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Deputy Prime Minister  

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Creating sustainable communities

Competitive  
European Cities:  
Where do the  
Core Cities Stand?

urban



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Creating sustainable communities

# Competitive European Cities: Where do the Core Cities Stand?

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The findings and recommendations in this report are those of the consultant authors and do not necessarily represent the views or proposed policies of the Office of the Deputy Prime Minister.

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# EXECUTIVE SUMMARY

## What is the challenge for our Core Cities?

The English Core Cities – Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield – have begun an economic renaissance in recent years. Nevertheless, there remain concerns that they: are not punching their weight economically in the national context; are falling behind London; lack the right powers and resources to improve their performance; and do not make as great a contribution to the national economic welfare, as comparable cities in continental Europe. Is it true?

## Urban competitiveness – what really matters?

To find out, this study defined and measured urban competitiveness in terms of six critical characteristics: economic diversity; skilled workforce; connectivity; strategic capacity to implement long-term development strategies; innovation in firms and organisation; quality of life. We collected evidence on these characteristics from a wide range of successful European cities and compared it with our Core Cities, the biggest cities outside London.

## How do Core Cities match up to their European competitors?

Not all continental or English cities do equally well – or equally badly – in every aspect of competitiveness. And Core Cities have improved their performance in recent years. But the big picture is clear. Many lag behind their competitors in terms of GDP, innovation levels, educational levels, connectivity, social cohesion, quality of life, political capacity and connections with their wider territories. Crucially, they lag in the eyes of international investors. This is made worse by the fact that European cities do not perform well globally.

## Lack of competitiveness is a national problem – but a bigger urban problem

The successful European cities in our sample considerably outperform their national GDPs. But with the exception of Bristol, the Core Cities lag significantly behind the national average. If the Core Cities could improve their performance to match that of their continental counterparts, the gains to the national economy would be enormous.

## Can we catch up?

**Yes we can.** There are structural characteristics of competitiveness, which mean that cities which performed well and were well regarded by the private sector a decade ago, still lead. Nevertheless, cities can significantly improve their performance. Helsinki, Barcelona and Madrid have done so.

## National government policy matters

Cities have to maximise their opportunities if they are to succeed economically. But the framework set by national government matters a great deal, exemplified by the impact on successful provincial cities of even limited decentralisation in France over 20 years.

## Money and powers matter

Continental cities have responsibilities for a wider range of functions which affect their economic competitiveness than do their English counterparts. The mix varies but their combination of powers and resources seems to make continental cities more proactive, more entrepreneurial and probably more competitive.

## Cities live in systems

Many European governments recognise that cities are in a relationship with each other in their own domestic system and develop policies which make this explicit. This has shaped their investment policy in transport, higher education and location of Research & Development facilities. In the UK, there has been little sense of the relative roles and contributions of different cities and how they impact upon each other. But this issue will have to be faced if the Core Cities agenda is to be made a reality.

## Grown-up government helps

Two of the countries which have placed most attention on cities, and have been two of the most centralised countries, France and The Netherlands, are attempting to specifically build better working relationships between the national state and urban areas. The details vary but the principles remain the same – to operate on a contractual basis with the large cities. There needs to be greater levels of trust between national and city governments. A more contractual, outcome-based approach that minimised micro-control could be a helpful way of encouraging city economic competitiveness.

## Size matters

Large urban areas frequently have substantial assets in hard and soft infrastructure, which give them the potential to be successful. Not all large cities are successful. But the successful cities in this study were often the larger cities in Europe and certainly the largest in their national system. On that basis, the Core Cities are an appropriate target for a sustained government strategy.

## City and regional competitiveness – a bridge not a barrier

The two do not conflict. We found no successful urban regions that did not have successful cities at their core. The regions which performed well were those where the Core City performed well – and vice versa. Many national and regional governments on the continent have recognised the contribution that cities make to regional economic performance. There is an imperative to develop strategies, policies and instruments that pull Core Cities and their economic hinterlands together rather than apart.

## Cities and sub-regions are getting their act together

Many European policy-makers are convinced that to be competitive in the global marketplace they have to organise and act at a wider metropolitan or sub-regional level. However, most have decided it is not worth attempting to create formal institutions to achieve this, since they are unlikely to be implemented. Informal, strategic alliances between willing partners on agreed territories, powers and resources are better than either acting alone or fighting unwinnable battles for institutional change.

## Economy, territory and government – the weakest link?

Economic processes are changing, as are economic geographies. Institutions need to catch up with those processes of change. The key issue is to make the territorial impact of national policies and decision-making more transparent and open to debate. But in addition to regional policies there is a need for a national policy for regions, which takes a strategic view of the appropriate relationships between different parts of the English territory and the impact of government machinery, policies and resources upon them. It would form part of a wider debate about the best way of improving the economic competitiveness of the English urban, regional and national systems.

## Does economic competitiveness drive out social cohesion?

Not necessarily. First, the successful cities in Europe have the most skilled and better-educated workforces. Second, the highest performing economies have had the lowest rates of unemployment. In European cities the social agenda is critically important – not least politically. But pursuing an economic growth strategy is not incompatible with a socially balanced strategy.



## Cities can help themselves

Cities operate within a set of powerful structural, economic, social, physical and institutional constraints. But they are not powerless to shape their economic trajectories. Cities can and should do everything within their limits to maximise the critical success factors we identified earlier – innovation, diversity, connectivity, skilled human capital, quality of life and strategic decision-making capacity.

## Conclusion

We have identified a set of key policy messages based upon the experience of some of the most successful European cities that might help increase our cities' – and hence our regional and national – economic competitiveness. They do not constitute a magic bullet. They are more like commonsense. But they are not quick. Some we are already pursuing. However, they are worth pursuing with greater vigour – because the prize is very high. Progress has been made in many of our cities. We need to capitalise upon it more consistently.

# CHAPTER 1

## Comparing Competitive Cities – Why and how did we do it?

### Cities are back

- 1.1 Cities are high on the British policy agenda. After two decades of economic and demographic decline, the idea that cities are not economic basket cases – but the dynamos of the UK national economy – has seized the imagination of politicians, researchers and business. It has been an increasingly significant dimension of national policy. And it is not just a UK phenomenon. In continental Europe there is equally growing interest in the contribution that cities can make to the national welfare – and to economic competitiveness in particular. But how that contribution can be maximised remains a big policy challenge.
- 1.2 This study of competitive European cities is firmly located in that wider context. It was commissioned and supported by the Core Cities Working Group, a partnership consisting of the 8 UK Core Cities (Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield) the 9 Regional Development Agencies and the departments of central government primarily concerned with national economic performance including the ODPM, the Treasury and the Departments of Trade and Industry, Transport and Culture, Media and Sport.

### Where do UK Core Cities stand?

- 1.3 The Working Group's agenda is to make cities drive urban renaissance and improve economic competitiveness at national and regional level. That agenda is large and has raised many issues for the Working Group, including:
  - the conditions which attract internationally competitive investors to the UK;
  - the allocation of public sector resources to Research and Development;
  - connecting regional cities to national and international markets;
  - the contribution of education and skills in strengthening city competitiveness;
  - planning mechanisms to help drive urban renaissance;
  - the role of sport and culture in competitive advantage;
  - fiscal measures to enhance competitiveness;

- the role of cities in creating competitive regions;
  - the characteristics of an internationally competitive regional city.
- 1.4 This agenda also marks a widening in focus from issues of social exclusion or environmental decline to issues of urban economic competitiveness. This was driven by a series of concerns, for example, that the Core Cities:
- are not punching their weight economically in the national context;
  - are falling behind London;
  - lack the right mix of responsibilities and resources to improve their performance;
  - are not as competitive, or do not make as great contribution to the national economic welfare, as comparable cities in continental Europe.
- 1.5 This report concentrates primarily on the last issue – the comparative economic performance of cities in the UK and Continental Europe. The Working Group believes that capital cities are different in many respects from non-capital cities and wanted to understand the dynamics and trends in the latter. So the study focuses primarily – although not exclusively – on non-capital cities. It certainly excludes the global capital cities of London and Paris. It tries to see whether – and if so how and why – the UK Core Cities perform less well and make a smaller contribution to national economic welfare than the successful non-capital cities on the Continent. In doing this it attempts to explain four deceptively simple questions:
- **What** are the characteristics and criteria of urban economic competitiveness?
  - **How** do UK and continental non-capital cities score on those criteria?
  - **Why** do those cities perform in this way?
  - **What** are the policy implications for partners at national, regional and local level?

## How do we try to answer the questions?

- 1.6 This study is the result of a review of these issues. It scanned the wider horizons of urban competitiveness in Europe. But it also focused on a small number of cities that we regard as particularly relevant comparators for the Core Cities. The report is based on a variety of different kinds of evidence including:
- a review of primary and secondary documents on urban change and development and national urban strategies in Europe;
  - a review of the literature on the meaning and measurement of urban economic competitiveness;
  - a review of quantitative data on the economic performance of over 50 large European cities;

- interviews with senior-decision-makers in national governments, cities and the European Commission;
- a postal questionnaire to economic development officials in over 30 European cities;
- more detailed reviews of Helsinki, Stockholm, Copenhagen, Lille, Amsterdam, Frankfurt Rotterdam, Dortmund Stuttgart, Munich, Lyon, Toulouse, Turin, Milan and Barcelona, including fieldwork in the last nine of those cities.

## Which cities did we choose to look at and why?

- 1.7 A key decision for the project was the choice of continental cities with which to compare the UK Core Cities. The initial brief proposed that the list should be drawn from the non-capital cities identified as competitive cities in the EU's Islands of Innovation report of 1994: Rotterdam/Amsterdam, the Ruhr cities, Frankfurt, Stuttgart, Munich, Lyon/Grenoble, Turin and Milan.
- 1.8 We considered this list was robust but a little limited. The cities were originally identified on the basis of the following criteria: co-operation links; contribution to research and development; scientific specialisms; and the presence of research institutions and businesses. While they are important we think the list missed some of the policy concerns identified in the Working Group's ten critical success factors and the questions raised in the study brief. For example, we think that whereas it is right to exclude London and Paris, which are primate and global capital cities, the experience of some smaller capital cities could be relevant to Core Cities. Equally the original list excluded Scandinavian and peripheral cities which had evidence to offer on the prospects of Core Cities. There was a preponderance of cities from one country, Germany. We also thought it was a little dated and did not include some interesting cities which are commonly seen to have performed well since 1994, for example Barcelona, Helsinki, Toulouse and Lille.
- 1.9 Our final decision was to revise and expand the original list to reflect these considerations and collect background evidence on the following 15 cities: Helsinki, Stockholm, Copenhagen, Amsterdam, Rotterdam, Lille, Toulouse, Lyon, Frankfurt, Dortmund, Stuttgart, Munich, Milan, Turin, and Barcelona. Subsequently we focused in depth and undertook case study work in the following smaller number, which we thought especially valuable comparators: Dortmund, Stuttgart, Munich, Lyon, Toulouse, Milan, Turin, and Barcelona
- 1.10 In this report we present a variety of tables and figures which provide evidence of economic and social performance of cities. They fall into two categories. The first are those where we have collected the data specifically for the project from the 15 continental cities and 8 Core Cities. In this we consistently try to compare the same sample, although, given practical difficulties, there are occasional data gaps. However, we have also assembled valuable quantitative data from a range of existing studies. Occasionally we present evidence from those surveys to give our study a comparative framework and to show where our cities fit in the wider European or international picture. These lists of high performing cities will therefore have more than our 23, will often include London and Paris and obviously will not contain all our 23 cities.

- 1.11 At the outset we add a series of health warnings. First, the study explores a wide range of issues and evidence about many cities in a number of large European countries. It works on a very large canvass and its approach is necessarily broad brush. It identifies some key trends, interesting practices and policy implications. But, inevitably it does not give detailed answers to all the questions in all the policy sectors raised.
- 1.12 Second, there is great diversity and complexity in the circumstances, challenges and opportunities facing European cities. There is no single model or policy response. This study tries to simplify that complexity and to identify key common trends, practices and principles. But we recognise that the world is not as simple as this study might sometimes indicate. There will always be exceptions to the rules we identify and qualifications to any bold statement.
- 1.13 Third, there are great dilemmas in trying to do policy learning – and more important policy transfer – from one country to another. We should not be naïve in expecting something that works well in one place necessarily to work well in another place, where there will be a different set of circumstances and players. The study can identify promising approaches and principles in Europe. But the implications for policy and practice in our Core Cities will have to be thought through and developed by all partners. They cannot be simply read off from there to here.
- 1.14 This report is structured in the following way.
- Chapter 2 reviews the wider processes and trends affecting European cities
  - Chapter 3 reviews the Core Cities current economic and social position
  - Chapter 4 discusses and defines urban competitiveness
  - Chapter 5 presents quantitative evidence on the comparative performance of European and Core Cities
  - Chapter 6 explores the explanations of their performance
  - Chapter 7 identifies the policy implications for the Core Cities Working Group

## CHAPTER 2

# Cities in Europe – what's going on?

## No man is an island

- 2.1 This study compares the economic performance and contribution of UK large provincial cities with their counterparts in continental Europe. It tries to suggest policy principles and lines of action to improve the performance of the UK cities. But in order to do that, it is important to be aware of the wider European context in which UK cities operate and the trends and processes in which they are engaged and by which they are affected. This Chapter provides some of that wider context.

## Changing perceptions of cities

- 2.2 The UK is not the only place in which interest in cities has been revived. In the last decade there has been a transformation in the perceptions of the role cities play right across Europe:
- Traditionally cities have been seen in their respective national economic hierarchies. Increasingly they are seen in a wider European economic context at least.
  - There has been a rapid growth in the development of networks to promote trading links, exchange good practice and promote the interests of cities at a European level.
  - There has been growing awareness of the contribution and potential of cities to Europe's economic competitiveness. Cities are increasingly seen as economic assets, not liabilities, which need to be exploited not only at a national but also at a European level.
  - But there has also been growing recognition of the double-edged character of much economic change in cities during this period. The search for economic growth has not always led to social equity but to social exclusion.

## Diversity and commonality

- 2.3 So in a large number of countries, as well as in Brussels, there is growing interest in the economic contribution cities can make to the national welfare. Of course, urban Europe remains enormously diverse. There is not a single model of a European city and the challenges are not the same in every city. Important differences in their economic structure and functions, social composition, size and geographical location shape the challenges cities

face. Equally, national differences in traditions and cultures, economic performance, institutional arrangements and government policy have an important impact upon cities. The problems of global cities like London or Paris or possibly Frankfurt are not those of medium-sized cities. Declining large industrial cities with exhausted manufacturing economies, less skilled work forces and substantial immigrant communities face different dilemmas from fast growing cities based upon high tech industries. Cities in the periphery face different economic, social and environmental challenges than those at the centre of Europe.

- 2.4 Nevertheless, despite the differences between them, cities are affected by common trends and face common challenges. In particular, the key challenge they face is to develop new models of decision-making, which will increase their economic competitiveness, but at the same time reduce social exclusion. Cities face this dilemma whether they are large or small, growing or declining economically, at the core or periphery of the European territory. And the challenge confronts decision-makers at all government levels – European, national, regional and local – and in all three sectors – government, private sector and civil society. Core Cities and UK policy makers are not alone in their concerns.

## The causes of change

- 2.5 However, although the challenges are faced by and within cities, they are caused by a number of structural changes, which are taking place outside cities and are primarily beyond their control. They are:
- Economic globalisation – with power going upwards from the nation state and the loss of local control.
  - Economic restructuring – which is creating divided labour markets and the Porsche-hamburger economy.
  - Competition between cities, regions and nations as well as firms, with winners and losers within as well as between cities.
  - The restructuring of welfare states with the loss of support for already vulnerable individuals, communities and areas.

## How well have European cities responded to the challenge?

- 2.6 Despite the challenges presented by globalisation, economic restructuring and institutional change, European cities have substantial economic, social and cultural assets – and potential. Much remains to be done – but already much has been achieved which can be built upon. Many of the factors which attract investment and people to particular places – the quality of labour, education and training, the cultural, residential and physical environment, the planning and fiscal regimes, the communication and transportation infrastructure remain under the influence – if not sole control – of cities. They can be affected by city policies, although increasingly in particular with other actors. And there are many examples of successful responses to the new challenges.

- 2.7 Many cities have achieved substantial physical regeneration, especially through the renovation of their city centres, which offer impressive commercial, residential, cultural and retail facilities. Many have concentrations of intellectual resources in universities and research institutions, which encourage high levels of innovation. Many play important roles as centres of communication, decision-making and exchange. Many have substantial cultural resources, which are increasingly the source of economic growth and job creation. Cities also have enormous integrative potential with the capacity to encourage community participation and civic identity. And despite the growth of exclusion, many cities remain ethnically and social diverse and offer vibrant cultural opportunities which attract visitors and residents. Within many cities there are flourishing neighbourhoods and communities with extensive levels of social capital which are the source of community empowerment.

## Do cities still matter anyway?

- 2.8 Trying to improve the economic performance of our larger cities assumes the effort is worth making. There are different views about how important cities are in contemporary Europe. Historically cities have critically shaped Europe's economic, social and institutional arrangements. But it has been argued that cities have been overtaken by events and are no longer the critical forces they once were in national economic competitiveness. The argument is based on a number of assertions. It has been argued that:
- Cities are now wholly fragmented economically, socially and institutionally and cannot be seen as united actors anymore.
  - The process of metropolitanisation has made central cities obsolete.
  - City networks have made traditional urban territorial boundaries obsolete.
  - Global capitalism has made European cities insignificant.
  - The increased mobility of labour, capital and ideas and the space of flows have made place and community less important in a globalised world.
- 2.9 There is something in these arguments. But other evidence suggests cities still do matter – and probably more rather than less. For example, the death of cities has been predicted many times before – without it actually happening. Also the challenge of metropolitanisation has been managed without the loss of identity or role for central cities. Even in large conurbations medium sized cities are not lost. More specifically the impact of globalisation means that the nation state can no longer do everything, which gives opportunities for cities. Cities still provide hugely important facilities and services. Cities still make decisions that are critical to business, consumers, environmentalists, and poverty groups. And it can be argued that place, space and community have become more – not less – important for identity and action in an increasingly globalised and insecure world. So cities are still critical sites for identity, action and decision-making – and also crucial to national economies.



## What are European governments doing about all this?

- 2.10 European countries have different economic trajectories, social systems, institutions, cultures and urban systems and policies. But despite this diversity, during the past decade there has been a convergence of views about the problems they face and the kinds of policy responses they should be adopting. In all countries, policy makers are grappling with the need to reduce centralisation, improve the performance of national and local governments, de-bureaucratise delivery systems and to create partnership mechanisms and cultures. Despite the institutional, financial, planning and legislative differences, three trends that transcend national boundaries are worth noting.
- 2.11 The first is that the balance between national, regional and local responsibilities and powers has been changing in many European countries. In particular, there has been a growing pattern of decentralisation of powers and responsibilities to lower levels of government. Traditionally decentralised countries like Germany have continued that process. But even countries more traditionally centralised like Belgium, France, Spain and Italy have been creating or increasing the authority of regional and urban institutions during the past decade.
- 2.12 National motives have varied. Sometimes the changes were in response to regional demands for greater territorial autonomy. Sometimes governments were anxious to dismantle centralised decision-making systems created in the post-war period. Sometimes national leaders were anxious to shift responsibility for difficult problems of urban economic restructuring down to local level. The degree of national fiscal support given to regional and urban institutions to face their new responsibilities varied and induced differing degrees of financial difficulties. Nevertheless, the important point is that decentralisation created greater autonomy and political space at the lower levels of decision-making, which many of Europe's most dynamic urban and regional leaders exploited to develop new political roles for themselves and new economic strategies for their areas. By contrast, where countries did less to decentralise, cities and regions have fewer powers and perhaps less capacity to generate local responses to economic restructuring.
- 2.13 A second general trend has been the emergence of more explicit national urban strategies in many European countries. The countries which urbanised first and hence experienced urban decline first – Britain, France and the Netherlands – were the first to develop systematic urban policies. But the trend has emerged in many other countries since then. The scale and sophistication of national strategies still varies and they remain relatively under-developed in some countries. But national recognition of the importance of cities and their opportunities as well as problems strengthened throughout the 1990s and will continue.
- 2.14 A third trend has been growing recognition of the economic potential of and opportunities for cities. This was encouraged by increased awareness of the importance of economic competition between nations and cities and the potentially increased pace of that process after the creation of the Single European Market. Urban leaders became more aware of the need to avoid falling behind the already successful European cities and to identify new economic niches in the European economy. But national leaders also became conscious of the potential contribution of cities to national economic competitiveness and performance.

In particular, in many countries the contribution of capital and larger cities was acknowledged and the governmental restrictions that had been placed upon their growth by redistributive regional and planning policies in the 1970s were frequently relaxed during the 1980s. This encouraged the economic and population resurgence of many cities but also encouraged the growth of economic competition between European cities. In these three ways, national strategies guarantee that cities will remain high on European agendas.

## So why does Europe matter to cities?

- 2.15 The European economy and European institutions have become an increasingly important consideration for and influence upon cities – economically and politically. Historically, cities emerged and flourished before nation states. But they subsequently lost influence as nation states emerged and began to do many of the things cities once did. It can be argued that the fact that European institutions have become more important and the nation state somewhat less, has led to new opportunities for European cities. It can be overstated – but there is truth in this argument. The growing significance of Europe has certainly not made the nation state disappear. But it has made a difference. It means that there are alternative geographical areas in which cities want to operate. There are new European as well as national regulations which affect cities. There are new sources of European money, which are important to cities at their budgetary margins. There are different decision-making arrangements in which cities can operate. Arguably all these developments have given space for city leaders to play new roles and exercise political influence. It has encouraged urban internationalism. It has encouraged greater entrepreneurialism. And it is an important reason why the Core Cities have become increasingly involved in European-wide city organisations and more interested in their relative economic standing in Europe.
- 2.16 What have been the economic and spatial consequences of this Europeanisation process? What does it mean for the Core Cities? There is considerable debate about whether a new urban hierarchy has emerged, whether any particular picture is entirely accurate and the extent to which it has replaced national or other hierarchies. Nevertheless, there is considerable evidence that the old economic order has changed. Older traditional cities have declined. New cities built on high tech activities have emerged. The overall spatial impact has been that the central core of Europe has been strengthened economically by these trends. Cities that have responded well to economic change have secured themselves a more important role in the European economic order. A few European cities – London, Paris, and possibly Frankfurt – have emerged as global cities as the location of international and European headquarters. And cities in the periphery have had to work very hard to close the gap with the leading central cities. This is the economic geography in which UK Core Cities have to operate. Where are they placed and how well are they performing? This report now turns to these questions. The next chapter looks at Core Cities in a national context. The following chapter puts them in their wider European comparative context.

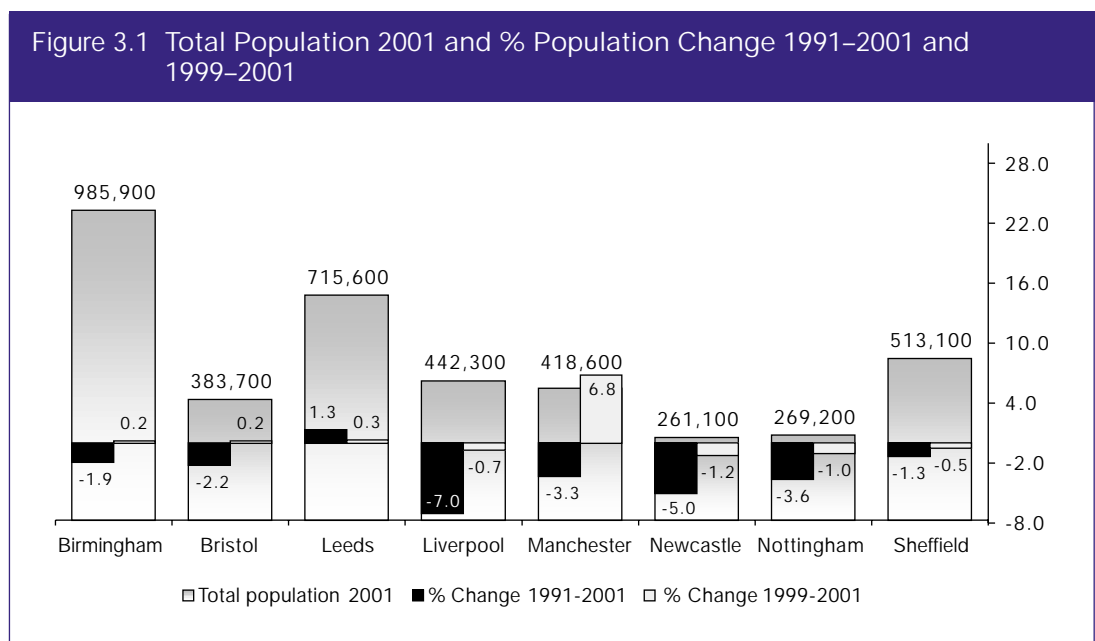
## CHAPTER 3

# What is the Core Cities' current position?

- 3.1 This study focuses upon the economic performance of Core Cities in relation to a series of leading European cities. However, before we begin that comparison it is worth taking stock of where the Core Cities themselves stand and how they have been performing during recent years. The evidence we present below is mixed. But it supports the view that – however uneven – a process or urban renaissance is taking place. The Core Cities have been through their worst period and are recovering economically.

## Fewer people are leaving ... and some more are moving into Core Cities

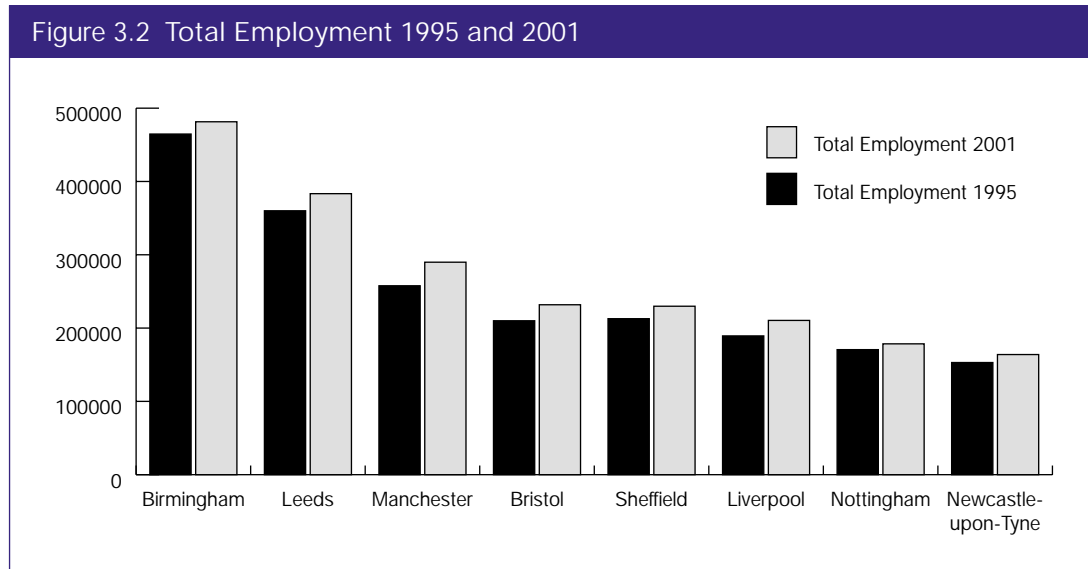
- 3.2 Nearly four million people live in the core cities. After the publication of 2001 Census data, mid-year population estimates have been revised. This revision suggests that the Core Cities are still struggling to retain their population with all the Core Cities except Leeds experiencing a fall in total population between 1991 and 2001. However, the rate of population decline is slowing and in several places the trend is starting to be reversed.



(Source: National Statistics, Mid-year population estimates, Crown Copyright)

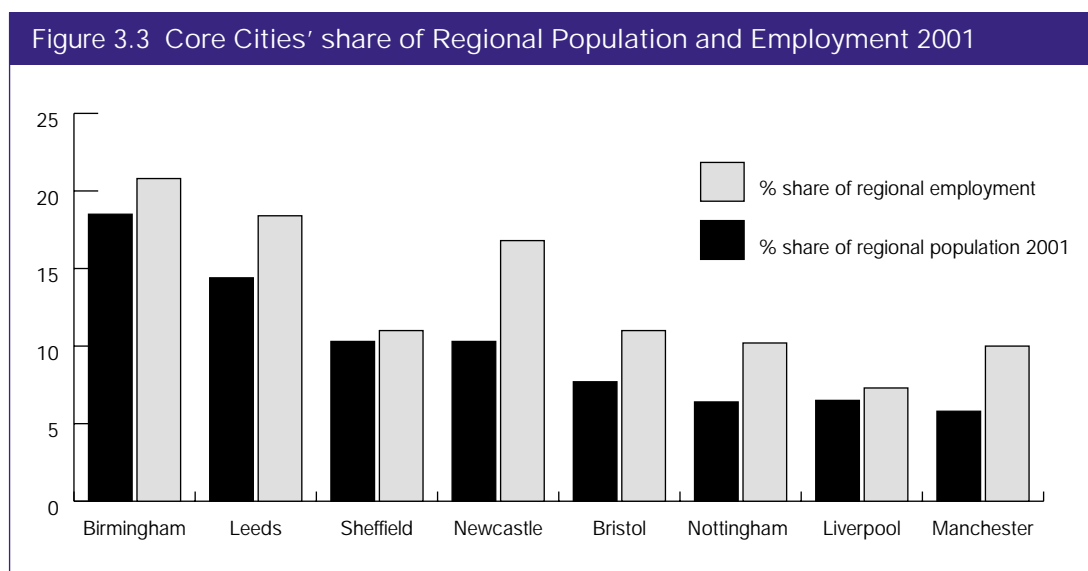
## More people are working in the Core Cities

- 3.3 More than 2 million people now work in the Core Cities, a figure that has increased steadily since the mid 1990's – up by 7.5% between 1995 and 2001.



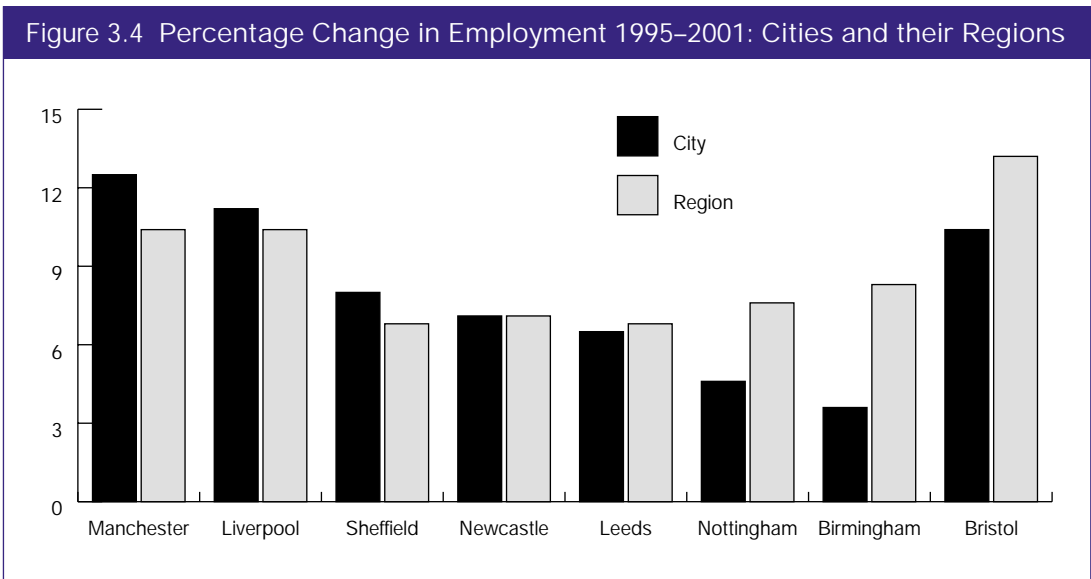
(Source: National Statistics Annual Business Inquiry, Crown Copyright)

- 3.4 The Core Cities act as regional employment centres, accounting for a higher proportion of their regions' total employment than population.



(Source: National Statistics Mid-year population estimates, and Annual Business Inquiry, Crown Copyright)

- 3.5 In terms of employment growth Manchester, Liverpool and Sheffield are outperforming their regions. Across the country the largest increases in employment have been experienced in London and the southeast.



(Source: National Statistics AES (revised data) and ABI, Crown Copyright)

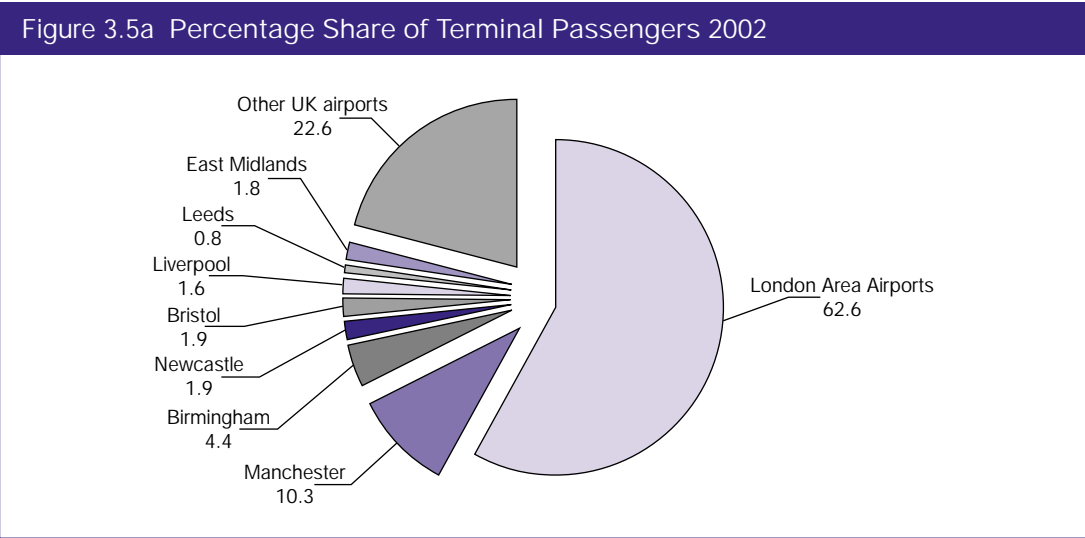
**Table 3.1 Percentage Change in Total Employment 1995–2001**

South East	19.4	West Midlands	8.3
London	16.3	East Midlands	7.6
South West	13.2	North East	7.1
Eastern	12.9	Yorkshire and The Humber	6.8
North West	10.4	Wales	8.9
Scotland	9.8	Great Britain	12.0

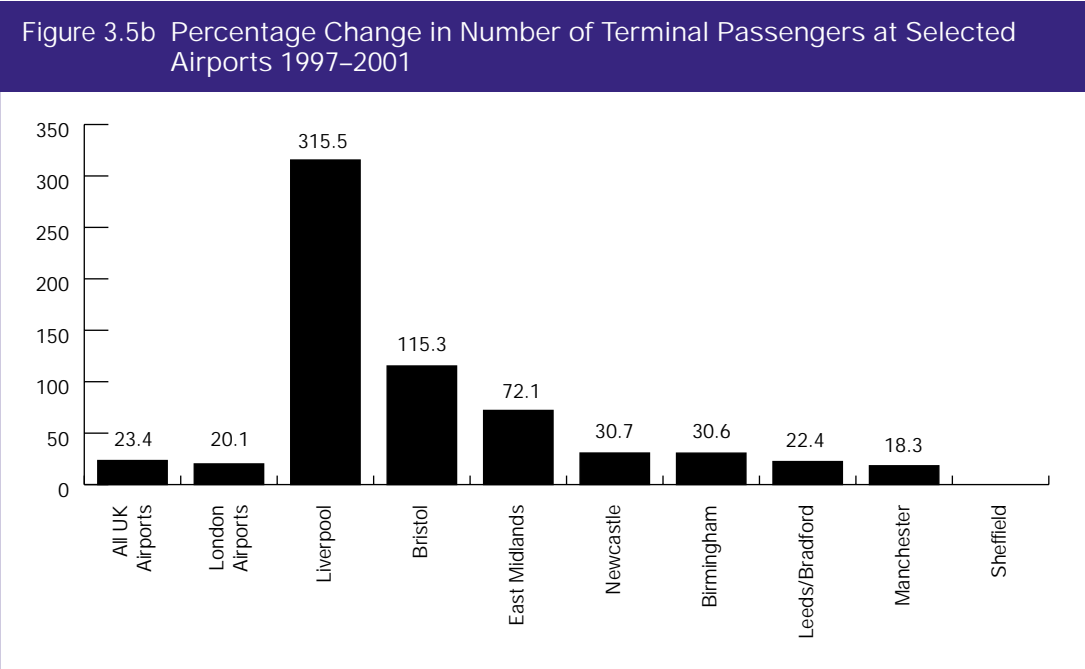
(Source: National Statistics AES (revised data) and ABI, Crown Copyright)

# Regional airports are growing

3.6 Air travel in the UK is dominated by the London Airports, which account for 62.6% of all passenger traffic. However, UK regional airports have experienced a recent period of unprecedented growth – with passenger numbers up by 29.5% between 1997 and 2002. The greatest growth in passenger numbers has been at Liverpool and Bristol Airports. Starting from a low base these airports account for only a small proportion of national passenger figures – just 1.6% and 1.9% respectively. However passenger numbers are up significantly – by 315% in Liverpool and 115% in Bristol. Sheffield no longer has scheduled flights.



(Source: Civil Aviation Authority)



(Source: Civil Aviation Authority)

## People in Core Cities are earning higher wages

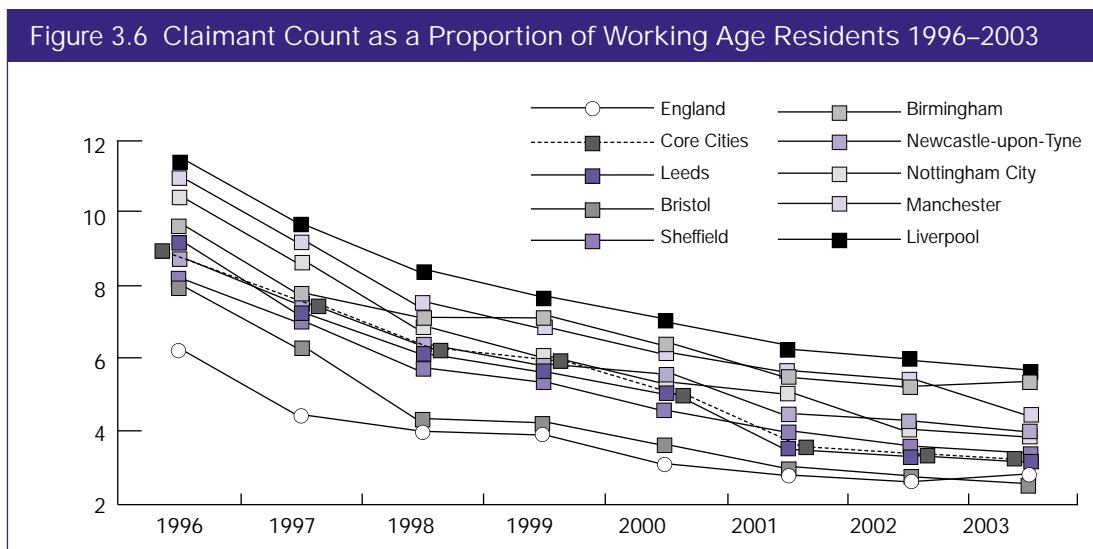
3.7 Full-time gross average earnings increased in the Core Cities by 15% between 1997 and 2002. In all the Core Cities average earnings are now higher than their regional average. The average full-time wage (gross) for those working in the Core Cities in 2002 was £439 per week compared to a national (GB) average of £465. The only Core City with full time earnings above the national average was Manchester. Between 2001 and 2002 those working full-time in the Core Cities saw their average weekly wage increase by 3.1% compared with a national increase of 4.6% and an increase in London of 18.9%.

	1999	2001	2002	% change 1999–2002	% change 2001–2002
Sheffield	£364	£398	£412	13.5	3.7
Newcastle upon Tyne	£356	£398	£410	15.2	3.1
Liverpool	£377	£411	£431	14.3	4.9
Leeds	£376	£414	£429	13.9	3.4
Birmingham	£399	£453	£460	15.1	1.3
Bristol	£400	£433	£454	13.6	4.9
Manchester	£402	£426	£469	16.6	10.1
Nottingham	£361	£381	£419	16.1	10.0
Core Cities	£385	£426	£439	14.1	3.1
London	£525	£595	£624	18.9	4.8
GB	£402	3444	£465	15.7	4.6

(Source: National Statistics/NOMIS New Earnings Survey)

## Unemployment is falling

3.8 Unemployment has fallen dramatically in the past seven years. Claimant count unemployment rates in the Core Cities are down – from 9.2% in 1996 to 4.3% in 2003. Despite this improvement the claimant count unemployment rate for the Core Cities remains 1.7 percentage points above the rate for England, a difference that has persisted for the last five years.

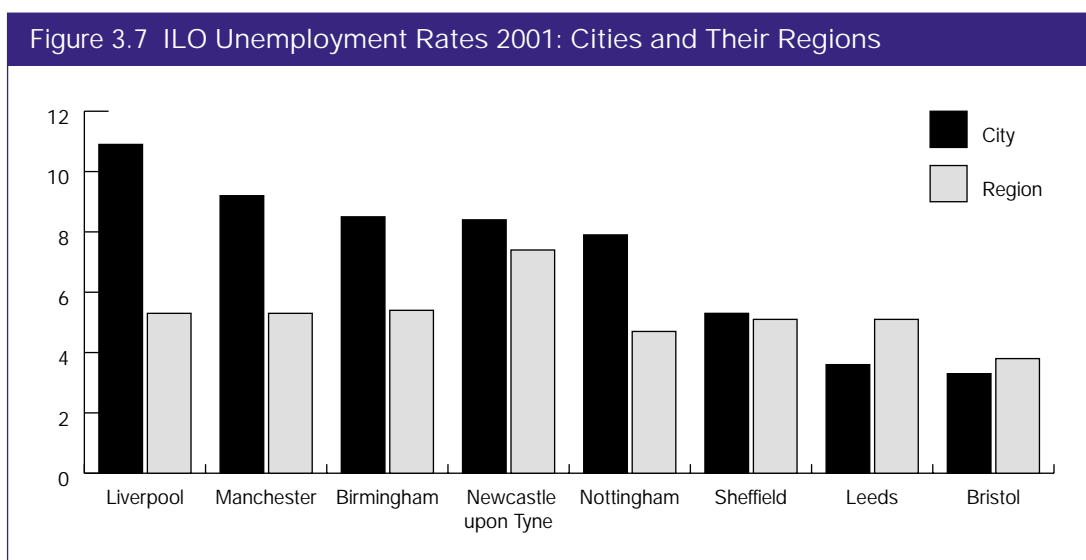


(Source: National Statistics/NOMIS Claimant Count, Crown Copyright)

- 3.9 The proportion of working age residents who are in receipt of unemployment related benefits has fallen by more than a half since 1996 in almost all the Core Cities – the only exception is Birmingham where claimant count rates are down from 9.6 to 5.4. Bristol is the only core city that has a claimant count rate below the national average.
- 3.10 The ILO Unemployment rate taken from the Labour Force Survey is generally considered to provide a more robust indication of unemployment levels. The broader definition of the ILO measure results in higher unemployment rates for the Core Cities. However, the trend is still downwards. The ILO unemployment rate in the Core Cities fell 41% between 1996 and 2001. Nationally the rate was down by 38%. However the overall fall masks significant variation between the Core Cities. In Bristol ILO unemployment was down 62%, standing at 3.3% in 2001, whilst in Manchester the rate fell by just 25% between 1996 and 2001.

	1996	1997	1998	1999	2000	2001	% change 1996-2001
Birmingham	13.6	11.5	10.4	10.1	10.7	8.5	-37.5
Leeds	7.8	6.2	5.6	5.3	5.0	3.6	-53.8
Sheffield	11.0	8.6	7.7	7.6	6.5	5.3	-51.8
Liverpool	16.2	13.9	13.8	11	11.1	10.9	-32.7
Manchester	12.3	14.7	11.4	11.8	8.6	9.2	-25.2
Bristol	8.7	8.4	8.2	5.9	4.7	3.3	-62.1
Newcastle upon Tyne	11.5	11.8	8.9	10.5	11.1	8.4	-27.0
Nottingham	11.9	11.7	7.9	10.1	8.6	7.9	-33.6
Core cities	11.5	10.3	9.0	8.6	8.0	6.8	-40.9
England	7.9	6.7	6.0	5.8	5.2	4.9	-38.0

- 3.11 In terms of unemployment Core Cities are performing behind their regions.

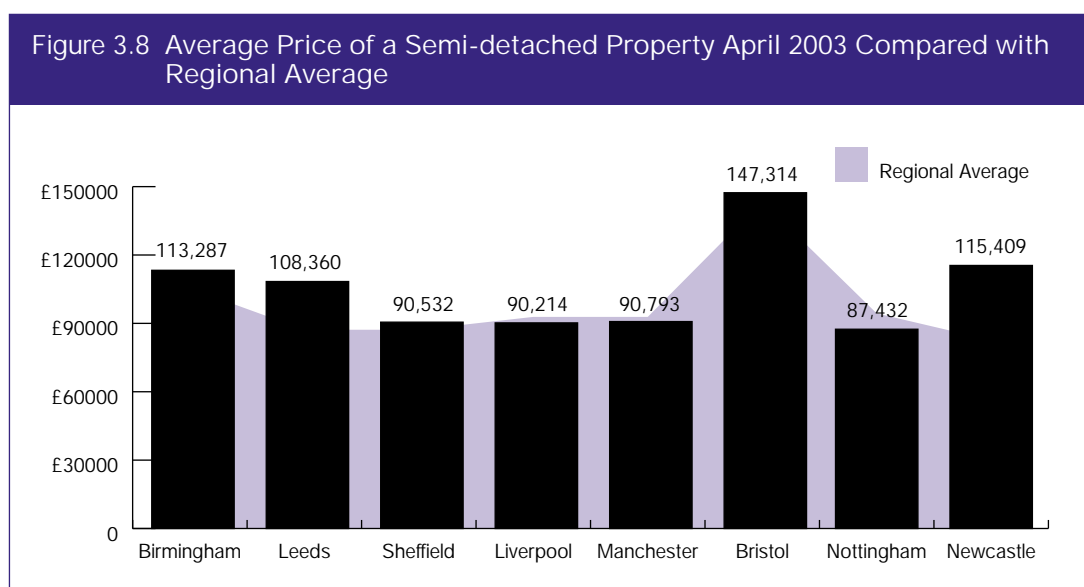


(Source: National Statistics/NOMIS Labour Force Survey Annual Data, Crown Copyright)



## House prices – going up . . .

- 3.12 Rising house prices are a further sign of economic buoyancy and in the Core Cities house prices are up. Property now tends to be more expensive than the regional average. The only exceptions are Liverpool, Manchester and Nottingham where prices still lag behind the regional levels. However things are changing here too, with the average price for a semi-detached property up by more than two thirds in Manchester, 62% in Liverpool and 83% in Nottingham over the last four years.



(Source: HM Land Registry , Crown Copyright)

- 3.13 With the exception of Bristol and Nottingham, house prices have been rising faster in the Core Cities than in the regions.

**Table 3.4 Average Price of Semi-detached Property Sold (Q1)**

	1999	2000	2001	2003	% change 1999-2003	Regional % change 1999-2003
Birmingham	£64,891	£69,747	£79,500	£113,287	74.6	73
Leeds	£61,886	£65,832	£73,736	£108,360	75.1	64.3
Sheffield	£54,643	£57,000	£65,553	£90,532	65.7	64.3
Liverpool	£55,547	£56,534	£66,285	£90,214	62.4	61.2
Manchester	£54,096	£60,484	£64,803	£90,793	67.8	61.2
Bristol	£82,863	£94,940	£116,118	£147,314	77.8	96.6
Newcastle	£59,753	£66,675	£72,587	£115,409	93.1	54.2
Nottingham	£47,715	£50,112	£57,191	£87,432	83.2	86.2

(Source: HM Land Registry , Crown Copyright)

## BUT PROBLEMS REMAIN

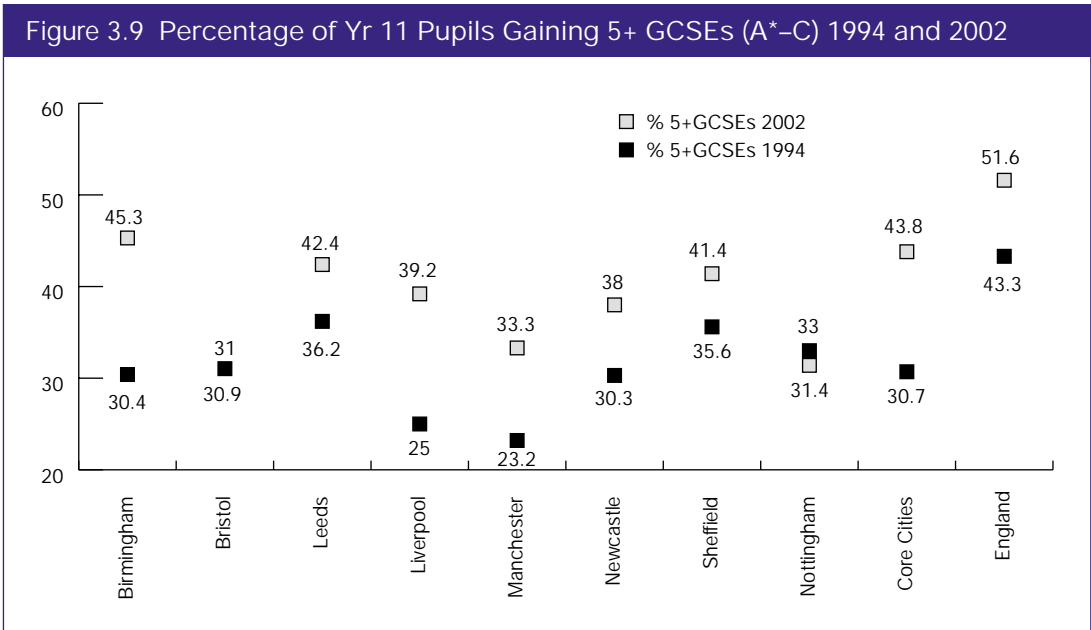
- 3.14 Despite this improved economic performance, it is not all good news in the Core Cities. In many spheres their performance still lags behind regional and national performance and social problems remain concentrated in urban areas.

## Educational attainment – it's not good, but it is getting better . . .

- 3.15 The educational attainment of young people living in the Core Cities is poor. Historically the number of young people living in cities and attaining qualifications has been lower than the national and regional average. Of the year 11 pupils completing their GCSEs in the Core Cities in 1994 only 30.8%<sup>1</sup> had achieved 5 or more passes at a higher grade – (A\* to C). This is 12.3 percentage points behind the English average of 43.3%<sup>2</sup>. In the same year 13.5% of year 11 pupils in the Core Cities – almost 5,500 young people – completed their compulsory education without gaining any GCSEs, compared with an English average of 7.7% of pupils.
- 3.16 Since 1994 all the Core Cities have made significant improvements in their educational performance. The most dramatic changes have taken place in Liverpool and Birmingham, where the number of pupils gaining 5+ GCSEs at grades A\*-C increased by 15 and 14.2 percentage points respectively between 1994 and 2002. Whilst all Core Cities experienced an increase in the number of year 11 pupils gaining more than 5 GCSEs at grades A\*-C, improvements have also been made at the national level – with a pass rate up from 43% in 1994 to 51.6% in 2002. This means that despite the improved pass rate the Core Cities are yet to make any significant impact on the difference between their performance and the National average.
- 3.17 During the past six years there has been a significant **reduction** in the number of year 11 pupils in the Core Cities completing compulsory education **without** achieving any GCSEs, down from 13.5% in 1994 to 8.6% in 2002. There has also been a narrowing in the gap between the percentage of year 11 pupils in England completing their education without gaining any GCSEs, and the average for the Core Cities – reduced from 5.8 to 3.2 percentage points. Despite the relatively low levels of educational attainment levels at year 11, the Core Cities have a high proportion of their year 11 pupils staying on in full-time education. Across the Core Cities 56.7% of 16 to 19 year olds were in full-time education in 1999 compared to a national average of 57.4. Liverpool, Manchester and Sheffield all had staying on rates higher than the average for England.

1 1994 Data is not available for Bristol

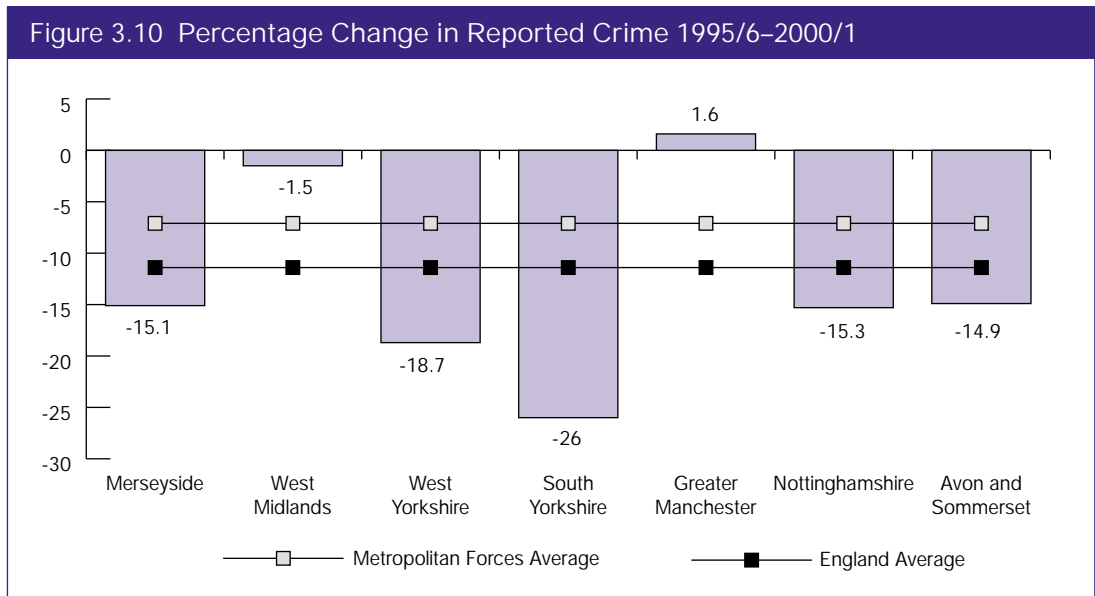
2 Source: DfES School Performance Tables



(Source: DIES School Performance Tables, Crown Copyright)  
Bristol data for 1996 and 2002

## The Core Cities are becoming safer – reported crime rates are falling . . .

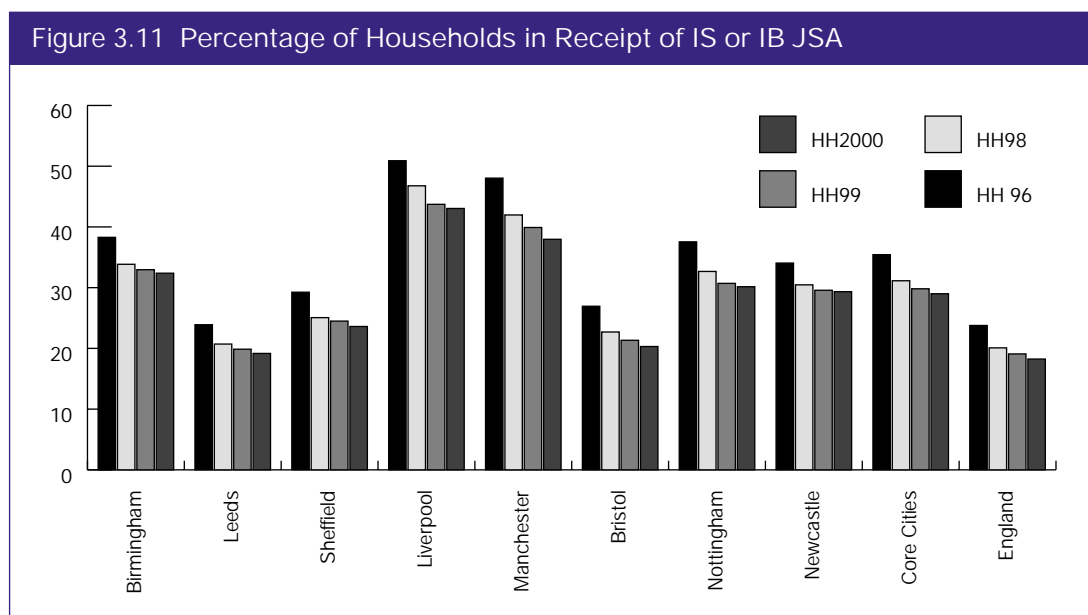
- 3.18 The Core Cities are becoming safer. Over the last five years reported crime has fallen in all but one of the metropolitan areas surrounding the Core Cities. And in most Core Cities the number of reported crimes has fallen faster than the English or metropolitan averages.



(Source: Home Office, Research Development Statistics, Crown Copyright)

## Despite recent falls, the number of households in receipt of income related benefits remains high

- 3.19 Households entitled to income-based benefits can be classified as 'very low income households' and include a high proportion of pensioners. Income Support (IS) and Income Based Job Seekers Allowance (IB-JSA) are paid to claimants to bring their income up to the 'applicable amount'. Between 1996 and 2000 the number of households in the Core Cities in receipt of IS or IB-JSA fell by 18% – 107,000 fewer households were in receipt of these types of benefit. Across England there were 20% fewer claimants of IS and IB-JSA between 1996 and 2000 with the greatest falls in the number of claimants in London (-24%) and the south east (-25%). Most of the Core Cities are outperforming their regions in terms of falling numbers of IS and IB-JSA claimants. The only exceptions are Liverpool, Birmingham and Nottingham.



(Source: National Statistics Neighbourhood Statistics/DSS, Crown Copyright)

- 3.20 This chapter has demonstrated that the process of urban renaissance has begun and Core Cities have come through the worst of economic restructuring. There has been considerable progress across a wide range of sectors. In some respects in recent years Core Cities have been performing as well as, if not better than, their regions. There are real grounds for optimism, even if substantial social problems remain. The question is where does that recent progress leave them in comparison to the leading European cities. The next chapter turns to that question.

## CHAPTER 4

# Urban Competitiveness: What do we mean, how do we measure it?

- 4.1 There is debate about the meaning of urban competitiveness. We follow Michael Storper and define it as the ability of an economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it. The competitiveness of cities is not just about the income of firms but also how that income goes to residents. And competitiveness is different from competition. Competition can be a zero-sum game, in which if one city wins another loses. By contrast cities can all increase their competitiveness at the same time, so that all cities and the national economy can simultaneously grow and benefit. (Appendix 1 provides a full discussion of the technical issues raised by this chapter of the report.)
- 4.2 There is an important difference between urban competitiveness and urban renaissance. They are related but not identical issues. This distinction has already been recognised by the Core Cities Working Group in its reactions to the Treasury's paper on regional competitiveness, which identifies five key drivers of urban competitiveness. The Working Group has made the point that a number of features which are central to the renaissance agenda – quality of decision-makers and decision-making, social cohesion, quality of life – are not included in those five drivers but may still contribute to a city's economic competitiveness. This study tries to say something about both those dimensions.

## Economic competitiveness – what matters?

- 4.3 The study was asked to explore and assess the ten potential characteristics of a competitive city:
- strategic transport and IT connections to markets and good internal connectivity;
  - a city centre of European distinctiveness;
  - nationally and internationally recognised facilities for events;
  - a reputation for advanced research, development and innovation;
  - a reputation for effective governance and efficient services;
  - sophisticated cultural infrastructure and services;

- a wide range of high quality residential choices;
- a reputation for environmental excellence and responsibility;
- an inclusive and diverse society;
- a highly skilled workforce.

4.4 We added some others which our previous research and literature review suggested would be equally important:

- Vision, leadership and strategic decision-making capacity.
- Innovation in firms and organisational behaviour in cities.
- Fiscal incentives available to cities.
- The impact of national governments policies, including their strategic support for national urban development and the powers and resources given to cities.

4.5 Our first task was to get the views of researchers and policy makers about the relative significance of these factors. We did this in two ways. We undertook an extensive review of academic and consultancy research on the nature and roots of economic competitiveness to identify the key factors. (Appendix 2 provides the bibliography.) We also explored and tested the views of a wide range of economic development officials in over 30 European cities, including the Core Cities, with our structured questionnaire, which was administered by Eurocities<sup>1</sup>. That questionnaire asked them: to rank the importance of the various factors on a range from 1 to 10, assess their own cities standing on each and indicate their views about a range of urban policy issues in their cities and countries. (The questionnaire can be found in Appendix 3)

4.6 The first thing to say is that there was a substantial amount of agreement between researchers and policy makers about what matters for city competitiveness. Second, replies to the questionnaire demonstrated an interesting convergence amongst policy makers from a wide of variety of cities in different economic circumstances, from the west, east and accession countries, about these issues. Third, there are surprisingly accurate assessments by these policy-makers about the relative position of their cities in the European hierarchy. Fourth, Core City colleagues were very aware of their relative underperformance in relation to continental cities. Of the long list of factors we presented to our policy-makers, some are clearly seen as primary drivers, some are seen as secondary and others are seen as rather less important causes of economic competitiveness.

### CRITICAL DRIVERS

4.7 There is clear agreement that a small number of factors are really critical to competitiveness. A large majority of respondents rated 9 or 10 – meaning they were absolutely critical to competitiveness – the following:

1 Eurocities: An organisation that fosters a networking spirit amongst Europe's large cities.

- innovation in firms and organisations;
- skilled workforce;
- connectivity internal and external;
- economic diversity;
- strategic decision-making capacity.

#### IMPORTANT DRIVERS

- 4.8 There were, however, differences of views amongst respondents about the significance of the social cohesion agenda. There were diverse responses, for example, about how important diversity and social cohesion were to economic competitiveness. The range was greater but typically respondents gave a score of 5–6 – that is relatively important – to an inclusive and diverse society.

#### MORE AMBIGUOUS DRIVERS

- 4.9 The research literature on competitiveness typically does not look at some of the softer location factors. However, our questionnaire to policy-makers explored this in some depth. A number of the features on the list were rated quite important – but typically around 3 and 4 – by a majority of people. These would include for example:

- exhibition facilities;
- a distinctive city centre;
- cultural facilities;
- quality housing;
- fiscal incentives to cities;
- national policies;
- a reputation for environmental excellence and responsibility;
- a reputation for effective governance and efficient services.

- 4.10 Obviously those lower rankings do not mean these issues were not important – only rather less critical – to economic competitiveness. We return to the relative weight to be attached to these factors later in this report. However, this process did give us a clear steer on which factors to concentrate on in subsequent phases of our study. The next chapter of this report provides some of the quantitative evidence from our review of these issues. The following chapter provides more qualitative material from our case study work.

## CHAPTER 5

# How do core cities match up to their European competitors?

- 5.1 The quantitative analysis in this chapter focuses upon a variety of the indicators identified above as potentially important. It first reviews the evidence on three of the key characteristics of competitiveness identified in our literature search and survey of policy makers – innovation, connectivity and skilled workforce. Then it provides evidence about connectivity, social cohesion and the private sector's views of the relative attractiveness of different European cities. This is a complex, rather messy area. Experts disagree about the relative merits of indicators. There is never perfect data with which to illustrate such indicators. Boundaries always present difficulties. Rather than let the best drive out the good, we collected and used the most robust available evidence from the most reliable sources, occasionally where urban data was not available for the wider region. As a measure of competitiveness, we collected GDP per capita. As a measure of innovation we used the EU innovation score for regions. For a measure of skilled workforce, we chose the percentage of workforce with qualifications to ISCED<sup>1</sup> level 3. For external connectivity we chose traffic through airports and Internet connections. For the social cohesion measure we collected unemployment rates and population dependency. To get private sector views we used the most reliable and consistent surveys by Healey and Baker, worldwide property consultants.
- 5.2 We collected data about a pool of 15 continental cities along with the 8 Core Cities. But where available we have reproduced data for a larger number of European cities to put our sample into a wider context. How do these indicators work and what do they tell us about the comparative performance of UK cities? The picture is not a very happy one. The evidence is that the Core Cities do significantly lag behind the best continental cities in economic competitiveness.
- 5.3 Table 5.1 shows the GDP per capita of the top 61 cities in Europe.

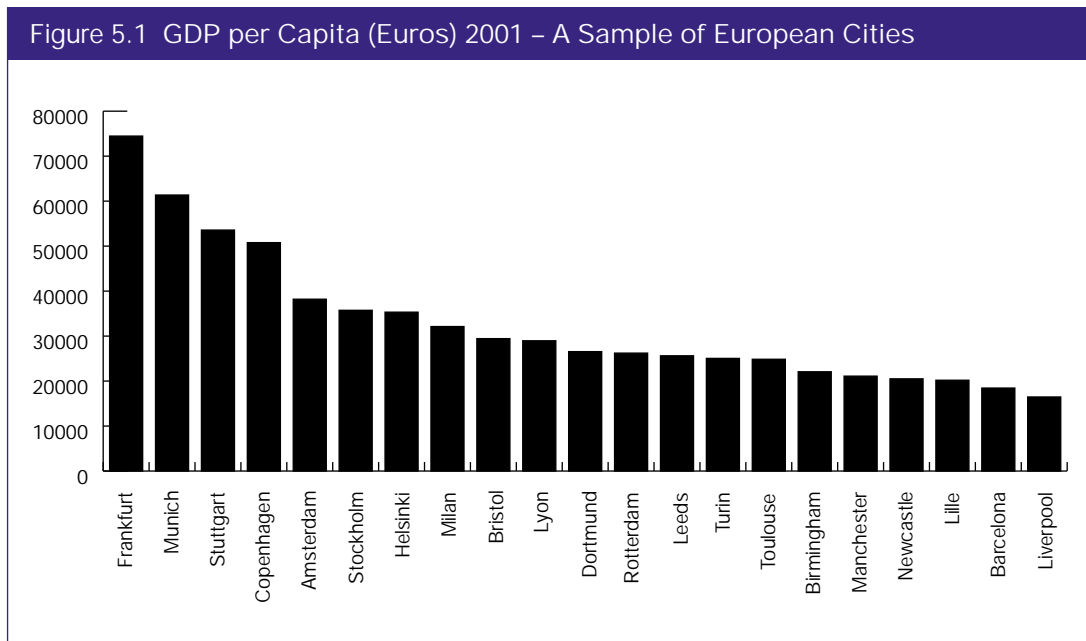
<sup>1</sup> ISCED: International Standard Classification of Education



Table 5.1 GDP per capita 2001 of the top 61 cities in Europe					
Rank	City	Euros per capita	Rank	City	Euros per capita
1	Frankfurt am Main	74,465	32	The Hague	30,110
2	Karlsruhe (Germany)	70,097	33	Essen (Germany)	29,760
3	Paris	67,200	34	Bristol	29,437
4	Munich	61,360	35	Lyon (France)	28,960
5	Düsseldorf	54,053	36	Bologna (Italy)	28,282
6	Stuttgart	53,570	37	Bochum (Germany)	27,900
7	Brussels	51,106	38	Parma (Italy)	27,491
8	Copenhagen	50,775	39	Dortmund (Germany)	26,548
9	Hanover	47,223	40	Rotterdam	26,227
10	Hamburg	43,098	41	Strasbourg (France)	26,015
11	Mannheim	41,674	42	Florence (Italy)	25,693
12	Nuremberg	41,456	43	Leeds	25,619
14	Augsburg (Germany)	39,360	44	Duisburg (Germany)	25,259
14	Cologne	39,108	45	Eindhoven (Netherlands)	25,226
15	Amsterdam	38,203	46	Turin	25,042
16	Münster (Germany)	38,149	47	Toulouse	24,852
17	Wiesbaden (Germany)	37,454	48	Rome	24,766
18	Dublin	36,591	49	Bordeaux	24,252
19	Vienna	36,572	50	Malmö (Sweden)	24,233
20	Stockholm	35,733	51	Gothenberg (Sweden)	24,065
21	Gelsenkirchen (Germany)	35,688	52	Grenoble (France)	24,026
22	Helsinki	35,322	53	Verona	23,954
23	London	35,072	54	Berlin	23,428
24	Bremen (Germany)	35,022	55	Marseilles	22,809
25	Edinburgh	35,018	56	Birmingham	22,069
26	Bonn	34,112	57	Manchester	22,099
27	Antwerp (Belgium)	33,090	58	Newcastle-upon-Tyne	20,499
28	Milan	32,122	59	Lille	20,191
29	Glasgow	31,893	60	Barcelona	18,449
30	Utrecht	31,712	61	Liverpool	16,466
31	Saarbrücken (Germany)	30,368			

(Source: Barclays Bank 2002)

- 5.4 Figure 5.1 shows the performance of our smaller selected continental cities and Core Cities. A number of features are obvious in both illustrations. Capital cities tend to be at the top of the league table. Large cities tend to do well. German cities, despite the country's current economic difficulties, perform very well with 15 out of the top 20. The Core Cities do not perform well. Bristol and Leeds, at 34 and 43 respectively, perform best. But several are at the bottom of the list. (Sheffield and Nottingham were not included in the study) The majority of Core Cities have GDPs less than one-third of the richest cities in Europe.



(Source: Barclays 2002)

- 5.5 For comparison of GDP, employment and productivity we include the evidence from Business Strategies Limited analysis. Their report '*What Makes Euro Regions Prosper?*' uses three measures of regional prosperity:

- GDP per head of working age population (adjusted for commuting);
- employment rates (FTE employment divided by working age population adjusted for commuting);
- productivity – GDP per head of working age population adjusted for commuting divided by FTE employment – at purchasing power standard.

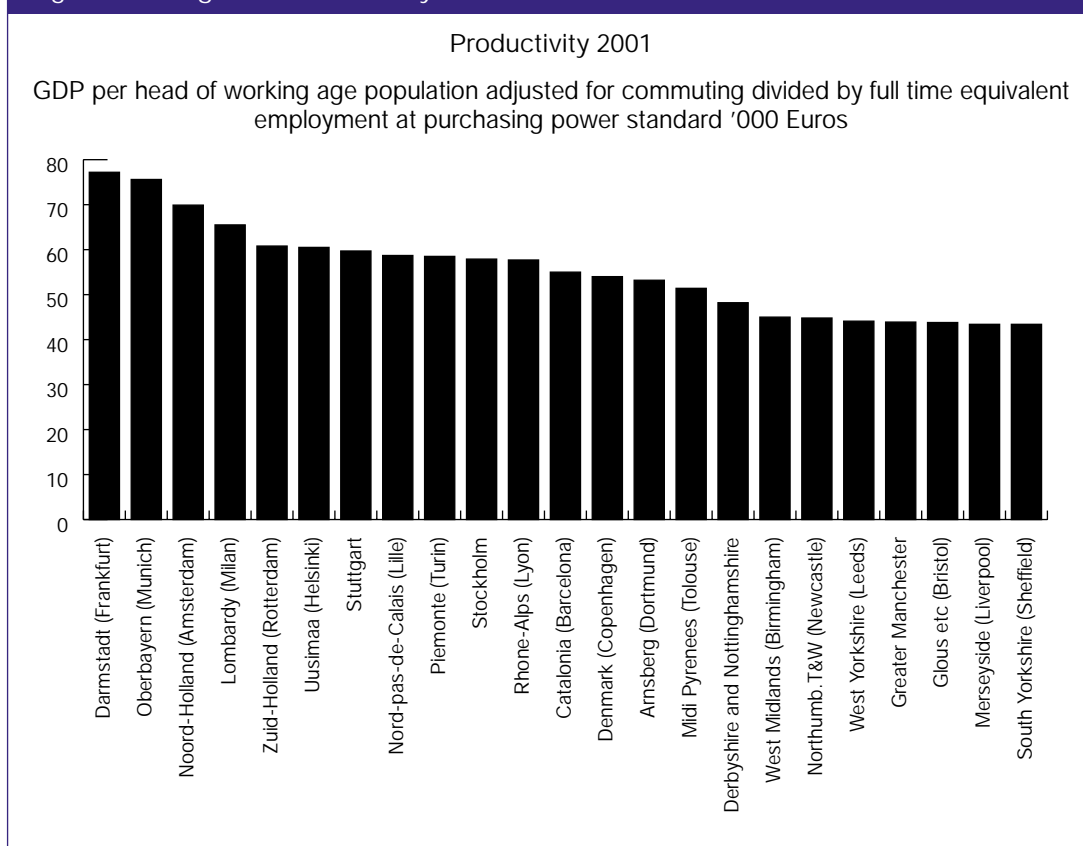
As expected those regional cities with high levels of productivity also have high GDP. More important, the underperformance of UK cities is clearly demonstrated (table 5.2).

Table 5.2 Measures of Regional Prosperity				
Region	City	GDP per head (000 Euros)	Employment Rate	Productivity (000 Euros)
Luxembourg	Luxembourg	57.4	58.5	98.2
Oberbayern	Munich	49.6	65.6	75.6
Hamburg	Hamburg	49.1	63.6	77.1
Darmstadt	Frankfurt	47.1	61.0	77.2
Brussels	Brussels	45.3	83.1	54.6
Ile de France	Paris	45.1	58.6	76.9
Picardie		44.2	83.1	53.2
North Eastern Scotland		43.5	87.5	49.8
Berks. Bucks. Oxford		41.8	81.9	51.0
Uusimaa	Helsinki	41.5	68.6	60.5
Stockholm	Stockholm	40.4	69.8	57.9
Stuttgart	Stuttgart	38.5	64.5	59.7
Lombardy	Milan	38.4	58.6	65.5
Beds and Hertfordshire		37.2	80.2	46.3
Denmark	Copenhagen	36.7	68.1	54.0
Zuid-Holland	Rotterdam	36.7	60.4	60.8
Noord-Holland	Amsterdam	34.3	49.1	69.9
Piemonte	Turin	33.2	56.8	58.5
Catalonia	Barcelona	32.1	58.3	55.0
Rhone-Alps	Lyon	30.2	52.4	57.7
Derbyshire & Nottinghamshire	Nottingham	30.0	62.4	48.2
Glous, Wiltshire, N Somerset	Bristol	29.8	68.0	43.8
Arnsberg	Dortmund	29.7	55.9	53.2
Nord-pas-de-Calais	Lille	28.9	49.3	58.7
Midi Pyrenees	Toulouse	27.9	54.3	51.4
West Yorkshire	Leeds	26.7	60.5	44.1
Greater Manchester	Manchester	25.5	58.0	43.9
West Midlands	Birmingham	25.1	55.9	45.0
Northumberland, Tyne & Wear	Newcastle	23.9	53.3	44.8
South Yorkshire	Sheffield	23.9	55.0	43.4
Merseyside	Liverpool	22.2	48.7	43.4

Top five scores in each index are in bold (Source: Business Strategies Ltd *What Makes Euro Regions Prosper* 2001)

- 5.6 Figure 5.2 develops the productivity analysis and provides data about our smaller sample. The Core Cities' underperformance is clearly marked.

Figure 5.2 Regional Productivity



(Source: Business Strategies Ltd., *What Makes Euro Regions Prosper*, 2001)

- 5.7 Our analysis so far indicates that innovation, skilled workforce and connectivity are critical drivers of urban competitiveness. The following chapter provides comparative data about all three.

## How innovative are Core Cities?

- 5.8 Table 5.3 again shows the performance of the top 50 European regions – rather than cities – on innovation. The European Innovation Scoreboard has seven indicators:

- tertiary education;
- participation in Life-long learning;
- employment in medium/high-tech manufacturing;
- employment in high tech services;
- public R&D expenditure;
- business R&D expenditure;
- high-tech patent.

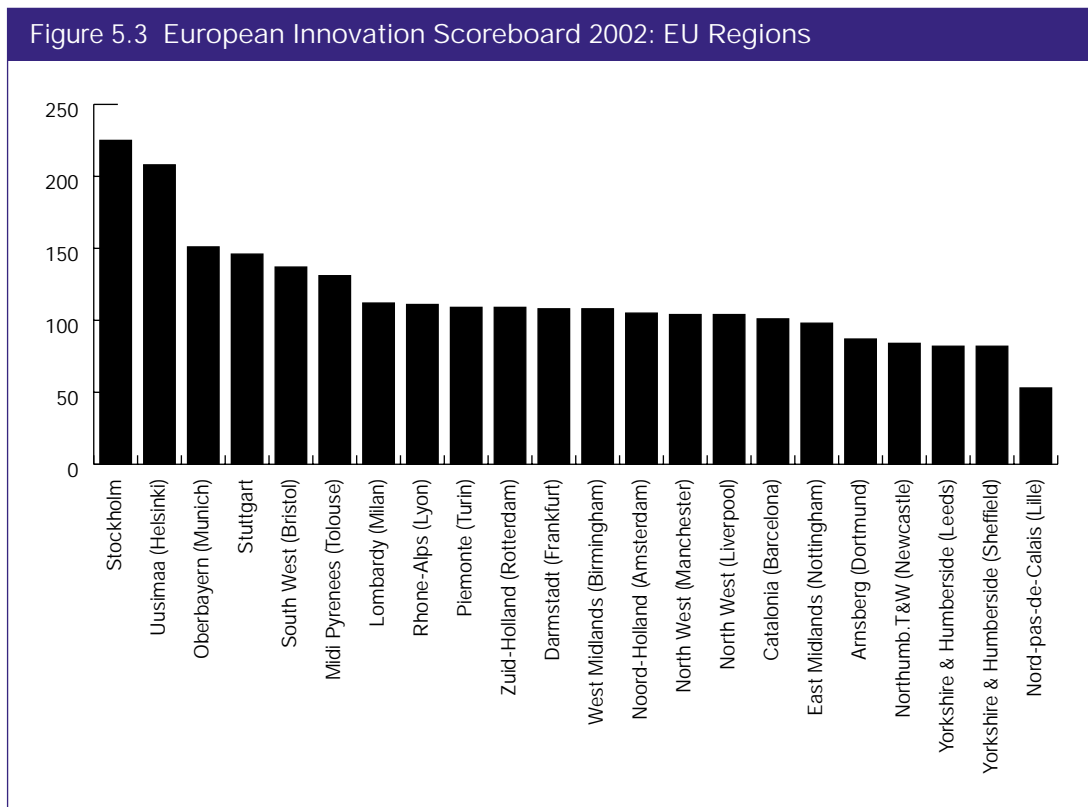
These are combined to generate a Revealed Regional Summary Innovation Index (RRSII), which compares each region against the EU mean.

Table 5.3 European Innovation Index – Top 50 scoring regions				
Region	City	Country	Rank	Score
Stockholm	Stockholm	Sweden	1	225
Uusimaa	Helsinki	Finland	2	208
Noord-Brabant		Netherlands	3	191
Pohjois-Suomi		Finland	4	161
Eastern		UK	4	161
Île de France		France	6	160
Bayern	Munich	Germany	7	151
South East		UK	8	150
Comunidad de Madrid		Spain	9	149
Baden-Württemberg	Stuttgart	Germany	10	146
Sydsverige		Sweden	11	143
Berlin		Germany	12	140
Östra Mellansverige		Sweden	12	140
South West	Bristol	UK	14	147
Västsverige		Sweden	15	146
Midi-Pyrénées	Toulouse	France	16	141
Wien		Austria	17	126
Etelä-Suomi		Finland	18	124
Utrecht		Netherlands	19	123
Flevoland		Netherlands	20	114
Vlaams Gewest		Belgium	22	112
Lombardia	Milan	Italy	22	112
Kärnten		Austria	23	111
Région Bruxelles		Belgium	23	111
Rhône-Alpes	Lyon	France	23	111
Lazio		Italy	26	110
Piemonte	Turin	Italy	27	109
Zuid-Holland	Rotterdam	Netherlands	27	109
Hessen		Germany	29	108
Southern and Eastern		Ireland	29	108
West Midlands	Birmingham	UK	29	108
Groningen		Netherlands	32	107
Comunidad Foral de Navarra		Spain	33	105
Noord-Holland		Netherlands	33	105
Limburg (NL)		Netherlands	33	105
North West	Manchester Liverpool	UK	36	104
Hamburg		Germany	37	103
Scotland		UK	38	102
Cataluña	Barcelona	Spain	39	101
Gelderland		Netherlands	39	101
Väli-Suomi		Finland	41	100
London		UK	41	100
Mellersta Norrland		Sweden	43	99
East Midlands	Nottingham	UK	44	98
Övre Norrland		Sweden	45	97
Ceuta y Melilla		Spain	46	95
Franche-Comté		France	46	95
Sachsen		Germany	48	94
Lisboa e Vale do Tejo		Portugal	48	94
Attiki		Greece	50	93

(Source: European Trend Chart on Innovation Technical Paper No3 EU Regions 2002)

5.9 Even though the precise ranking varies, a familiar pattern emerges. Northern European cities and countries perform well – Sweden, Finland, Netherlands and Germany. Few southern European cities perform well, except for Madrid. German cities as a group perform well. From the UK only London and the southeast make the top ten. Of the Core Cities, Bristol leads. But the remainder falls in the bottom 25, with innovation scores about half that of the high performing regions.

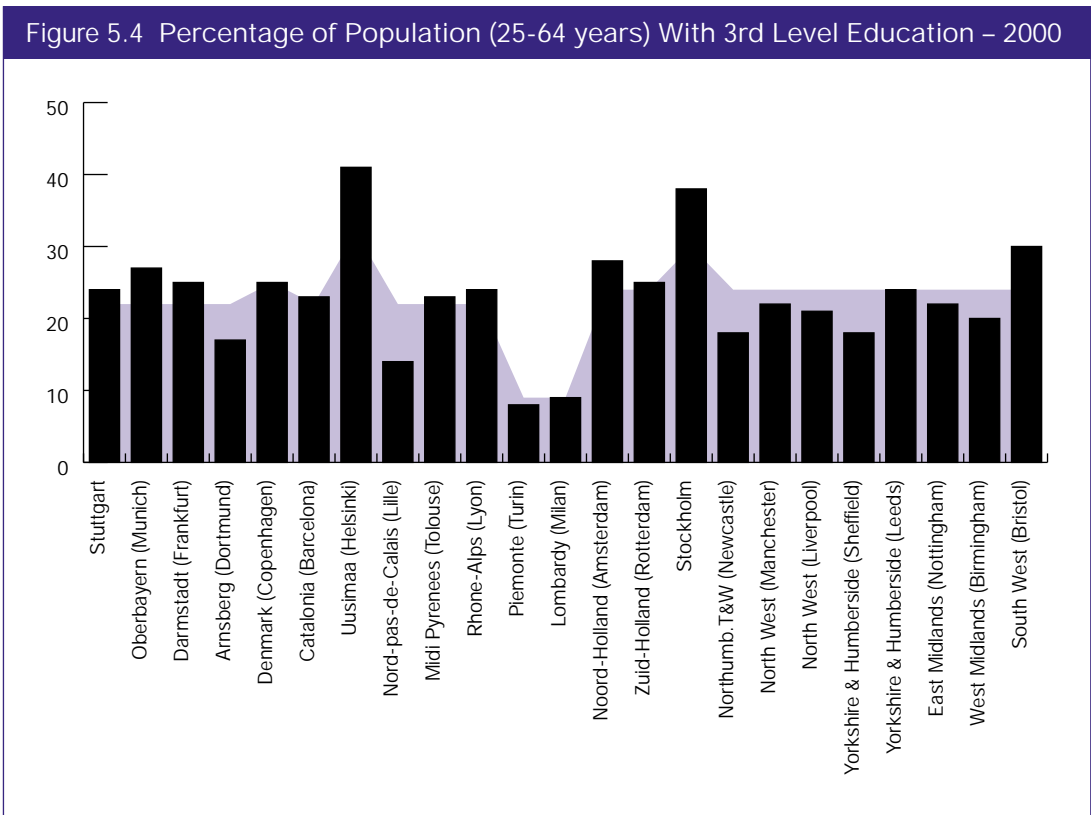
5.10 Figure 5.3 shows the performance of our smaller selection of cities. Obviously the pattern is the same.



(Source: 2002 European Innovation Scoreboard Technical Paper No 3 EU Regions (2002))

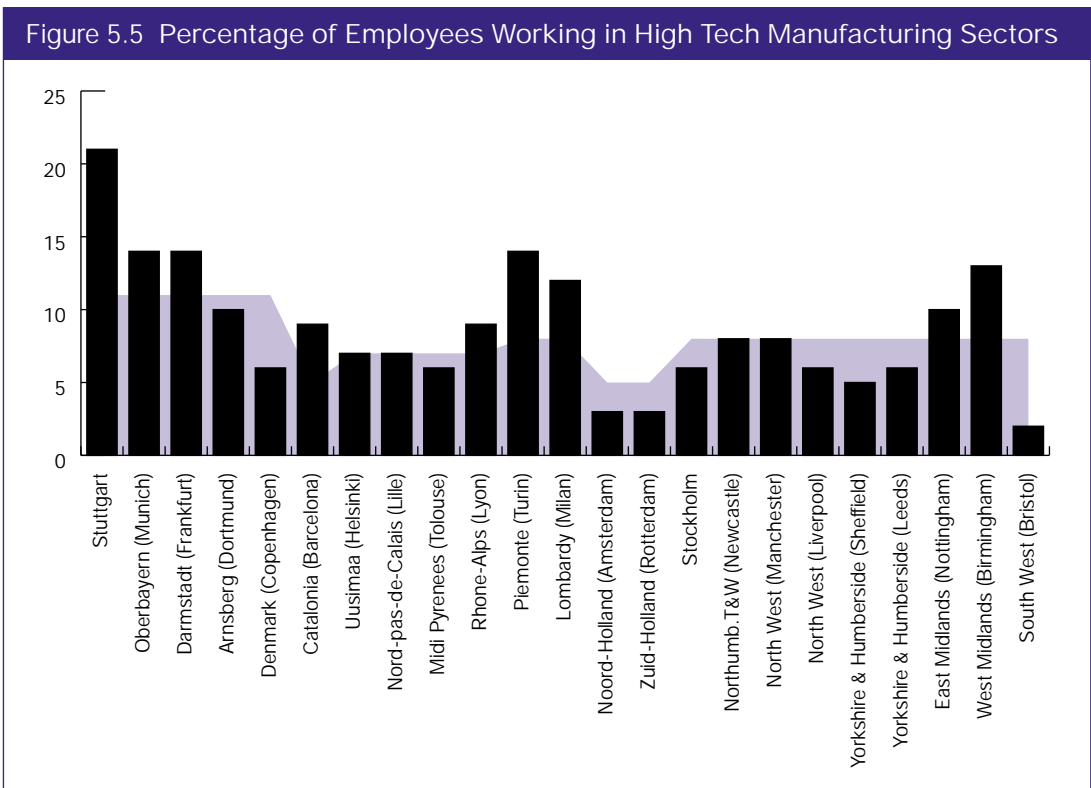
## How well educated is our workforce?

5.11 Figure 5.4 shows the qualifications of the workforce of our sample cities in their regional context. A familiar pattern emerges. Northern European cities, especially German ones, perform well. Bristol and Leeds perform best of the Core Cities. But again the majority congregate at the bottom part of the league table.

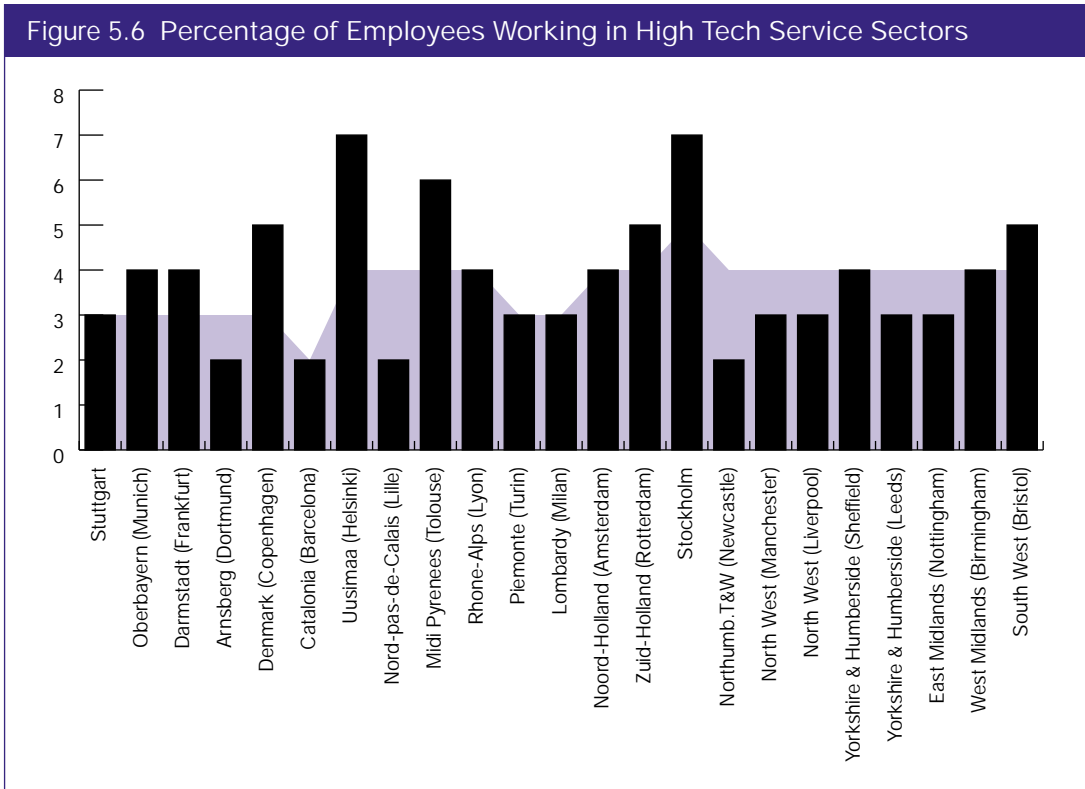


(Source: Eurostat, *Regions*, Statistical Yearbook 2002)

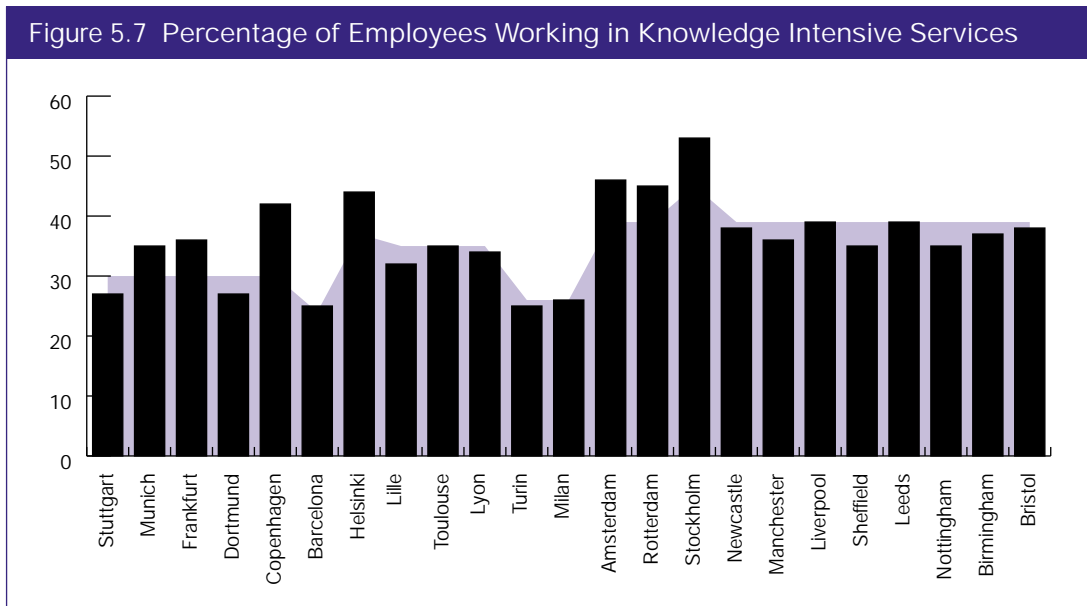
5.12 Further evidence about innovation and the quality of the labour force can be found in Figure 5.5, 5.6 and 5.7. These again demonstrate the higher percentages of the workforce in high tech manufacturing, services and knowledge intensive services in continental than in the Core Cities regions.



(Source: Eurostat, *Regions*, Statistical Yearbook 2002)



(Source: Eurostat, *Regions*, Statistical Yearbook 2002)



(Source: Eurostat, *Regions*, Statistical Yearbook 2002)



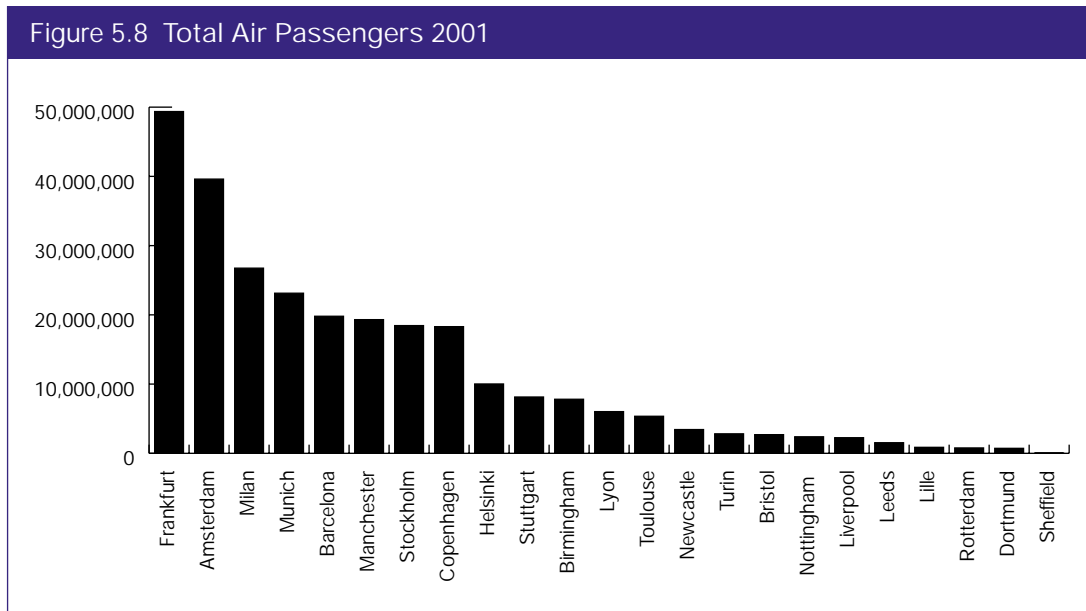
## How well connected are we?

- 5.13 We measured external connectivity in two ways, passengers through airports and Internet connections. Table 5.4 and Figure 5.8 show the airport data. A familiar pattern emerges, capital cities perform best. Frankfurt, Amsterdam and Milan perform well. The leading UK Core City is Manchester. Only Birmingham of the remaining UK Core Cities is in the top 40 and many lie very low down the league table.

Table 5.4 Top 50 European Airports by Passenger Numbers 2001

Rank		Passengers	% change 2000/2001	Rank		Passengers	% change 2000/2001
1	London Heathrow	60,431,930	-6	32	Tenerife SUR	8,946,674	2.8
2	Frankfurt	48,292,879	-1.5	33	Nice	8,973,973	-4.2
3	Paris CDG	47,940,187	-0.4	34	Tel AVIV	8,349,390	-15.5
4	Amsterdam	39,309,441	0.1	35	Birmingham	7,720,763	2.9
5	Madrid	33,855,667	3.5	36	Stuttgart	7,558,319	-6
6	London Gatwick	31,098,403	-2.7	37	Geneva	7,431,317	-3.2
7	Rome	25,139,582	-2.9	38	Glasgow	7,249,412	4.7
8	Munich	23,483,409	2.4	39	Milan	7,135,576	18.4
9	Paris Orly	23,010,946	-9.3	40	London City	6,565,728	6.4
10	Zurich	20,813,537	-7.3	41	Alicante	6,506,106	8.6
11	Barcelona	20,543,721	5.4	42	Lyon	6,058,968	2.1
12	Brussels	19,575,948	-9	43	Prague	6,077,658	10
13	Manchester	19,109,015	4	44	Edinburgh	6,039,294	9.9
14	Palma De Mallorca	19,132,436	-0.9	45	Marseille	5,842,374	-7.9
15	Milan	18,461,030	-10.1	46	Cologne	5,651,669	-9.1
16	<i>Stockholm</i>	18,096,590	-0.9	47	Larnaca	5,000,235	5.4
17	Copenhagen	17,933,120	-1.2	48	Toulouse	5,186,990	-1.2
18	Dusseldorf	15,326,247	-4	49	Hannover	5,064,105	-6.7
19	Istanbul	12,601,431	-14	50	Lanzarote	4,924,471	1.9
20	Dublin	14,204,139	3.7	64	Newcastle	3,408,000	7.2
21	Oslo	13,930,774	-1.9	71	Turin	2,779,672	-0.6
22	London Stanstead	13,650,239	15.2	75	Bristol	2,673,229	25.8
23	Vienna	11,768,781	-0.3	82	East MIDLANDS	2,385,596	7
24	Moscow	11,513,739	7	84	Liverpool	2,256,092	13.7
25	Helsinki	10,027,752	0.2	108	Leeds	1,525,560	-3.2
26	Malaga	9,823,586	5	124	Dortmund	1,064,149	47.9
27	Berlin	9,863,870	-3.9	125	<i>Milan (BGY)</i>	<i>1,046,454</i>	<i>-14.6</i>
28	Hamburg	9,411,512	-4.6	129	<i>Stockholm (BMA)</i>	<i>981,256</i>	<i>-1.8</i>
29	Lisbon	9,212,339	0	130	Lille	963,740	-1.6
30	Gran CANARIA	9,087,036	-0.2	143	Rotterdam	766,492	6.6
31	Antalya	9,170,469	23	294	Sheffield	32,956	-46.6

(Source: Airports Council International, 2001)



(Source: Airports Council International, 2001)

- 5.14 The following tables do not change the bigger picture presented above, but they do add some important light and shade to it. Tables 5.4 and Figure 5.8 could not distinguish between tourists and business passengers, an important issue, since the data is not available. However, Table 5.5 and 5.6 throw some light on that issue by providing data about the capacity, not use, of scheduled flights, which eliminates charter and hence many tourists' flights. In this more refined picture Table 5.5 shows that Manchester, which does have a substantial number of charter flights, performs slightly less well than earlier, falling from 6th to 9th place. The data in Table 5.6 is probably more revealing. It distinguishes between those airports, which are genuinely international in reach and significance and those which are more European or even national. The hub and spoke airports of Frankfurt and Amsterdam are clearly the most international. They are the only two which have connections to all continents – Africa, Asia, Europe, Latin America, the Middle East and North America. As the table shows, they have relatively few domestic flights. They have the largest percentage of European flights. Most important they have significantly higher percentages of flights outside Europe than the others. Many of the smaller airports are essentially domestic and European, with few or often no direct connections beyond Europe. However, Manchester performs the third best in international connections beyond Europe. Given the importance of external connections, internationalisation and innovation for competitiveness, which we discuss later in this report, this comparative evidence about international air linkages is significant.

Table 5.5 Seat Capacity on Scheduled Flights (weekly) 2001

Rank	Airport	Weekly Seat Capacity Scheduled Flights
1	Frankfurt	582,706
2	Amsterdam	439,893
3	Milan	351,270
4	Munich	334,329
5	Barcelona	308,387
6	Copenhagen	256,823
7	Stockholm	227,116
8	Helsinki	160,647
9	Manchester	123,105
10	Lyon	109,929
11	Stuttgart	86,686
12	Birmingham	74,857
13	Nottingham (East Midlands)	36,110
14	Bristol	32,354
15	Liverpool	27,328
16	Newcastle	26,162
17	Leeds	14,312
18	Lille	12,496
19	Dortmund	11,156
20	Rotterdam	7,447

(Source: Airports Council International/Route Development Company Ltd.)

Table 5.6 Scheduled Air Traffic – Weekly Capacity Seats (2001)

	Total weekly capacity seats on Scheduled flights	% weekly seat capacity to domestic destinations	% weekly seat capacity to other European destinations	% weekly seat capacity to other destinations worldwide
Frankfurt	582,700	15	48	37
Amsterdam	439,900	1	68	31
Manchester	123,100	32	52	16
Milan	351,300	41	46	13
Munich	334,300	37	52	11
Copenhagen	256,800	11	81	8
Birmingham	74,900	28	64	8
Helsinki	160,600	37	57	6
Lille	12,500	96	0	4
Stockholm	227,100	40	56	4
Stuttgart	86,700	40	57	3
Barcelona	308,400	51	47	2
Lyon	109,900	35	63	2
Dortmund	11,200	55	45	0
Rotterdam	7,400	2	98	0
Bristol	32,400	47	53	0
Leeds	14,300	58	42	0
Liverpool	27,300	36	64	0
Newcastle	26,200	65	35	0
Nottingham (East Midlands)	36,100	31	69	0

(Source: Airports Council International/Route Development Company Ltd.)

- 5.15 Table 5.7 shows patterns of Internet connection. The familiar suspects emerge. The global cities of London, Paris and New York are best connected. Five of our sample continental cities appear in the top ten. But none of the Core Cities appears.

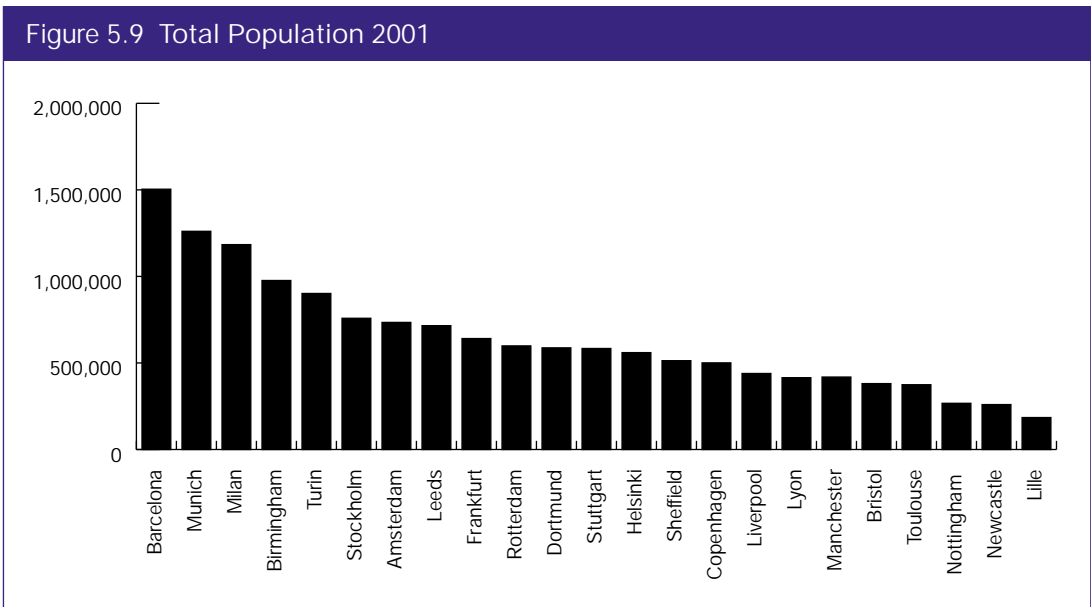
City	Internet Bandwidth 2002 (Mbps)	Rank 2002	Rank 2001	2000 Rank
London	319,475	1	1	1
Paris	227,803	2	2	3
Frankfurt	194,902	3	5	5
New York	174,180	4	3	4
Amsterdam	163,942	5	4	2
Copenhagen	109,204	6	8	20
Stockholm	94,741	7	7	7
Brussels	81,536	8	6	6
Milan	66,424	9	9	17
Zurich	51,488	10		

(Figures represent Internet bandwidth connected to European locations across international borders from Consolidated Metropolitan Statistical Areas or equivalents including cities outside Europe)

(Source: TeleGeography Inc.)

## What are the demographic trends?

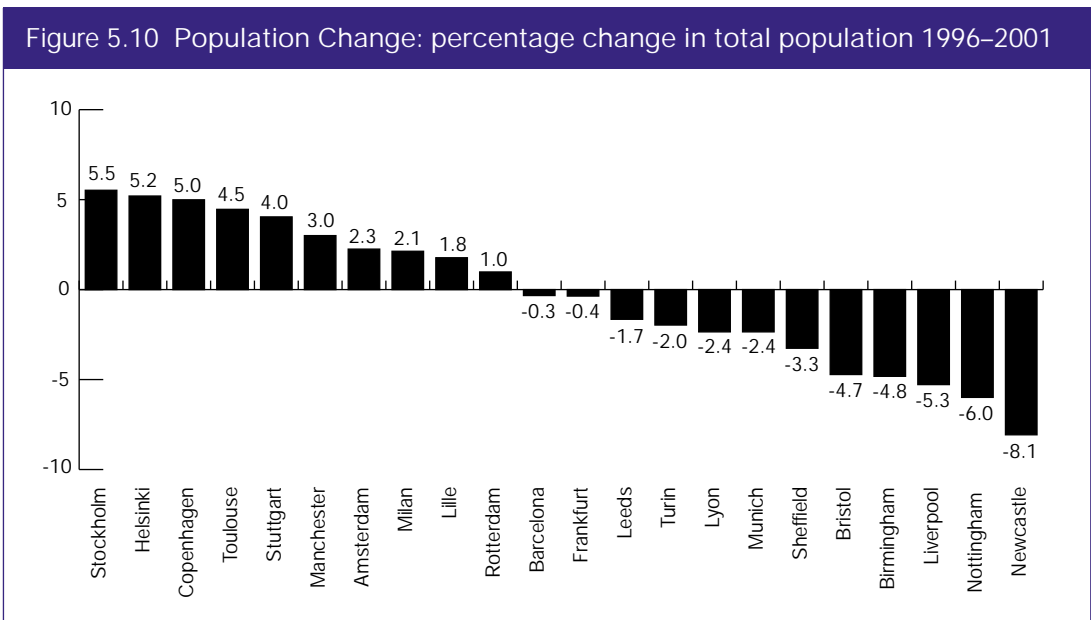
- 5.16 Views vary about the impact of sheer population size upon economic performance. It is clearly perfectly possible for medium and smaller sized cities to be economically successful. But there are reasons why large complex cities have economic advantages. Figure 5.9 shows the population of the sample cities. These are local authority boundaries rather than the wider conurbation or functional urban region. But they demonstrate the point that many of the more successful cities are rather larger than UK cities. If we expanded the boundaries to take in conurbation populations, the comparative advantage of many continental cities would still be evident.



(Source: City Sources – UK Cities National Statistics mid-year population estimates, Crown Copyright)

### ARE CITIES GETTING BIGGER OR SMALLER?

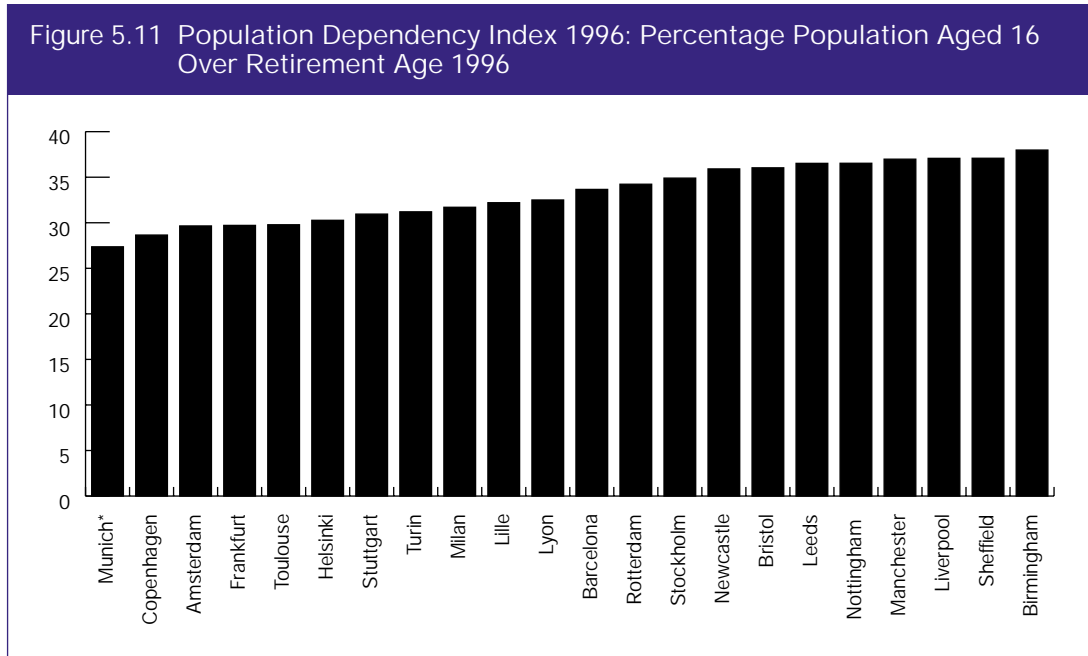
5.17 Figure 5.10 demonstrates the way in which the cities are attracting or losing population. Despite a tendency for the decentralisation of population, which can be found in most European countries, the relative performance of our cities has varied significantly during the past 5 years. The table graphically illustrates that the Core Cities, which have been under-performing economically in relation to their counterparts in Europe, have also been losing people. By contrast the majority of the more economically successful cities have actually been gaining population. Of course if the trends in the wider conurbation were taken into account the picture would be rather more complex. But the big picture is clear. Continental cities are becoming more attractive to live in, as Core Cities apparently have become less so.



(Data 1996: European Urban Audit. Data 2001: City sources, UK National Statistics Mid-Year Population Estimates, Crown Copyright)

### WHO LIVES IN CITIES?

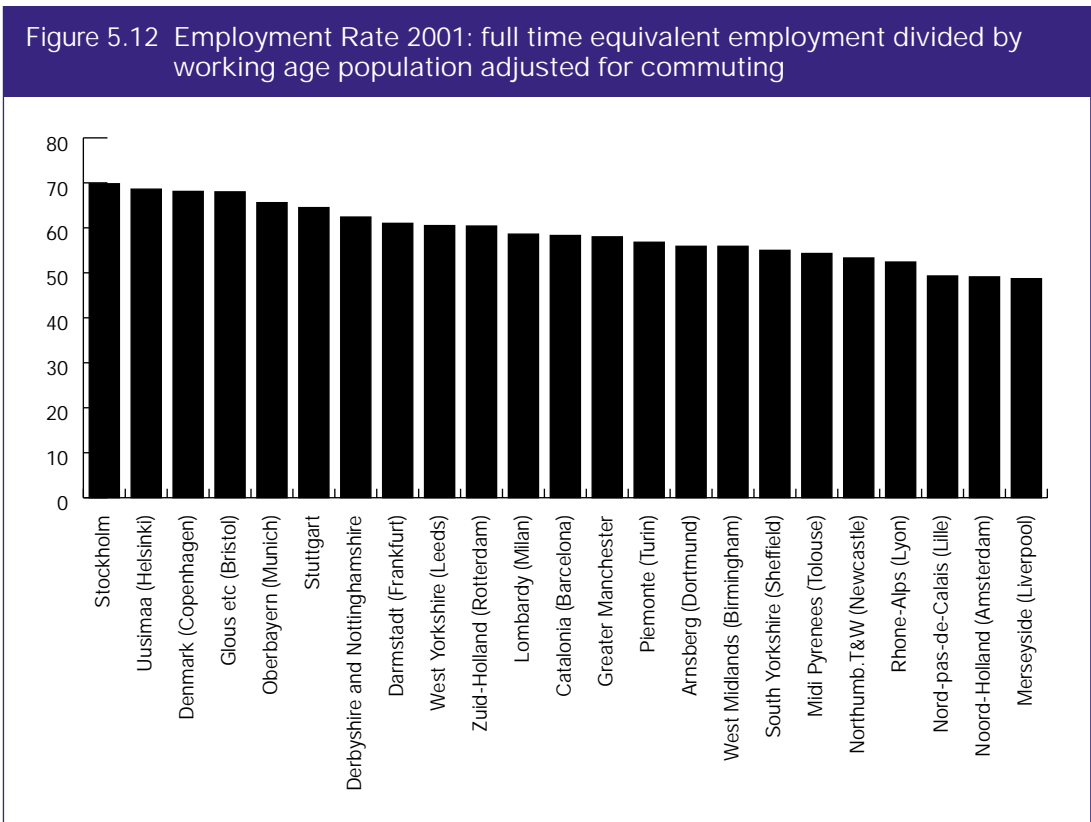
5.18 Figure 5.11 gives another insight into the structure of the population living in UK and continental cities. It calculates the cities with the highest percentage of people too old or young to be in the workforce – and therefore not directly contributing to the city's economy. All the Core Cities, with the exception of Leeds, have more dependent populations than their counterparts.



(Source: European Urban Audit)

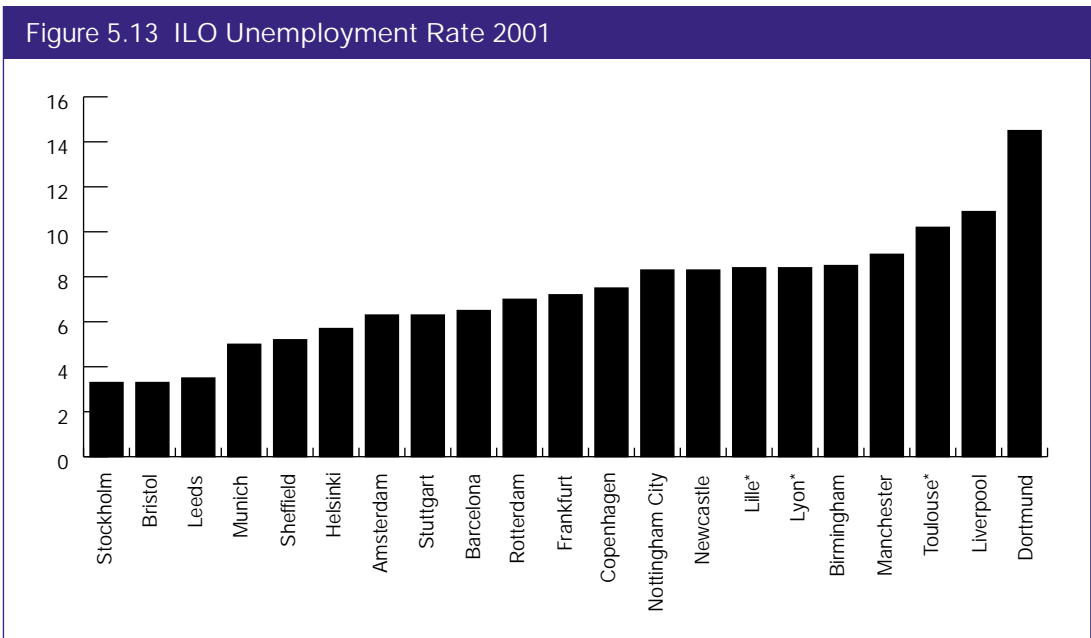
### WHO WORKS IN CITIES?

5.19 Figure 5.12 indicates regional employment rates in cities. Not surprisingly in view of the age composition of the cities, all the Core Cities regions have lower rates than their continental counterparts.



(Source: Eurostat, *Regions: Statistical Yearbook 2002*)

5.20 Figure 5.13 provides rates of unemployment for our cities. The picture here is a little more mixed. It shows that the most successful Core Cities, Bristol and Leeds, perform relatively well. It also shows how some continental cities, which have been enduring substantial restructuring, Dortmund and Rotterdam, endure high rates of unemployment. But the broad pattern is confirmed. Core Cities tend to lie near the bottom of the performance table.



\*Regional Rates

(Sources: various city data sources. UK Cities on Labour Force Survey, National Statistics, Crown Copyright)

## How does the private sector see our cities?

- 5.21 One important dimension of cities' competitiveness is their relative attractiveness to business and private sector investors. We explore this here by examining the most reliable study of these issues, the Healey and Baker city surveys, which are commonly accepted as a robust, objective measure of cities' attractiveness. Table 5.8 lists the cities, which during the last decade have been seen by over 500 business people and private sector investors as the best 30 in Europe in which to locate a business.

City	1990	2001	2002
London	1	1	1
Paris	2	2	2
Frankfurt	3	3	3
Brussels	4	4	4
Amsterdam	5	5	5
Barcelona	11	6	6
Madrid	17	8	7
Milan	9	11	8
Berlin	15	9	9
Zurich	7	7	10
Munich	12	10	11
Dublin	–	14	12
Düsseldorf	6	17	14
Stockholm	19	15	14
Geneva	8	12	15
Prague	23	22	16
Lisbon	16	16	17
Hamburg	14	18	18
Manchester	14	14	19
Lyon	18	20	20
Glasgow	10	19	22
Rome	–	25	22
Vienna	20	23	23
Copenhagen	–	24	24
Budapest	22	22	25
Warsaw	25	27	26
Helsinki	–	26	27
Athens	22	29	28
Oslo	–	28	29
Moscow	24	30	30

(Source: Healey and Baker European Cities Monitor 2002)



- 5.22 In important respects these subjective surveys confirm what our comparative quantitative data have already shown. First the global cities of London and Paris are rated the best. Second capital cities in general are the most attractive. Third, only one Core City, Manchester, made it into the top thirty. The cities that we have identified as having the highest GDP, highest innovation levels, more skilled workforces, better external connections are frequently seen by the private sector as the best places in which to locate.
- 5.23 One further feature of this table is worth noting. There was no change in the relative attractiveness of the top 5 cities during twelve years, even though it was a relatively unstable period economically. The European urban hierarchy is basically stable. However, it is not completely so. It is possible for cities to improve their performance. For example, Barcelona and Madrid both improved their standing with the private sector, reflecting the growth and modernisation of the Spanish economy during the 1990s. But equally Copenhagen and Helsinki, which were outside the charmed circle a decade ago, have entered the private sector's perceptions as attractive for investment. For this reason we included Barcelona and Helsinki in this study. We return to their experience in a little more detail later.
- 5.24 Table 5.9 provides a more detailed understanding of the ways in which the private sector judges cities' attractiveness. It identifies the three most important features of a city for the private sector. They are: the quality of the workforce, access to markets and external transport links. All correspond fairly closely to the key drivers of competitiveness identified by researchers and policy makers earlier in this report. It also provides comparative rankings of European cities on those three characteristics. Once again, they also correspond fairly closely to the quantitative analysis we presented earlier in this chapter.

Table 5.9 Best cities in terms of . . .			
	Qualified staff	Easy access to markets	External transport links
London	1	1	1
Paris	2	2	2
Frankfurt	3	3	3
Munich	4	9	6
Brussels	5	4	5
Milan	6	6	8
Berlin	7	10	9
Amsterdam	8	5	4
Dusseldorf	9	7	11
Madrid	10	8	9
Manchester	11	11	14
Stockholm	11	23	20
Barcelona	14	14	11
Lyon	17	16	18
Helsinki	19	28	29
Copenhagen	22	20	14

(Source: Healey & Baker European Cities Monitor 2002)

- 5.25 Further evidence of the Core Cities low profile in the eyes of the private sector is provided in Table 5.10. Although it is relatively soft data, this ranks international cities in terms of the quality of life. Several features emerge. Many of our successful continental cities appear in this list. Second, no Core Cities do. Third, however, it is the only ranking which consistently places global cities and capital cities in particular at the bottom of the list. There is some evidence here that there are opportunities for non-capital cities which could have advantages over the larger, currently successful ones in terms of quality of life. This is a feature which, in principle, could be improved more rapidly than characteristics such as qualifications of the workforce or innovation levels.

Table 5.10 Quality of life: rank of International Cities

City	Rank 2002	Rank 2001	Score 2002
Zurich	1	1	106.5
Vienna	2	3	106.0
Vancouver	2	1	106.0
Sydney	4	4	105.5
Geneva	4	4	105.5
Frankfurt	6	9	105.0
Auckland	6	7	105.0
Copenhagen	6	4	105.5
Helsinki	6	7	105.0
Bern	10	9	104.5
Munich	10	9	104.5
Amsterdam	12	12	104.0
Stockholm	12	12	104.0
Oslo	15	12	103.5
Dusseldorf	15	16	103.5
Brussels	15	16	103.5
Luxembourg	18	19	103.0
Berlin	22	23	102.5
Nuremberg	25	27	102.0
Hamburg	25	27	102.0
Paris	31	33	101.5
Dublin	35	35	101.0
Lyon	40	44	100.5
London	41	40	100.0
Madrid	41	51	100.0
Lisbon	57	62	97.5
Rome	68	68	93.5
Athens	87	87	82.5

(New York=100) (Source: Mercer Global Information Services)

## So what have we learned so far about the Core Cities' performance?

- 5.26 The evidence presented in this chapter has been diverse, compiled in different ways from a wide variety of sources. We made the point at the outset that the issues involved are complex. It is quite possible – indeed probable – that any single piece of evidence will be flawed, or at least debatable. Despite this, it cannot be denied that the cumulative weight of the evidence provides a very consistent picture about what shapes urban competitiveness and where the Core Cities stand in the wider European scene. It is clear that, despite their relative renaissance in recent years which we identified in Chapter 3 of this report, the Core Cities still lag behind their European counterparts in terms of competitiveness. And it has identified some of the specific areas where they lag – innovation, workforce qualifications, connectivity, employment rates, social composition, attractiveness to the private sector. But why do they? The next chapter tries to answer that question using the evidence from our fieldwork in several leading continental cities. And by doing so, it throws light on the wider processes and dynamics which underlie this picture of Core City under-performance.

## CHAPTER 6

# What makes the difference?

- 6.1 This chapter of the report complements the quantitative analysis of cities' performance with the results of review of literature on European cities and in particular with fieldwork in 9 cities – Lyon, Toulouse, Stuttgart, Munich Dortmund, Rotterdam, Barcelona, Milan, Turin. They were selected either because they were clearly ahead of the Core Cities like Lyon, Toulouse, Munich Stuttgart, Milan and Turin, or because they had had similar experiences of economic change like Dortmund and Rotterdam, or they had shown significant improvement in their position like Barcelona.
- 6.2 In each city we analysed their recent economic performance based upon: interviews with senior policy-makers, documentary review and site visits. We were looking for their implications for the characteristics of competitive cities and for key policy messages. We do not include the detailed evidence from our case studies. Our primary purpose is not to record the detailed experience of individual cities but to identify policy implications for the UK Core Cities.

## The European urban hierarchy is stable – but cities can improve quickly

- 6.3 A key question for Core Cities is the extent to which cities can improve their relative performance in relation to their European competitors. The evidence underlines that there are structural characteristics of competitiveness, which are acquired over a long period of time and not lost quickly. The cities, which performed well a decade ago and were well regarded by the private sector as places to do business a decade ago, still head the league table. Nevertheless, there is evidence that cities can change their performance. The quantitative evidence showed how Barcelona and Madrid had improved their position – as had Helsinki.
- 6.4 What are the lessons from Barcelona and Helsinki? In fact it is an interesting illustration of the difference and links between urban renaissance and urban competitiveness. Barcelona has become widely seen as a model of economic recovery. But it should be understood that its achievements have been in the field of urban renaissance. Since entry into the European Union, Barcelona leaders have pursued a long-term strategy starting with the Olympics, to capitalise upon its strategic location, cultural and environmental advantages, starting with the Olympics, which were used creatively to reconstruct much of the physical environment of the city and transform its international image. Clear political leadership and a sophisticated planning strategy have achieved a great deal.
- 6.5 However, a recent internal review of Barcelona listed its strengths as: experience of transforming physical infrastructure; managing prestige projects; the quality of its architecture; its city centre; the wealth of design specialists; its cultural achievements; its

international connections; its sophisticated urban planning system. These are clearly true. But it was also recognised in the strategic review that in terms of hard edged competitiveness, the city remains some way behind the heavy hitters of northern Europe. GDP is lower. Productivity levels are lower. Innovation levels are lower. Educational levels are lower. ICT facilities are not that well developed. Banks are conservative and venture capital is not readily available. Despite the size of student numbers, universities do not well serve the needs of the local economy. The city has maximised its assets and achieved what it could in the areas of urban renaissance. But it has much more to do to improve its economic competitiveness.

- 6.6 Nevertheless, Barcelona's achievement – and its implications for Core Cities – should not be underestimated. Physical and strategic renewal has changed its internal and external image. Improving the renaissance features of the city has made it more – not less – likely that it will be able to achieve greater long term economic competitiveness by attracting investment and by improving its skill base.
- 6.7 Helsinki is another example of a city which has dramatically changed its fortunes during the past decade. Ten years ago because of the collapse of its main trading ally, the Soviet Union, Helsinki was in deep economic recession. But leaders in the city used that period to devise a new economic strategy built upon communications industry and depending upon close links between the city, Nokia, and the universities which has made it a global player. Helsinki has risen quickly in the perceptions of the private sector and scores highly in the innovation stakes.
- 6.8 In the longer term it is also instructive to recall the experience of the three most successful non-capital cities in Europe – Frankfurt, Stuttgart and Munich. Fifty years ago all had been virtually destroyed. Indeed, in those cities many believe that this destruction of older industrial structures and attitudes encouraged the view in the cities that change, innovation, reinvention was both desirable and possible.
- 6.9 In their different ways these experiences underlines to Core Cities that, despite their relatively unfavourable position in relation to really successful European cities, it is possible to improve by concentrating upon early achievable wins while searching for longer-term structural improvements. It also emphasises that the DTI's 5 key drivers may be critical to economic competitiveness. But the softer regeneration focus of much of ODPM's work, which feeds into quality of life, is also seen in European cities as a valuable contribution to attracting investment and attracting and retaining skilled workforce.

## Cities matter to national performance

- 6.10 There is extensive evidence from continental Europe that urban renaissance is taking place. The demographic data clearly demonstrated the revival of cities as places to live. Cities are increasingly seen as areas of potential opportunities not liabilities. There is a growing recognition amongst national and local policy-makers in the countries we examined that cities are the dynamos of their national economies. Of course, this belief manifests itself in very different ways in different countries. But for example, the French national government's long-term investment in hard and soft urban infrastructure has made a major contribution to their economic performance. The Netherlands, with a population of 16m, recognises that its 4 large cities are critical to its economy and the national government has a separate policy for dealing with them – the large city policy. Cities have a major part to play in national policy and frequently are the testbeds for policies, which subsequently

become adopted as national policy. This is clearly the case with Rotterdam whose experiments with neighbourhood based initiatives and more recently its efforts to increase security in the city have much influenced national government policy. This again clearly supports the Core Cities position about the need to support and invest in cities as economic dynamos.

## Successful cities – successful regions?

- 6.11 The question of the relationship between successful cities and successful regions is a challenging one, which raises a number of policy and analytical issues. However, some things are clear from our work. Views in our cities confirm the results of the quantitative analysis presented earlier. This made clear that the most competitive regions also had the most competitive cities. Conversely we found no examples of successful regions which had unsuccessful cities at their core. Many policy-makers believe that cities actually lead their region's economic performance. There is not a conflict of interest between cities and regions nor should there be one between urban and regional policy. This emphasises the need for continuing greater alignment of DTI and ODPM policies in the search for urban and regional competitiveness.
- 6.12 There is also a consensus across many of our cities that although regions matter, they are often too large an area at which to tackle economic competitiveness. Sub-regional approaches are increasingly being adopted, even in federal Germany, where Lander of 16-18 million are seen as too distant from economic realities on the ground to be the sole player. In all our cities and countries there is growing concern to create the right relationships between regions and cities. The question of the appropriate spatial level at which to tackle economic competitiveness issues is an increasingly growing concern. Just as there is an agreement that the city is too small a space to tackle these issues, there is a growing view that in some cases the region is too large.

## Cities and sub-regions

- 6.13 The appropriate relationship between Core Cities and their economic hinterlands is an increasingly important issue. The continuing debate about the significance of city regions underlines the fact that the current relationships in many UK cities are sub-optimal. We explored the variety of relationships in our continental cities. Despite the assumption that things work better on the continent, this did not prove to be the case. In fact there are a series of regional-urban difficulties that we find in the UK. These include, for example: local government fragmentation, economic competition between adjacent local authorities, worries about the environmental impact of residential and job decentralisation, fiscal exploitation of the central city by suburban service users, the segregation of excluded communities as municipalities contest to attract richer and repel poorer people and housing, failures to market the sub-region effectively, and concerns that the central city is too small to punch its weight in European and global markets.
- 6.14 This has led to growing efforts to create sub-regional working relationships between municipalities. It has taken different forms with different success in different places. In France the intense municipal fragmentation into 36,000 small communes has meant that much effort has been invested in creating *Communités Urbaines* to encourage collaboration. But the partnership has typically been between the public sector agencies. And increasingly as is the case in Lyon, the *Communités Urbaines* are actually too small to function as

effective economic units and efforts are being made to move to an even larger unit, the Region Urbain. There is considerable political willingness to operate at the sub-regional level, but the achievements yet are modest. Barcelona has only very recently succeeded in extending its spatial and economic planning from beyond the City of Barcelona to the wider metropolitan area, producing a new strategic plan for the metropolitan area. Munich has created a tri-area sub-regional organisation in an attempt to do area marketing.

- 6.15 But the overall picture is that few urban areas have yet devised a satisfactory set of arrangements that capture the wider economic territory. There are a series of territorial tensions. Smaller municipalities are reluctant to be overwhelmed by the larger city. Often national governments are reluctant to strengthen the position of already powerful central cities. There is therefore a very mixed picture with some areas unable to devise metropolitan wide arrangements. Some have ad hoc separate agencies to undertake limited metro or sub-regional functions most typically transport, waste and environment. But in all the cities we looked at, there is a view that the core city is not large enough to serve as the basis for economic development. All are attempting to create informal strategic alliances, often led by powerful Mayors as in Lyon, Barcelona and Helsinki.
- 6.16 Equally important there have been few recent examples of regional structures being formally created to undertake the full range of economic development functions. Indeed in the Netherlands, a proposal to create metropolitan wide arrangements was voted down a decade ago and the experience has probably worsened intra-metropolitan tensions. The important exception is Stuttgart. At the height of an economic crisis a decade ago, at the behest of the Lander government, it created a formal economic development organisation in which 179 local authorities voted to transfer powers and resources to the Stuttgart Regional Agency to promote the economic development of the region. There were particular circumstances in Stuttgart, including the depth of the economic crisis in the car industry and the loss of almost 200,000 jobs, which led the Lander government to propose the solution and made local players receptive to it. The same combination of circumstances has not been found elsewhere. Nevertheless, the RSA's supporters argue that the new association, with its influential economic development agency, has significantly improved the region's ability to cope with economic change and has been responsible for a more flexible and comprehensive regional economic development strategy.
- 6.17 One message for Core Cities and RDAs is that their counterparts in Europe are convinced that to be competitive in the global marketplace in future they have to organise and act at a wider metropolitan or sub-regional level. Another message is that, despite Stuttgart's achievements, most of them have decided it is not worth attempting to create formal institutions to achieve this, since they are unlikely to be implemented. The most common view is that informal strategic alliances between willing partners which can be mobilised around agreed territories and powers and resources are better than the alternatives of acting only on a local basis or of spending a great deal of time and energy fighting unwinnable battles for formal change.

## What are the links between economic competitiveness and social exclusion and cohesion?

- 6.18 There is considerable interest in Core Cities in ways of resolving the apparent tension between strategies that focus upon economic growth and those which focus upon social equity or welfare agendas. That debate has been common in many of our cities. The evidence of the nature of the relationship is mixed. The recent ESRC CITIES Programme, for example, clearly demonstrated that it is not necessary to have an equitable society in order to have a competitive urban economy. The example of London, Edinburgh Leeds and Bristol – arguably the most economically successful of our cities – demonstrates that it is common to have substantial pockets of social exclusion in fast growing local economies. However, the truth of that empirical relationship does not resolve the policy dilemma.
- 6.19 There are two clear issues. First, social exclusion is not the same as social cohesion. It is possible to have social exclusion and economic competitiveness. But that does not contradict the argument that increased social cohesion – through improved education for example – might actually improve competitiveness. Second, the question must be answered whether those successful cities would have been even more successful if they had had less social exclusion. What does the European experience tell us? First, it is clear that all the competitive cities are concerned about issues of social exclusion and in all of them there is a concern that growth should not increase inequalities. Many cities want to pursue a balanced agenda rather than a simple economic competitiveness strategy. The evidence shows two things. First, the successful cities in Europe have the most skilled and better-educated workforces. In that sense in the long run there is no conflict between an economic growth strategy and a balanced society strategy. Improving the educational performance of individuals helps them and helps the wider economy. Second and most important the evidence from our successful cities is that in fact the highest performing economies often have the lowest rates of unemployment.
- 6.20 The long-term success of the Stuttgart and Munich economy has created a buoyant labour market and ensured there is relatively little economic exclusion. In the case of Stuttgart in particular, economic success has ensured that there is little ethnic exclusion, since its large Turkish community is well integrated into the successful labour market. In addition it can be argued that there is another model of addressing the tension, which is found in the Netherlands. The success of Rotterdam in absorbing large numbers of immigrants and avoiding extreme areas and groups in exclusion is explained less by the performance of its economy than by its still generous national welfare system. Although under revision, it has still meant that unemployment has not typically led to social exclusion. So either a growth strategy will avoid the problem by creating economic opportunities for all – or it can be handled by alternative welfare strategies. The lesson from our cities and their policy makers is that the social agenda is critically important – not least politically. But pursuing an economic growth strategy is not incompatible with a socially balanced strategy.



## National and regional government matters

- 6.21 Cities have to maximise their opportunities if they are to succeed economically. But the framework set by national government matters a great deal. The experience of France is instructive. The decision to decentralise and create alternative urban centres to Paris over 20 years ago has had a major impact upon the French urban hierarchy. Paris still dominates but many of the second cities now perform well. For example our study of Toulouse underlined the importance of investment by the central state in technology, research and development facilities over a twenty-year period, which means that it is now one of the leading centres of innovation. Our work on Lyon underlined the critical importance of state investment in transport infrastructure and the TGV, which allowed the city to become more clearly connected to European markets. Equally clearly, the current national reluctance to allow expansion of the Lyon airport at the expense of Paris, or the reluctance to extend the Lyon-Milan TGV system, underlines the critical significance of continuing national investment in transportation to the future performance of cities.
- 6.22 The significance of national government is also underlined by the impact of national decisions to relocate key technical, educational and international organisation to both Lyons and Toulouse during the past decade, which has allowed them to raise their educational and international profile. The Dutch government has similarly recognised the significance of the four large cities to the Dutch national economy in their GSB<sup>1</sup> (Large Cities Policy), which focuses particular attention on the needs and opportunities of the large cities. A second point can be underlined about the relationship between national and local governments. Both France and the Netherlands have been moving towards more long-term contractual relationships between a national and local government to deliver economic performance. Germany is clearly a different case with its Federal arrangements. National government plays a less critical role. But Lander state policies are also critically important. The success of Munich was reinforced by a variety of state policies to invest in the city including its strategy of using the profits from the sale of state utilities in the 1990's to invest in high tech facilities in the city.

## Decentralisation and fiscal capacity matters

- 6.23 The nature of central-local relation matters. Although it is not a straightforward relationship the evidence does suggest that where cities are given more freedom and autonomy they have responded by being more proactive, entrepreneurial and successful. Decentralisation in France has invigorated provincial cities during the past 20 years. The most successful cities in Europe have been German, which is the most decentralised country in Europe. The renaissance of Barcelona in part stems from the move towards regionalisation and the lessening of the grip of the capital city, Madrid.
- 6.24 There are constant debates about the impact of financial dependency or autonomy of cities. The balance of evidence from the literature, our survey of local officials and our case studies is that the greater the fiscal independence of cities – the greater their capacity to experiment and be proactive. The UK is one the most centralised systems in this regard. Continental cities on balance have more financial independence from national government and more ways of generating resources locally through income tax, sales taxes and business profits taxes. There is a continental exception however. Dutch cities are

1 GSB: Grote Stedebelid (Large Cities Policy)

highly fiscally dependent upon national government, receiving 90% of their revenue from the centre. However, Dutch researchers and policy makers point out that the critical issue is not the level of national financial support, but the degree of control associated with it. Although there is evidence of growing national constraints, national funds come with relatively few strings attached in the Netherlands. This gives their cities the best of both worlds – access to more buoyant national taxation but relatively great freedom of expenditure.

- 6.25 It should also be pointed out that local taxes are only helpful if the tax base is buoyant. The case of Germany makes the point. Many German cities are now facing grave fiscal pressures and are limited in their ability to provide infrastructure, for example, since one of their main sources of income, taxes upon local business profits, have been eroded. The Federal government decision to allow businesses to export their profits to multi-national HQs has meant that for example in Munich and Stuttgart companies like BMW, Siemens, Daimler Benz and Porsche have paid no taxes in recent years.

## What are the characteristics of competitive European cities?

- 6.26 Our original brief identified ten possible characteristics of success. We added a further four. What does our different kinds of evidence suggest actually matter? Some of the original factors are clearly critical drivers. Some of those we added are also critical. Some of the original seem important but less critical. And a number of soft location factors can probably be combined into a single category. Our review of research and fieldwork led us to conclude that there are six critical features of urban competitiveness – and one important supporting factor. Our final list of key characteristics of economic competitiveness is the following:

- Economic diversity.
- Skilled workforce.
- Connectivity – internal and external.
- Strategic capacity to mobilise and implement long term development strategies.
- Innovation in firms and organisations.
- Quality of life – social, cultural, environmental.

### ECONOMIC DIVERSITY

- 6.27 The cities, which are most successful in responding to economic change, are those which are least dependent on a single sector. Cities that are dependent upon a single sector – whether old-fashioned coal, steel, shipping or new-fashioned financial services, mobile telephones, culture or computers are most vulnerable to the vagaries of global economic forces. This applies as much to Helsinki, Frankfurt and London as it does to Liverpool, Sheffield and Newcastle. Munich is the clearest example of this, with the Munich mix constantly cited as the key to its success. It has strength in global and local firms, large and small, manufacturing as well as services, the old as well as the new economy. Munich

constantly seeks to diversify its economic base pushing into different sectors – but not indiscriminately. The message from all our cities – best expressed by the leadership in Rotterdam – was the need to diversify and to deepen existing strengths. Nobody believes a city can build on greenfield site strength where none currently exists locally. The trick is to work with what you have and to modernise.

- 6.28 There is a continuing debate about the relative merits of old versus new economies. The lesson from continental practice is that both matter. The German cities are the most successful and have still have the highest proportion of manufacturing. Stuttgart in particular remains heavily dependent upon the automobile and related industries. Rotterdam for example is not rejecting it's port but trying to change it from 'mainport' to 'brainport'.

#### SKILLED WORKFORCE

- 6.29 A skilled workforce is a critical feature of competitive cities. Modern economies increasingly depend upon knowledge intensive sectors, even within manufacturing. The policy makers we surveyed rated this characteristic consistently highly. It was rated as the most significant single factor by the private sector. And the comparative data on cities underlined the relationship of skilled workers to the innovation and GDP levels of the most competitive cities.
- 6.30 However, a crucial characteristic is not simply the presence of a skilled workforce but the relationship between the suppliers and consumers of that labour in the universities, research institutes, government and private sectors. It is the commercialisation of intellectual knowledge, which is the key to innovation. Hence, it is not simply the numbers of students enrolled in universities but the attitudes, roles and relationships of the university and higher education sectors. Competitiveness flourishes where there are good working relationships between researchers and decision-makers where universities encourage staff with incentives and support to explore the economic potential of their research. This is very often a matter of attitude. A crucial feature of the success of Munich and Stuttgart was the good working relationships with the university and those engaged in economic development. The case of Munich makes the point that these attitudes can change. Twenty years ago the university was somewhat distant from the local economy. But clear leadership from the top changed those attitudes. Similarly, Dortmund has been able to develop a successful University Technology Park, which has failed in similar cities in the region. The University which was created in the late 1960 was consistently committed to engagement in the local economy and had many staff and students drawn from the region who were committed to the future of the area and often remained in the area after graduation to become entrepreneurs.

#### CONNECTIVITY – INTERNAL AND EXTERNAL

- 6.31 Another thread of our case study work is the significance of internal and external communications whether it is physical, electronic or cultural. The most successful cities have the physical and electronic infrastructure to move goods, services and people quickly and efficiently. External connections are important since exporting remains critical to success. So airports are critical. They facilitate face-to-face communication, which has been supplemented not replaced by technological communication. Connectivity is not simply physical. There is a cultural dimension to it as well. For example, a significant feature of our

successful continental cities is the importance they attach to internationalisation and having city foreign policies. Munich, Rotterdam, Lyon, Helsinki, Barcelona, Stuttgart in their different ways have invested significant time and effort in international networking to raise their profile, gain new allies, expand market share, influence decision-makers, learn new strategies and practices.

## STRATEGIC DECISION-MAKING CAPACITY

- 6.32 One of the constant themes in the literature, our survey and fieldwork discussions was that systems, institutions and organisations do shape competitiveness. But processes and politics matter equally. The narrative from our individual cities constantly generated the same themes: the significance of networks and relationships between key players in the public and private sectors; the importance of crucial politicians in shaping strategies or influencing key programmes; the significance of having allies to influence the decisions of regional and national governments. Such factors, for example, help explain the relative under-performance of Milan in contrast to the substantial improvements made by Turin in recent years. Economic competitiveness strategies have to be fashioned and implemented – they do not just emerge. And they take a long time to develop and to implement. Although they now become virtual clichés, it is still true that all of our competitive cities emphasise the notions of vision, leadership, partnership and politics in shaping long-term development.

## INNOVATION IN FIRMS AND ORGANISATIONS

- 6.33 This is perhaps the most crucial characteristic of a competitive city. Four features lead to regional and urban competitiveness:
- investment in modern, knowledge based physical equipment;
  - investment in research and education;
  - investment in innovation;
  - labour productivity.
- 6.34 In all these knowledge and innovation are closely linked, the main drivers of place competitiveness. Knowledge based industries are the key to innovation and the development of world-class standards of living. Innovation is defined as the introduction of a new or changed process, service or form of organisation into the market place. The OECD estimates that between 1970 and 1995 more than half the total growth in output of the developed world resulted from innovation. And since most economic activities are concentrated in city regions, knowledge and innovation are two of the most significant contributors to the economic growth and competitiveness of cities. The European Commission has estimated that over 40% of the variation in per capita regional income can be explained by differences in innovative performance.
- 6.35 Until recently relatively little attention has been paid to the local characteristics of innovation systems, rather than national characteristics. But differences in the governance of local innovation systems can make a difference to the economic performance of city regions and raise the prospect that good practice might be transferable from the more competitive to less competitive places. Our work on Toulouse, Stuttgart and UK cities

suggests there are 3 possible models of local innovation. The UK grassroots model of innovation is essentially a diffuse market driven model with little outside coordination. In a networked model like Germany, multi-level networks are established that seek agreement between firms, banks, educational establishments and different layers of government. In the dirigiste model like France, innovation is initiated at least partly by central government.

- 6.36 What is the function and impact of these three different systems? Stuttgart and Toulouse are both ranked as in the three most innovative regions in their countries. In Stuttgart high levels of associations based on local and regional industry networks, forums and clubs mark the innovation system. There is a rich mixture of institutions, which includes public and private research institutes, laboratories, the headquarters of significant firms and a regional government that for many years has been anxious to promote the innovation of the local economy. This long-standing competence in the governance of the local innovation system has become one of the city's collective assets leading to its success.
- 6.37 In France, by contrast, the local government innovation system has two main characteristics. First Toulouse benefited from national government decisions to decentralise activities there including Air France, the customs service, France-Telecom, and the computing activities of government departments. This was subsequently matched by the decisions of some big companies like Thompson to locate their R&D facilities in Toulouse. At a local level a system was developed that aimed to attract those opportunities and use them to lever more public funding from Europe, central government, the region and local communities.
- 6.38 Although different, these two systems were built up over several decades. They both recognised early the importance of innovation and high technology for the competitiveness of first world cities in a globalising economy. They both perform facilitating roles between different parts of the public and private sectors. This is in sharp contrast with the UK system, which has been market driven, with private firms taking decisions. The highly centralized and departmentalised state has provided little incentive or funding for city authorities to engage in economic activities as anything other than a minor part of their activities. And the DTI traditionally had had few links with city governments. The absence of a long-term public strategy has contributed to the relatively poor performance of many English cities.
- 6.39 After the Second World War, both Stuttgart and Toulouse had the advantage, unlike many other Core Cities, of not having a legacy of declining traditional industries. But in addition their respective public authorities were smart enough to recognise the need to develop their embryonic strengths in modern twenty first-century medium – and high – technology manufacturing.
- 6.40 Investment in research and education is high in both places. They also have strong regional research infrastructure to support the major sectoral specialisations of the city. Investment in research that complements local industrial specialisations requires more funding and co-ordination than is normally provided by grass roots governance typically found in English cities. Public/private collaborations to link public investments in research to local industrial specialisations is a notable feature of many of Europe's most innovative urban economies. Their relative absence in English cities hampers the development of successful local innovation systems.
- 6.41 Equally both cities have large investments in higher education linked to local sectoral strengths. The Chambers of Commerce, which provide much professional industrial

training, ensure close links between education and local specialisms, as do the associations that run seminars for professional and technical workers. Such close relationships between education and local industry are not common in English cities, partly because older universities have seen their role as national or international. One result is that a recent DTI survey of innovative firms in the UK indicated less than 5% had links with their local universities.

- 6.42 Innovation has been recognised for many years as crucial to the success of the two cities by public authorities. Although the details have changed, the basic strategic aim has remained the same – to transform technological knowledge into innovative products and processes. The contrast with English cities could not be greater. Before the 1990s it was unusual for any English city to have a coordinated policy for investment in innovation. The RDAs have changed this position. Nevertheless, it still remains rare for individual cities to have strategies for improving the collective investment in innovation. In this way they lag two or even three decades behind some of the more competitive cities in Europe.
- 6.43 Finally, Stuttgart and Toulouse are the political and administrative capitals of their regions. They thus have links to national governments. They also have regional powers, authority and finances that provide them with higher levels of decentralised decision-making possibilities than those found in any average English city.

## Quality of life

- 6.44 Our initial list of characteristics had a bundle of factors like housing quality, distinctive city centres, facilities for national and international events as key drivers of urban competitiveness. In fact, the different kinds of evidence we accumulated in this study did not confirm them individually as critically important drivers of competitiveness. Nevertheless, it is equally clear that soft location factors are becoming an increasingly important part of economic decision-making. One of the constant threads of interviews with public and private decision-makers was the significance of attracting and retaining skilled workers to their cities. And in their calculations, the quality of life for themselves and their families is an increasingly important factor. Cities with the assets of good environment, distinctive architectures, cultural facilities, diverse housing stock, access to natural amenities are attempting to preserve and improve them. Munich, Lyon and Barcelona have different mixes of those characteristics and their policy makers are trying to enhance them. Those which are not so well blessed are attempting to create them in their cities. Equally Dortmund and Rotterdam are not so privileged and are actively seeking ways of improving their offer to influence private investment and retain skilled workforces.
- 6.45 Given the range of issues this study has looked at, we did not try to specify in detail which policies and instruments make the exact difference – culture, environment, architectural and housing quality, city centre facilities. The evidence is that it is the overall mix of factors which matters most. Quality of life may not be the absolutely critical variable like innovation, diversity or connectivity. But like governance and strategic capacity it does increasingly matter. In this sense, the urban renaissance agenda of ODPM and a range of government departments, complements rather than contradicts, the hard edged regional agenda of Treasury and DTI. Both matter and should be encouraged.

## CHAPTER 7

# What's next and for whom?

### We are not yet in the premier league

- 7.1 This study has reviewed a wide variety of data on the economic competitiveness of the UK Core Cities in comparison with a set of leading cities in continental Europe. Inevitably qualifications apply to such an ambitious exercise. There are differences of view about the meaning and measurement of concepts like competitiveness. The study took a narrow sample as a snapshot. There are important variations within the UK Core Cities as well as within continental cities. Not all do equally well – or equally badly – in every aspect of competitiveness. And there is evidence that Core Cities have improved their performance in many important ways in recent years. But despite all this, the big picture is clear. UK cities do not punch their economic weight in a European context. They lag significantly behind many of their European continental counterparts. This is made worse by the fact that European cities do not punch their weight globally.
- 7.2 The World Knowledge Competitiveness Index, for example, benchmarks the world's high performing regions in terms of their performance on four crucial variables – human capital, knowledge capital, regional economic outputs and knowledge sustainability which bundle together many of our critical variables in our analysis. Despite obvious health warnings, this makes sober reading for Europe. The 2002 Index is dominated by US regions; the top 21 'world knowledge competitive regions' are all in North America. The first European region to feature in the ranking is Stockholm at 22nd. Only three other European regions feature in the top 50 – Switzerland (25th) Uusimaa (36th) and London (50th).

Table 7.1 World Knowledge Competitive Regions

	Rank		Rank
Minneapolis-St Paul (US)	1	New York (US)	26
San Francisco (US)	2	Richmond-Petersburg (US)	27
Austin (US)	3	Indianapolis (US)	28
Denver – Boulder – Greeley (US)	4	San Diego (US)	29
Washington (US)	5	Sacramento-Yolo (US)	30
Raleigh – Durham (US)	6	Cincinnati-Hamilton (US)	31
Dallas – Fort Worth (US)	7	Philadelphia (US)	32
Boston (US)	8	Milwaukee-Racine (US)	33
Atlanta (US)	9	Jacksonville (US)	34
Salt Lake City – Ogden (US)	10	Phoenix-Mesa (US)	35
Seattle (US)	11	Uusimaa (Finland)	36
Kansas City (US)	12	Los Angeles (US)	37
Columbus (US)	13	Greensboro-Winston-Salem-High Point (US)	38
Grand Rapids-Muskegon-Holland (US)	14	Detroit-Ann Arbor-Flint (US)	39
Louisville (US)	15	Las Vegas (US)	40
Houston-Galveston-Brazoria (US)	16	St Louis (US)	41
Charlotte-Gastonia-Rock Hill (US)	17	Memphis (US)	42
Chicago (US)	18	San Antonio (US)	43
Rochester (US)	19	Cleveland-Akron (US)	44
Orlando (US)	20	Tampa-St.Petersburg-Clearwater (US)	45
Nashville (US)	21	Oklahoma City (US)	46
Stockholm (Sweden)	22	Buffalo-Niagara Falls (US)	47
Portland-Salem (US)	23	Ontario (Canada)	48
Hartford (US)	24	Pittsburgh (US)	49
Switzerland	25	London (UK)	50

(Source: Robert Huggins Associates, World Knowledge Competitiveness Index 2002)

## LACK OF COMPETITIVENESS IS ALSO A NATIONAL PROBLEM

7.3 The point of entry to this analysis has been the economic contribution of the UK Core Cities to the UK PLC. It has looked from the bottom to the top or from the periphery to the centre. Its spatial focus has been *urban*. However, it is instructive that its main messages are reflected in the review of the UK's *national* competitiveness recently completed for the DTI and ESRC by the leading international analyst, Michael Porter in *UK Competitiveness: Moving to the Next Stage*. That report identifies the following weaknesses in our competitive base:

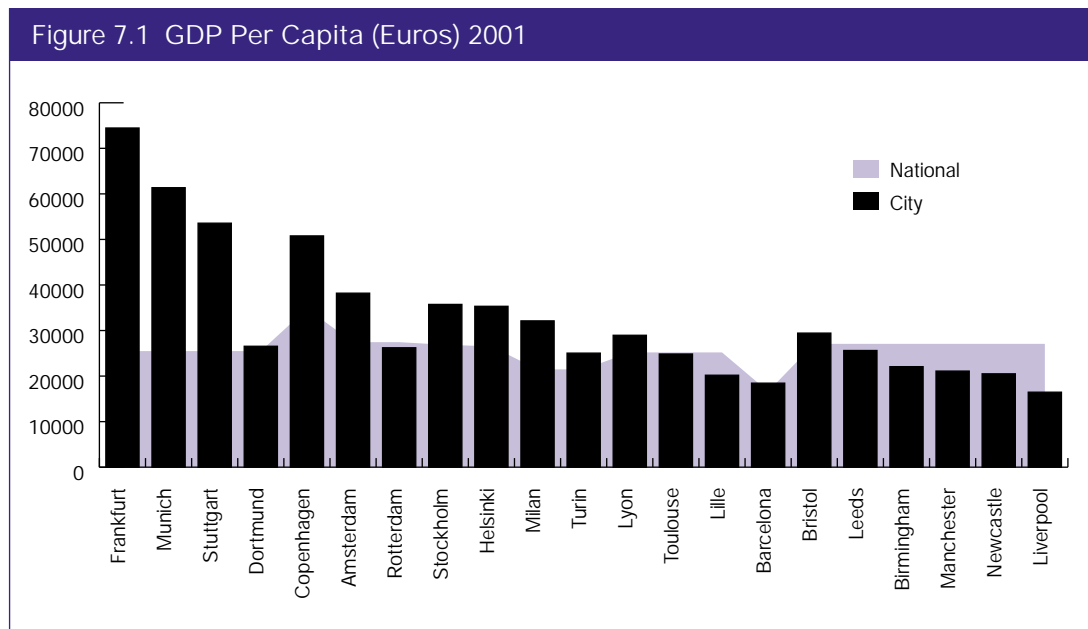
- a weak and deteriorating physical infrastructure;
- skills deficit in the labour force, despite favourable international rankings on educational achievement;
- low levels of R&D investment and commercialisation, despite a strong science base;



- large regional differences in the quality of the business environment and economic performance;
  - limited presence or effectiveness of institutions which encourage regional and local collaboration.
- 7.4 The report argues that despite recent good performance, UK GDP levels in terms of purchasing power are 40% below the US, 20% below Switzerland, 11% below Japan, 3% below France and Sweden. Recent improvements in labour productivity have not closed the gap upon our competitors. The OECD shows that the gap in relation to the Netherlands is 25%, USA 15%, France 11% and Germany 8%. Although the UK performs comparably well in terms of Foreign Direct Investment and Exports, it performs relatively badly in terms of innovation, the creation and commercialisation of knowledge. Although comparing reasonably well with some European countries, the UK performs modestly globally. It has a strong science base but lags behind in patenting and commercialisation. Current levels of UK innovation are not sufficient to drive productivity growth or close the gap with the UK's key competitors.
- 7.5 Physical infrastructure is regarded as the UK's greatest weakness. Railways, ports and ICT are particularly weak. The UK has dropped by 5 or more places during the past five years. Public investment relative to GDP has been about 50% below the USA, France and Germany in the past twenty years. Labour force skills are an area of competitive disadvantage. The UK receives low marks on the quality of its schools, and specifically maths and science education, partly explained by the relatively low spending on education. The UK is 15<sup>th</sup> in the OECD. In terms of general labour force skills the UK still is a long way behind competing economies primarily because of the high percentage of the general population with low educational attainment. The UK has until recently invested less public sector money in R&D than most advanced countries. In the past decade investment of public R&D in relation to GDP has deteriorated. UK universities and research institutions are much less active in commercialisation efforts than their peers in other advanced economies.
- 7.6 Finally, as the report made clear in the UK regional inequalities are growing, as rich regions are getting richer and the poorer ones poorer. This is not happening in France or Germany or the United States. Strong regions and regional institutions – from mayors to elected regional and state level administrations with significant decision rights – are an increasingly important component of competitiveness in many other countries. In the UK only 25% of public sector expenditure is controlled by regional and local governments, below most other OECD countries, including Germany at 35% and the US 42%.

#### THE COMPETITIVENESS CHALLENGE IS EVEN BIGGER IN CORE CITIES

- 7.7 This report would share that report's assessment of the competitive position of the UK. However, the problem is partly national, but more urban. The UK may have underperformed. But its cities have underperformed even more. We can see the evidence of this by comparing the relative performance of key cities and their national economies in Figure 7.1.



(Source: Barclays Bank, 2002)

- 7.8 The picture is very clear. The competitive cities in our sample considerably outperform their national GDPs. Recently improved performers like Helsinki or Barcelona match or beat their national performance. The cities we included in the study as comparable to the Core Cities – Dortmund, Rotterdam, and Lille – perform less well, as we would expect. But with the exception of Bristol, the UK Core Cities lag significantly behind the UK average. Just as the continental cities in our study are leading their nation's performance, arguably the Core Cities are constraining the UK performance. The implication must be that if the Core Cities could improve their performance to match that of their continental counterparts, the gains to the UK national economy would be enormous.

#### SO WHO SHOULD DO WHAT ABOUT IT?

- 7.9 This report is not intended as a guide to specific policy instruments. The number of issues and cities involved are too great for this relatively brief study to achieve this. But the study gives us a clear policy orientation. It has identified the critical success factors for urban competitiveness – diversity, skilled workforce, connectivity, strategic capacity, innovation and quality of life. It has shown that there are different ways of getting there, specific to different countries and different cities. There is not a cookie cutter model, which we can copy. But there are some important things to bear in mind, when trying to get from where our cities are to where we want them to be.
- 7.10 There are some underlying principles endorsed by many policy makers in successful continental European cities that we may want to embrace:

- cities do matter – to national and regional performance;
- it is possible to improve cities performance – it has been done;
- national policies for cities do matter;
- responsibility for failure and success is shared by national, regional and local partners;

- cities do not exist in isolation but live in national and international systems;
- territory and geography are variable – so should be institutions;
- cities can do things to help themselves;
- some things are more amenable to policy intervention and change than others. But you start from where you are;
- it is not a quick win but a long haul.

We deal with some of these themes next.

## Cities matter

- 7.11 It is increasingly clear that cities matter. European governments, the European Commission, many regional governments and agencies in continental Europe recognise that to achieve national economic success it is necessary to have successful cities. The evidence that in many continental countries cities perform better than the national economy – whereas the majority of UK large cities perform worse – provides substantial empirical support for the belief. Increasingly governments regard cities as crucial to national well being – not something government can be agnostic about. It is not clear that this view has been absorbed by important parts of government in the UK. The position and policies of ODPM in recent years have shown growing commitment to and awareness of the potential economic contribution of cities. It is less clear that other departments share that view or commitment. Our European evidence suggests they should do so in future. The economic conditions and contribution of cities need to be nearer the top of the collective governmental agenda.

## National policies matter – resourcing and empowering

- 7.12 Our review of the structural context in which cities operate on continental Europe underlined some substantial differences between them and the Core Cities, which contribute to their greater economic success. It is difficult to demonstrate that a single structural factor explains performance. But the accumulation of a series of factors does give explanatory purchase. Let us remind ourselves of those structural differences. Although there are differences, the trend in continental Europe is to decentralise and regionalise decision-making, placing powers at the lowest level. Continental cities have responsibility for a wider range of functions which affect their economic competitiveness than do their UK counterparts.
- 7.13 Continental cities typically have more diverse forms of local revenue and more buoyant tax bases, which make them less fiscally dependent upon the national state and more proactive in their development strategies. Many European cities have powerful elected mayors who give clear leadership to economic development. Many successful cities have been deeply involved in European systems and networks, which has encouraged them to be internationalist, expansionist and entrepreneurial. The mix varies but it is difficult to disagree with the view that their combination of powers and resources make continental

cities more proactive, more entrepreneurial and probably more competitive. The most successful cities in Europe remain German. They have substantial powers and resources and operate in the most decentralised national system. UK cities arguably have fewer powers, resources and responsibilities than their competitors and have been less engaged in the European project. And they have been less successful economically. The more centralised governmental, institutional, and financial system must be one dimension of the underperformance of UK cities. The policy implication is not a short term one. But it is clear. Letting go achieves more.

## The UK Urban PLC – cities live in systems

- 7.14 In many European countries cities are increasingly seen less in their national economic hierarchies than in global or at least European hierarchies. The French and Dutch planning systems, for example, underline that cities are in a relationship with each other in their own domestic system and it is better to have policies which make this explicit and try to act upon it. This has shaped their investment policy in transport, higher education and location of Research and development facilities. This has implications for the UK. In the past there has been little sense of the relative roles and contributions of different cities and how they impact upon each other – their particular contributions and niches. But this issue will have to be faced if the Core Cities agenda is to be made a reality. For example, Core Cities stress that to improve their economic position it is neither necessary nor desirable to constrain the role and contribution of London. The relationship can be win-win rather than zero-sum. This inevitably focuses attention upon the economic relationship between the provincial cities and the capital and raise the question how they can complement, rather than compete with, each other. Policymakers – national and local – will need to identify ways in which their collective interests can be promoted separately and jointly. They will need to think about systems and relationships as much as about particular places. This is already beginning to happen at local level as Core Cities find ways of sharing and collaborating. The Lyons review is a welcome part of this process. It will need to happen more at national government level as well.

## Grown up government – national/local contracts

- 7.15 As urban challenges become more complex and the actors involved become more numerous, partnership working become increasingly necessary. Partnership operates at all levels. It is instructive to note that two of the countries which have placed most attention on cities and have been two of the most centralised countries – France and the Netherlands – are attempting to specifically build better working relationships between the national state and urban areas. The details vary but the principles remain the same – to operate on a contractual basis with the large cities. Neither has necessarily fully achieved their ambition. But their efforts do underline the need for more grown up – in addition to more joined up – government. In particular there needs to be greater levels of trust between national governments and the big urban areas and a willingness to let go of central control over the process of delivery while retaining a strong influence over the outcomes of policy. Moving towards a more contractual, outcome-based approach that minimised micro-control would be a helpful way of encouraging of city economic competitiveness in future.

## Size matters

- 7.16 One question raised in this study is whether large cities are different from other places and whether they need separate policy attention. In other words – are the large Core Cities special? It is perfectly possible for small and medium sized cities to be economically successful. It happens in the UK and on the continent. But the reality is that size does matter and larger places frequently have substantial assets in hard and soft infrastructure, which give them the potential to be more successful. The empirical evidence across continental Europe is also persuasive. Not all large cities are successful. But our review of the comparative economic performance showed that the cities that score highly were very often the larger cities in Europe and certainly the largest in their national system. The policy implication for the UK is clear. All cities matter. But the larger Core Cities have the potential to contribute significantly and as a consequence are an appropriate target for a sustained government strategy.

## Connectivity is crucial

- 7.17 The study underlined the critical significance which European policy-makers and the private sector attaches to connectivity in terms of economic competitiveness. Connectivity is part physical – trains, planes motorways; part ICT and part cultural having a foreign policy. Those who were contemplating in which cities they should invest consistently cited the factors. It is a high priority for those who want to attract investment and encourage exports. Those policy makers who have good connections want them improved. Those who do not want them even more. Of course, transport is a complex field and there is no necessary one to one correlation between provision of facilities and economic dynamism. But there are some important correlations.
- 7.18 As our data demonstrated the most successful cities in Europe have the largest airports. The least successful Core Cities have the smallest airports. Only 2 are in the top 50. The cities, which have most improved their performance during recent period, have also invested heavily in their transport infrastructure, especially airports most notably Barcelona. Lyon and Lille certainly feel they have benefited by shrinking distance between the capital Paris and themselves with the TGV extension. In the case of Lyon improved accessibility has simply contributed to its other natural advantages of location and environment. But it still seeks improved external access through improved airport facilities or the extension of the TGV link to northern Italy. Munich constantly cites the economic impact importance of the decision to build a new airport to improve its external connections. Many of our successful cities also place a high premium upon good internal access and have invested heavily in efficient inter-modal public transport systems, even Stuttgart and Munich which make their living by making motor cars.
- 7.19 This empirical evidence from our study is supported by a wider research literature, which emphasises agglomeration economies, in particular access to airports, the significance of exports, and the importance of face-to-face contacts in addition to virtual communication. It is less clear that the relevant bits of UK government have taken fully on board the significance of connectivity both internal and external to economic competitiveness. Such issues need to be placed more clearly on the competitiveness agenda and the stakeholders should be more frequently at the table. Improving the regional transportation infrastructure, improving rail connections with the capital and exploiting the potential of the major northern airport in Manchester all need to be encouraged. The continental experience is that it is an investment which pays off in terms of urban and national competitiveness.

## Only connect – economy, territory and Government

- 7.20 The primary focus of this report has been the shape and distribution of competitive European cities and the standing of the UK Core cities. But the wider message is about the impact of economic globalisation and restructuring upon the patterns of our territorial governance. Economic processes are changing, as are economic geographies. Institutions need to catch up with those processes of change. The key issue is no longer a narrow concern that the city defined as an administrative entity no longer makes sense. The more important issue is to make the territorial impact of national policies and decision-making more transparent and open to debate. This will involve a number of things. Local authorities will need to recognise, as they increasingly do, that their boundaries are not the natural places in which to plan economic development. Sub-regions and regions will come into play. And they will need to recognise the importance of variable geometry, where the locus for action in one policy sphere will not be the same for a different policy sphere.
- 7.21 At national level it will involve a greater recognition of the significance of economic and territorial relationships. There needs to be greater clarity about the intention of – and relationships between – national policies for different areas – whether neighbourhoods, cities, sub-regions or regions. There also needs to be greater awareness of the impact of national state policies upon particular places. At one level, it can be argued that there is not, as the Treasury claims, a third generation of regional policy. Indeed the explicit regional apparatus is relatively weak and relatively poorly funded. But these issues cannot be simply confined to the concerns of conventional explicit regional policy. There will have to be wider debate about the consequences of a very powerful implicit territorial policy, whereby substantial public resources flow into different areas of the nation through a range of disconnected policies and institutions in higher education, research and development, transportation, housing, health – even the Sustainable Communities plan. Often these policies and programmes support already prosperous regions as much as – if not more than – the less prosperous places, which need critical support and intervention. The nature of that implicit policy system and its merits needs to be discussed. This could lead to a more constructive national debate which rather than being zero-sum between leading and lagging places could be win-win.
- 7.22 For example, the logic of the Core Cities case is that there is no necessary conflict between the provincial cities and the capital city London, or between the different regions in which Core Cities are mainly located and the more prosperous south east. If this is to be demonstrated we need an explicit analysis of how and why resources are distributed in the ways and places they are – and their consequences. Regionalisation will involve devolving responsibility to the lowest level those things best done locally and regionally.
- 7.23 The European evidence suggests that the letting go of central control bears the fruit of economic prosperity. But it also indicates that in addition to regional policies there is a need for a national policy for regions. This would involve taking a strategic view of the appropriate relationships between different parts of the UK territory and the impact of government machinery, policies and resources upon them. If this were created, it would reinforce the Core Cities position that they are not asking special treatment for themselves – nor for London and the south east to be constrained. It would form part of a wider debate about the best way of improving the economic competitiveness of the UK urban, regional and national systems.

## If cities are underperforming – who's to blame and who's going to fix it?

- 7.24 The short answer to the first is nobody and to the second everybody. History, geography, political arrangements and cultures, key individuals, brave decisions, good timing and bad luck have all made their contribution. Who will change it? It won't all be national government. Cities will have to play their part. Some of this will require changes in national decision-making, priorities and resources. We have identified some of those things in this section. Those changes may or may not happen. But meanwhile we start from where we are. Much academic blood has been spilt in the debate about what real powers localities have to change their circumstances. Critics of the new localism, or the concept of the learning city region, attack them for displacing attention from the global and national structural constraints upon cities. They have a point. But equally it flies in the face of the evidence to say the cities' decision-makers cannot do anything about their circumstances. The lesson from this study, as well as from the other ESRC CITIES Programmes, is that it does matter what cities do – for good or ill. There are lots of examples of bad local decision-making making a bad situation worse. Equally there are examples of the reverse. Local players do have choices. How they exercise them is important. It may matter at the margins. But in this business, it is the margins which often matter.
- 7.25 Two kinds of examples make the point that local decision making matters. The first is spatial and the second temporal. The first is the experience of cities in the same region, which have had different economic trajectories in recent years. In the UK, the recent trajectories of Liverpool and Manchester and Glasgow and Edinburgh show us that places that are very close together in the same region and same national system can perform quite differently economically. This is at least partly explained by choices made – and not made. The second comparison is over time. This study has shown that places can change their performance even though the national arrangements, policies and priorities do not change significantly. There is always a mix of factors that explain economic success. But cities have to act. Their leaders might wish or try to change the external circumstances to improve their prospects. But they should not sit around waiting for that to happen.

### CITIES CAN HELP THEMSELVES

- 7.26 Cities operate within a set of powerful structural economic social, physical and institutional constraints. Global economic change, national policies and decision making, history and geography can all place real constraints upon an individual city's capacity to perform well economically. For example, it is clear that cities which are in good strategic locations, have benign climates, attractive natural environments, no legacy of traditional industrial structures attitudes and values, operate in decentralised systems, have access to powerful regional governments, or simply benefited from luck the consequences of post-war relocation of private firms are more likely to be successful than cities which do not have those advantages. The experience of successful southern German cities underlines this point. There is no point denying those powerful realities. One reaction to their encouraging economic competitiveness of the UK Core Cities is that it might be best to start from somewhere else. But that is a counsel of despair. Cities are not powerless to shape their economic trajectories.

7.27 The evidence from our successful – and currently less successful – continental cities indicates that cities need to do everything they can within their limits to maximise the critical success factors we identified earlier – innovation, diversity, connectivity, skilled human capital, quality of life and strategic decision-making capacity. Cities need to:

- Develop their long-term strategic view of their economic role and trajectory.
- Build upon and deepen existing strengths in clusters and sectors to modernise and upgrade the functions they undertake in those economic sectors.
- Build strategic alliances with private partners.
- Develop sub-regional territorial alliances and initiatives.
- Maximise their internal and external connections.
- Develop a local innovation strategy.
- Encourage the skilled labour force to come, stay and contribute.
- Encourage university and city links in which universities see the importance of their economic contribution to the local economy.
- Develop their cultural infrastructure and improve their quality of life offer.

## ENCOURAGING INNOVATION

7.28 This study demonstrated in a variety of ways that innovation is the key to urban economic competitiveness. It also underlined that different countries have different ways of managing that process. In particular, the most innovative cities were in countries, which had more coherent national and local innovation systems. The UK, which has the least competitive cities, has the least coherent innovation system. Indeed it is barely developed. It is beginning to change with the increasing role of RDAs. But much more attention should be paid to exploring what local innovation systems should look like and the barriers to success. The evidence from our cities is that this is not rocket science. But it is a process which needs to be focused upon, is long term, involves consistent networking and commitment from national as well as local government. Where that process is happening locally it is to be encouraged. Where it is not it should be developed.

7.29 In principle, city regions need to take stock of what they have in the way of local innovation systems and benchmark them against 'ideal' characteristics. A fully functioning and competitive local innovation system would consist of:

- A set of nodes in innovation chains, not all of which need to be located in one particular city.
- Systematic and interactive linkages between these nodes both internally and externally.
- A set of knowledge generating firms and institutions such as high-tech firms and universities that make it their business to seek out inventions wherever they are to be found and turn them into commercial products and services.



- Soft infrastructure including a creative and additive culture.
  - Financing in the form of pre-commercial public funding and commercial venture capital.
  - Commercialisation and marketing where new ideas are not only turned into new products and services but are properly marketed to national and international markets.
- 7.30 The proof of the pudding is exports. It would require policy support in the form of iterative interactions between all the main players and long-term policy strategies and support over at least ten years and beyond. And many of the levers are in national government hands. There is no quick fix. This is a marathon not a sprint.

#### BUT HOW ARE WE GOING TO GET THERE – A MESSAGE FROM MUNICH

- 7.31 What does the experience of successful European cities tell us about the levers to be pulled to achieve the desired improvements? It tells us that there is no rocket science to this process. There is no single way of doing it. Different cities in Europe have achieved their success through different routes. As we said at the beginning of this report, policymakers cannot simply read off from 'over there' to 'over here'. However, if the critical variables are innovation, skills, diversity, connectivity, strategic capacity and quality of life, the obvious trick is to do the things that will maximise those characteristics. Some of the necessary resources – money, human capital, regulative and enabling authority will be in the hands of local players, some regional, some national. Some will be private, some public. The mix varies from country to country. The route map for different cities will differ. So what should the different Core Cities do? Partly they should continue doing what they have been trying to do more in recent years. This means thinking more intelligently, operating more strategically, behaving in partnership, anticipating the future, developing and modernising existing economic strengths and moving into those new economic sectors where they have some potential.
- 7.32 There is no silver bullet to economic success. But it can be helpful to read the story of another city to appreciate the journey involved. So we here tell the Munich story. The city was virtually destroyed at the end of the Second World War. Now it is arguably one of the most competitive cities in Europe. How did they do it? We asked senior decision-makers in the city to tell us. This is the Munich story as seen through the eyes of the city officials currently responsible for leading its economic development.
- 7.33 In their self-analysis, Munich decision-makers identify a few key features or events, which encouraged and marked its success. The first was history and politics – and the fact that Munich had been the state capital of Bavaria since the end of the 19th Century. Politics always creates money. The second was luck and the fact that the city was in the American sector after the war and attracted leading German high tech firms like Siemens fleeing from the Russian controlled zone. A third critical event was a prestige project – winning and staging the 1972 Olympic games and building up its infrastructure, in particular its public transport system. A fourth was people and the impact of several influential leaders who pushed for critical projects, which later turned out to be very significant. This would include: Franz Joseph Strauss' demands for a modern airport; the Chief Executive of the Munich Fair's constant demands for a bigger and better location in the city; a university professor insisting on links with the private sector, which turned into a heavily funded federal government scheme. All were delivered and later paid bigger dividends than

anticipated at the time. A fifth feature was the logic of accumulation – that by becoming Germany's economic capital it attracted those who wished to be associated with success. As they say in Munich, the pigeons go where the pigeons are.

7.34 If these were some of the key events and features what do Munich decision-makers see as their critical assets? They fit well into our key factors:

- The quality of their regional networks – stakeholder, policy and business networks.
- The extent to which leading companies are embedded into the regional economic context.
- The qualifications of their workforce and strength of their schools, vocational training and universities.
- The spin offs from their universities and the richness of their R&D institutions.
- Their good access to European and global market.
- The strength of their soft location factors – Alps, climate, green environment, quality architecture and housing, cultural facilities.
- Its well balanced and multi-sectoral economic structure – the so-called Munich mix.
- The range of growth clusters.
- Access to venture capital.
- Support by the State Government for critical initiatives – the Olympic Games, the High tech offensive and the Museum of Modern Arts.
- The leadership, vision and cooperative culture of regional stakeholders.
- The entrepreneurial innovative spirit of the city which had nothing in 1945 and therefore nothing to lose by taking risks.
- The open character of the city.
- The levels of social inclusion.

7.35 Some of those assets are economic and structural, some are locational, some concern cultural values, others are political. Policy-makers in Munich constantly seek to protect and deepen those advantages.

7.36 What advice did Munich offer Core Cities on building up competitiveness? Even more obviously this is not rocket science either. Much of the advice is self-evident. It is as much questions as advice. But it comes from an impeccable source.

- Undertake SWOT analyses identifying key strengths and future economic prospects.
- Conduct state of the art sectoral analyses – which sectors are innovative, dynamic and which are declining or stagnating.

- Identify the competitors and what they are doing, ask what you can learn from them instead of copying them – benchmarking.
- Constantly innovate.

Decide:

- Who are the key stakeholders to involve?
- Who will take the leadership?
- How you build networks and partnerships?
- How you encourage innovation in non-innovative milieu?
- How you define and achieve critical mass?
- How you enlist the support of state Government?
- How you encourage and secure well balanced multi-structural growth?
- How you improve your attractiveness?
- What is a realistic timetable?
- Who is responsible for the strategy, how it is initiated and implemented?

7.37 All this advice will ring bells with Core Cities. Indeed, they are already doing many of these things. The search for success often leads to clichés. But the point of clichés is that there are very often true.

## Looking Forward: City and regional competitiveness – a bridge not a barrier

7.38 This project was asked to identify the key factors and characteristics of large provincial cities in Europe. Since the project began, the Core Cities Working Group's policy agenda has developed further. In particular there is concern with PSA 2<sup>1</sup>, which is designed to improve regional performance and reduce regional inequalities in the UK. There is currently as much concern with the contribution that large cities can make to regional performance as there is with the performance of those cities in their own right. The nature of urban-regional economic relationships was not a primary goal of this project. So we cannot provide the answers to the key questions that the Group now wishes to answer. That would require a further piece of work that specifically focussed upon those issues. Nevertheless, the urban regional dimension was a thread – if relatively minor – of our work. So we are in a position to comment. Some of these comments have been made already in the body of this report. But given their increased significance, it is worth underlining here some of the messages which have emerged. Some are about institutional, others about economic, relationships.

1 PSA2: Public Service Agreement 2 – Regional Economic Performance

## Institutional relationships

- 7.39 First the UK is not alone in these concerns. There is great awareness in continental Europe of the importance of the economic relationships between cities and regions. Everybody recognises that city administrative boundaries do not correspond with current economic realities and that the wider region or sub-region needs to be taken into account for long term policymaking. Second there are increased efforts to devise sub-regional institutional relationships so that cities and their surrounding regions can work together more efficiently, partly to manage internal issues – economic development, physical infrastructure, human capital, environment, transport issues – and partly to market their regions externally. The nature of the relationships ranges from formal to informal. Both approaches have costs and benefits. Third, these urban- regional relationships are never simple with a range of economic and political tensions making it difficult to get easy solutions. Fourth, drawing boundaries and deciding who is in who is out – formally or informally – is not simple. Different cities have worked with different boundaries. Political realities and relationships are a key consideration. But in many urban areas there are efforts to build relationships between neighbouring local authorities, or occasionally between more distant towns and cities, which all emphasise the economic advantages derived from critical mass and increased collaboration. Working on as wide a scale upon which you can get political agreement is probably the best advice.
- 7.40 In the UK, the governmental and institutional landscape of regions, cities and neighbourhoods has changed dramatically in recent years. The result is that the spatial architecture of economic competitiveness is complex – if not confused – and unstable. Finding the right levels at which to pull policy levers remains an elusive goal. But the present arrangements in the UK seem sub-optimal. This study found that the challenge of getting the right geometry for economic functions and institutions is as complex in continental Europe. There is no magic bullet. But the evidence from continental Europe is that increasingly the city is regarded as too small and the region too large a platform on which to base economic competitiveness. The trend is to develop city-regional solutions, most often on an informal basis, although occasionally and successfully, on a formal basis. This suggests that what is good enough for the successful urban economies of continental Europe ought to be good enough for our under-performing cities. There is an incentive if not an imperative for places to develop and implement strategies, policies and instruments that pull core cities and their economic hinterlands together rather than apart. This may not be easy when there are fully developed or developing regional and neighbourhood institutions, strategies and instruments. But all players – local, regional and national – need to focus upon the logic of this approach. This is already happening in some RDAs. The process needs to be deepened and widened.

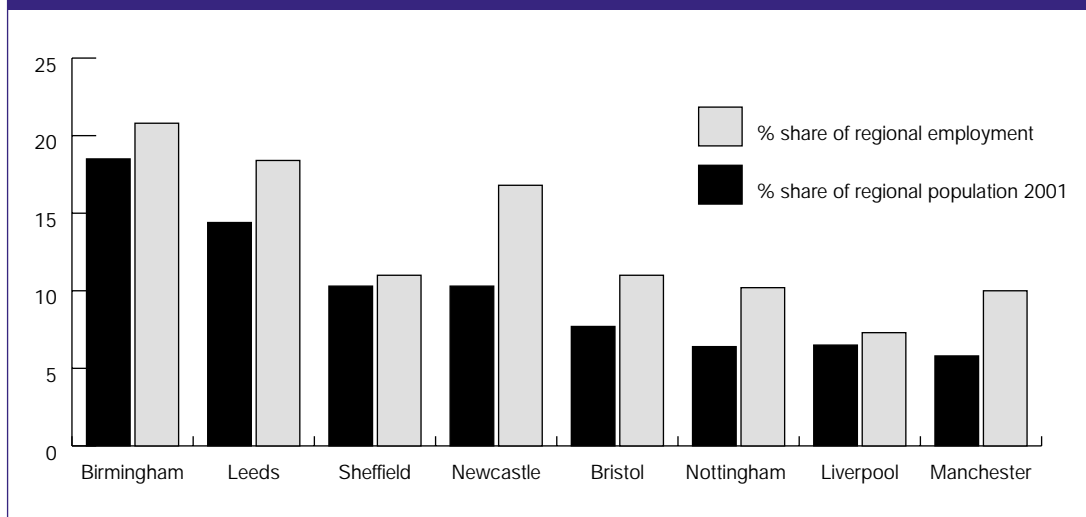
## Economic relationships

- 7.41 This study did not explore in great detail the ways in which urban, and regional economies interact. So it cannot give chapter and verse, for example, on how intra-regional economic relationships operate, the nature of internal linkages and supply chains, the interactions of different policy sectors and how the benefits are created and spread across the wider territory. But we can make some general statements about those relationships, partly based on literature and partly on our study. Perhaps three general comments can be made on the basis of our reading of the literature. First, the majority of all economic activity is concentrated in Functional Urban Regions – or large cities. Therefore most economic

activity in most regions is dominated by what happens in the major or a small number of large cities. The work of Bennett et al on business locations in the UK underlines the significance of urban areas for business clusters and their relevance to regional economies. Therefore, if you can improve the economic performance of cities, this will have a major impact upon the economy of the entire region.

- 7.42 Second, modern service industries are highly concentrated in the central areas of regional capitals. These are often the major growth industries in advanced economies. Modern high-tech industries such as ICT and the life sciences are also concentrated in the centres of regional capitals. So regional capitals tend to be privileged in the new growth industries or are the places where they would typically like to be located. Sponsoring these sectors in cities will also have a disproportionate effect on the competitiveness of the entire region. Third, trading cities have always been the most economically successful areas. Once they were located at river crossings and ports. Now they are located at international airports. Cities are the connecting nodes of the international trading economy. Therefore fostering the efficiency and connectivity of regional capitals provides an economic gateway to the international economy and benefits the whole regional economy.
- 7.43 The empirical evidence from this study would support those three general remarks. But we can add some specific comments on the basis of our work. First, not all regions across Europe are urban. And there are examples of successful non-urban regions. However, in our study there were no successful urban regions which did not have successful cities at their core. We saw this in many of our detailed tables, which presented both urban and regional performance on key criteria of competitiveness. The regions which performed well were those where the core city performed well – and vice versa. Nor did we find cities that wildly outperformed their region or vice versa. Second, in some regions the economic weight of the central city/ies is so large that the GDP of the urban area is often a significant part of the regional GDP and one is actually measuring the same kind of thing. Third, even though many regions are polycentric, outlying areas still depend heavily upon the central city since many of their residents commute to and from work in them and the central city provides them with a variety of economic, social and cultural services. Fourth, many of the features that successful modern industries require – innovation, creativity, skilled human capital, access to markets – are the qualities that the urban areas, institutions and residents we studied typically possessed. Fifth, the significance of the urban-regional relationship has been recognised by many governments in Europe. For example, much of the thrust of EU policy in the past decade has been to seek improved regional performance by focussing upon the contribution of cities. And many national and regional governments on the continent have also recognised the contribution that cities make to regional economic performance.
- 7.44 In terms of the relative economic performance of Core Cities it is also worth revisiting two figures from the beginning of this report. Figure 7.2 shows that Core Cities act as regional employment centres, accounting for a higher proportion of their regions' total employment than population.

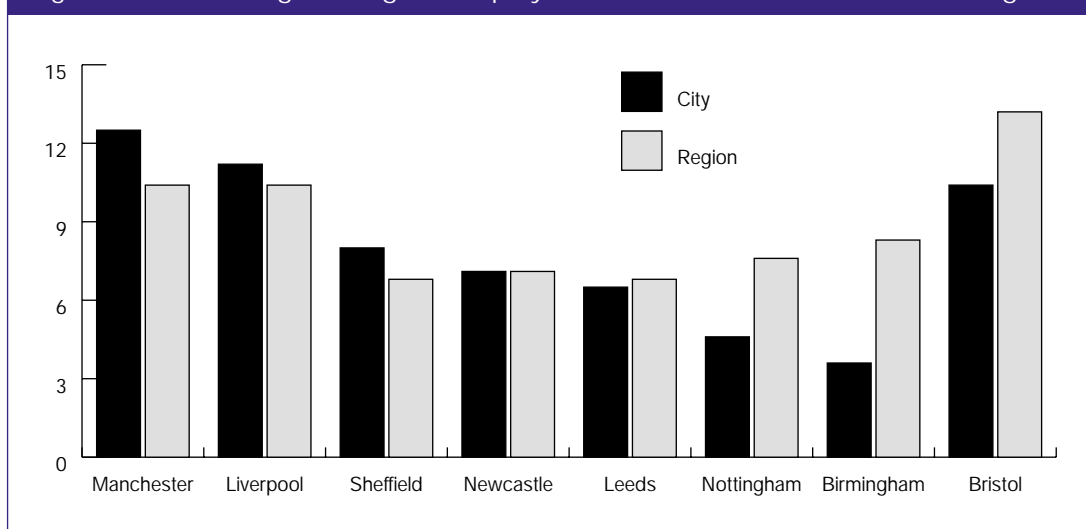
Figure 7.2 Core Cities' Share of Regional Population and Employment 2001



(Source: National Statistics Mid-year population estimates, and Annual Business Inquiry, Crown Copyright)

7.45 Figure 7.3 shows that in terms of employment growth Manchester, Liverpool and Sheffield are all outperforming their regions.

Figure 7.3 Percentage Change in Employment 1995–2001: Cities and Their Regions



(Source: National Statistics, Annual Business Inquiry, Crown Copyright)

7.46 All these factors suggest that in order to achieve improved regional performance and to reduce regional inequality, UK policy makers ought to focus on the relationships between Core Cities and their regions. Core Cities are one of the key levers to improve regional performance. There are a range of issues which need to be explored, including, for example: the spatial relationship between cities, sub-regions and regions; the optimal institutional relationships and division of functions between different agencies; the precise nature of economic linkages. However, to specify more clearly the optimal nature of those economic and institutional relationships between cities and regions would require a more detailed examination than this study can provide. It should be undertaken.

## Endgame

- 7.47 This report has demonstrated the contribution that European cities make to their national and regional economies. It has shown how far the Core Cities lag behind their European competitors. It has identified the possible contribution Core Cities could make to improving regional economic performance and reducing regional inequalities. It has suggested some policy principles and issues which need to be explored further. Most of the implications of this study are medium and long term and will need to be worked out in the coming months and years. However there are two short-term things the Working Group could do to maintain the momentum of the work.

## Improving intelligence

- 7.48 First, this study has accumulated a lot of evidence about how well our cities perform in relation to their European competitors. This information, which is in the report but also contained in a variety of detailed annexes, is both valuable and time consuming to collect. We now have a benchmark against which we can track progress and hopefully improvement over the years. It would be a missed opportunity if this European wide intelligence system were not sustained in future. It would clearly feed into work that will be required for the State of the Nation's Cities report due in 2005. But it would also be valuable for government departments, RDAs the individual Core Cities, and perhaps other cities in due course, to have a customised flow of intelligence upon our cities comparative economic performance.

## Making links

- 7.49 The second proposal is related. We have built a detailed picture of what is happening in successful European cities. We have also built up a very powerful network of European policy makers and politicians – at national, regional and local level. Many of them have expressed a wish to share their experience more directly with colleagues from the Working Group. One way of maximising the added value of this work is a possible work programme in which key people would be brought together to explore in detail the real policy implications of this study for policy makers. This programme could take a number of forms with selected site visits to the right cities to see the right projects and talk to the right people. The visits could be themed around the critical success factors – innovation, connectivity, diversity, strategic capacity and quality of life. The events would have substance and detail in contrast to what sometimes happens during ministerial visits, conferences or even network activities. They would allow colleagues to see first hand what is going on and what is working in different European Cities. It would encourage the formation of genuine cross- European working between professionals.

## Being systematic

- 7.50 Beyond those two specific proposals, it could be valuable to create something more substantial which could develop the Core Cities agenda further. At present the Group lacks some capacity to deliver its aspirations. The Group has produced a variety of position papers during its existence. Many of them however have raised policy issues rather than resolving them. In part this was because of time. But primarily the Group often did not

have the internal capacity to fully explore the issues they raised. It would be worth the Group considering whether it would benefit from a dedicated resource, possibly a Core Cities Policy and Research Institute, which could undertake a variety of functions in future:

- Undertaking research on key issues for Core Cities.
- Developing policy papers on key issues.
- Creating a long term database which benchmarks Core Cities in relation to their international counterparts.
- Encouraging networking and exchange of experiences between UK and European policy makers.
- Organising national and international conferences and seminars on key policy issues.

7.51 Such an organisation would have a number of strategic advantages for the Core Cities. It could:

- increase the internal capacity of the Core Cities;
- raise and sustain their public profile;
- enable Core Cities to punch their weight in the policy debate.

## Conclusion

7.52 This study has identified the characteristics of the leading European cities and compared them with the biggest cities in the UK outside London. The evidence is sobering. Despite recent improvements, many UK provincial cities lag behind their competitors in terms of GDP, innovation levels, educational levels, connectivity, social cohesion, quality of life, political capacity and connections with their wider territories. Crucially, they lag in the eyes of international investors. In contrast to their successful continental counterparts, many UK cities are a drain upon national economic competitiveness. The study has identified a set of key policy messages based upon the experience of some of the most successful European cities that might help improve our cities competitiveness – and our regional and national competitiveness. They do not constitute a magic bullet. They are more like commonsense. But they are not quick. Some – not all – we are already pursuing, if not energetically enough. However, they are worth pursuing with greater vigour – because the prize is very high.



## APPENDIX 1

# The meaning and measurement of Urban Competitiveness – Technical paper

*by Mary Hutchins*

## 1. Overview

- 1.1 Recognising a successful city when you see one is easy. Understanding the dynamics and processes that generate that success is more of a challenge. Place competitiveness and success is complex and multi-faceted, and cannot be simply or easily quantified and measured. However, working with quantitative data it is possible to identify the key elements of competitive cities.
- 1.2 As part of this project a set of common indicators have been developed to provide comparable data across the study cities. This paper explores the difficulties and challenges this work presented and the solutions adopted. It also details the material used to inform decisions made during this process.
- 1.3 Specifically this paper reviews:
  - What to measure – identifying the key features of competitiveness
  - Indicators of success – what measures have been used by whom
  - Defining the city
  - Accessing data
  - The indicators
  - The Data – key messages
  - Data sources and reference material utilised.

## 2. What to measure – identifying the key features of competitiveness

2.1 Innovation, prosperity and competition are important factors contributing to the success of a city. Among studies exploring the nature of each of these factors there is a general consensus – placing a high degree of importance on a quality labour force, industrial structure and connectedness.

2.2 Innovative cities enable local players to respond to complex, global opportunities.

*“This requires organisational responses that combine power of corporate capital with the opportunism of small business; manufacturing technology and service expertise; entrepreneurial forms of freedom with effective public regulation and support; new ideas encouraged by a stable established institution and physical infrastructure; and a capacity for trial and error through support for risk-taking.”<sup>1</sup>*

2.3 Simmie shows how innovative cities reflect:

- experiences of national innovation system and the city's position in the urban hierarchy – the higher up these scales cities are the more likely local environments facilitate innovation;
- long-term historical development – the role of large firms and corporate strategies with urban regional dimension.

The key urban assets of an innovative city are:

- a highly qualified workforce;
- fixed infrastructure and telecommunications capacity.

2.4 Successful cities are prosperous and “Prosperity is a function of two constituent parts – employment rates and productivity”<sup>2</sup>. Industrial structure and human capital are the two most important drivers of prosperity for BSL<sup>3</sup>, with the additional drivers of: labour supply; infrastructure; population density and ethnicity all playing a key role in determining levels of prosperity.

2.5 Paul Cheshire's<sup>4</sup> analysis of the disparities in the growth of GDP per capita between 118 major cities identified five leading determinants of regional growth:

- industrial structure;
- regional population;

1 Simmie J (2001) *Innovative Cities*, London, Spoon

2 Business Strategies Limited (2001) *What makes Euro regions prosper?* London, BSL

3 Business Strategies (2000) *‘Long term outlook’* London, BSL

4 Cheshire, P (1996) ‘Urban Economic Growth in Europe: Testing Theory and Policy Prescription’ *Urban Studies* Vol 33 No.6

- R&D establishments (measured per million population);
- growth of neighbouring regions (close proximity to fast growing region can have a detrimental effect on a region); and
- national performance.

2.6 Storper's definition of place competitiveness emphasises the capability of an economy to attract and maintain firms with stable or rising market shares in an activity while maintain stable or increasing standards of living for those who participate in it<sup>5</sup>. This definition was used by Huggins to develop his index of urban competitiveness, this index has three components covering the inputs, outputs and outcomes of competitiveness.

<b>Inputs</b>	Index of knowledge based companies
	Index of economic activity
	Index of business density
<b>Outputs</b>	Index of GDP per capita
	Index of productivity
<b>Outcomes</b>	Index of earnings
	Index of unemployment

2.7 In their work on 'The State of England's Cities'<sup>6</sup> Robson, Parkinson, Boddy and McLennan identified the key features of the 'urban asset base' as:

- Location
- Age
- Favourable economic structure
- Company characteristics
- Skills learning and innovation
- Communications
- Quality environment and services
- Alert local governance.

<sup>5</sup> Huggins R (2002) *'State of Urban Britain'* Robert Huggins Associates

<sup>6</sup> Robson B., Parkinson M., Boddy M. and Maclennan D (2000) *The State of England's Cities* London DETR

- 2.8 An earlier study by the EIUA<sup>7</sup> set out four key characteristics of a competitive city, these are:
- a diverse economic base in a range of service and manufacturing sectors, particularly the high value added sectors;
  - the knowledge based institutions to develop a flow of human capital and skilled workers for the high value added sectors of the economy;
  - good economic, institutional, physical and telecommunication links with the most dynamic areas of the European economy;
  - the local institutional capacity to identify a development strategy for the city and generate the political financial and personnel resources needed for successful implementation.
- 2.9 The studies of city and place competitiveness outlined above vary in their precise focus, however the attributes they assign to a successful city remain relatively constant; with economic structure, human capital, productivity, connectedness and innovation the key determinants of success. Section three shows how there is also considerable overlap in the measures used in different studies that set out to quantify the successful city and region.

### 3. Indicators of success – what measures have been used by whom

- 3.1 An initial review of existing comparative studies of city performance highlights the lack of robust city level data that is comparable on a trans-national basis. Instead many studies of competitiveness rely on regional data, in some cases modelling regional data to provide city figures.
- 3.2 The Innovative Functional Urban Areas in North West Europe project<sup>8</sup> focused on two 'input' and two 'output' indicators of innovation after finding that very few statistical indicators are available at the regional level.

#### *Input indicators*

Inventory of financial resources associated with R&D expenditure

HR employed in R&D (full time equivalents)

#### *Output indicators*

Scientific production (statistics on publications from a US database and Office for Science Technology in France)

Number of patents registered

7 European Institute for Urban Affairs (1992) *European City Regions: Establishing Edinburgh's Competitive Position* Liverpool, EIUA

8 IAURIF (2001) *Science and Technology in the Functional Urban Regions in Northwest Europe*

3.3 Robert Huggins' Global Index of Knowledge Economies<sup>9</sup> includes the following indicators of regional competitiveness:

- Economic Activity – employment/unemployment
- Employment – key sectors Biotechnology, Computing, Automotive and Mechanical, Electrical and instrument, Computer services
- Number of managers
- R&D expenditure by Government
- R&D expenditure by Businesses
- Patents
- GDP
- Labour productivity
- Earnings
- Elementary education
- Higher Education
- Secure servers
- Internet hosts.

This report also included a set of sub-regional indicators for the UK, covering:

- Economic activity
- ILO unemployment
- GDP
- Earnings
- Businesses per capital
- Knowledge based companies
- Knowledge based workers
- R&D and HE workers
- Productivity – GDP per employee
- Educational attainment ('A' level 'AS' level points scored).

<sup>9</sup> South East England Development Agency Robert Huggins Associates (2001) *Global Index of Regional Knowledge Economies: Benchmarking South East England*

3.4 Barclays Competing with the World<sup>10</sup> report provides a detailed profile of 18 regions from across the world, identifying the leading industrial sectors and development issues for each. It also includes a set of economic performance indicators:

- Population – % under 16, % over retirement
- GDP
- Employment
- Unemployment
- Educational attainment
- Patent applications.

3.5 Robert Huggins UK City Competitiveness Index<sup>11</sup> reviews the relative competitiveness of English cities and presents data at 'city level' as defined by local authority boundaries.

- The final competitiveness index included:
- Productivity – economic output per worker
- GDP per capita
- Average full time earnings
- Business density (number of companies per capita)
- Knowledge based firms as a % of all firms
- Economic Activity rates
- Unemployment.

3.6 Business Strategies Limited's *What Makes Euro Regions Prosper* report starts with the assertion that the number of people working and the productivity of each employee determine the prosperity of a region (income), this report measures regional prosperity in terms of:

- GDP per head of working age population adjusted for commuting at purchasing power standard
- Employment rates (full time equivalent employment divided by working age population adjusted for commuting)
- Productivity (GDP per head of working age population adjusted for commuting divided by full time equivalent employment).

<sup>10</sup> One North East, WDA Barclays (2002) *Competing With The World: World Best Practice in Regional Development*

<sup>11</sup> Robert Huggins Associates (2002) *The State of Urban Britain*

Explanatory variables of prosperity include:

- Industrial structure
- Workplace employment in 1991
- Objective 1 status
- Airport – average travel time to airports and number of passengers using them
- Qualifications – at three standard levels: higher, medium, lower.

## 4. Defining the City

- 4.1 City boundaries – where's in and where's out – matter<sup>12</sup>. The cities included in this study vary in scale and scope, and these variations are, in part, due to the different ways in which the city boundaries are defined. Some cities are under-bounded their official delineation does not correspond with their true reach and influence, others are over-bounded incorporating large swathes of rural land along with the urban area. The cut off point for boundaries can have a significant impact on any socio-economic indicator and this must be taken into account when developing and using measures of success.
- 4.2 Residential segregation does not follow the same pattern in all cities, English cities tend to have neighbourhoods with residents are experiencing high levels of deprivation concentrated in the inner-city with wealthy commuter suburbs towards the edge of town, tightly drawn boundaries can exclude the most successful areas from city-wide averages. The opposite can be found in many French and Italian cities where the most deprived are concentrated on edge housing estates, a tightly drawn boundary here omits these areas of social exclusion.
- 4.3 To ensure true comparability across the data used to evaluate city performance the delimitation of city boundaries across Europe would need to be standardised. This is beyond the scope of this paper and is not resolved here. As more data becomes readily available at the very local level, and with advances in ICT and GIS systems, it will – at some time in the future – be possible to use local data as the building blocks to construct boundaries for urban areas on a consistent basis and so standardise the spatial units of 'the city'.
- 4.4 Given the time and budget constraints of this project a practical approach to data collection has been adopted. The data presented here is for the cities as defined by their current administrative boundaries. This has three advantages, first, this is the level of local political accountability, second this tends to be the functional level for service delivery and most importantly for work constrained by time and budget this is the spatial level at which most readily available secondary data is published.

<sup>12</sup> Cheshire, P (1997) *Economic Indicators for European Cities and Regions: Why boundaries matter* Eurostat seminar on Urban Indicators April 14th – 16th 1997

## 5. Accessing comparable data – sources and challenges

- 5.1 Only a limited amount of comparable city-level data is available on a trans-national basis. The definitions, time-scales and spatial levels used to collate socio-economic data often vary by country and city making comparisons difficult. Generally the headline data such as population figures tends to be the most robust and the most comparable.
- 5.2 Data collected by international organisations to an agreed set of definitions – for example the airports data from Airports Council International (ACI)<sup>13</sup> – is highly comparable on a trans-national basis. Wherever possible international sources have been used in this study, unfortunately there are relatively few of these available.
- 5.3 For some policy domains there are international classification systems which can be applied to local classifications to increase the comparability of data across national boundaries. These include :
- Education – the OECD's International Standard Classification of Education (ISCED)<sup>14</sup>
  - Gross Domestic Product is often the most comparable measure of productivity due to the standardisation introduced in the European System of Accounts<sup>15</sup>
  - The European standard classification of economic activity NACE Rev. 1 (nomenclature européenne des activités) enables comparisons to be made about industrial structure
  - The International Labour Organisation provides a standardised definition of unemployment, which is used in the Labour Force Survey conducted by all members of the European Union.
- 5.4 There are domains where data comparability across national borders is especially a limited. For example, the robustness and availability of city level data for unemployment rates differs significantly, ILO standardised data is not always available at city level, and local eligibility criteria and cultural attitudes impact on registered unemployment rates. Crime is another domain where there is significant variation in the definitions, recording methods and reporting rates and without standardisation it is difficult to draw meaningful conclusions from this data.
- 5.5 Data availability and robustness tends to be highest in the Northern European Countries, with the Scandinavian countries having the most accessible and systematically presented data at both national and city level. Consequently there is more data for Copenhagen, Denmark and Helsinki than for Turin and Milan – gaps in the data remain even when working with a small number of headline indicators, see section 7.

<sup>13</sup> See [www.aci-europe.org](http://www.aci-europe.org) for further details

<sup>14</sup> See <http://www.oecd.org/xls/M00035000/M00035650.xls> for further details of the ISCED system of classification

<sup>15</sup> For more information about international comparisons of productivity see [http://www.statistics.gov.uk/articles/economic\\_trends/international\\_comparisons\\_of\\_productivity.pdf](http://www.statistics.gov.uk/articles/economic_trends/international_comparisons_of_productivity.pdf)



- 5.6 Despite the limitations, data describing the socio-economic conditions in cities remains valuable and this material can be used effectively and responsibly, as long as the associated limitations and caveats are acknowledged and understood. When ever possible trans-national data sources have been used.

## 6. The Indicators – Developing a comparable set of measures

- 6.1 The set of indicators detailed below has been developed to:

- identify the extent to which each of the project cities possess characteristics identified as contributing to competitiveness;
- focus on outcomes rather than inputs or outputs;
- provide a comparable overview of each of the project cities;
- provide time series data to identify change within the study cities;
- place performance of the English Core Cities in the European context;
- provide supporting evidence against which to interpret and assess other comparative studies.

- 6.2 Developing a set of indicators comparative on a trans-national basis presented two major challenges:

- The issue of spatial scale – how should city boundaries be defined? *see section 4*

and

- The lack of comparative data at the sub-regional level – *see section 5*

We have adopted a simple approach to address these challenges:

- We have worked with the existing administrative boundaries of each city as this is the spatial level at which most data is available whilst noting the limitations of this approach
- To access city level data we have called on the support of the individual cities.

- 6.3 Existing comparative studies of city competitiveness have been used to inform the selection of a set of headline indicators that:

- relate to the concept of competitiveness;
- are robust;
- are realistic;
- are available for a series of points in time.

- 6.4 The final set of indicators cover seven domains.

*POPULATION*

INDICATOR 1 Total Population

INDICATOR 2 % of Population under 16 and over retirement age

Population size provides an indication of the scale of the city

The rate of population growth or fall provides an indication of underlying economic changes and pressures on urban infrastructure

The % of those above/below working age provides an indication of the city's potential workforce resources and demand on services

*PRODUCTIVITY*

INDICATOR 3 Gross Domestic Product

Standardised measure of the total economic activity in an area

*EMPLOYMENT*

INDICATOR 4 Total Employment

INDICATOR 5 Employment Rate

Plus sectoral breakdown if available

% employed general breakdown by sectors (NACE Rev.1.1 A-O)

% employed in R&amp;D (NACE Rev.1.1 73)

% employed in HE (NACE Rev.1.1 80.3)

% employed in knowledge industries (NACE Rev.1 72)

% employed in High Tech Industries (24.4, 30, 35.3, 32)

Total employment provides an measure of scale of the local economy

Employment rate – proportion of working age residents in employment – impacts on welfare rates, measures of economic well-being and productivity

Prosperous areas tend to have higher employment rates

Industrial structure is important as the demand for products and services produced by a city determines the local employment rate.

Industrial structure also shapes the local the labour market – i.e. the impact of concentration of declining manufacturing industries on employment rates in a city.

These high value growth sectors have been identified as influential in determining the competitiveness of the city and are generally regarded as beneficial.

*HUMAN CAPITAL*

INDICATOR 6 Qualifications – the % of working age population qualified to degree level (ISCED 1997 levels 5 and 6)

A highly qualified workforce increases the potential productivity of a city

*DEPRIVATION*

INDICATOR 7 Total number of people registered as unemployed

INDICATOR 8 ILO Unemployment rate

A measure of labour market performance and unutilised resources

Indicates pressures on welfare services

*CONNECTEDNESS*

INDICATOR 9 Airports – total passengers terminal passengers

The number of air passengers provides an indication of the extent to which a city is connected to wider markets

An international airport has been identified as an important urban asset

This measure also provides an indication of infrastructure investment

*INNOVATION*

INDICATOR 10 No. of patents registered

INDICATOR 11 Patents registered per head of workforce

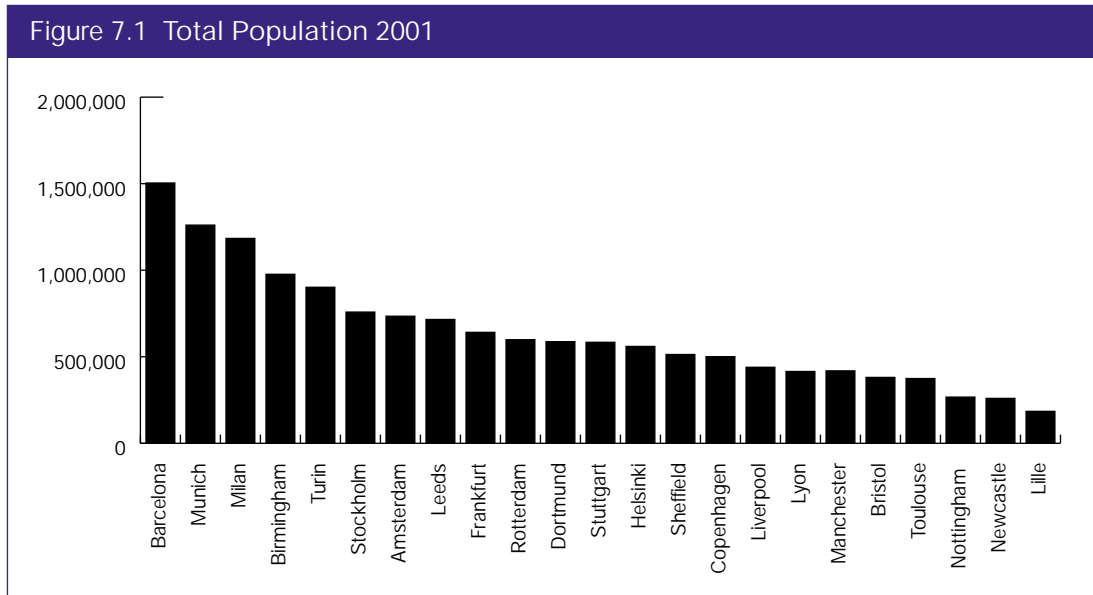
These indicators provide a measure of the innovativeness of the city economy

## 7. The Data

### 7.1 POPULATION

7.1.1 Population data is some of the most robust information available – although the way in which boundaries are defined can impact on this data and the differences in population size can, in part, be a result of how city boundaries are defined.

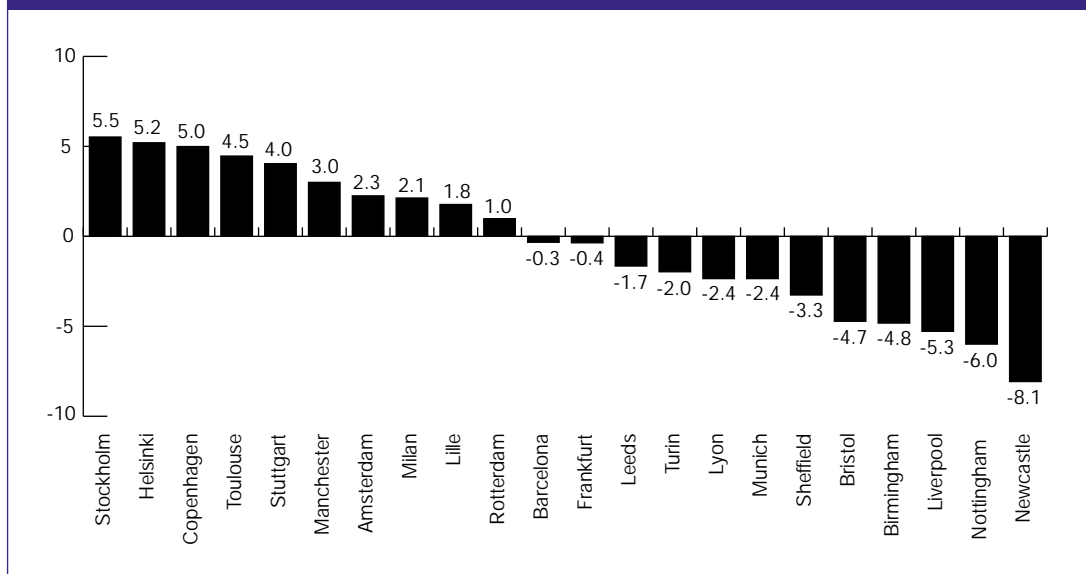
7.1.2 In terms of population the study cities vary significantly in size, from Barcelona home to 1.5 million residents to Lille with less than 200,000 residents.



(Sources: UK Cities – National Statistics, Mid-Year Population Estimates, Crown Copyright)

7.1.3 The pattern of population change experienced in each of these cities varies significantly. The Scandinavian cities of Stockholm, Helsinki and Copenhagen have all seen the number of residents increase by more than 5% between 1996 and 2001/2. Cities that have incurred the greatest falls in their resident population are all in the UK, however the rate of population decline in the UK's Core Cities has slowed considerably and in some cases been reversed since the mid 1990's. The dataset for Munich is inconsistent due to changes in statistical methods between 1996-2001.

Figure 7.2 Percentage Change in Total Population 1996–2001



(Source: 1996 Urban Audit 2001/2 City Sources)

Table 7.1 Population

	Total 1991	Total 1996	Total 2001	%change 1996-2001/2	PDI 1996*	PDI 2001
Copenhagen	466,723	476,751	500,531	5.0	28.7	27.1
Dortmund	610,950	598,618	587,288	-1.9	32.8	34.1
Frankfurt		650,055	641,076	-1.4	29.7	
Munich	1,303,600	1,321,557	1260600**		27.4	30.0
Stuttgart		560,925	583,583	4.0	31.0	
Lille		172,138	184,657	1.8	32.2	
Lyon	415,487	425,000	445,452	4.8	32.5	
Toulouse		358,290	374,254	4.5	29.8	
Helsinki		532,053	559,718	5.2	30.3	
Milan		1,340,451	1,183,693	2.1	31.7	
Turin		919,602	901,473	-2.0	31.2	
Amsterdam		718,119	734,305	2.3	29.7	
Rotterdam	582,200	592,700	598,500	1.0	33.0	32.2
Stockholm	674,452	718,462	758,148	5.5	34.9	36.1
Barcelona	1,643,542	1,508,805	1,503,884	-0.3	33.7	
Birmingham	1,004,500	998,200	985,900	-1.2	41.3	38.7
Bristol	392,200	383,700	383,700	0	39.1	34.7
Leeds	706,700	714,400	715,600	0.2	39.7	36.4
Liverpool	475,600	458,300	442,300	-3.5	40.6	36.6
Manchester	432,700	406,400	418,600	3	40.4	34.9
Newcastle	275,000	275,500	261,100	-5.2	39.0	35.8
Nottingham	279,400	275,900	269,200	-2.4	39.7	35.0
Sheffield	520,100	517,300	513,100	-0.8	40.0	36.8

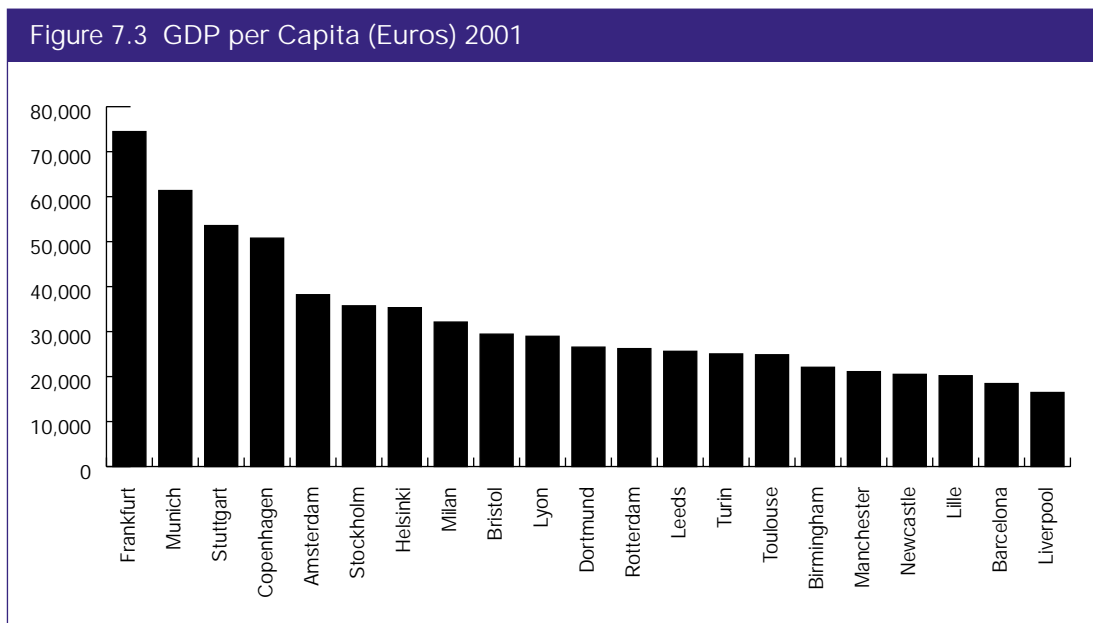
\* PDI – population dependency index – the percentage of resident population under 16 years of age and those over retirement age.

\*\* Due to changes in statistical methods; comparison with earlier years not possible

(Source: 1991 and 1996 Urban Audit. UK Cities all years, National Statistics, Crown Copyright)

## 7.2 PRODUCTIVITY

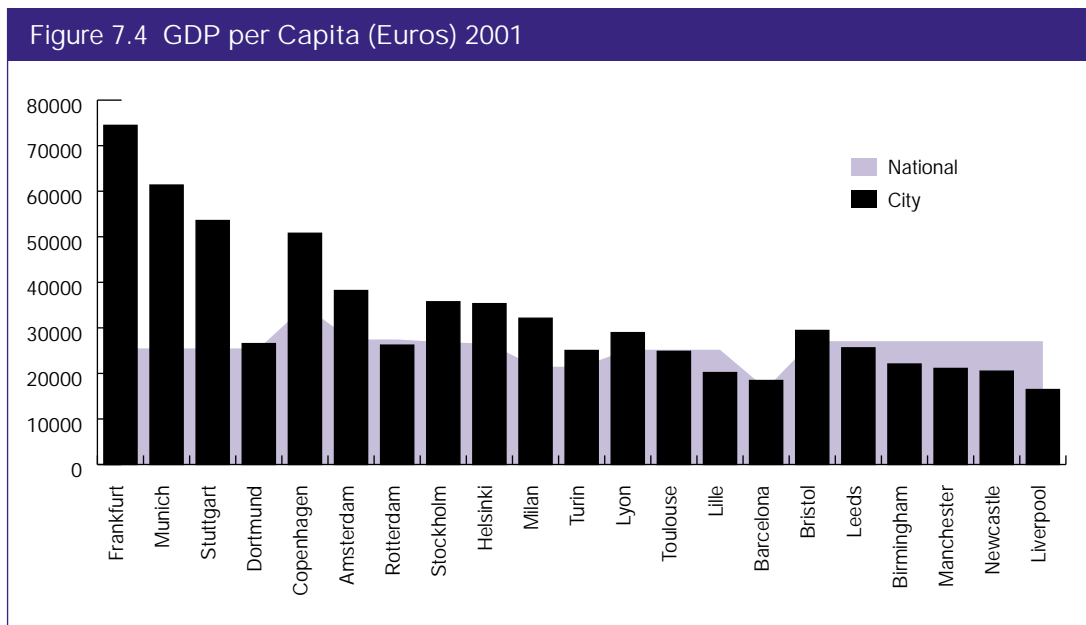
- 7.2.1 Gross Domestic Product is calculated on a standardised basis using the European System of Accounts across all European Union countries. However, GDP figures are not readily available at the city level, many cities do not calculate their own GDP data, in the UK ONS publishes city level GDP figures for 1993 1996 and 1998. Nevertheless a single source for GDP data does exist, in early 2003 Barclays bank calculated GDP figures for many European cities using a variety of data sources<sup>16</sup>. This GDP data provides a consistent data generated on a standardised basis making it useful for drawing comparisons, however the Barclays' figure for city GDP can differ from the figure published by individual cities.
- 7.2.2 When it comes to productivity it is the German cities that perform best – across the study cities GDP per capita is highest in Frankfurt, Munich and Stuttgart.



Source: Barclays Private Clients 2002  
 Data not available for Nottingham or Sheffield

- 7.2.3 Across the cities included in this study GDP per capita is higher than the national GDP per capita rate – the only exceptions are Rotterdam and Lille. This is very different from the UK situation where only Bristol has GDP per capita levels above of the UK rate.

<sup>16</sup> See <http://www.newsroom.barclays.co.uk/news/data/712.html>



(Source: Barclays Bank Private Clients 2002. National Data, Eurostat)

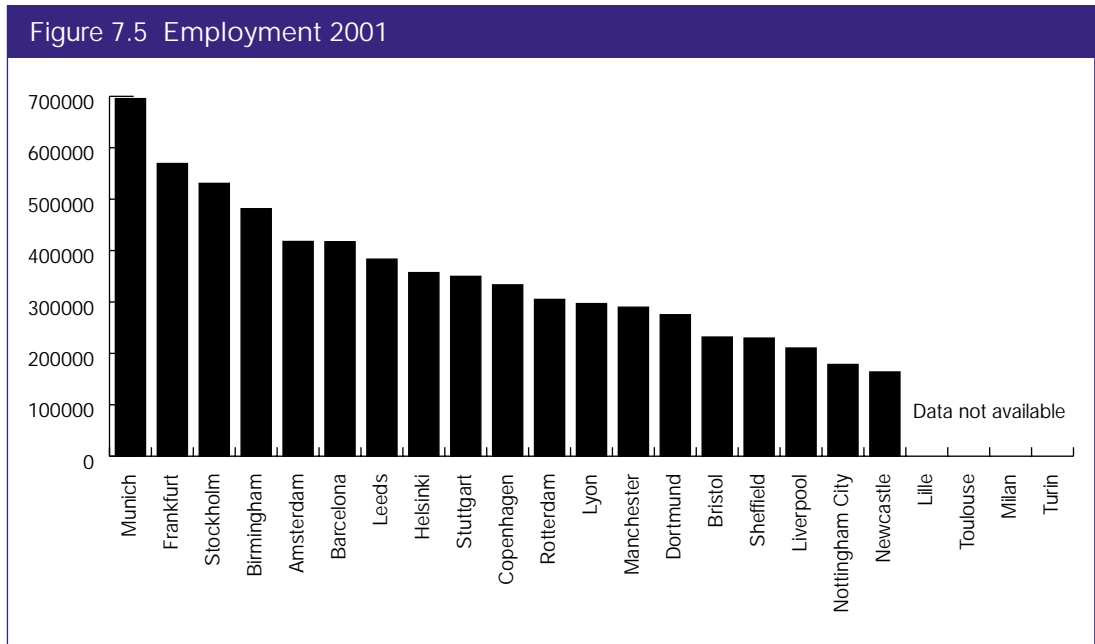
7.2.4 Consistent, comparable GDP data is difficult to find. It has been possible to collect some data for earlier years – most notable from the European Urban Audit – however, this data is not available on a consistent basis and should not be used to make year on year comparisons.

GDP per Capita	1991	1996 (Urban Audit)	2001	Euros per capita 2001
Copenhagen		€51,776		€50,775
Dortmund	€22,339	€22,712	€25,320	€26,548
Frankfurt		n/a		€74,465
Munich	€48,114	€56,067	€64,064	€61,360
Stuttgart		n/a		€53,570
Lille	€17,681	n/a		€20,191
Lyon	€25,304	n/a		€28,960
Toulouse	€20,857	n/a		€24,852
Helsinki		€24,878		€35,321
Milan		€22,211		€32,122
Turin		€19,746		€25,042
Amsterdam		€25,088		€38,203
Rotterdam		€25,455		€26,217
Stockholm		€33,402		€35,733
Barcelona		€14,245		€18,449
	1993	1996	1998	
Birmingham	£10,474	£11,166	£12,456	€22,069
Bristol	£11,347	£13,510	£15,472	€29,437
Leeds	£10,133	£12,225	£13,322	€25,619
Liverpool	£9,052	£9,692	£10,886	€16,466
Manchester	£10,596	£11,756	£13,204	€21,099
Newcastle	£9,273	£9,913	£10,469	€20,499
Nottingham	£14,017	£16,054	£17,373	n/a
Sheffield	£8,825	£9,653	£11,171	n/a

Sources: 1991 and 1996 European Urban Audit, 2001 City sources, 2001 Comparable data Barclays Private Clients Data for the Core Cities 1993-98 ONS, Data not available for Nottingham and Sheffield

### 7.3 EMPLOYMENT

- 7.3.1 Data detailing the number of people employed in each city is available from most of the study cities, although the basis on which it is collected varies by city.
- 7.3.2 Amongst the study cities Munich is home the greatest number of employees, Frankfurt and Stockholm are also major employment centres. In terms of the number of employees working in each city the UK cities are clustered towards the lower end of the table.



(Sources: City Sources. Data for the UK Core Cities ONS (ABI) Crown Copyright)

- 7.3.3 The common system of classifying economic activity across the European Union (NACE Rev1), allows direct comparisons of sectors to be made across national boundaries. However employment data is not collect and published by all cities.
- 7.3.4 The data that is available shows a significant variation in the industrial mix of the study cities. In terms of employment manufacturing industries account for more than 15% of all employment in Dortmund, Munich Birmingham and Sheffield.
- 7.3.5 This data details the number of employees in each sector, both full and part time, it does not show the contribution of each of these sectors to the overall productivity of each city. Data detailing the employment in the key sectors was very scarce and only readily available for the core cities.

Table 7.2 Percentage Share of Employment by Sector 2001												
	Agriculture and mining (A+B+C)	Manufacturing (D+E)	Building (F)	Commerce (G)	Hotels and catering (H)	Transport and communication (I)	Banking and insurance (J)	Property, rental and leasing, business services (K)	Public authorities (L)	Education (M)	Health care and welfare (N)	Public private service industries (O)
Copenhagen	0.2	7.2	2.7	16.1	9	24.1		10.4	6.6	5.3	8.7	9.2
Dortmund	0.8	17.7	7.3	15.6	2.6	7.5	6.1	15.9	5.3	4.2	12.1	4.8
Frankfurt	0.2	11.4	3.1	10.5	3.6	14.8	15.8	23.5	17.1			
Munich	0.3	21.8	3.3	13.4	3.8	4.7	9	19.2	4.9	3.3	9.2	6.8
Stuttgart	1.4											
Lille												
Lyon	1.2	9.5	3.7	13.8		4.7	6.8	4.7	6	12.7		8.8
Toulouse												
Helsinki	0	10	4.4	17		9.5	5	18	34.8			
Milan												
Turin												
Amsterdam	0.1	5.9	3	13.3	5.6	8.1	10.6	21.3	7.1	5.8	12.7	6.4
Rotterdam	0.2	10.4	5.3	13.5	2.9	12.7	6.2	19.2	5	6.7	13.5	4.3
Stockholm	0.2	7.7	3.7	19.5			28.2		6.3	7.9	14.6	11.5
Barcelona	0.1	14.5	5.4	15.9	5.2	6.1	5.4	20.6	7.2	5.2	6.9	7.5
Birmingham	0	17.5	3.6	14.2	4.8	6.3	5.4	16.2	5.1	9.7	11.4	5.8
Bristol	0.1	11.6	4.8	16.1	4.6	5.2	8.4	19.8	5.3	10.1	9.1	4.9
Leeds	0.2	14.5	4.8	17.6	4.6	6.9	5.4	16.8	4.6	8.6	10.7	5.4
Liverpool	0	8.7	2.9	16.7	6.9	7.2	6.3	11.5	9.1	9.7	15.1	6
Manchester	0	7.4	2.7	14.2	6.3	9.6	7.2	19.4	5.6	11.6	11.2	4.7
Newcastle	0	7	3.9	12.8	6.1	4.5	3.9	17.1	13.4	10.2	15	5.8
Nottingham	0.2	12.1	3.1	19	5.8	4.4	2.9	19	5.5	9.8	14	4.7
Sheffield	0	15.8	4.6	18.8	5.1	4.5	5.1	11.8	5.1	9.6	13.8	5.7

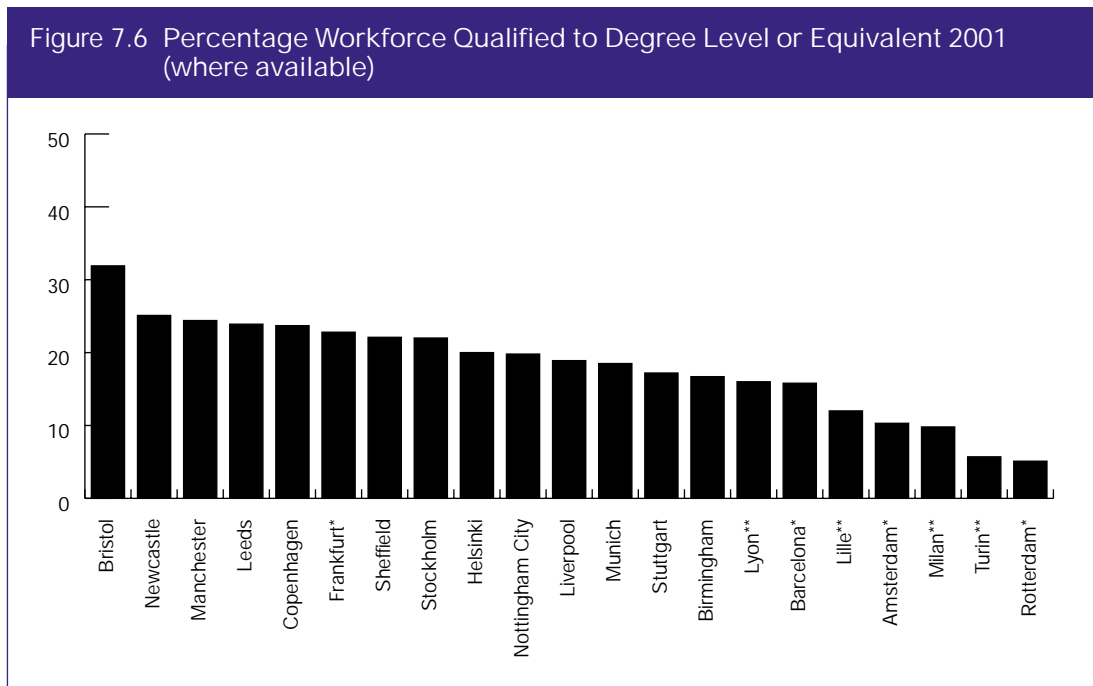
(Source: City Sources. UK Cities, National Statistics (AB9I), Crown Copyright)

- 7.3.6 The employment data used here has limitations. Ideally this study should include data on the economic activity rates of each city – that is the number of residents who are employed. Unfortunately this data is not readily available. The data detailed above gives the total number of employees, it does not provide an indication of the number of city residents employed in the city as many of these jobs could be taken by in-commuters.
- 7.3.7 When presenting employment data it would also be preferable to work with information about full time employment or 'full time equivalents' but again this was not readily available and the data above covers both full and part time workers.



## 7.4 HUMAN CAPITAL

- 7.4.1 The OECD's International Standard Classification of Education (ISCED) can be used to convert national qualifications to a standardised scale, making it simple to interpret local qualifications data –where this is available – on a trans-national basis. ISCED levels 5 and 6 relate to tertiary education and advanced research programmes – degree level education or higher.
- 7.4.2 Where data is available for 1996 and 2001/2 it shows that the proportion of working age residents qualified to degree level and above has increased in all cities – with the exception of Sheffield where the percentage qualified to degree level has remained static.
- 7.4.3 In terms of a highly qualified workforce UK cities appear to be performing well. However, 2001 qualifications data is not available for all cities and some of the comparisons made here are with data for 1996 and 1991. Policy initiatives can impact on the number of well qualified residents in a relatively short period of time, if current data were available for all cities many of those cities that appear to be performing less well may be higher up the ranking.



\* Data for 1996 \*\*Data for 1991

(Source: 1991/1996 Urban Audit. City Sources: UK Cities, National Statistics LFS, Crown Copyright)

Table 7.3 Percentage of working age population qualified to degree level or above

	1991	1996	2001
Copenhagen		11.5%	23.7%
Dortmund		n/a	n/a
Frankfurt		22.8%	n/a
Munich	12.7%	15.6%	18.5%
Stuttgart		n/a	17.2%
Lille	12.0%	n/a	n/a
Lyon	16.0%	n/a	n/a
Toulouse		n/a	n/a
Helsinki		17.9%	20.0%
Milan	9.8%	n/a	n/a
Turin	5.7%	n/a	n/a
Amsterdam		10.3%	n/a
Rotterdam		5.1%	n/a
Stockholm		13.1%	22.0%
Barcelona		15.8%	n/a
Birmingham	5.7%	16.3%	16.7%
Bristol	9.7%	28.4%	31.9%
Leeds	6.9%	21.2%	23.9%
Liverpool	4.6%	14.9%	18.9%
Manchester	7.6%	21.3%	24.4%
Newcastle	8.4%	19.6%	25.1%
Nottingham City	5.8%	18.8%	19.8%
Sheffield	6.7%	23.2%	22.1%

(Source: 1991/1996 Urban Audit. City Sources: UK Cities, National Statistics LFS, Crown Copyright)

## 7.5 DEPRIVATION

7.5.1 Unemployment has been used here as an indicator of deprivation and as a measure unutilised potential. Differing definitions and systems of measuring unemployment make it difficult to access comparable data, however all EU countries use the International Labour Organisation measure of unemployment:

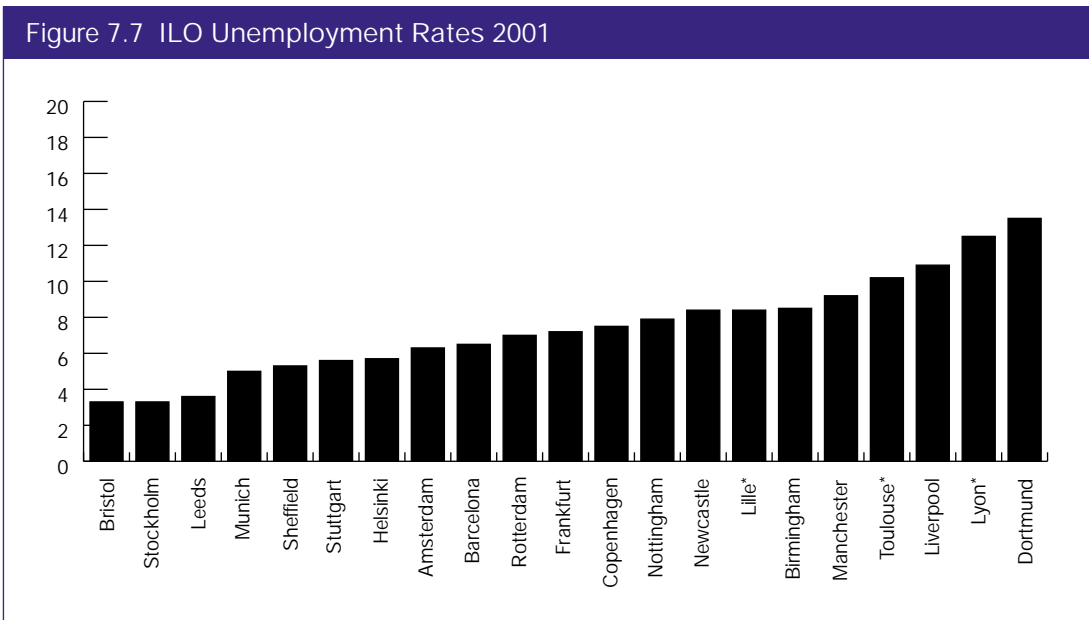
*individuals who are out of work but would like a job and are actively seeking and available for employment, or are out of work and have found a job and are waiting to start in the next two weeks*

in their Labour Force Surveys. However this comparable data tends to be available at the regional rather than city level and for some cities the regional unemployment rates have been used.

7.5.2 In terms of unemployment UK cities perform well with some of the lowest unemployment rates across the study cities. Frankfurt and Munich were the only cities to experience an increase in unemployment between 1996 and 2001.

Table 7.4 ILO Unemployment Rates 1996–2001			
Unemployment	1996	2001	% change
Copenhagen	10.3	7.5	-27.2
Dortmund	14.7	13.5	-8.2
Frankfurt	6.2	7.2	16.1
Munich	4.7	5.0	6.4
Stuttgart	5.8	5.6	-3.4
Lille*	11.0	8.4	Data not consistent
Lyon*	8.0	12.5	Data not consistent
Toulouse*	10.5	10.2	Data not consistent
Helsinki	9.0	5.7	-36.7
Milan	6.0	N/A	N/A
Turin	15.3	N/A	N/A
Amsterdam	7.5	6.3	-16.0
Rotterdam	7.2	7.0	-2.8
Stockholm	5.5	3.3	-40.0
Barcelona	10.5	6.5	-38.1
Birmingham	12.3	8.5	-30.9
Bristol	7.6	3.3	-56.6
Leeds	8.5	3.6	-57.6
Liverpool	14.3	10.9	-23.8
Manchester	11.6	9.2	-20.7
Newcastle	8.9	8.4	-5.6
Nottingham City	8.8	7.9	-10.2
Sheffield	10.1	5.3	-47.5

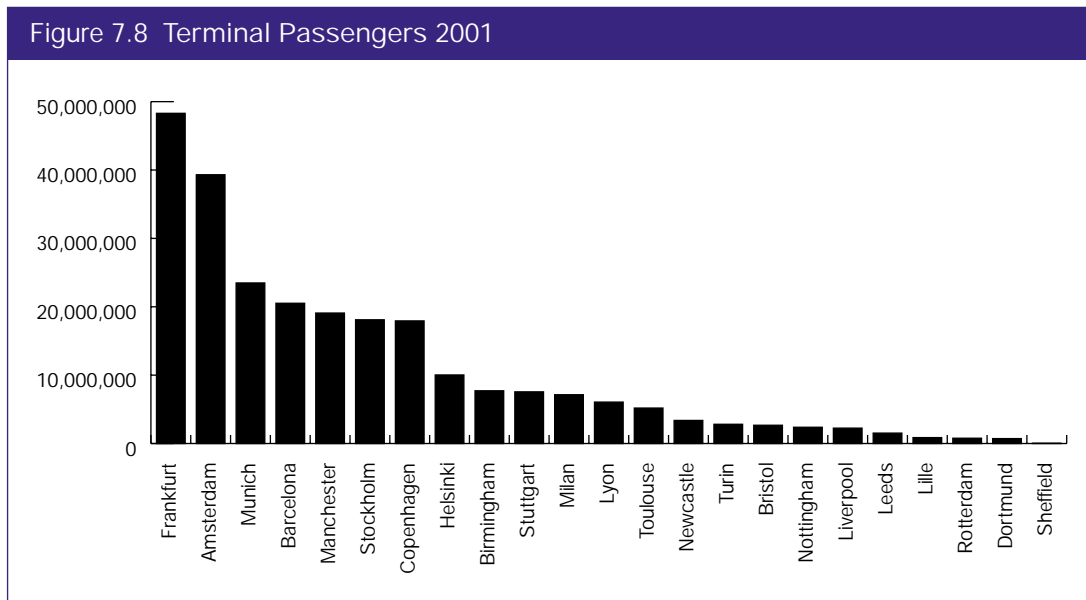
\* 2001 data for French cities relates to regional unemployment rate  
 (Sources: 1996 Urban Audit. City Sources: UK Cities, National Statistics LFS, Crown Copyright)



(Sources: 1996 Urban Audit. City Sources: UK Cities, National Statistics LFS, Crown Copyright)

## 7.6 CONNECTEDNESS

7.6.1 Airport passenger numbers have been used to provide an indication of a city's connectedness. The data presented here relates to the number of terminal passengers at each airport, these are the passengers that leave the aircraft and includes passengers at 'hub' airports such as Frankfurt and Amsterdam where a high proportion of passengers change to onward connections, inflating the passenger numbers for these airports. Data giving the number of passengers leaving the airport and the business/tourist split for each city would provide a more robust indicator of connectedness, but unfortunately this is not currently available.



(Source: Airports Council International)

## 7.7 INNOVATION

7.7.1 Data relating to the number of patents registered in a specific city has proved difficult to collect. In the UK this data is collected but it is not presently available free of charge. To enable trans-national comparisons to be made the European Union's Innovation index has been used here as a proxy measure of innovation. The major limitation of this data set is that it presents regional not city level data.

7.7.2 The European Innovation Scoreboard<sup>17</sup> focuses on high-tech innovation and was developed to track the 'EU's progress towards becoming the most competitive and dynamic knowledge-based economy in the world'. The Regional Innovation Scoreboard is a subset of this and has seven indicators:

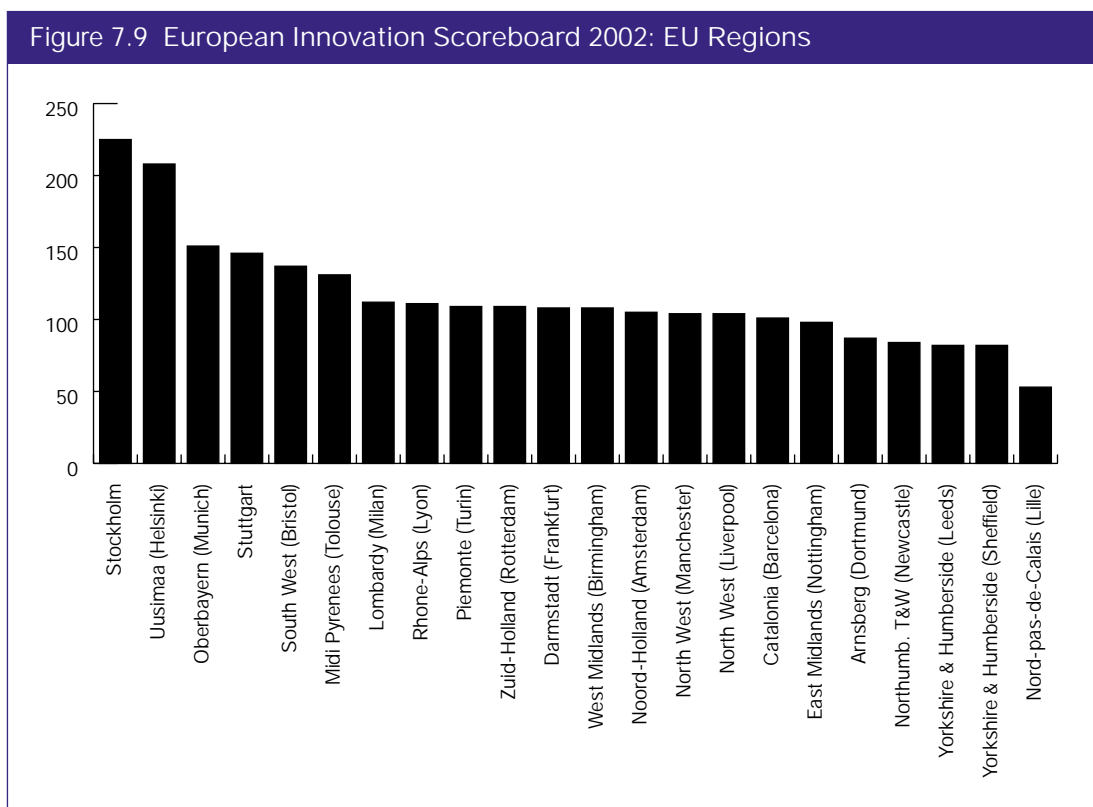
- Tertiary education
- Participation in Life-long learning
- Employment in medium/high-tech manufacturing

<sup>17</sup> European Commission Innovation/SMEs Programme (2002) *2002 European Scoreboard Technical Paper 3: EU Regions* ([www.cordis.lu/trendchart](http://www.cordis.lu/trendchart))

- Employment in high tech services
- Public R&D expenditure
- Business R&D expenditure
- High –tech patent

7.7.3 The factors listed above have been combined to generate a Revealed Regional Summary Innovation Index (RRSII), which compares each region against the EU mean. Analysis shows that there is a correlation between the RRSII score and relative per capita income.

7.7.4 In terms of innovation the regions of Stockholm and Uusimaa (Helsinki) are the strongest performers in Europe, with the English regions performing less well.



(Source: European Innovation Scoreboard 2002, Technical Paper No.3, EU Regions, pp.16-19, European Commission)

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## APPENDIX 3:

# Questionnaire to European Policy Makers

(Q.1) HOW IMPORTANT DO YOU THINK EACH OF THESE FACTORS IS IN ENCOURAGING THE ECONOMIC COMPETITIVENESS OF EUROPEAN CITIES?

In this section we would like you to rank the factors in terms of their importance in explaining the economic competitiveness of cities in Europe. You should indicate on a score from 1-10 the importance you attach to each the factors in contributing to cities' economic competitiveness. For example, a score 0 would mean it is not important, 3 relatively important, 5 rather important, 7 very important, 10 absolutely crucial to competitiveness. I know this is a matter of judgment and interpretation. But please enter your score against each listed factor.

	Score
Strategic transport and IT connections to markets and good internal connectivity	
A city centre of European distinctiveness	
Nationally and internationally recognised facilities for events	
A reputation for advanced research, development and innovation	
A reputation for effective governance and efficient services	
Sophisticated cultural infrastructure and services	
A wide range of high quality residential choices	
A reputation for environmental excellence and responsibility	
An inclusive and diverse society	
Vision, leadership and strategic decision-making capacity	
Innovation in firms and organisational behaviour in cities	
Fiscal incentives available to cities	
The impact of national governments policies	
Please add any factors you think are important which are not already mentioned	

(Q.2) HOW WELL DO YOU THINK YOUR OWN CITY PERFORM IN TERMS OF THESE SUCCESS FACTORS?

The second thing I would ask you to do is to rank your own city's performance upon those factors on a scale of 0-10. For instance, a score of 0 would mean the city was performing very badly, 3 relatively well, 5 rather well, 7 very well, 10 absolutely excellent.

	Score
Strategic transport and IT connections to markets and good internal connectivity	
A city centre of European distinctiveness	
Nationally and internationally recognised facilities for events	
A reputation for advanced research, development and innovation	
A reputation for effective governance and efficient services	
Sophisticated cultural infrastructure and services	
A wide range of high quality residential choices	
A reputation for environmental excellence and responsibility	
An inclusive and diverse society	
Vision, leadership and strategic decision-making capacity	
Innovation in firms and organisational behaviour in cities	
Fiscal incentives available to cities	
The impact of national governments policies	
Please add any factors you think are important which are not already mentioned	

(Q.3) YOUR WIDER VIEWS ABOUT YOUR CITY, AND THE ROLE OF YOUR NATIONAL GOVERNMENT AND THE EUROPEAN COMMISSION

I am interested in getting your wider views on a number of policy issues in your own city and your own country. The following questions are designed to provide me with some of your views. Again I know it is not easy to simplify things so much. But your replies are meant to help us identify key issues to explore in our study rather than provide complete answers at this point. I hope we will be able to discuss them at the Rome meeting or subsequently. Please give as much information as you can. Greater detail will be most helpful but even brief answers will be valuable.

<p>(1) Overall what is your assessment of the current economic performance and competitiveness of your city in relation to other cities in your country or across Europe more generally?</p> <input data-bbox="349 264 1343 331" type="text"/>
<p>(2) What key strategies has your city adopted to improve its economic competitiveness?</p> <input data-bbox="349 394 1343 461" type="text"/>
<p>(3) What have been the most important achievements in improving your city's competitiveness during the past ten years?</p> <input data-bbox="349 551 1343 618" type="text"/>
<p>(4) What are the three key challenges facing your city in increasing its economic competitiveness?</p> <input data-bbox="349 707 1343 775" type="text"/>
<p>(5) Can you identify any particularly innovative projects or processes to encourage competitiveness in your city that other cities could learn from?</p> <input data-bbox="349 864 1343 931" type="text"/>
<p>(6) How would you rate the visionary and strategic decision-making capacity in your city? How good are the working relationships between the public, private and community sectors in your city? What good examples of collaboration could you mention?</p> <input data-bbox="349 1043 1343 1111" type="text"/>
<p>(7) How good are working relationships between your city and its surrounding region and authorities. Are there significant differences of interest or conflicts over economic development? Are there good examples of formal or informal collaboration between different authorities?</p> <input data-bbox="349 1267 1343 1335" type="text"/>
<p>(8) How much importance do you think your national government attaches to the economic contribution of cities to national economies? Are there any ways in which it has directly helped encourage competitiveness? Or there ways in which it has hindered?</p> <input data-bbox="349 1447 1343 1514" type="text"/>
<p>(9) What changes, if any, would you most like to see in national policy? This might include – more powers or resources for cities; greater collaboration between national and local authorities; greater national investment in physical or social infrastructure, education and training; more consistency in national priorities. Please add any others you think important.</p> <input data-bbox="349 1671 1343 1738" type="text"/>
<p>(10) Are there any lessons that other national governments could learn from the policies and programmes of your national government?</p> <input data-bbox="349 1827 1343 1895" type="text"/>
<p>(11) What contribution if any has the European Commission made to the economic competitiveness of your city? Do you think it could do different things – or the same things better – to increase city competitiveness?</p> <input data-bbox="349 2007 1343 2074" type="text"/>

Your contact details:

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Position: \_\_\_\_\_

Address/Institution: \_\_\_\_\_

Tel: \_\_\_\_\_

Fax: \_\_\_\_\_

Email: \_\_\_\_\_

We are grateful to you for taking the time to complete this questionnaire.

Please return by e-mail to Michael Parkinson:

*m.h.parkinson@livjm.ac.uk*

If you have any questions about this, do feel free to contact Michael Parkinson

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