

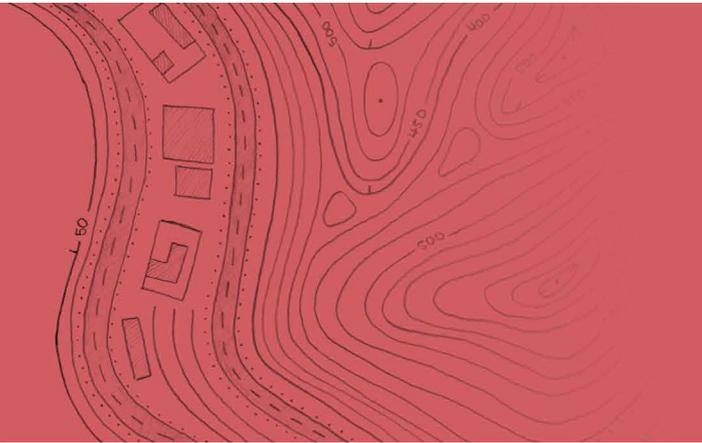
VALUING CULTURAL DIVERSITY OF CITIES

An Executive Summary of Motu Working Paper 19-05

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SUMMARY HAIKU

In diverse cities,
wages and rents are higher.
Firms gain, folks less so.



CaDDANZ
Capturing the Diversity Dividend
of Aotearoa/New Zealand

National
SCIENCE
Challenges

BUILDING BETTER
HOMES, TOWNS
AND CITIES

Ko Ngā wā Kāinga hei
whakamāhorahora

INTRODUCTION

In this paper we examine the impact of diversity on the attractiveness of cities to business and to residents. Auckland's population mix makes it one of the most diverse cities in the world, with over 150 different ethnic identities and 120 languages reported in the 2006 census. More than 40 percent of Auckland's population was born overseas. About half identify as the largest ethnic group (European). While corresponding 2018 census data for Auckland are not yet available at this time, national level data already released show that the percentage foreign born and the diversity of ethnicities have continued to increase in New Zealand over the last decade.

We assume the value of diversity is reflected in local wage and rent premiums. Things that are good for quality of business (positive local production amenities) are reflected in high relative wages and rents. This is because firms locating in high-wage, high-rent areas can compete only if there are productive advantages from locating there.

A common part of choosing where to live involves moving near people with whom we want to spend time. The benefits of cultural diversity for consumers are usually seen in terms of the richer social interactions, variety of cuisines, other culture-related goods and services, the urban landscape, etc. For workers, things that are good for quality of life (positive consumption amenities) are reflected in low relative wages and high relative rents as people are willing to pay more or accept less money to live in more attractive places.

METHODOLOGY

We use data from eight New Zealand Censuses of Population and Dwellings which span 1976 to 2013.

In this paper, our focus on birthplace diversity as the primary measure of local diversity is driven by the greater consistency of birthplace coding in the census data. To check, however, we compare birthplace diversity with our best estimates of ethnic diversity and religious diversity.

DESCRIPTION OF THE DATA

Birthplace diversity in New Zealand increased markedly between 1981 and 2013. The proportion of the adult population born overseas rose from 18.2 percent to 28.9 percent. The increase in the foreign-born adult population was particularly strong in larger urban areas. In Auckland, the foreign-born population share rose from 28.3 percent in 1981 to 47.3 percent in 2013.

We capture this change by measuring the probability that, in a meeting of two randomly selected individuals in the city, the two belong to different groups. This measure, known as birthplace fractionalisation, rose from 49.3 percent to 74 percent. The likelihood of randomly meeting someone from a different group in smaller urban areas increased from 21.6 percent in 1981 to 38 percent in 2013.

ETHNIC AND RELIGIOUS DIVERSITY

Importantly, ethnic diversity is not reflected in birthplace diversity measures, due to limitations in the data. It could be argued that ethnicity is a better measure of cultural identity than birthplace (given that the latter groups NZ-born Europeans, NZ-born Māori, and all other NZ-born ethnicities together). Our main estimates nevertheless use country of birth because of the considerable variation over time in how ethnicity was measured in the census, whereas country of birth is unambiguous. Nevertheless, when we measure ethnic diversity in each urban area relative to the national average in each year, the estimated impact of ethnic diversity on quality of life and business is qualitatively similar to that of birthplace diversity.

Religious diversity has a small effect on the quality of life index and approximately zero effect on the quality of business index. However, most religious “variation” is due to differences in the shares of mainstream Christian religious groups and those stating no religious affiliation.

We are also aware that just counting people of different cultural backgrounds does not take “cultural distance” or “affinity” between groups into account.

OVERARCHING RESULTS

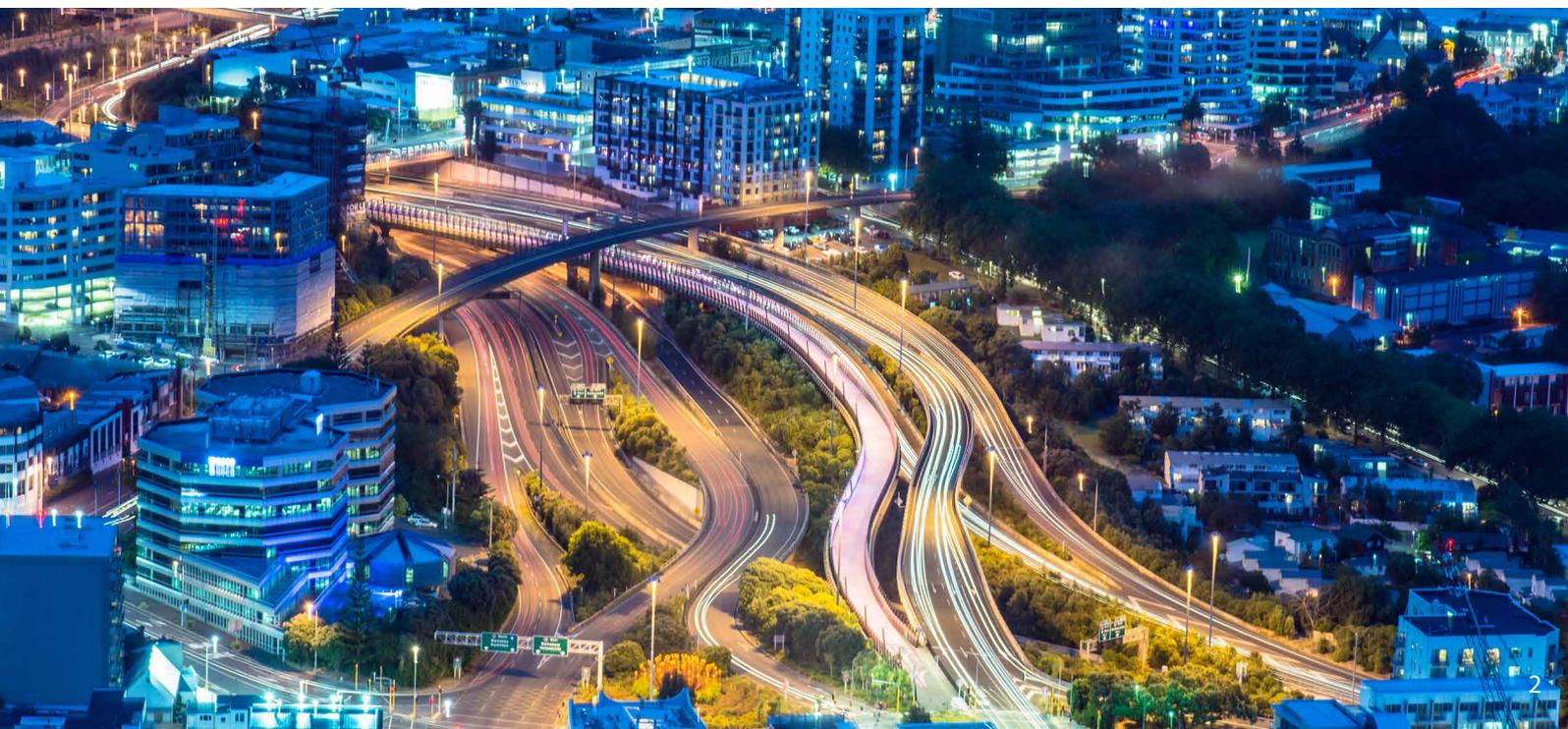
Our findings conclude that birthplace diversity is positive for quality of business and weakly negative for quality of life. This index reflects the balance of the benefits of a richer range of social interactions, ethnic cuisines and other culturally-related goods and services, with the benefits of interacting with those with whom individuals have most in common.

Increasing diversity by one standard deviation is associated with a 0.055 (5.5 points) higher quality of business index and a 0.013 (1.3 points) lower quality of living index. Overall, the positive effect on quality of business more than balances the weak negative effect on quality of life, implying that diversity has a net positive effect on people’s wellbeing.

If diversity increases by one standard deviation, wages are estimated to be 4.0 percent higher and rents are estimated to increase by 13.4 percent. This is the same effect on quality of business as a 47 percent increase in population. The negative effect on quality of life of a one standard deviation difference in diversity equates to a comparatively small 14 percent increase in population.

The estimated effect of birthplace diversity on quality of life depends on the share of expenditure consumers spend on housing. If housing expenditure is at 30 percent, the estimates imply that diversity has no effect on quality of life. Given that housing accounts for a higher share of expenditure in Auckland than elsewhere, our main estimates probably overstate the negative effect on quality of life there. Conversely, in areas where housing costs are low relative to incomes, we are probably understating the negative effect. If housing costs were only 15 percent of expenditure, our estimated wage and rent effects would imply a decrease in quality of life of 2 points.

When comparing the period 1981-1996 with 2001-2013, the benefits from diversity were larger in the earlier period, when the level of diversity was still a lot less than at present. If, when looking at diversity, we examine the extent to which a city’s population is culturally polarised into two large groups (with all other groups combined having a small share of the population) our data shows that polarisation lowers productivity.





LOCATION-SPECIFIC RESULTS

Results from similar research in the Netherlands suggests that people consider cultural diversity of a city to be very attractive in general but are less keen at a local neighbourhood level. Economic effects of diversity at the neighbourhood level in New Zealand's large cities are still to be investigated.

The impact on business is strongest in Auckland, Wellington and Christchurch, where diversity raises the quality of business by 9.6 points. In contrast, the negative impact on quality of life is only -0.9 points.

In the 14 smaller main urban areas the effects on quality of business are less positive and the effects on quality of life are more negative. The estimated impact on the quality of business is about the same as the overall effect, at 5.3 points. The negative effect on quality of life is somewhat more pronounced at -6.9 points.

In the 93 secondary and minor urban areas with more than 1,000 residents, the likelihood of randomly meeting someone from a different group from yourself are very different. These areas have lower diversity, lower levels of rents and, to a lesser extent, lower wage levels. For these areas, increased diversity doesn't shift wage levels, but has a positive effect on rents. In these places, higher diversity raises quality of life by 1 point. Quality of businesses rises by just 1.5 points, suggesting that the business benefits of birthplace diversity are primarily a large-city phenomenon.

We find the effects are more pronounced when diversity within minority groups is a large component of diversity. The patterns we find are also suggestive of decreasing productive returns to diversity over time – with smaller effects in the later period (when diversity is higher) in the main urban areas.

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