to give new solutions, concepts and deal with creativity while the latter only repeats learned activities that require an input of less advanced knowledge. In other words due to the differentiated level of work contribution given by creative class employees and physical workers, their participation in wage share also differs from one another.

Creative class in U.S.A and The Netherlands

The above ideas are reflected in the creative economy displayed on the example of the United States of America on Diagram 1.2. In the U.S., the creative class is roughly 40 million people, or 30% of the workforce. Kevin Stolarick of Carnegie Mellon University estimated the economic impact of various class groups on U.S. wages and his findings proved that the creative class accounts for just about half of U.S. wages and salaries, or $1.7 trillion. That contribution will only continue to grow. According to Stolarick’s predictions, which are based on extremely reliable Bureau of Labor statistics, the creative class – which added 20 million jobs over past couple decades – is projected to continue at an equally rapid pace. On the contrary, the sector with the highest employment rate is service – 43.5% – but its wage share is roughly the mean average of 30%. The lowest contribution in the wages is generated by manufacturing sector, only of 22.8% with 26% of employees. Meanwhile, people working in a creative sector have the highest average salary of $51,000 per year, where according to Kevin Stolarick, average salaries from the service sector and manufacturing are respectively $28,000 and $22,000 a year.

---

8 A. Zolli, R. Florida, The visionary and the futurist, American Demographics October 2004, p. 27
Additionally, people employed in the creative class play a significant role in the national economy through their high contribution to GDP and income taxes. Besides, their purchasing power, everyday and luxurious goods should also be taken into consideration because of higher living standards due to their greater income, reflected in their larger spending share, as well as a better ability to save money. The general idea of higher living standards of the creative class should also be understood in term of ways spending the leisure time. The diversity of cultural events, entertainment, and sports will increase the attractiveness of a place to creative people. But as Florida underlines himself, the point is not just to attract creative people from other regions, it is to make the place itself more creative, which will do two things: one, organically grow a city’s or a region’s own creativity and, two, serve as fertile ground for those who do wish to translocate there. Such people seek esthetical value in their entertainment which is a source of stimulation with an opportunity not only to be a participant but also a creator. At some point, people from the creative class stimulate employment growth in local services because of their various activities and diversified interests, which in turn tend to generate more needs and wants. Therefore, the creation of an adequate environment rich in differentiated stimuli should not be underestimated.

Florida correlates job growth in technology centers with specific demographic characteristics. He is of the opinion that communities with a high degree of diversity attract young, educated and creative people who contribute directly to economic growth. Conversely, the lack of diversity, tolerance, and a knowledge-based business base leads to a “brain drain” of this population to more attractive creative class communities.

Essentially, Florida’s theory and his findings based on more-in-depth analysis of the example of U.S. are mostly true. Also convincing evidence for the nexus between the creative class and economic growth in the Netherlands was demonstrated by two scientists at Tjalling C. Koopmans Research Institute from Utrecht School of Economics. Their study considered

---

9 A. Zolli, R. Florida, The visionary and the futurist, American Demographics October 2004, p. 27
cities, rather than regions, as a unit of analysis, as the accumulation of ideas is chiefly regarded as an urban process. The study found that 35% of the Dutch population belongs to the creative class. In the 50 largest cities, 22.2% of the total labor force belongs to the creative class. In the rest of the country, the creative class accounts for 17% of total labor force. They found a positive correlation between share of creative class and employment growth, corrected for population growth. As with the creative class, the share of highly educated people correlates positively with employment growth. Therefore cities and regions with more educated residents grow faster than cities with smaller stocks of highly educated labor. They concluded that creative class is a better predictor of employment growth than education is. This means that attracting one member of the creative class will foster growth more effectively than attracting one highly educated person. Additional findings based on the Dutch study demonstrate; firstly, that human capital stimulates the process of innovation and the use of cost-cutting technologies in the service sector. Secondly, highly educated, creative people adapt more easily to changes, new ideas, and technologies. Also that creative and highly educated people have a stronger tendency to establish more new companies. Furthermore, due to their higher income, these people participate more in city life, spending a larger share of their income on entertainment. Finally, in the cities with a higher accumulation of a human capital an increase of employment for unskilled labor is observed, especially in local services not only connected with entertainment, but also with time saving services. In the conclusion they stated that the creative class is responsible for urban employment growth in The Netherlands.  

Conclusions

Many examples and conclusions drawn from the various studies presented in this paper lead to the final summary of a creative class value in Europe. Actually, what we have been experiencing on the “old continent” lately is a quite complicated issue comprised of various factors. It is quite obvious that the tendency of moving manufacturing to lower labor cost countries like India and China will continue to grow. However, the outsourcing process should not be seen as a threat to the shrinking labor population in Europe but, rather, as a signal to focus on generating jobs that are of more added value to the country’s budget. According to Ben Edwards, by sourcing lower-value jobs from abroad, rich economies can redeploy their shrinking workforces into more productive work and so generate the wealth required to help support larger numbers of retirees. Europe is ageing drastically, especially the richer nations and, worse still, population growth is slowing from year to year. In other words, there is a smaller work force to support those who have already retired, live longer and are in a worse condition of health than their forbearers. While the elderly do not typically have a high demand of needs and wants, they do raise costs in the health-care system. This will place a greater financial burden on a working population that is also shrinking, especially when the baby-boomer generation will retire soon. According to the UN’s projections, Europe’s population loss between 2005 and 2050 will be by far the steepest for Italy – 22%, among big EU countries, compared to 9% for Spain, 4% for Germany where only France and Britain will grow in the same period by 6% and 11% respectively. Such pessimistic predictions regarding the continuing decrease in a population growth raise the question of who will replace baby-boomer retired working force as developments in technology generate new services and create new occupations? The most severe lack of new successors will be in science and engineering especially since the beginning of the 1980s, employment in these two segments has quadrupled in comparison to the total indicator of employment.

13 B. Severgnini, Enjoy Italy while it lasts, The Economist, The world in 2005 – special issue, p. 33-34
Another tension in Europe is the matter of immigrants that are quite often described as a cheap labor force. These people coming from poorer countries are willing to work for much less than the citizens of one’s country. There are already some occupations in which ordinary residents are unwilling to be employed due to low salaries and, therefore some of them live on social security. However, present demographical trends in many European countries may result in a situation where immigrants will be required. A United Nation’s report issued in March 2000 predicted that EU countries could need as many as 159 million foreigners by 2025 to make up the shortfall in the work force caused by an aging population and declining birth rates.14

In the light of the above arguments, the general idea of the final summary is that European countries should be aware of their creative class value. Due to their high contribution in wage share and income taxes, they are critical to the long-term economic health of their communities. Thanks to the high spending power of the creative class, other services sustain their presence and even growth of the new ones. Therefore the labor market should be oriented towards creating new jobs in developing areas that are knowledge-based and not production-based. It should be critical to national economies not only to generate the creative class but also to maintain it within the country in order to avoid “brain drain”. For that reason more government spending should be dedicated to development and research in order to increase a national competitive advantage internationally or even globally. All above assignments should be integrated in the Three Ts – Talent, Technology, and Tolerance – followed by openness, which is the essence of creative class. This is an openness to new ideas, and therefore to new cultural, social, political and economic opportunities.15 Creative class defines the national competitive advantage, because highly developed countries are going to suffer from one major deficit namely young people. Therefore a young population is not only valuable to the national economy due to its creativity, which as we observe has a continuous price increase tendency, but because of their contribution in supporting the retired generation.

REFERENCES:


14 S. Johnson, J. Contreras, The migration economy, Newsweek January 2004, p. 43
15 R. Florida, A. Zolli, The visionary and the futurist, American demographics October 2004, p. 27
special issue.