the future of regional policy

Edited by Professor John Tomaney

Regional Studies Association
THE INTERNATIONAL FORUM FOR REGIONAL DEVELOPMENT POLICY AND RESEARCH

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This very timely monograph takes a fresh look at the state of the English regions and the contribution that regional policy makes towards improving economic prosperity and social well-being. The authors offer our politicians and policy makers an alternative regional policy agenda, which draws on past experience and the lessons learned from other countries.

This publication builds on the influential work the Smith Institute has undertaken on individual English regions, and follows on from collections of essays we have published on devolution, regeneration, housing and growth, Europe, trade policy and sustainability. The chapters, by leading thinkers in the field, also complement research by the Regional Studies Association and the Centre for Urban & Regional Development Studies (CURDS) on regional economic development and regional inequalities.

The Smith Institute thanks Professor John Tomaney (director of CURDS) for editing this collection of essays and gratefully acknowledges the support of the Regional Studies Association towards this publication and the associated seminar.

Paul Hackett, Director, The Smith Institute

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Foreword

Professor David Bailey, Chair of the Regional Studies Association and Professor of International Business Strategy and Economics at Coventry University, and Sally Hardy, Chief Executive of the Regional Studies Association

On behalf of the Regional Studies Association, we are delighted to work with the Smith Institute in highlighting the role of regional policy and the potential for policy to improve the lives of citizens across regions in the UK and beyond. We hope that this co-publication, *The Future of Regional Policy*, will help to inform policy makers and will stimulate further debate, engagement and research on regional policy matters.

The "turning points" faced by the world economy, for example in terms of the financial crisis and recession, climate change, energy and resource pressures, demographic changes, accelerating technological change, and potential geopolitical changes, all offer the potential for considerable spatial and regional impacts.

The focus of this monograph is thus on the future of regional policy, and the opportunities and limits to new policy thinking. The contributors examine a wide range of drivers and trends for change, and explore areas of common interest. The aim, of course, is to begin a debate and facilitate stakeholder engagement in these particular areas of public policy.

The Smith Institute's charitable role in education covers the UK economy in its widest sense, and provides a platform for national and international discussion on a range of public policy issues, including those around regional governance and regional economic policy. Given the vision of the Regional Studies Association – *to be the authoritative voice of and network for, academics, students, practitioners and policy makers in the study and understanding of regions and regionalism* – co-operation on this monograph enables us to stimulate debate on this key issue for public policy.

Our collaboration fits well with the aims of the Regional Studies Association, which are: to develop the field of regional studies; to maximise membership and community building; to produce and disseminate knowledge; and to influence policy debate and practice.

The association's role has evolved greatly in recent years, becoming much more outward facing. In serving our membership we offer them not only events and publications, but also research networks and the space and time to reflect and work collaboratively and internationally. Increasingly, our networking role extends to meeting the needs of policy makers in the provision of data, expert analysis and recommendation.

In doing this, the association has grown rapidly of late, especially internationally, reflecting not only the direct services that we offer members, but also the value that members place on the interface that we offer between academia and policy and practice. That meeting space enables dialogue and debate and the ability for researchers, practitioners and policy makers to benefit by coming together.

This role has been strengthened by close co-operation with a range of organisations, including the European Commission and the Committee of the Regions.

We are grateful to the contributors to this monograph and especially to the editors, Professor John Tomaney and Professor Andy Pike, for pulling together this publication. They gave freely of their time and have provided much constructive comment on the papers in this volume.

Introduction: The political economy of local and regional well-being

Cities and regions in resurgence and recession

The prospects for the UK's cities and regions are being transformed in the current economic crisis, while the terms of regional policy are being rewritten. Since the mid 1990s regional policy, along with other areas of public policy, has operated under benign conditions of growth. Without doubt, important transformations occurred in local and regional economies during this period. Some commentators argued that the UK had "solved" the regional problem.[1] As Professor Ron Martin shows in his contribution to this volume, however, this representation of the evolution of regional inequalities during the period of 1993-2007 is questionable.

The average annual real rate of GDP growth of 2.9% during the period 1997-2007 was unevenly distributed between regions. As Martin illustrates, overall, long-standing local and regional disparities were accentuated during this period, notably between the Northern regions and London and the South East. Indeed, according to Martin, as a result of geographically uneven growth in the service sector, the uneven shift to a knowledge economy and associated developments in the housing market, "the post-1993 boom was driven primarily by London and the South East, with the rest of the country – and especially the North East and North West regions – lagging well behind in economic growth".

At the local level, despite the political priority attached to it over the last decade, as Professor Ivan Turok in this volume demonstrates, progress in tackling social exclusion has been partial. The relationship between local and regional disparities is complex. London is the richest region in the UK, but contains localities with high rates of deprivation. By contrast, a large part of the relatively weak performance on social and economic indicators of a region like the North East reflects the high proportion of disadvantaged localities contained with it. Moreover, as Turok observes, the current recession is likely to have the severest impact on the most disadvantaged groups and places. The final judgments about the spatial impacts of the current recession have yet to be made, but unemployment has risen fastest in localities and regions with already high rates.

The story of local and regional development in 1990s and 2000s – in both resurgence and recession – turns out to be one of entrenched inequalities. Moreover, as Martin puts it in this volume, "unless recovery, when it comes, is based on a vastly different type of

1 Jackman, R and Savouri, S "Has Britain Solved the 'Regional Problem'?" in Gregg, P and Wadsworth, J (eds) *The State of Working Britain* (Manchester University Press, 1999)

economic dynamic, the cumulative growth gaps between regions are likely to persist for some time to come".

Explanations

A range of frameworks exist for understanding the regional geography of the UK at the current conjuncture. The "new economic geography" emphasises the powerful forces of agglomeration at work in the economy and the ways these produce regional inequality. It provides a coherent theoretical account of these and some policy implications.[2]

This broad framework has been operationalised in the UK to argue for an approach to regional economic development which recognises that the powerful agglomeration effects present in the financial services sector in London and the South undermine efforts to regenerate the North, suggesting public interventions aimed at "freeing" further growth potential in the South East.[3] The emphasis in this approach is on how market forces, under conditions of monopolistic competition, facilitate the *adjustment* of productive capacity.

Alternative theorisations, such as those that see more diverse sources of growth[4] or emphasise notions of "constructed advantage", drawing on developments in evolutionary economics,[5] provide a stronger foundation for a wider range of public policy interventions to shape patterns of local and regional development. The focus here is on how public policy can aid the process of industrial *adaptation* through interventions aimed at the development of indigenous innovation assets. Structural change in the economy, including the emergence of "disruptive technologies",[6] may create "locational windows of

2 Venables, AJ "new economic geography" in Durlauf, SN and Blume, LE *The New Palgrave Dictionary of Economics: Second Edition* (Palgrave Macmillan, 2008) and "The New Palgrave Dictionary of Economics Online" (Palgrave Macmillan, 30 March 2009) (http://www.dictionaryofeconomics.com/article?id=pde2008_E000247, doi:10.1057/9780230226203.1182); Sachs, JD and McCord, GC "regional development, geography of" in Durlauf and Blume, op cit (http://www.dictionaryofeconomics.com/article?id=pde2008_R000077, doi:10.1057/9780230226203.1413); Krugman, P "Increasing Returns and Economic Geography" in *Journal of Political Economy* vol 49 (1991), pp137-150; Venables, AJ "Shifts in Economic Geography and Their Causes" in *Federal Reserve Bank of Kansas City Economic Review* vol 91, no 4 (2006), pp61-85; World Bank *World Development Report 2009: Reshaping Economic Geography* (Oxford University Press, 2008)
3 Leunig, T and Swaffield, J *Cities Unlimited: Making Urban Regeneration Work* (Policy Exchange, 2008); Leunig, T "The Regeneration Game Is Up" in *The Guardian*, 13 August 2008
4 Organisation for Economic Co-operation & Development *How Regions Grow: Trend & Analysis* (2009)
5 Boschma, R "Constructing Regional Advantage: Related Variety and Regional Innovation Policy", paper presented in the Centre for Urban & Regional Development Studies at Newcastle University (30 January 2008); Cooke, P and Leydesdorff, L "Regional Development in the Knowledge-based Economy: The Construction of Advantage" in *Journal of Technology of Transfer* vol 31, no 1 (2006), pp5-15
6 Bower, JL and Christiansen, CM "Disruptive Technologies: Catching the Wave" in *Harvard Business Review* vol 73, no 1 (1995), pp43-54

opportunity", which can alter economic geographies.[7]

An additional, increasingly influential, conceptualisation of the development process focuses on developmental "capabilities", rather than a narrow and indiscriminate focus on quantitative growth.[8] This approach to conceptualising the development process is beginning to be operationalised in developing countries, and its utility for thinking about local and regional development in Europe has been noted, particularly in the context of debates about sustainability.[9]

However, despite some rhetoric concerning "local well-being", there are relatively few attempts to apply this thinking at the regional level in the UK or elsewhere in Europe,[10] although there is abundant evidence that higher levels of growth in the UK have not produced improvements in average life satisfaction. The focus on human *well-being* as a key objective of regional policy, then, merits further attention.[11]

The "new economic geography" provides some powerful tools to explain the emergence of regional disparities. In the UK context, however, it is important to acknowledge the role of public policy in producing the agglomeration economies that have underpinned the growth of London and the South. The concentration of infrastructure investments in the South East (such as in airports, ports, rail links and the Olympics venues) has been justified as necessary to support the international status of London and the competitiveness of the City. Measured against the concentration of public and private resources in these regions, the expenditures on regional policy in the North (such as through regional development agencies) since 1997 are modest.

However, at a moment when the financial regulator, Lord Turner, opines that the financial sector is "swollen" and is engaged in "socially useless" activity and wonders whether ensuring the competitiveness of the City of London should be a major aim of public policy,[12] the factors that will shape local and regional development in the coming period may prove to be quite different from those that shaped the past.

7 Boschma, R and van der Knaap, GA "New High Tech Industries and Locational Windows of Opportunity" in *Geografiska Annaler* vol 81 (series B) (1999), pp73-89
8 Sen, A *Development as Freedom* (Oxford University Press, 1995)
9 Edwards, J "Assessing Capacity for Territorial Development Using a Capabilities Approach", unpublished paper at the Centre for Urban & Regional Development Studies at Newcastle University (2009); Morgan, K "Sustainable Regions: Governance, Innovation and Scale" in *European Planning Studies* vol 12, no 6 (2004), pp871-889; Morgan, K, Marsden, T and Murdoch, J *Worlds of Food: Place, Power & Provenance in the Food Chain* (Oxford University Press, 2006)
10 For a notable exception, see: Morgan, K and Sonnino, R *The School Food Revolution: Public Food & the Challenge of Sustainable Development* (Earthscan, 2008)
11 Pike, A, Rodríguez-Pose, A and Tomaney, J *Local & Regional Development* (Routledge, 2006)
12 See: "Financial Services Authority Chairman Backs Tax on 'Socially Useless' Banks" in *The Guardian*, 27 August 2008

The shape of things to come

The world economy is confronting a series of more or less interlinked "turning points", which will have profound implications for regional development and reshape the terms on which it occurs. The financial crisis will influence the prospects for local and regional development for the foreseeable future. The cycle of debt repayment will be a drag on growth and public finances for some time, but will have uneven local and regional impacts.

For instance, the withdrawal of credit has already has a major impact on regeneration schemes in the North, leading many to be postponed indefinitely; while the new austerity in public finances post-recession is likely to have uneven local and regional impacts. Employment growth in the North after 1997 demonstrated a strong bias toward public-sector jobs, while employment growth in the South tended to produce more private-sector jobs, leaving the former highly vulnerable to job loss as a result of public expenditure cuts.[13]

Arguments developed in favour of "shrinking the City" (in other words, reducing the weight of financial services in the economy), such as that put by Lord Turner, or for a rebalancing of the economy shifting from consumption-led domestic growth to investment and export-led growth and the promotion of new tradable activities,[14] connect to calls for a new industrial activism – that is, to policy interventions aimed at widening and diversifying the specialist bases of the UK economy based on modern manufacturing and knowledge industries.[15]

In much of this discussion there is an assumption that the rebalancing and industrial activism will involve interventions at the local scale or major investment by central government to stimulate regional growth. This view, while growing in strength, is not uncontested. Arguments that the UK's comparative advantage lies in the City are still made, albeit the authors of this case acknowledge that promotion of the City rests on an acceptance of widening income differentials.[16]

The future shape of local and regional development in the UK will be influenced by the

13 See, for instance: Larkin, K *Public Sector Cities: Trouble Ahead* (Centre for Cities, 2009)
14 Institute for Public Policy Research *Building a Better Balanced UK Economy* (2009); ITEM Club *Rebalancing the UK Economy*, ITEM Special (Ernst & Young, 2009); George Osborne "A New British Economic Model", 9 June 2009 (http://www.conservatives.com/News/Speeches/2009/06/George_Osborne_A_New_British_Economic_Model.aspx; accessed 10 June 2009)
15 Lord Mandelson "A New Industrial Activism", speech to the Royal Society for the encouragement of Arts, Manufactures & Commerce in London on 17 December 2008
16 Anatole Kaletsky "Shrink the City and You'll Pay a Heavy Price" in *The Times*, 3 September 2009

interplay of the financial crisis (and responses to it) and a range of other pressures. Chief among these are the implications of climate and emerging related pressures in terms of the availability of water, energy and food. This conjuncture has been referred to as the "triple crunch"[17] or, by the UK government's chief scientific adviser, as the "perfect storm".[18]

The effects of climate change in the UK are likely to be highly regionally uneven. Studies in East Anglia and the North West of England demonstrate that agriculture, biodiversity, coasts and floodplains and water resources will be differentially affected by climate and socioeconomic changes.[19] Sir John Beddington has added exploding global demand for food, declining availability of potable water and increasing demand of energy as additional pressures in the coming decades. These are partly consequences of climate change, but also of global population growth and geopolitical shifts, with potentially profound impacts on the UK. Global energy resources are under severe and growing strain.

One consequence of this analysis is that comparative advantage in relation to natural resources may be reappearing as a factor in local and regional development, with important implications for development. For instance, theories that are used to support arguments for further growth in the South pay little attention to the environmental limits of growth, notably existing and projected water shortages, nor are these issues addressed in attendant policy prescriptions.[20] By contrast, Northern regions typically have abundant water resources.

Similarly, the shift to a low-carbon economy, especially to the extent that it is based on renewable natural resources, may create new locational windows of opportunity in areas such as biomass or wind, while climate change effects are likely to profoundly reshape the economy geography of agriculture and food production.

The impacts of climate change will interact with other socioeconomic trends. Demographic shifts between and within cities and regions – including growth or decline of population, interregional and international migratory flows, and the processes of ageing and changing ethnic compositions – will also shape the prospects and character of local and regional development both materially and discursively. The UK is characterised by marked urban and regional differences in almost all the main demographic indicators,

17 Green New Deal Group *A Green New Deal* (New Economics Foundation, 2008)
18 Sir John Beddington "Science and Engineering Challenges for the 21st Century", speech to Sustainable Development UK 09 conference in London on 19 March 2009
19 Department for Environment, Food & Rural Affairs/UK Climate Impacts Programme *Simulating the Effects of Future Climate & Socio-economic Change in East Anglia & North West England: the RegIS2 Project* (2001)
20 For examples, see: Leuning, T and Swaffield, J *Cities Unlimited: Making Urban Regeneration Work* (Policy Exchange, 2008); Tim Leunig "The Regeneration Game Is Up" in *The Guardian*, 13 August 2008

among which is a regionally uneven process of ageing.[21]

Regional competitiveness versus local and regional well-being and sustainability
The government's public service agreement target to make sustainable improvements in the economic performance of all English regions, and over the long term to reduce the persistent gap in growth rates between the regions, has proved very difficult to hit, as Martin shows in this volume. But the promotion of regional competitiveness has lain at the heart of public policy in the UK (and elsewhere) since the mid 1980s.

Dr Gillian Bristow suggests in this volume that this rather narrowly focused view of local and regional development produces a series of problems, including: the tendency to generic, "one-size-fits-all" strategies that lack sensitivity to place and context; an over-emphasis on the attraction of mobile capital; too much weight placed on supply-side solutions to the neglect of demand-side issues; a lack of concern with the relationships between regions; a lack of attention to environmental limits; and the domination of strategy making by narrow business interests.

Moreover, as Professor Andrés Rodríguez-Pose indicates in this volume, the current construction of the city-region agenda as a solution for the governance of economic development – whatever its other merits – may serve to encourage wasteful forms of territorial competition and further embed and accentuate inequality. Much of the renaissance of Northern cities, with its heavy emphasis on property-led regeneration of city centres, ought to be reassessed in the light of these ideas.

For instance, as Professor Susan Christopherson shows in this volume, despite the radical shift to a service economy, aided by public policy, in both the UK and the US, against the odds there are examples of very successful restructuring and reinvention of traditional manufacturing industries, even in slow-growing regions. The example she gives of the marine industry in the North East of England exemplifies this argument. Dismissed in the 1980s and 1990s as a "sunset industry", it is experiencing renewed growth around new technologies and markets.

In this context, profound questions are being raised about the values that ought to underpin urban and regional development.[22] Considering the future of the global economy in the context of environmental limits and the "uneconomic" character of recent growth,

21 See, for instance: Champion, T *State of the English Cities – The Changing Urban Scene: Demographics & the Big Picture* (Department for Communities & Local Government, 2006)
22 Pike, A, Rodríguez-Pose, A and Tomaney, J "What Kind of Local and Regional Development and for Whom?" in *Regional Studies* vol 41, no 9 (2007), pp1,253-1,269

Herman Daly has posited "a system that permits *qualitative* development but not aggregate quantitative *growth*".[23] This approach leads to a redefinition of prosperity in order to focus on social, ecological and psychological well-being as well as material production, or even, in some accounts, raises the prospect of an era of development without growth.[24] From the viewpoint of regional policy, this would shift its focus from a primary concern with increasing the quantity of material growth to local and regional well-being and sustainable (qualitative) forms of development and, ultimately, fairness.

A Green New Deal

In the context of debates on rebalancing the economy, focusing on local and regional well-being and sustainable development rather than growth narrowly defined, there has been growing interest in the idea, both internationally and nationally, of a Green New Deal.[25] The most coherent outline of a Green New Deal for the UK is found in the work of the Green New Deal Group, which connects proposals for reform of the financial system with measures to address looming energy shortages and strategies to address climate change and the debate about the relationship between growth and well-being discussed above.[26]

At the heart of the Green New Deal Group's proposals are the shift to a radically decentralised, low-carbon economy and the promotion of "green-collar jobs" to support it. This involves, firstly, big improvements in efficiency and conservation, and, secondly, investments in new energy-supply systems typically at the local level, by which power is – literally – decentralised and energy security enhanced.

Growth in these activities would produce both higher- and lower-skilled jobs and potentially contribute substantially towards tackling social exclusion – for instance, significant carbon reductions can be achieved by improving the energy efficiency of the homes of low-income households. As Professor Joan Fitzgerald shows in this volume, state and city governments in the US have demonstrated some of the potential for local and regional initiative in advancing the Green New Deal.

The technological opportunities associated with the shift to a low-carbon economy rest, to some extent, on "disruptive technologies", which may produce new "locational windows of opportunity". Electric cars potentially represent a disruptive technology,[27] and

23 Daly, HE "A Steady State Economy", paper for the Sustainable Development Commission in London on 24 April 2008
24 Sustainable Development Commission *Prosperity Without Growth? The Transition to a Sustainable Economy* (2009); United Nations Environment Programme *Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World* (2008)
25 United Nations Environment Programme *Global Green New Deal* (2008)
26 Green New Deal Group *A Green New Deal* (New Economics Foundation, 2008)
27"The Electric-Fuel-Trade Acid Test" in *The Economist*, 3 September 2009

the decision of Nissan to develop the technology in the North East of England may prove to be significant. Additionally, assets such as water and low-carbon energy systems may grow in importance as the foundation for urban and regional development strategies and the attraction of new types of investment.

But the real potential for lagging regions in the UK may lie less in competition for strategic investments and new technologies and more in responding to larger shifts in values and lifestyles associated with responses to climate change, rising energy and food costs, and the desire for fairness and social cohesion. A reconsideration of the relationship between growth and development, on the one hand, and focus on well-being and sustainability on the other suggests that promoting quality of life and social inclusion – making Northern cities and regions decent places to live – may prove to be a viable and distinctive strategy, rather than closing growth gaps by mimicking forms of growth in "world-class" regions.

If these are to be the objectives of regional policy, a market-based approach to development will need be revisited. New forms of public policy intervention and institutional mechanisms are likely to be required, such as the "new mutualism" outlined by Professor Kevin Morgan and Jenny O'Hara Jakeway in this volume. Stronger local and regional institutions are likely to be necessary to deliver a Green New Deal founded on principles of decentralisation. A Green New Deal will require action at the international, national, regional and local scale.

As Peter Hetherington shows in this volume, despite the widespread talk of a "new localism" and some interesting examples of its potential, it is far from clear that it presents a coherent policy approach. Moreover, the debate tends to be founded on a distinction between regionalism and localism that would baffle observers outside the UK, where the tendency is to see both as necessary and complementary. There are grounds also for assuming that the new localism will be mainly concerned with planning austerity rather than the low-carbon economy.

The present economic conditions open up political and intellectual space to reconsider the purposes and means of regional policy. This introduction and the following chapters sketch some of the terrain we need to cross.

Chapter 1

The recent evolution of regional disparities – a tale of boom and bust

Professor Ron Martin FBA, Professor of Economic Geography at the University of Cambridge

The recent evolution of regional disparities – a tale of boom and bust

Continuity and change in Britain's regional problem

For almost a century, the issue of regional disparities in economic prosperity, especially between the North and South of the country, has been a recurring problem confronting policy makers in the UK. The emergence of regional disparities is usually traced back to the 1920s and 1930s, when severe economic slump and the challenge of new overseas competitors produced structural collapse in the nation's industrial regions.

During the long post-war boom, regional disparities narrowed as all parts of the country enjoyed unprecedented economic growth. But in the 1970s, with abrupt economic slow-down and the onset of deindustrialisation, disparities between the regions began to widen once more. This widening accelerated in the 1980s, fuelled by the intense recession at the beginning of that decade, setting off a fierce debate over the existence of a major North/South divide in economic performance and opportunities.[1]

By the late 1990s, however, some commentators were claiming that even if the divide had previously existed it was now dead, that the intense deindustrialisation of the North had at last removed the source of that part of Britain's problem, namely its outmoded economic structure, so that its growth and employment prospects would no longer be hampered:

The traditional "North/South divide" unemployment problem has all but disappeared in the 1990s. This may prove to be a permanent development, since the manufacturing and production sectors, the main source of regional imbalance in the past, no longer dominate shifts in the employment structure to the same extent. Future shocks will have a more balanced regional incidence than has been the case in the past.[2]

A decade later, how far have the assumptions and predictions of this claim been borne out? Certainly, the economic structures of the regions have changed dramatically since the 1980s, and services have come to play a dominant role in the productive and employment performance of all regions of the country. In this sense, Jackman and

1 See, for example: Martin, RL "The Political Economy of Britain's North-South Divide" in *Transactions of the Institute of British Geographers* vol 13 (1988), pp389-418; Martin, RL "The Contemporary Debate over the North-South Divide: Images and Realities of Regional Inequality in Late-Twentieth Century Britain" in Baker, ARH and Billinge, MD (eds) *Geographies of England: The North-South Divide, Imagined & Material* (Cambridge University Press, 2004), pp15-43
2 Jackman, R and Savouri, S "Has Britain Solved the 'Regional Problem'?" in Gregg, P and Wadsworth, J (eds) *The State of Working Britain* (Manchester University Press, 1999), p27

Savouri's prediction of a more balanced regional pattern of growth and incidence of "shocks" would seem to have been reasonably grounded.

On the other hand, their argument ignored the fact that services are far from a homogeneous sector, and that the rapid development of the service economy since the 1980s has not been a regionally even or undifferentiated process. Some services, especially finance, have experienced a much faster rate of growth than others. And growth in the service sector has also been much more concentrated in certain regions – such as that of finance and business services in London and the South East – than in others. Furthermore, the implied assumption in their argument, that services are less cyclically prone or sensitive, has manifestly not proved to be the case: the long boom of 1993-2007, and the bust that has followed since, originated in certain service activities, not in manufacturing.

The geographies of the post-1993 boom

New Labour has made much of the UK's economic performance during its first decade in office. The claim was that under new Labour's prudent economic management Britain had entered a new and distinctive phase of economic growth:

In this my eleventh Budget, my report to the country is of rising employment and rising investment, continuing low inflation, and low interest and mortgage rates … built on the foundation of the longest period of economic stability and sustained growth in our country's history.
Gordon Brown in March 2007[3]

The "long boom" had in fact started in 1993/94, prior to new Labour coming into office. Whether it has been the longest on historical record is difficult to verify, since reliable and comparable records for the 18th and 19th centuries are not in fact available. And as the economic historian Nick Crafts has argued, the economy in that period was very different in structure and nature, so such comparisons may not be meaningful.

But leaving this issue aside, it is certainly the case that between 1997 and 2007 the UK's real GDP grew by an average annual rate of 2.9%, which compared very favourably with previous periods, for example 2.3% during the Thatcher era, 2.9% in 1949-64, and 3.3% in 1964-73.[4] Such was the apparently sustained nature of the UK's growth that Gordon Brown as the chancellor was led – somewhat tempting fate – to claim that the country had embarked on a path of "no more boom and bust".

3 Brown, G *Chancellor of the Exchequer's Budget Statement* (HM Government, 2007)
4 http://www.statistics.gov.uk/statbase/

There might also have been good cause to assume that, potentially, all parts of the country would benefit equally from this "NICE" process of non-inflationary continuous expansion. Academics and policy makers alike believed that all regions could participate in the new "soft economy" of knowledge-based, creative and cultural services.[5]

The low barriers to entry and local market orientation of many such activities suggested that Northern regions and cities would be able to reconfigure and rebuild their economies around these new growth sectors. At the same time, new Labour's new regional policy model was aimed specifically at raising the contribution of all regions to the national growth effort, and enhancing and promoting local "indigenous potential" was a key element of that strategy:

The Government's central economic objective is to achieve high and stable levels of growth and employment. Improving the economic performance of every region of the UK is an essential element of that objective, firstly for reasons of equity, but also because unfulfilled economic potential in every region must be released to meet the overall challenge of increasing the UK's long-term growth rate ...[6]

The aim was "to make sustainable improvements in the economic performance of all regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions".[7]

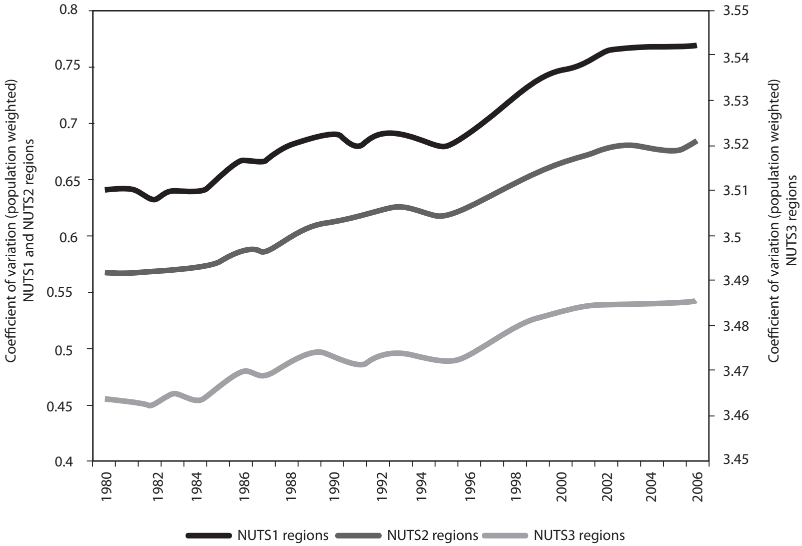
How have actual regional experiences compared with such expectations and aims? Figure 1 shows the year-on-year differential cumulative rate of growth (relative to the UK rate) of per-capita GDP for the standard regions, over the period 1980-2007.[8] Four key features are immediately evident. First, there have been marked disparities in economic growth over the past three decades. Major regional gaps in economic growth opened up during the boom of 1983-90, and these widened further from 1993 onwards.

Second, as was the case during the boom of 1983-90, the post-1993 boom was driven primarily by London and the South East, with the rest of the country – and especially the North East and North West regions – lagging well behind in economic growth. Between

5 Martin, RL "Making Sense of the New Economy? Realities, Myths and Geographies" in Daniels, P, Leyshon, A, Bradshaw, M and Beaverstock, J (eds) *Geographies of the New Economy: Critical Reflections* (Routledge, 2006), pp15-48
6 HM Treasury *Productivity in the UK: 3 – The Regional Dimension* (2001)
7 HM Treasury PSA Target 2.3 (http://www.hm-treasury.gov.uk/pbr_csr07_psaindex.htm)
8 Measuring regional economic performance is not straightforward. Several other indicators can be argued to be as relevant as if not more relevant than GDP per capita, for example productivity, the employment rate, and household income (see: Dunnell, K "Measuring Economic Performance" in *Economic & Labour Market Review* vol 3, no 1 [2009], pp18-30). The GDP data used here are workplace based, not residence based.

1980 and 1997, London gained more than a 22% cumulative growth advantage over the North East and North West; and the South East an 18% advantage.

Figure 1: Regional cumulative differential growth in GDP per capita 1980-2007



Source of data: Cambridge Econometrics

Although the rate of divergence in growth performance across the regions was slower during the 1993-2007 boom period, nevertheless by 2007 the cumulative growth advantage of London over the North East and North West increased to 30%, and that of the South East to 25%. Outside London and the South East, only the South West region and Northern Ireland managed to record a cumulative growth outcome above the national average (the turnaround of Northern Ireland from its rapid relative deterioration during the 1980s is most noticeable). But overall, as a result of these trends, regional disparities in GDP per capita continued to increase, at all spatial scales (NUTS1, NUTS2 and NUTS3 regions),[9] after 1993 (see figure 2).

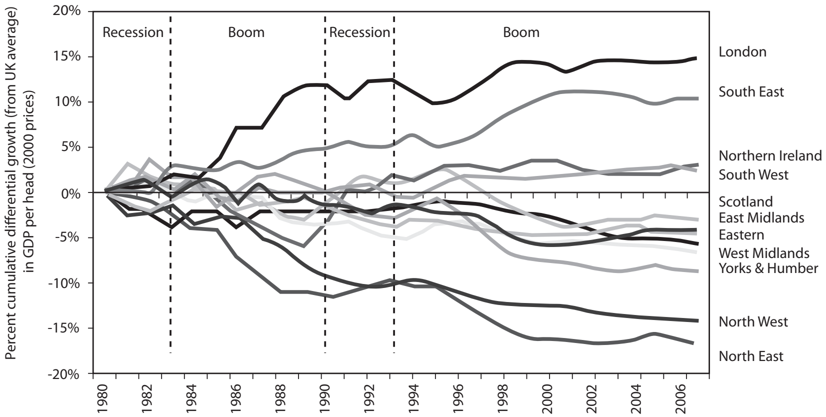
A similar divergence occurred among cities.[10] Contrary to what had been hoped and

9 NUTS: Nomenclature of Units for Territorial Statistics – Eurostat's classification of spatial units used for statistical production across the European Union

10 Simmie, J, Martin, RL, Wood, P, Carpenter, J and Chadwick, A *The Competitive Economic Performance of English Cities* (Department for Communities & Local Government, 2006)

predicted, the long post-1993 boom failed to reverse the scale of regional economic disparities inherited from the 1980s. Like the expansion of that decade, the "longest period of economic stability and sustained growth in our country's history" was centred in and led by London and the South East. It was also similar in that it was in these regions that the boom both fuelled and in turn was reinforced by an unprecedented housing bubble.

Figure 2: The evolution of regional disparities in GDP per capita 1980-2006



Source of data: Cambridge Econometrics

From boom to bust: regional dimensions of the housing bubble

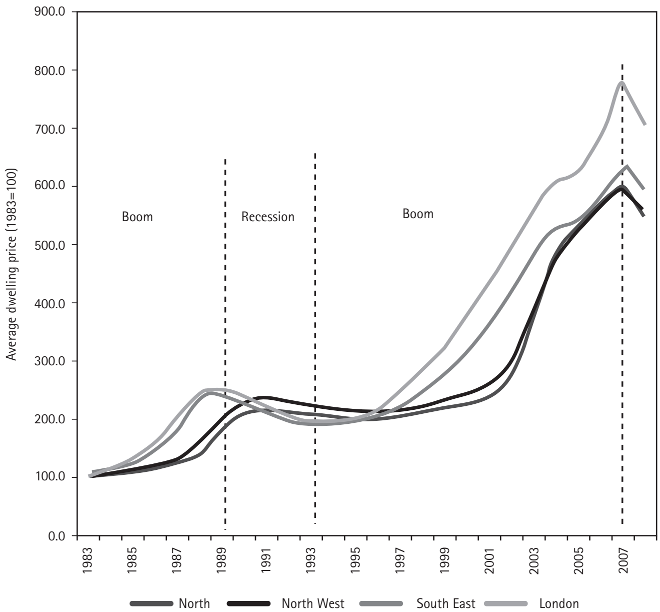
The claim that the long boom was based on non-inflationary (NICE) conditions (see Gordon Brown's statement above) was highly misleading. The official government measure of inflation, the Consumer Price Index, used by the Bank of England as the basis of its inflation-targeted interest rate policy, excludes house prices.[11] Consequently it failed to convey the dramatic rise in house prices that began in the early 1990s and accelerated well into the 2000s.

Average house prices in the UK rose by more than 22% per annum between 1993 and their peak in 2007. Not only was this faster than the rate (17%) during the house price

11 An explicit inflation target was first set in October 1992 by the then chancellor of the exchequer, Norman Lamont, following the UK's departure from the European exchange rate mechanism. Initially, the target was based on the RPIX, which is the Retail Price Index excluding mortgage interest payments. On election in May 1997, the new Labour government handed control over interest rates to the politically independent Bank of England monetary policy committee. This committee set an initial target rate of inflation as an RPIX rate of 2.5%. In December 2003, the inflation target was changed to a Consumer Price Index rate of 2%; the CPI also excludes housing.

inflation wave of 1983-90, it was sustained for twice as long. It was also well above the average increase in the Consumer Price Index of barely 2% over the period. Official inflation may well have been low and under control, but a major housing-asset price bubble was forming that attracted no constraint from the Bank of England or the Treasury, despite dire warnings from certain quarters.

Figure 3: How London and the South East led the house price bubble



Source of data: www.hbosplc.com/economy/historicaldata

Several reasons can be invoked to explain this historic bubble. In large part it was encouraged by a mutually reinforcing process of demand and supply. The low interest rate and easy mortgage credit conditions that obtained during 1997-2007 (including the relaxation of household borrowing requirements and the downgrading of risk by mortgage lenders – both buoyed along by rising house prices) increased the supply of housing finance, and simultaneously fed a rising demand.

The latter was also undoubtedly fostered by a general view – supported by government statements – that the economic expansion was here to stay ("no more boom and bust"), as well as by rising real incomes, demographic shifts (the growth in single-person households), and a major shift into housing as a capital asset, especially for pension purposes. But it was also a bubble that had a distinct geographical complexion.

Just like previous house price inflation waves, the 1993-2007 bubble originated in the housing markets of London and the South East (see figure 3).

House prices in these regions took off in 1995, a good four or five years earlier than in the North and North West (the same was true for the house price inflation of the 1980s). The interaction between the economy and the housing market is not a topic that has received its due attention (certainly not from policy makers). But it is clear that it is a relationship that varies regionally, and that the regionally imbalanced nature of the UK economy is a contributing factor in shaping national house price bubbles – and thence subsequent crises.

Among the processes at work, two interrelated forces stand out. First, house price growth in London and the South East was unquestionably stimulated by the earlier and faster wage and earnings growth in these areas, helped by London's position in what in many ways has become a global labour market for highly paid professional and financial workers (including the bonus culture that came to be an integral part of the finance industry). Demand for housing and a desire to move continually up the housing ladder inevitably followed. Investment in housing – as a capital asset as much if not more than as a need – became a key outlet for the rapidly rising wealth base in London and the South East.

A second factor, and one that raises key regional policy issues, has to do with the increasing agglomeration of high-wage financial, business and professional services in Greater London and neighbouring parts of the South East. This agglomeration undoubtedly confers major benefits – both regionally and nationally – not least the location there of highly productive, internationally competitive and vital export-earning activities. For good reason, London is seen as the dynamo of the British economy. But it is also the source of repeated inflationary pressures that then diffuse out across the rest of the country.

This creates a major policy dilemma. On the one hand, it could be argued that national and regional policy should do nothing to counter or stem the growth dynamic of London and the South East – hence the centrally imposed policy of planned massive house building in the region over the next couple of decades. But, on the other hand, fostering the continued agglomeration of economic activity, and of skilled and educated workers, in the London and South East area may do little to help the rest of the country to catch up in terms of growth rates and wealth creation.

In short, a view has emerged in certain quarters that there is some sort of trade-off between national efficiency and regional equity, and that the continued agglomeration of activity in and around London promotes the former. As a recent Treasury paper puts it:

Theory and empirical evidence suggests that allowing regional concentration of economic activity will increase national growth. As long as economies of scale, knowledge spillovers and a local pool of skilled labour result in productivity gains that outweigh congestion costs, the economy will benefit from agglomeration, in efficiency and growth terms at least … policies that aim to spread growth amongst regions are running counter to the natural growth process and are difficult to justify on efficiency grounds, unless significant congestion costs exist.[12]

And an even more extreme version of this view has been voiced by the centre-right think tank Policy Exchange, in its report *Cities Unlimited*:

There is no realistic prospect that our [Northern] regeneration towns can converge with London and the South East. There is, however, a very real prospect of encouraging significant numbers of people to move from those towns to London and the South East … The implications of economic geography for the South and particularly South East are clear. Britain will be unambiguously richer if we allow more people to live in London and its hinterland.[13]

The evidence evinced to support such ideas is, to say the least, thin. We simply do not know the precise costs and benefits of the Greater London agglomeration for the other regions of the nation. One thing we do know, however, is that the London and South East agglomeration has once again been the centre of an unsustainable housing bubble, the bursting of which is now having recessionary effects across the entire country.

Regional disparities in the recession and beyond

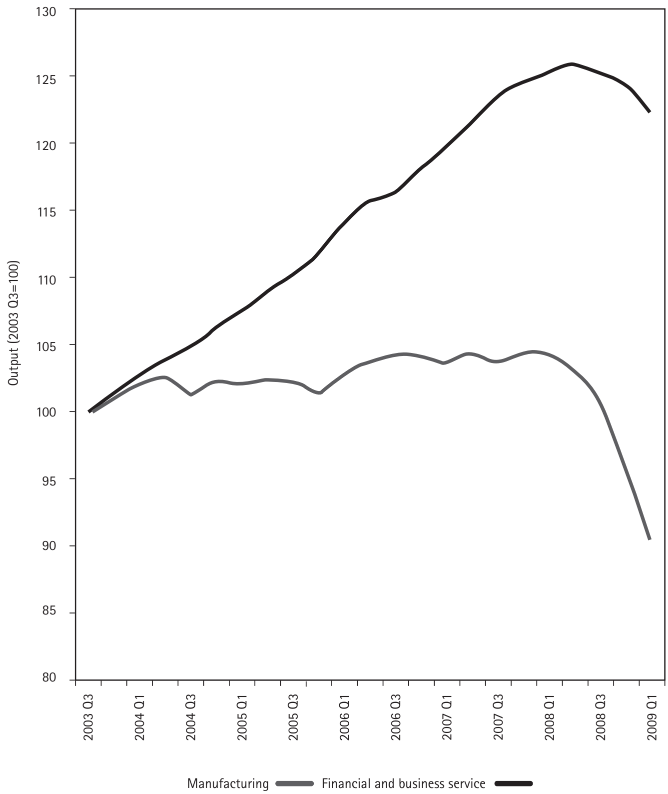
Just as Gordon Brown when chancellor repeatedly claimed that the "longest boom" in our history was a domestically grown triumph, in large part due to his policies of economic stability and financial prudence, so as prime minister he has repeatedly attributed the recession that began in 2008 to external "global" forces not of the UK's making.

It is true that the global credit crunch that in its turn precipitated global recession began life in the collapse of the mortgage finance market in the US. But British banks and mortgage lenders were not innocent bystanders or victims of the drama that has unfold-

12 Lees, C "Regional Disparities and Growth in Europe", mimeo (HM Treasury, 2006)
13 Leunig, T and Swaffield, J *Cities Unlimited: Making Urban Regeneration Work* (Policy Exchange, 2008)

ed over the past two years. Rather they were active participants, encouraged by the UK's lax national financial regulatory regime, its low interest rates, and an insatiable quest on the part of the banks and demutualised building societies to become global players, to borrow in global money markets in order to create ever larger volumes of profitable mortgage lending. These institutions were inextricably bound up with the problems that arose in the US housing market, and became the active conduit by which those problems were then imported to the UK finance sector, and in its wake the national economy as a whole.

Figure 4: The onset of recession – output in finance and business services versus manufacturing



Source of data: Gavurin; Office for National Statistics

The speed and scale of the contraction led many to argue that the recession could turn out to be one of the worst in the post-war period, on a par at least with those of the early

1990s and early 1980s. At the time of writing, the jury is still out on this issue: some argue that "green shoots of recovery" have already become visible, while the Bank of England has taken a much more cautious view.

Initially, it was argued that since the recession has been driven in large part by the credit crisis and the collapse of the banks, its impact would likewise be most strongly felt in the finance sector. This in turn implied that London and its hinterland would also be hardest hit by the recession. But the available evidence suggests that the slowdown in growth has been much more pronounced in manufacturing, which was in a much less strong position to begin with (see figure 4).

Table 1: The impact of the recession on the regions – estimated decline in output, and the change in unemployment rate from Q1 2008 to Q1 2009

Region	Percent decline in GDP (%)	Absolute change in unemployment rate (%)
London	-4.41	1.8
South East	-5.31	1.4
Scotland	-5.76	1.3
Eastern	-5.78	1.4
South West	-5.90	2.1
North West	-6.07	1.9
North East	-6.17	1.8
Yorks & Humber	-6.26	2.9
West Midlands	-6.28	3.0
East Midlands	-6.47	1.6
Wales	-6.50	2.3

Source of data: Gavurin; Office for National Statistics (2009)

Given that reliable official data on key indicators of regional economic performance, other than unemployment, are published only after a considerable time lag, and that the economy is still in recession, mapping the impact of the current downturn is not easy.

Table 1 gives some very rough estimates of the decline in GDP by region between the first quarter of 2008 and the first quarter of 2009.[14] These should be treated with considerable

14 These are derived by applying national estimates of the change in output by major sector to the sectoral employment structures (as at 2007) of the regions. They thus assume that each sector has responded to the recession similarly in every region, and that regional employment structures have remained unchanged over the recession period. For these reasons, in addition to the fact that the national estimates are themselves preliminary, the figures in table 1 should be regarded as highly provisional.

caution, but suggest that while the downturn has been sharp and pronounced everywhere, thus far London and the South East seem to have fared better than all other regions. The picture with regard to unemployment is more mixed, though here too London and the South East do not so far appear to have witnessed any more severe decline than elsewhere.

It is too early to judge what precise impact the present recession and its aftermath will have on the future evolution of regional economic disparities. It has been the stated aim of the government:

... to make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006 ...[15]

It is not clear just how long the "long term" is, but it is difficult to argue that much progress had been made by 2006 in reducing regional disparities. There was talk of signs of a "turnaround" in the North East's relative growth trend after 2003, yet, as figure 1 shows, this appears to have been a temporary phenomenon, just as the more marked relative improvement during the recession of 1990-93 subsequently proved to be.

The fact is that London and the South East appear to be much more resilient and robust economies: these regions have led the growth process in the last two booms, and seem better able to recover from recessions than other regions. Unless the next recovery, when it comes, is based on a vastly different type of economic dynamic, the cumulative growth gaps between the regions are likely to persist for some time to come.

15 Department for Business, Enterprise & Regulatory Reform PSA Target 7, HM Treasury PSA Target 2.3, and Department for Communities & Local Government Target 2 (http://www.hm-treasury.gov.uk/pbr_csr07_psaindex.htm)

Chapter 2

Limits to regional competitiveness

Dr Gillian Bristow, Senior Lecturer in Economic Geography in the School of City & Regional Planning at Cardiff University

Limits to regional competitiveness

The natural law of competitiveness

In recent years, regional policy has become dominated by the watchword of competitiveness, which – in spite of its rather chaotic nature – retains a seemingly unshakeable hold over policy thinking and practice. Competitiveness is typically defined in very broad, catch-all terms and refers to the "attractiveness" of a region, or its capacity to compete with other places for mobile capital and skilled labour in an increasingly globalised world.

As such, it provides a relatively clear message for those devising regional economic development strategies and policies, namely an imperative to focus on providing the right sort of business environment for the attraction and retention of innovative clusters of firms, skilled or "creative" labour, mobile investment, and central and supranational government subsidies and funds. Not surprisingly, as a result, regional economic development strategies are littered with the language of winning, of gaining some form of competitive advantage over other regions, and of measuring competitive performance against "rivals" in the form of indicators and league tables.[1]

Regions are clearly not unique in this. The competitiveness imperative facing regions mirrors the dominant thinking across all places and scales, from cities and city regions to nations and even supranational powers such as the European Union, where competitiveness is deeply embedded in the Lisbon Agenda. Indeed, the "new conventional wisdom" is that nations, regions and cities have to be more competitive to survive in the new marketplace being forged by globalisation and the rise of new information technologies.[2] Competitiveness has in effect become a natural law for economic development and policy.

The developing critique

There is, however, growing awareness of the shortcomings of competitiveness thinking and its implications for strategic policy choices and outcomes in practice. Krugman[3] has famously derided place competitiveness as a "dangerous obsession". This, in part, reflects his concerns regarding the validity and relevance of the concept itself in relation to regions for which, unlike business, there is no bottom line from poor economic performance – regions do not ultimately go out of business. However, it also reflects his concerns regarding the dangers of the place competition that competitiveness thinking tends to inspire.

1 Bristow, G *Critical Reflections on Regional Competitiveness* (Routledge, 2009 – forthcoming)
2 Buck, N, Gordon, I, Harding, A and Turok, I (eds) *Changing Cities: Rethinking Urban Competitiveness, Cohesion & Governance* (Palgrave MacMillan, 2005)
3 Krugman, P "Competitiveness: A Dangerous Obsession" in *Foreign Affairs* vol 73, no 2 (1994), pp28-44; Krugman, P *Pop Internationalism* (MIT Press, 1997)

Similarly, others have warned that competitiveness thinking leads to strategies riven with the self-interested mantras of "jungle law" and "survival of the fittest".[4] Furthermore, the continuing evidence of persistent regional divides in countries that have vigorously pursued regional competitiveness strategies points to there being clear regional winners and losers from the competitiveness game and to several key limitations to competitiveness policy.

1. Implementation failure

One of the problems with competitiveness policy is that it carries significant potential for implementation failure, not least because in the absence of a coherent theoretical framework for conceptualising regional competitiveness there is no ready-made blueprint for regions to follow when seeking to devise competitiveness-oriented policy interventions. While there may be convergence around certain popular models such as Porter's diamond, there are enough theoretical variants shaping the discourse to make for a diverse range of definitions of competitiveness to deploy in practice, and a confusing menu of possible drivers of competitive performance to prioritise.

Furthermore, even if regions were able successfully to replicate the Porter model or some such approach, there are no cast-iron guarantees that success would follow. Instances of implementation failure are arguably magnified in respect of many of the standard policy prescriptions that have come to define the competitiveness discourse, because they are poor travellers from the successful or exemplar regions from which they originate.

History and geography will have a major impact on the relevance and utility of particular drivers and their impact in particular regions, such that there is unlikely to be an effective "one-size-fits-all" regional competitiveness strategy.[5] This is especially pertinent when one remembers that many of the key ingredients for economic success are deemed to be endogenous variables, locally shaped and attuned to particular regional circumstances.

Particular misgivings have been raised regarding the unrealistic aspirations of many regions to develop successful high-tech cluster strategies and policies typically seeking to replicate the success of Silicon Valley in California. These have been roundly criticised for their failure to acknowledge that clusters are often context-specific socioeconomic configurations of concentration and collaboration, which typically represent the exception rather than the rule in examples of regional economic success, and tend to

4 Peck, J and Tickell, A "Jungle Law Breaks Out: Neo-liberalism and Global-local Disorder" in Area vol 26, no 4 (1994), pp317-326; Bristow, G "Everyone's A 'Winner': Problematising the Discourse of Regional Competitiveness" in *Journal of Economic Geography* vol 5, no 3 (2005), pp285-304

5 Kitson, M, Martin, R and Tyler, P "Regional Competitiveness: An Elusive yet Key Concept?" in *Regional Studies* vol 38, no 9 (2004), pp991-999; Bristow, op cit (2005)

emerge organically without the benefit of policy guidance or intervention.[6]

Indeed, Krugman[7] argues that the Silicon Valley cluster owes its existence to "small and historical accidents that, occurring at the right time, set in motion a cumulative process of self-reinforcing growth". Similar problems afflict the other policy tools that have mushroomed under the competitiveness agenda, notably technopoles, science and technology parks and enterprise zones. In all these cases, the underlying rationale is to attempt to replicate what seems to have worked elsewhere, rather than any clear underlying logic as to what will work best for particular firms in particular places.

In short, competitiveness policy tools and their strategies typically lack sensitivity to critical issues of context and place. As a result they fail to serve as useful guides for the implementation of economic development strategies. This lack of tailoring to context "leaves development dialogue trapped in the abstract, where reports create false expectations, and where regions may be led towards ill-suited programme interventions based on passing policy or development fads".[8]

2. Constrained policy options

Competitiveness thinking also seriously constrains the range of policy options explored within regions because of the narrowness of the assumptions upon which it is based. First and foremost is the pervasive belief in the global hypermobility of labour and capital. The fear that firms, labour and other resources can swiftly move between regions according to the global logic of market forces creates an innate imperative to focus on providing the right living and working environment as the most feasible and perhaps only policy option.

Yet, in all probability, global capital is not as hypermobile in reality as regional policy makers perceive it to be. While routine assembly-line manufacturing operations and call-centre firms may be globally footloose, there is a strong body of evidence pointing to the geographical inertia of many businesses, including those firms in "new" economy industries often regarded as having the greatest potential to be locationally flexible in the wake of new distance-shrinking technologies. Many firms, especially local service providers, retailers and small businesses, simply never relocate – the costs and upheaval of doing so are too great, and the innate advantages of, and ties and preferences to, particular places too strong to disregard on the basis of an unending search for ever lower operational costs.

6 Burfitt, A and MacNeill, S "The Challenge of Pursuing Cluster Policy in the Congested State" in *International Journal of Urban & Regional Research* vol 32, no 2 (2008), pp492-505
7 Krugman, P "How the Economy Organises Itself in Space: A Survey of the New Economic Geography" in Arthur, WB, Durlauf, S and Lane, DA (eds) *The Economy as an Evolving Complex System 11: Proceedings* (Westview Press, 1997), p237
8 Markey, S, Halseth, G and Manson, D "Closing the Implementation Gap: A Framework for Incorporating the Context of Place in Economic Development Planning" in *Local Environment* vol 13, no 4 (2008), p342

Furthermore, there are a range of public-sector businesses that contribute significantly to local and regional economies and simply cannot move easily from place to place. To paraphrase Mark Twain, reports of the death of geography have probably been greatly exaggerated.

Similarly, competitiveness policies are constructed on the narrow understanding that the critical drivers of competitiveness are overwhelmingly and almost exclusively supply-side in orientation. As a result, little or no attention is paid to the creation of demand for the region's goods and services, which may play an important role in ensuring that businesses can continue to grow and prosper.

Finally, competitiveness policies also rest on the belief that regional economic performance and prosperity are ultimately derived from and thus reducible to the competitiveness of the businesses in the region. Yet much depends on the character and stock of firms and industries in a region, as well as on economic activity and employment rates, which also play a role in determining a region's overall living standards. Moreover, these are likely to be influenced by a whole host of economic, social, cultural and political factors and not simply by factors relating to business performance.

This points to a further problem, which is that competitiveness thinking tends to ignore the wider influences and networks shaping regions and their development processes. Competitiveness thinking tends to conceive regional economies as separate from each other, with no serious account taken of the relations between them or how certain dominant regions, such as the South East of England, can influence the development of others. As Massey[9] observes:

... it is the Newtonian, billiard-ball world – here of isolated regions instead of isolated individuals; but it does not reflect the real economy. And it makes it very difficult to entertain the possibility that the growth in one region might have deleterious effects on the prospects of others.

In reality, regions are often locked in complex interdependencies and networks of relations, sometimes co-operative rather than necessarily competitive. They create markets for one another, people sometimes commute between regions, and supply chains often cross regional boundaries. Even the most "competitive" region achieves that status by winning employment and activities from other locations, and therefore by exporting goods and services to those other locations.

9 Massey, D *World City* (Polity Press, 2007), p106

Thus, if one region does poorly and cannot supply its normal pattern of goods and services, in all probability this will not be good news for neighbouring regions, which are likely to suffer the consequences of this reduced supply, as well as perhaps falling demand for their own goods and services. Competitiveness thus brings a form of vulnerability even for successful regions such that the analogy of them acting as business rivals in a dog-eat-dog competitiveness game is hugely problematic.

3. Pernicious outcomes

Competitiveness thinking also carries the danger of narrow and potentially limiting policy outcomes. Fundamentally, the tendency to ignore consideration of the relations between regions in favour of the imperative of building capacity within regions leads to an overwhelming focus on the imperative of building institutional structures and capacities within regions, such as through regional development agencies. The result is a tendency to neglect the potential benefits of a more active, centrally orchestrated inter-regional policy that might aim both to redistribute resources between regions and to manage growth in the core.

The dominant discourse also leads to an emphasis on a relatively narrow route to regional prosperity based upon particular, private-sector, globalised firms, ignoring the potential for growth and development to be achieved through broader, more diverse avenues such as through firms serving local and national markets, or by the development of community or social enterprises that meet broader social and environmental objectives. Moreover, not all economic activity is undertaken by private firms. Much economic activity takes place in the public sector, the size of which makes it an important contributor to regional economic performance.

In privileging private-sector-orientated agendas, competitiveness strategies also typically fail to demonstrate any concern with who benefits from these productive firms and supposedly competitive regions, or indeed with the sustainability of resulting outcomes. A region may be competitive today by depleting and denuding its physical environment but then will clearly suffer in the future as a result. The competitiveness discourse ignores such issues. In promoting the interests of productive firms above all else, it is overtly a growth-first agenda – and yet there is growing recognition that economic growth does not equate to progress in respect to human development and well-being.[10]

Competitiveness is essentially "care-less" inasmuch as it rarely takes account of the non-economic variables essential to the social reproduction of everyday life – that is the

10 See, for example: Layard, R *Happiness: Lessons from a New Science* (Allen Lane/Penguin Books, 2005)

ways and means by which people live and make a living – such as unpaid care-giving and volunteering activities and freely available environmental resources. In fact, it may instead wreak considerable damage on them and impose huge human and social costs.[11]

As a final indictment, competitiveness is a catch-all for the pursuit of business-led growth and entrepreneurial place selling – in short, place promotion. In this regard, the pursuit of competitiveness ostensibly promotes and encourages competition between places around their attractiveness and image. As a consequence, regions (and also cities) are increasingly engaged in a familiar hotchpotch of property-, retail- and events-led interventions targeted at improving the quality of the business, cultural and social environment.

This creates huge vulnerability for regions that become overly dependent on a small number of large multinational firms, and gives large corporations huge power in relation to public policy. It also means that regional strategies are necessarily geared to external audiences, business investors, events organisers and sponsors, and so on, and not necessarily to resident communities. Regions also then become caught up in a never-ending arms race, running ever faster to in effect stand still, since every other region is engaged in similar activities at an equally frenetic pace. The results can be incredibly pernicious, not least because the price of the key investments and resources being sought simply escalates, thereby cancelling out the benefits of other innovations or savings.

Furthermore, such projects do not necessarily bequeath a competitive advantage and may instead work simply to fuel speculative development, which is of little import in terms of addressing key economic problems. In short, the pursuit of competitiveness propels an overtly narrow focus on the promotion of a region's assets rather than on their development.[12] Accordingly, many projects have been shown to be financially unviable on their own terms and have been propped up with public money on the (unproven) understanding that they will lure in global investors. Clearly, in doing so, these projects can take resources and investment away from other budgets such as those for housing, education, social care and so on. In this respect the obsession with competitiveness and the desire to outperform rivals may fuel the uneven development at the heart of capitalism, which devalues one place in favour of another.[13]

11 Jarvis, H "Home Truths about Care-less Competitiveness" in *International Journal of Urban & Regional Research* vol 31, no 1 (2007), pp207-214
12 Unwin, C *Urban Myth: Why Cities Don't Compete*, discussion paper no 5 (Centre for Cities, Institute of Public Policy Research, 2006)
13 Swyngedouw, EA "The Mammon Quest – 'Glocalisation', Interspatial Competition and the New Monetary Order: The Construction of New Scales" in Dunford, M and Kaflakas, G (eds) *Cities & Regions in the New Europe* (Belhaven, 1992), pp39-67

Conclusions

Competitiveness thinking has clearly dominated policy approaches to regional development in recent years, shaping the emphasis upon globalised, competitive firms, supply-side interventions, and the building of capacity within regions over and above an emphasis upon redistribution between them.

The power and appeal of competitiveness-speak rests with the very fact that it lacks logical precision. It is sufficiently broad-brush to legitimise a whole range of ostensibly neo-liberal policy interventions, while at the same time being capable of presenting policy makers with a clear, coherent policy agenda that is particularly well suited to current manifestations of the regional state. However, it is increasingly acknowledged to be hugely limiting and flawed, and not only betrays a serious failure to understand how regional economies actually work, but also tends to results in invidious place-based competition.

This is not to dismiss the value of competition outright. It can be a positive experience to learn from others and to seek to improve overall standards. But it is narrow place-based competition, concerned with place promotion and the pursuit of particular kinds of firms and people with a growth-only intent, that is the problem. The neo-liberal claim is that competition is a question of life and death. Regions feel they must be competitive or die. Other strategies look very optional in the face of the competitive and global struggle for survival.

However, when the larger spaces within which competition occurs and the uneven development that typifies economic differences between regions are introduced into the analysis, the dynamics of competition appear more negative than positive. Regions are locked into increasingly complex interrelationships and interdependencies that create particular vulnerabilities for them, especially where they are overspecialised in particular goods and services. These vulnerabilities are becoming ever more exposed in a world characterised by increasing uncertainty over the availability and security of resources, particularly in relation to food, oil and energy supplies.

This implies the need to better understand regions as spaces characterised by flows and to acknowledge the more complex political economy of nested, interlinked scales and policy imperatives within which regions function. This suggests the need for a new paradigm for understanding regions and developing regional policy – a paradigm that moves us beyond competitiveness.

Chapter 3

Mutualism – an idea whose time has come (again)

Professor Kevin Morgan, Professor of Governance and Development in the School of City & Regional Planning at Cardiff University, and Jenny O'Hara Jakeway, Communities First Co-ordinator in Glyncoch

Mutualism – an idea whose time has come (again)

Over the last 18 months, and with increasing intensity over the last six, the world's financial system has gone through its greatest crisis for at least half a century, indeed arguably the greatest crisis in the history of finance capitalism.

The apocalyptic words of a Marxist sect? No, the opening sentence of the Turner review,[1] published in March 2009, the official response to the global banking crisis.

Although Lord Turner's review was interpreted as a radical report – because of its rejection of "light touch" regulation and the theory of efficient and rational markets on which it was based – this was radicalism of the conservative variety. For example, Turner recoiled from drawing a line between low-risk retail banking and high-risk investment banking – that is between *utility* banks, which deserve to be protected by the public purse, and *casino* banks, which do not.

Without such a safeguard there is nothing to stop banks becoming "too big to fail" in the future, threatening a repeat of the most morally repugnant part of the financial crisis, which saw profits privatised and losses socialised.

Another radical option that was canvassed – but never seriously considered – was *mutualism*, which could have transformed the banks into servants of their communities rather than masters of the universe.

While some mutuals were damaged by the crisis – witness the Dunfermline and West Bromwich building societies, for example – the mutual sector weathered the storm much better than the banks, not least because their constitutions fostered prudence and tempered profligacy. The crisis actually witnessed a supermutual, when Co-operative Financial Services merged with Britannia, the second-largest building society, to form a new business with £70 billion of assets, 9 million customers and over 300 branches. The new supermutual aims to provide an ethical alternative to conventional banks, capitalising on the Co-op's very successful strategy of offering value with values.

The supermutual story highlights the fact that mutualism, far from being a cultural residue of a bygone age, is as relevant today as it was in the 1840s, when the Rochdale Pioneers laid the basis for the Co-op. Indeed, we would argue that mutualism chimes with the modern zeitgeist, which favours products and services that have value, integrity and provenance.

1 Financial Services Authority *The Turner Review: A Regulatory Response to the Global Banking Crisis* (2009)

Mutualism assumes many forms and it constitutes a much bigger share of social and economic activity than we may think (see the definition by Charles Leadbeater and Ian Christie, inset).

Mutualism defined

Mutual organizations come in many shapes and sizes, exhibiting degrees of mutuality. Some are mutually owned by their members. Others exhibit a mutual ethos although they may not be owned by members. Let's start with ownership.

A mutual organisation is owned by its members, who also have a say – usually a vote – in the corporate governance of the organisation, for example, by voting in elections for a board of directors. But this does not define a mutual: many shareholder owned companies would fit that description … The distinguishing feature of a mutual is that the member-owners are more than investors. They usually have another relationship with the mutual either as consumers, producers or suppliers. The members create and own the organisation either to consume its services or to come together as joint-producers. A consumer-mutual, for example, is owned by members who are also consumers of the services the organisation provides. Mutually owned building societies and insurance companies fit into this category … A producer-mutual, for example, is owned by its members who are also its employees or suppliers. An employee-owned company fits this description, as do many farm co-operatives, which pool and market the output of their member farms.

In practice, however, ownership is just one, albeit critical, aspect of mutuality. Many organisations adhere to mutual principles in the way they are run, without being mutually owned. Charities, trusts and clubs, for example, which have no owners, can adhere to mutual principles by allowing volunteers or members a vote in elections for office holders and by involving volunteers in production.

Charles Leadbeater and Ian Christie[2]

The ideals of mutualism resonate deeply in Welsh politics, especially among Labour and Plaid politicians, who make much of the fact that Robert Owen, the father of the co-operative movement, was born in Montgomeryshire. However, there is a great disconnect between this political culture, which extols the co-operative values of mutualism, and the economic reality, where mutual enterprises are thin on the ground.

After a decade of devolution, one might have expected to see a stronger mutual sector in Wales, given the dominance of Labour and Plaid in the national assembly. The sector that

2 Leadbeater, C and Christie, I *To Our Mutual Advantage* (Demos, 1999)

has the greatest potential to generate new mutuals is social housing. With some 5 million people on the waiting list for social housing in the UK, this sector constitutes the biggest failure of new Labour since 1997.

Since 2001 the housing debate in Wales has been dominated by the Welsh quality housing standard, which aims to upgrade all social housing by 2012 as part of an investment programme worth some £3 billion. Where local authorities cannot meet this standard through their own efforts, they are transferring their housing stock to registered social landlords, where tenants approve this.

The community housing mutual model

Two of these transfer organisations – RCT Homes in Rhondda Cynon Taf and Bron Afon in Torfaen – have adopted the community housing mutual model, the central features of which are as follows:

- All tenants can be members, thereby collectively owning the assets of the organisation for the benefit of the community.
- The organisation has an obligation to ensure that tenants are empowered to be closely involved with the regeneration of their own communities.
- The model is designed to evolve and adapt to the needs of tenants and communities, for instance supporting the development of community-based tenant management organisations to manage homes at local level and possibly act as a vehicle for regeneration.
- The organisation's management is based on the democratic principles of the mutual/co-operative sector.

Although RCT Homes and Bron Afon are called registered social landlords, they are engaged in something much larger, something much more ambitious than the provision of housing. Indeed, if they deliver on their promise, these mutuals will become de facto community regeneration agencies. In that event, they will help to integrate the hitherto separate silos of regeneration policy – namely public procurement, training, employment creation, social justice, environmental management and tenant empowerment.

When their mission is understood in these broader, more ambitious terms, it is not too much to say that RCT Homes and Bron Afon are engaged in as significant a social experiment as anything going on in the UK today. Securing the active involvement of professional people in mutual enterprises is one thing, to do so with members that are among the most socially deprived, and who can lack self-esteem, is a far more challenging task.

As laboratories of mutualism, RCT Homes and Bron Afon are flying the flag for the mutual model in social housing and community development. Although less than two years old, they have made an impressive start.

Over and above the bread-and-butter issues, like improving the physical fabric of their housing stock, these mutuals have spearheaded procurement contracts that help contractors to invest in local labour and local materials wherever possible. Equally important social innovations have been introduced too. For example, the active involvement of members in the hiring of contractors, after scrutinising their sites in other parts of the country, must rank as one of the most innovative examples of tenant empowerment because it opens the procurement process up to popular participation.

The challenge of promoting active membership

Of all the challenges facing the new mutuals, however, the most difficult will be to convert more tenants into active members. This might be more of a problem for RCT Homes, because of a combination of geography, scale and management culture. Covering three valleys and nearly 11,000 properties, the sheer size of RCT Homes might intimidate potential members, underlining the need for local neighbourhood structures to encourage higher tenant involvement.

So far, RCT Homes has just 1,100 members, so it has a big conversion challenge ahead of it. But management culture sets the overall tone of the organisation, and this is far more important than either geography or scale. The biggest management controversy within RCT Homes has revolved around executive salaries, and the handling of this issue left much to be desired. RCT Homes operates in one of the poorest areas of the European Union and its senior management needs to be more sensitive to its social context, otherwise it will alienate the very people whose trust it needs if it is to succeed as a community mutual.

Although it has a smaller housing stock than RCT Homes, Bron Afon has a larger membership base, which now stands at 1,300 members. Bron Afon's higher membership reflects the emphasis its management team has placed on engaging the community through face-to-face communication, a strategy that has already embraced 96% of all tenants. The most recent Bron Afon survey found that 83% of tenants were satisfied with their homes and 89% said that the attitude of staff was very good. Having inherited large swathes of land, Bron Afon now plans to create community allotments and gardens, proving that poor areas can be part of the renaissance of urban agriculture.

As for the management culture, the most encouraging sign comes from a tenant board member, Wendy Hughes, who has said: "You can't tell who are tenants and who are staff." This suggests that Bron Afon is more embedded in and attuned to its local community than is RCT Homes. But these are early days, and one hopes that the mutuals will learn from each other's mistakes and achievements.

Social housing has the greatest potential for spawning new community mutuals because of the unique combination of human need on the one hand and large-scale investment on the other. But many other sectors could and should be identified for a more concerted programme of mutualisation, a programme that could generate new models of business and community development in Wales.

Think of the sectors that resonate most deeply in our everyday lives – care, food, housing or transport, for example. These are the sectors where mutuals could draw on intangible assets that elude the biggest multinational companies – assets such as local knowledge and community trust – but they will need more concerted political help to get started. Nothing succeeds like success, however, and that is why all eyes are on the newly formed mutuals in Rhondda Cynon Taf and Torfaen: two small enterprises carrying big burdens.

Chapter 4

Social inclusion – mixed progress, uncertain prospects

Professor Ivan Turok, Professor of Urban Economic Development at the University of Glasgow and Honorary Professor at the University of Cape Town

Social inclusion – mixed progress, uncertain prospects

Reviewing the current state of social inclusion and trends over the last decade is no simple matter. It is complicated by the highly uncertain present trajectory of the economy and the worrying outlook for jobs and incomes. A deep and prolonged downturn could have devastating consequences for the most vulnerable people and places. The government's response to the crisis has focused on macroeconomic measures and bailing out the banks. This paper makes the case for local recovery plans that devote more attention to improving the real economy and social conditions within particular localities, cities and regions.

Recent progress

Several aspects of poverty and social exclusion have improved over the last decade, following the damage caused by deindustrialisation and the regressive policies pursued over the two previous decades. Child poverty was identified as a priority in 1999 because of the patent unfairness of people's life chances being scarred by the adverse circumstances of their birth. Children deprived of the basic necessities and excluded from the opportunities and experiences that others take for granted impose major costs on society and on agencies obliged to deal with the fallout.

Child poverty had doubled by the late 1990s to the highest rate in Europe. Since then the trend has been reversed. The numbers in relative poverty have fallen by 500,000 (nearly 20%) and absolute poverty has been halved, from 3.4 million to 1.7 million.[1] In addition, higher public spending on early-years support and childcare has given many children a better start in life and improved their family circumstances. More funding for the poorest schools and areas has also raised attainment faster than elsewhere and narrowed educational inequalities slightly.[2] There have been improvements too in premature deaths, homelessness and unfit housing.[3]

A substantial fall in unemployment and worklessness (at least until recently) has been a particularly important development, especially among lone parents, young adults and the long-term sick. Over the last six years the number of people claiming incapacity benefit has declined by no less than a third in many former industrial cities and mining towns.[4] This dramatic reversal of fortune from a position where up to a quarter of the working-age population were on incapacity benefit has gone largely unnoticed. In addition, the

1 Child Poverty Unit *Child Poverty Bill – Overview* (HM Government, 2009)
2 Hills, J, Sefton, T and Stewart, K *Poverty, Inequality & Policy Since 1997* (Joseph Rowntree Foundation, 2009)
3 Palmer, G, MacInnes, T and Kenway, P *Monitoring Poverty & Social Exclusion 2008* (Joseph Rowntree Foundation, 2008)
4 Webster, D, Arnott, J, Brown, J, Turok, I, Mitchell, R and MacDonald, E "Incapacity Benefit, Employment Programmes and the Labour Market: A Glasgow Case-study" in *Policy Studies* (forthcoming)

number of pensioners in relative poverty has fallen by nearly a third to 2.1 million as a result of more generous state pensions, winter fuel payments, free travel and other benefits.

Such gains for specific social groups have been accompanied by improvements in many parts of the country too, in terms of both the physical environment and socioeconomic conditions. Absolute levels of employment, education and crime, and standards of housing and liveability, have all improved in the poorest neighbourhoods and localities, although the evidence on whether the gap with the rest has narrowed or widened is mixed.[5]

The two fundamental drivers behind these successes have been increased labour market opportunities and active social policies. Over 2 million additional jobs have been created over the last decade. This has helped to improve the livelihoods and self-respect of people previously written off as unskilled and unemployable. Child poverty has fallen as a result of more parents being in work and gaining extra tax credits targeted at workers with very low earnings.

The government has skewed resources towards poorer groups and communities in all sorts of other ways too. This has typically been done by stealth rather than justified explicitly to the electorate as necessary to create a more equal society. Although there is greater political will to do something about poverty and exclusion than a decade ago, these redistributive measures have also proved easier to carry through in a context of steady economic growth and rising tax revenues than they would have been in conditions of stagnation or decline. The lesson has been that social inclusion and economic growth are best pursued together rather than sequentially, as in "trickledown".

Continuing inequality and exclusion

The verdict on the last decade has not been uniformly positive. The rate of progress towards social inclusion has also varied over time. The achievements noted above have been offset by a lack of improvement in other aspects of poverty and inequality, by deterioration in some cases, and by the emergence of new problems. The most recent research that has examined a wide range of relevant statistics has concluded that the overall picture is of early momentum in the first half of the last decade not being sustained in the second half.[6]

Looking in more detail, between 1997 and 2002/03, 30 out of 56 indicators improved,

5 Audit Commission *A Mine of Opportunities: Local Authorities & the Regeneration of the English Coalfields* (2008); Hills et al, op cit; Turok, I, Kearns, A, Flint, J et al *State of the English Cities: Social Cohesion Report* (Department for Communities & Local Government, 2006)
6 Hills et al, op cit; Palmer et al, op cit

while seven worsened and 19 were unchanged. This showed progress on balance, but it was somewhat patchy. Since 2002/03, however, only 14 indicators have improved, while 15 have worsened and 27 have stayed the same. This suggests a far more mixed picture. Many of the indicators of stalled progress relate to labour market conditions levelling off and social security spending being restrained.

The most conspicuous dimension of inequality has been the widening gap between incomes at the very top and bottom of the distribution. The rise of the "super-rich" has been fuelled by financial deregulation, new technology and cuts in top tax rates to attract talent.[7] Citizens have been encouraged to believe that the success of the few ultimately makes everyone better off. Yet this has ignored the subjective feelings and attitudes of people living in a more divided society.

Research shows that personal well-being is strongly influenced by "psychosocial" factors, namely whether people feel respected by others, feel in control at work and in their domestic lives, and enjoy strong friendships. Large differences in social and economic status damage self-esteem and contribute to stress, obesity, addictions and violent crime. Many of these problems apply across society as a whole, causing greater anxiety and depression, poorer social relationships, worse health and higher mortality overall. Therefore, there is a case to be made that greater social inequality has made everyone worse off.[8]

Contrary to official objectives, progress in reducing child poverty has stalled since around 2004, and even begun to rise again. This is partly a reflection of the government's reluctance to commit the resources required to meet its target to halve the problem by 2010.[9] Looking at other indicators, health outcomes have improved overall, but health inequalities have actually risen, despite increased spending. Another major social challenge for Britain is the sizeable gap in education and employment outcomes between most ethnic minorities and the white population. This has barely fallen over the last decade and remains a source of frustration and resentment in many cities and towns. These tensions have grown in some places with recent inflows of economic migrants and asylum seekers.

A long-standing concern has been the number of young people in the UK aged 16-18 who

7 Toynbee, P and Walker, D *Unjust Rewards: Exposing Greed & Inequality in Britain Today* (Granta, 2008); "Special Report on the Rich" in *The Economist*, 4 April 2009; Irvin, G *Super Rich: The Rise of Inequality in Britain & the United States* (Polity Press, 2008)
8 Wilkinson, RG and Pickett, KE *The Spirit Level: Why More Equal Societies Almost Always Do Better* (Allen Lane, 2009); see also: Frank, R *Luxury Fever: Money & Happiness in an Era of Excess* (Princeton University Press, 2000)
9 Hirsch, D *Ending Child Poverty in a Changing Economy* (Joseph Rowntree Foundation, 2009); Palmer et al, op cit

are not in education, employment or training. This remains among the highest in Europe, with significant consequences for antisocial behaviour, drug abuse and violent crime. The transition from school to a more precarious labour market that prefers "soft" skills and offers few manual jobs has posed particular difficulties for young working-class men, whose identity and social standing have suffered as a result.

A profoundly unequal education system and segmented labour market are also among the reasons why disadvantage is transmitted from one generation to the next and social mobility in Britain is relatively low.[10] The Organisation for Economic Co-operation & Development has stated that: "The more unequal a society is, the more difficult it is to move up the social ladder, simply because children have a greater gap to make up."[11] This may have made the UK economy less productive than others in which people have a more equal chance to succeed and where the skills and talents of those from deprived backgrounds are not wasted.

To complicate the overall challenge of tackling poverty and exclusion, public attitudes to welfare benefits appear to have hardened over the last decade, and support for redistribution seems to have declined. Most people believe that society is too unequal, but favour support for those making an effort to work and those with severe disabilities, rather than general redistribution.[12] Rather than confront this issue head-on, the government has suppressed the relative value of out-of-work benefits for adults without children, which are now 20% below where they were a decade ago.[13] The rationale has been to encourage working-age people to move off welfare and into work, with the result that relative poverty has increased among adults who cannot find jobs or who cannot work.

Considering the overwhelming policy emphasis placed on work as the pathway out of social exclusion, there has been little progress on in-work adult poverty – the "working poor". In fact there are now 1 million more adults in low-income working families than there were in the mid 1990s.[14] And half of all poor children now live in households with someone in work.[15] People who have got back to work have often struggled to find or retain permanent jobs, or to advance to more rewarding positions. They have been trapped in low-paid jobs or forced to move in and out of successive temporary posts.

10 *New Opportunities: Fair Chances for the Future*, Cm 7533 (HM Government, 2009)
11 Organisation for Economic Co-operation & Development *Growing Unequal? Income Distribution & Poverty in OECD Countries* (2008), p204
12 Orton, M and Rowlingson, K *Public Attitudes to Economic Inequality* (Joseph Rowntree Foundation, 2007)
13 Palmer et al, op cit
14 Ibid
15 Lawton, K *Nice Work if You Can Get It* (Institute for Public Policy Research, 2009); Tripney, J et al *In-work Poverty: A Systematic Review*, research report 549 (Department for Work & Pensions, 2009)

If there were more decent jobs available and upward mobility had been higher, this would simultaneously have raised individual incomes and reduced the cost to the state of topping up wages with tax credits. Instead, the economic and social programmes required to support good-quality job creation and work-based progression have been poorly connected. This is partly because the UK remains far more centralised in its approach to worklessness than are other European countries.[16]

The current crisis

This assessment of the state of social inclusion will need to be revised before long. The economic crisis gripping the country is bound to have far-reaching social consequences in the months and years ahead. Judging by past recessions, even a quick recovery will have an overhang of several years during which unemployment continues to rise, perhaps reaching 3 million. This will set back the progress made on poverty over the last decade, especially as more marginal, lower-skilled workers will tend to lose their jobs first. Growing unemployment, higher personal debt and rising home repossessions will increase stress and depression, add to the pressure on families, worsen behavioural problems among children, dent hopes and expectations, and aggravate social tensions within and between communities.

The slump and higher government borrowing will also hit tax revenues and public finances, limiting the scope for more generous social protection and tax credits. It will be hard enough to fund the automatic safety nets that follow rising unemployment, as well as the special measures taken to stimulate demand in the economy. Resources will need to be deployed in creative ways to support distressed households and communities, and to lay the basis for socioeconomic renewal. Clear leadership and fresh ideas will be required to lift horizons above the symptoms and consequences of the crisis to ensure that the underlying causes of poverty and exclusion are not neglected. Measures to safeguard and create jobs should be the overarching priority.

Local recovery plans

The government's crisis response has focused on recapitalising the banks, cutting interest rates, reducing the value of sterling and providing a modest fiscal stimulus. These are crucial to stabilise a precarious situation and prevent a deep depression. However, they are high-level actions focused on the short term and with uncertain traction on the real economy. They assume that different parts of the country are equally vulnerable and require the same solutions. The role of local and regional organisations in supporting their communities and bolstering the economic recovery has been neglected. The slump

16 Simmonds, D and Bivand, P *Worklessness: A City Approach* (Centre for Cities, 2008); see also: Local Government Association *From Recession to Recovery II: A Focus on Unemployment* (2009)

presents an opportunity to learn from past local experience in coping with economic restructuring and to build stronger grassroots capabilities to shape the future.

As a matter of urgency the government should encourage local authorities to prepare recovery plans to inform and reinforce the national reconstruction effort. Priority should be given to places facing the greatest challenges, to avoid the entrenched problems that developed in many industrial areas during the 1980s. Early action is vital to prevent economic decline being translated into deep-seated worklessness and poverty that are difficult to reverse. These plans would extend and complement, rather than replace, national initiatives. They would help to prioritise and co-ordinate action across different functions and levels of government.

There are four reasons for developing local recovery programmes:

1. More effective targeting

First, they enable more effective targeting of investment to stimulate growth and jobs. Being closer to economic realities than national bodies, local institutions hold greater knowledge of local business structures, property market conditions, special skill-sets, changing demographics and underused resources. They are also better connected to all kinds of economic and social networks providing intelligence to assist problem solving. Investment can be directed more precisely to the locations, types of infrastructure, technologies and firms with the greatest need for resources and most productive potential.

Targeted investment is more cost-effective than indiscriminate fiscal expansion in an open economy. It can be embedded more effectively into the locality to maximise community benefits and quality place making, rather than mega-projects and flagship schemes parachuted in artificially. Local recovery plans would help to justify specific investment proposals to central government and other funding bodies. Strong plans based on sound evidence might also provide a convincing case for local government to be granted additional borrowing powers or other means of raising vital capital.

2. Strengthening local strategic capacity

Second, local recovery plans could help to strengthen local strategic capacity and civic leadership. It would be useful to review what caused the financial collapse in so far as it was related to domestic conditions. Was there excessive lending on speculative property schemes, such as central city apartments, and did lax planning regulations contribute to overdevelopment? Given the collapse in house building and the growing shortages in many areas, what can be done now to increase the supply of housing (social and private)?

Improved understanding of the fundamental drivers of change and of distinctive local assets and capabilities is important for sustainable growth in the future. Building durable relationships with social and economic partners within and beyond the locality will also help in creating more conducive conditions for inclusive growth. Competent and visionary civic leadership can assist to reduce uncertainty and boost confidence among members of the community, investors, businesses and mobile workers.

3. Providing responsive public services

Third, responsive public services are crucial in the current environment. Years of abandonment of some groups of welfare recipients, and of punitive approaches towards others, have created a climate of fear, mistrust and blame. This is not conducive to creating a welfare system that people feel is "on their side" and that can help them to cope with financial hardship, adapt to a changing jobs market through reskilling, or move beyond entry-level jobs into more rewarding positions through proper guidance and training.

It is a major task to create a more constructive approach guided by individual needs rather than prescribed targets, especially with the rapid rise in the numbers losing their jobs. A localised approach could bypass some of the bureaucratic rules and rigidities required by a national policy. It would also permit greater experimentation and innovation. Enhanced local action is even more important for effective outreach and credibility in isolated and demoralised communities, where national employment programmes have clearly failed to work.

4. Policy alignment and integration

Finally, policy alignment and integration are more meaningful and manageable locally than at national level. The need to connect social and economic development agendas is more apparent, since many of the costs of social failure are borne at this scale. The benefits of linking efforts to strengthen labour demand with schemes to ensure a ready supply of labour are compelling, yet complicated by fragmented government responsibilities and centralised control. Working together is often easier at the local level, because there is a stronger sense of mutual interest on the part of employers, investors, workers, community organisations and public officials.

The need to connect social services with public health, childcare, skills training and employability provision is particularly important for people who have never worked or been long-term unemployed. Employers and business support agencies need to be brought on board to support job retention and in-work progression to higher earnings. Public procurement procedures can also be used more creatively to support local recruitment, enterprise and job creation.

Conclusion

Britain has become a wealthier but also more unequal society over the last three decades. Experience has shown that the rising tide of prosperity does not lift all boats and that tackling poverty and exclusion requires intensive, sustained and spatially differentiated effort on the part of government. The challenge has been heightened by the economic downturn and rising unemployment, which could usher in a new age of austerity and cause prolonged hardship for many people and places. The adoption of local recovery plans in the most vulnerable cities and towns could help to protect communities from the worst effects of the crisis and lay the foundations for social and economic revitalisation.

Chapter 5

Are city regions the answer?

Professor Andrés Rodríguez-Pose, Professor of Economic Geography at the London School of Economics

Are city regions the answer?

City regions have attracted considerable attention globally over the last couple of decades. These combinations of an urban core or cores with a semi-urban and rural hinterland linked to the core by functional ties are becoming increasingly regarded by certain scholars and policy makers as:

- the motors of economic activity in a globalised world;
- the most adequate geographical units for the experimentation with and implementation of new modes of economic governance; and
- more fundamentally, the ideal scale for public policy intervention.

This growing perception of the city region as a complementary or even alternative scale to the nation state for policy making in the economic development realm has important implications for the design and implementation of development strategies. First, it signals a change from sectoral to territorial approaches to development and requires the adjustment of development strategies to widely varying contexts, leading to the creation of options for much greater policy diversity and innovation. It also involves a more complex governance structure, characterised by the horizontal and vertical co-ordination of numerous institutional public and private actors.

As with any sort of change, this scalar shift from the nation or the region to the city region entails advantages and disadvantages. This paper analyses the advantages and disadvantages of the city-region approach to economic development in order to critically assess its policy implications.

The rise of the city region as a territorial unit for policy intervention

The reasons behind the rise of the city region as a territorial unit for development policy intervention are both political and socioeconomic in nature.

From a political perspective, the interest in the city region has been fuelled by the global drive towards devolution, by the liberalisation of investment flows as a consequence of globalisation, and by the perceived failure of previous development policies. The combination of these three forces has unleashed a subtle, but nevertheless important, redefinition of the role of the state in economic development strategies, contributing to the emergence of cities and regions as the key actors in the design and implementation of policies.

As Brenner underlines:

... the need for new forms of metropolitan governance has often been justified with reference to the purported inability of national governments to provide the customised, place specific regulatory infrastructures that are said to be required for sustained regional growth under contemporary geo-economic conditions.[1]

From a socioeconomic perspective, increases in trade and in capital and labour mobility and the phenomenal rise in the size of the cores of city regions, especially across middle- and low-income countries, have altered the balance of forces between the nation states and their cities and regions, bringing city regions to the fore. The cores of city regions, especially in the developing world, have continued to grow rapidly.

Today there are more than 500 cities across the world that have a population of more than 1 million, and, despite predictions to the contrary and recent declines in population growth rates, city regions have kept on growing.[2] City regions have not only grown in population, they have, by and large, tended to perform better than their countries in economic terms too. The prevailing view is that, within and among city regions, agglomeration forces often act to create "virtuous circles of self-reinforcing development".[3]

As a consequence, city regions have become increasingly regarded as "ideal" foci for the implementation of development approaches. But this shift in the territorial scale of public policy intervention in favour of the city region has notable consequences for the design, implementation and effectiveness of public policies. These include a series of important changes in the way development strategies are delivered.

The first important implication of the ascent of city regions is related to the change in the territorial scale for policy making. Traditional development policies have generally been top-down and sectoral in nature. Infrastructure endowment, the attraction of foreign investment, and the promotion of local firms were the main axes for policy intervention. The key objective of these policies was to foster industrial sectors deemed to have a greater potential for growth at a national level, regardless of where the physical development took place, or to make territories more accessible. Successful strategies

1 Brenner, N "Metropolitan Institutional Reform and the Rescaling of State Space in Contemporary Western Europe" in *European Urban & Regional Studies* vol 10, no 4 (2003), p305
2 Scott, AJ, Agnew, J, Soja, EW and Storper, M "Global City-regions: An Overview" in Scott, AJ (ed) *Global City-regions: Trends, Theory, Policy* (Oxford University Press, 2001), pp11-30
3 Venables, AJ "Spatial Disparities in Developing Countries: Cities, Regions, and International Trade" in *Journal of Economic Geography* vol 5, no 1 (2005), p4

were generally transposed from one place or one country to another without prior adaptation to local contexts.

The emergence of the city region has contributed to accelerating the shift from sectoral to territorial policies.[4] Under this approach, policies depend on and are adapted to the economic, social and institutional conditions of every territory. The reproduction of development models is gradually being substituted by custom-made approaches in which a thorough diagnosis of the conditions and needs of each city region is the starting point. This implies the multiplication of development strategies. Best practices are still used, but they need, in theory, to be thoroughly re-tailored to local conditions before being implemented.

A second effect of the shift to territorial policies has been the emphasis placed on the efficiency side of development strategies, to the detriment of equity. Whereas traditional top-down sectoral policies were almost always conceived with an implicit balance between economic efficiency and territorial equity in mind, the ascent of city-region development strategies has clearly tilted that balance towards efficiency.[5] An unintended consequence of this is that policy making at the city-region level can partially undermine this territorial equity dimension.

City-region development policies also require greater co-ordination and improved governance.[6] This entails, first, the synchronisation of the development efforts of local, regional, national and supranational institutions, as clashes among policies set up at different territorial levels may undermine the potential benefits of local policies. Multilevel processes of governance have thus assumed greater importance.[7]

Second, a greater horizontal co-ordination is required between the public and the private sectors, among all actors in the local civil society, and of these with the local public institutions.[8] This has led to a greater emphasis on "good governance", which is also contributing to the empowerment of the local society, by allowing and encouraging it to have a greater say in its own future. Empowering local societies cannot, however, be considered as its main or only goal, but as a means of improving the decision-making

4 Vázquez-Barquero, A *Endogenous Development: Networking, Innovation, Institutions & Cities* (Routledge, 2003)
5 Cheshire, PC and Gordon, IR "Territorial Competition: Some Lessons for Policy" in *Annals of Regional Science* vol 32, no 3 (1998), pp321-346; Savitch, HV and Vogel, RK "Introduction: Paths to New Regionalism" in *State & Local Government Review* vol 32, no 3 (2000), pp158-168; Brenner, op cit (2003); Brenner, N *New State Spaces: Urban Governance & the Rescaling of Statehood* (Oxford University Press, 2004)
6 Frisken, F and Norris, DF "Regionalism Reconsidered" in *Journal of Urban Affairs* vol 23, no 5 (2001), pp467-478
7 Hooghe, L and Marks, G *Multi-level Governance & European Integration* (Rowman & Littlefield, 2001)
8 Vázquez Barquero, op cit

process.[9] Finally, there is an additional requirement for a second type of horizontal co-ordination that involves different local or regional authorities.

The levels of co-ordination required have led to the formation of complex governance systems, which have become the hallmark of policy making at city-region level. Such complex governance systems involve "new forms of city-suburban cooperation, regional coordination, region wide spatial planning and metropolitan institutional organisation" across city regions.[10] They also have many advantages, including the involvement of local interests, enhanced interaction among different stakeholders, the empowerment of local civic groups and of the population in general, and co-operation spillovers into other policy areas. However, such a level of co-ordination is difficult to achieve and costly to maintain, with coalitions frequently short-lived and breaking up over conflicts of interest.

But are city regions the answer?

Are city regions the answer? Proponents of the city-region approach have hailed it as superior to traditional top-down sectoral development strategies, on three main counts:

- that city-region approaches allow a better targeting of policies to local needs;
- that they produce policy innovation; and
- that they favour proximity, transparency and empowerment.

Yet the theoretical foundations and empirical evidence on which these claims are based can be considered weak.

On the one hand, city-region development approaches do indeed have significant advantages over other types of public intervention in economic development. Top-down national development policies, for example, address the needs of entire countries. This type of intervention is more appropriate for homogeneous countries. But the larger and the more heterogeneous the nation state, the greater the risk of not being able to respond to the priorities of individual regions and cities.[11]

This incapacity to cater for differentiated geographical needs may not be a problem, if it is assumed that any additional growth generated in any part of the country will eventually trickle down to the remaining cities and regions. However, there is plenty of empirical evidence pointing in the direction that geographical spread or trickledown effects rarely

9 Savitch and Vogel, op cit
10 Brenner, op cit (2003), p297
11 Tiebout, CM "A Pure Theory of Local Expenditures" in *Journal of Political Economy* vol 64, no 5 (1956), pp416-424

work and are often outweighed by backwash effects,[12] and that in a globalised world the concentration of economic activity is more frequent than its dispersal.[13]

The design and implementation of development strategies at a city-region scale is also widely regarded as a source of policy innovation. Due to the increasing need to compete and to find viable market niches, decision makers at subnational levels are forced to experiment actively in search of innovative policies.[14] Innovation is highly risky and costly, but operating at smaller scales may diminish the level of uncertainty and the potential costs of failure that are often linked to innovating at a national level. Far more policies can be experimented with, and, if the strategies developed by certain city regions prove successful, the benefits beyond the city region of origin could be substantial.[15] Successful policy innovations can thus be disseminated as best practice and adapted to diverse city-region contexts.[16]

A third group of advantages of city-region development strategies is related to the proximity between decision makers, on the one hand, and citizens and stakeholders on the other. Proximity is likely to foster constant interaction, transparency and accountability, delivering in the medium term improvements in social capital, and in local confidence and trust, and facilitating conflict resolution and improvements in distributional trade-offs.[17]

On the other hand, the potential advantages of the city-region approach may be outweighed by a number of equally important downsides. The first downside is related to the approach's emphasis on governance. Governance implies a series of voluntary arrangements among key political, economic and social actors. These arrangements are frequently hard to achieve and maintain and they tend to lack a solid revenue base. Hence policy making at the city-region level can be put at risk by internal strife among key stakeholders and by financial constraints.

12 Hanson, GH "Regional Adjustment to Trade Liberalization" in *Regional Science & Urban Economics* vol 28, no 4 (1998), pp419-444; Puga, D "European Regional Policy in Light of Recent Location Theories" in *Journal of Economic Geography* vol 2, no 4 (2002), pp373-406

13 Venables, op cit

14 Tanzi, V "Fiscal Federalism and Decentralisation: A Review of Some Efficiency and Macroeconomic Aspects" in Bruno, M and Pleskovic, B (eds) *Annual World Bank Conference on Development Economics* (World Bank, 1995), pp295-316; Thießen, U "Fiscal Decentralisation and Economic Growth in High-income OECD Countries" in *Fiscal Studies* vol 24, no 3 (2003), pp237-274

15 Campbell, T "Innovation and Risk-taking: Urban Governance in Latin America" in Scott, AJ (ed) *Global City-regions* (Oxford University Press, 2001), pp214-235

16 Thießen, op cit

17 Storper, M "Society, Community and Economic Development" in *Studies in Comparative International Development* vol 39, no 4 (2005), pp30-57

In many countries, the financial and revenue-raising capacity of cities and regions – not to mention of voluntary governance forms of co-operation among stakeholders – is limited, as they frequently do not have significant tax-raising powers and have to rely on grants or transfers from the centre. One of the consequences of this financial structure is that the resources available for the implementation of city-region development strategies are likely to be fewer than those available for national policies. The consequence of this is that regional and local governments are frequently forced "to undertake increasing expenditure responsibilities on a static, and often narrowing, financial base".[18]

Finally, the constraints related to the territorial definition of the city region further complicate any kind of financial arrangements. When city regions sprawl beyond any recognisable administrative boundaries, creating "edgeless" cities,[19] or when macro- or polycentric city regions emerge,[20] the problems of securing the necessary political agreements to create a solid revenue base in order to address planning and development issues may undermine all potential for co-operation and governance.

Rising debt is another important problem. Given the lack of resources that city regions face for the implementation of development strategies, the temptation to go into debt is often strong. This temptation is greatest when the government tiers within the city region operate under conditions of "soft-budget constraints" (the knowledge that central government is committed to financing subnational expenditure).[21] Under these circumstances, the perception by local and regional governments that the central or federal government will provide a bail-out in cases of excessive expenditure and debt encourages overspending.[22]

Policy making at a city-region level may also imply a loss in production efficiency with respect to traditional public policies. Many city regions have a more than adequate demographic and economic base for the delivery of public policies. Others, by contrast, fall below that threshold. In these cases, delivering public policies at the city-region level may prove economically inefficient, as the costs for provision of the same policies and services at the national level may be higher and the potential benefits lower.[23]

18 Bennett, RJ "Administrative Systems and Economic Spaces" in *Regional Studies* vol 31, no 3 (1997), p330
19 Lang, RE *Edgeless Cities: Exploring the Elusive Metropolis* (Brookings Institution Press, 2003)
20 Hall, P and Pain, K *The Polycentric Metropolis: Learning from Mega-city Regions in Europe* (Earthscan, 2006)
21 Rodden, J "Federalism and Bailouts in Brazil" in Rodden, J, Eskeland, G and Litvack, J (eds) *Fiscal Decentralization & the Challenge of Hard Budget Constraints* (MIT Press, 2003), pp213-248
22 Rodríguez-Pose, A and Bwire, A "The Economic (In)efficiency of Devolution" in *Environment & Planning A* vol 36, no 11 (2004), pp1,907-1,928
23 Prud'homme, R "The Dangers of Decentralization" in *World Bank Research Observer* vol 10, no 2 (1995), pp201-220

The capacity constraints for smaller, poorer and less influential city regions should also be taken into consideration as an important drawback. Smaller city regions rely, at best, on weaker tax bases, have less access to financial markets, and command a lesser influence over central government discretionary spending. As a result, weaker, poorer and less accessible city-regions stand to lose from this game.[24]

Similar capacity constraints can also be felt at the stages of decision making and delivery of autonomous development policies. If, according to Prud'homme,[25] central administrations have a comparative advantage in the recruitment of skilled individuals and size matters in this respect, the capacity constraints of smaller, weak and/or unstable administrations in poorer and less well-endowed city regions – and even more those of ad hoc governance structures – will undoubtedly be far greater than those of larger city regions.

Another potential risk is associated with the growth of zero-sum territorial competition among city regions. Territorial competition has many positive aspects and can even be growth enhancing, but the playing field is not level. Many poorer, less accessible and/or less well-endowed city regions cannot openly compete and thus must frequently resort to financial incentives and subsidies if they are to have a piece of the investment cake. Under these circumstances, territorial competition can become a zero-sum game, where the aggregate pay-off is independent of the final outcome across players.[26]

Finally, all these factors together combine to raise the potential for greater inequality. As mentioned earlier, all arguments point in the direction that larger, richer and better-endowed city regions have a competitive advantage in policy making over smaller, poorer city regions with weaker civil societies and institutions. This tenet seems to be confirmed by recent empirical evidence that points towards the rise of territorial disparities almost anywhere in the world.[27]

The rise in inequalities across countries can be traced back to the ascent of city regions and other subnational actors. When city regions, regions and municipalities have to compete in order to secure their market niche, the process of competition and the struggle for scarce financial resources is likely to unleash forces that may perpetuate and, in most cases, aggravate existing disparities. The ascent of city-region development

24 Rodríguez-Pose, A and Gill, N "Is There a Global Link between Regional Disparities and Devolution?" in *Environment & Planning A* vol 36, no 12 (2004), pp2,097-2,117; Rodríguez-Pose, A and Gill, N "On the 'Economic Dividend' of Devolution" in *Regional Studies* vol 39, no 4 (2005), pp405-420
25 Prud'homme, op cit
26 Cheshire and Gordon, op cit
27 See: Kanbur, R and Venables, AJ *Spatial Inequality & Development* (Oxford University Press, 2005)

strategies may also be contributing to foster a greater agglomeration of economic activity and to damage the development potential of many poorer city regions.

So, who benefits?
Is the city-region approach adequate for policy making? Does it bring greater benefits than alternative approaches? Policy making at a city-region level is, in many ways, no different than at any other geographical scale. It entails potential benefits and risks. The question is whether the benefits are likely to outweigh the potential risks more than at other territorial levels. Weighing the advantages and risks is difficult, and the potential balance between positive and negative forces will to a large extent depend on local conditions. In the end, whether the advantages of this approach materialise will rest on the starting conditions of any given territory, on the governance structure set in place, and on how well the governance setting generates "adequate" policies.

The real critical question is thus not whether city-region strategies are useful for development purposes, but which territories may have the greatest potential to fulfil the possible advantages and offset the downsides emanating from this type of approach. As a general rule, it could be said that as market forces are likely to foster a greater concentration of economic activity in primate cities, everything else being equal, larger, wealthier, more accessible and better endowed city regions are likely to grow faster than smaller, poorer, less accessible and less well-endowed ones.

Larger city regions are not only in a better position to compete with other city regions, but any expansion in trade or in rural-to-urban migration may increase the size of their hinterlands at the expense of other city regions. Institutional factors are likely to reinforce economic tendencies. Often, larger city regions can count on more efficient institutions and functioning civil societies.

City regions in the developed world would also enjoy advantages with respect to those in the developing world. City regions in the developed world would generally have a relatively adequate economic endowment, sufficient accessibility to markets, and more or less developed institutions and civil society. These are the pillars on which to build a city-region approach bottom-up.

In contrast, many city regions in middle- and low-income countries lack the essential preconditions for building a bottom-up and participatory city-region approach. Such conditions may only be present in the largest, more developed and often more accessible city regions. Many studies on the topic consider only the developing-world megalopoli, such as Mexico, São Paulo, Cairo, Bombay, Kuala Lumpur or Jakarta, as city regions.[28] Smaller and medium-sized city regions in low- and middle-income countries have, in contrast, attracted much lower attention, partially as a result of their imperfect insertion in world economic circuits and of their relative loss of economic weight due to growing within-country income inequalities.

Does this mean that medium-sized and smaller city regions do not have a potential to achieve sustainable development in a globalised world? Are city-region development approaches likely to fail in these places? Not having the same initial conditions as the large metropoli and conurbations does not imply that smaller city regions cannot profit from territorial, complex governance and participatory development strategies. The main barrier is that it is likely to be more difficult for these spaces to develop a city-region development strategy bottom-up, offering thus a greater potential for small groups to control the process. As Stren underlines, given the lack of preconditions for "good governance", "mayors will have to be very inventive to overcome their lack of resources".[29]

Hence, policy making for development purposes at the city-region level – while likely to prove a useful approach – may need to be complemented with additional policies in order to maximise the advantages of better-targeted policies, enhanced policy innovation, and greater empowerment and improved governance, while minimising the risks of inadequate financing, debt, lack of economies of scale and scope, capacity constraints and zero-sum territorial competition. Otherwise, the promotion of city-region approaches to development policy may simply become a recipe for greater inequality and for an even greater influence of elites on policy making at the local level.

28 See, for example: Scott, AJ and Storper, M "Regions, Globalization, Development" in *Regional Studies* vol 37, nos 6-7 (2003), pp579-593

29 Stren, R "Local Governance and Social Diversity in the Developing World: New Challenges for Globalizing City-regions" in Scott, AJ (ed) *Global City-regions: Trends, Theory, Policy* (Oxford University Press, 2001), p211

Chapter 6

Building the local green new deal in the United States

Professor Joan Fitzgerald, Professor of Law, Policy and Society at Northeastern University, Boston

Building the local green new deal in the United States

In his inaugural speech, President Obama made a call to "harness the sun and the winds and the soil to fuel our cars and run our factories", signalling a major shift from the Bush era. In the Obama era, the federal government will play a much more active role promoting green economic development. In the meantime, cities and states have been the front lines of innovation. However, even the most creative of them are producing relatively few local jobs.

A good case in point is solar energy. The problems boil down to three. First, while solar-energy installation can produce hundreds of thousands of jobs nationally, there are far fewer solar-energy jobs in design and installation than in production – and most manufacturing jobs are already being outsourced globally. Second, despite a lot of creative local efforts, not every city can emerge as a centre in the nation's solar-energy industry. Third, in the absence of federal standards subsidising more rapid development of solar-energy technologies and mandates or incentives for their use, one state or city acting alone cannot bring solar conversion to scale. A similar story can be told about wind power, conservation, the shift to non-polluting cars, and jobs doing retro-fitting and environmental clean-up.

Austin, Texas: resolving on renewable energy

Consider Austin, Texas. Here, all the elements are seemingly in place to make the city a pioneer in the use of energy as a catalyst for economic development. They include strong and supportive political leadership, and a friendly local city-owned utility, as well as citizen groups pressing for even more aggressive action. The University of Texas' flagship Austin campus has a clean-technology research programme. A well-educated workforce and existing base of high-tech industries make Austin attractive to green-tech companies. Financial incentives for locally produced solar panels are in place. Even the local business community is on board, with the Chamber of Commerce leading a green economic-development initiative. Yet the Austin story also illustrates that even when they do everything right, cities are only one link in the policy chain needed to create jobs in renewable energy.

When Austin's city council passed a renewable-energy resolution in 1999 calling for Austin Energy, the city-owned electric utility, to obtain 5% of its energy from renewable resources by the end of 2004, Austin became one of a handful of cities with what is known as a renewable portfolio standard – a hard requirement that a set percentage of energy be purchased from renewable sources. Within just two years, Austin Energy was obtaining 6% of its power from wind farms in western Texas.

After Will Wynn was elected as mayor in May 2003, Austin increased its renewable portfolio target to 20% by 2020 (later raised to 30%) and passed a companion measure requiring an increase in energy efficiency of 15%. And in December 2003, Austin Energy announced the ambitious goal of developing 15 megawatts of solar-energy generating capacity by 2007, increasing to 100 megawatts by 2020. Austin Energy began offering the nation's highest solar-energy rebate, $5 per watt, to encourage consumers to install solar panels. For a $20,000, three-kilowatt rooftop system, the utility company pays between 50% and 65% of capital costs.

But despite the incentives, by mid 2005 less than 7% of the 15-megawatt solar-energy goal set for 2007 had been achieved – mostly because of the high cost of solar energy. Then in 2008 Austin Energy announced plans to build a 30-megawatt solar-energy farm – the nation's largest – on a 300-acre parcel of city-owned land in nearby Webberville. Once that farm comes on line, by the end of 2010, the utility will have achieved about 33% of the goal of 100 megawatts of solar energy by 2020. The delivered price will be just 16.5 cents per kilowatt – or about four times the cost of natural gas. Herein is a core problem. Capacity added now is expensive and may become outdated as thin-film and nanosolar technologies are commercialised.

Nonetheless, Austin Energy general manager Roger Duncan explains that Austin Energy is making the investment to promote solar-energy expansion and to hasten its competitive development. "I have no doubt that in the future, solar will be the dominant source of energy in the world," Duncan says. In addition, the utility plans on adding close to 600 megawatts of wind energy to its current portfolio of 439 megawatts, and 12 megawatts from landfill methane-gas, towards the goal of achieving 30% of its total energy from renewables by 2020.

Austin Energy is also a leader in developing smart-grid technology to support wind and solar power. About half the city's meters have been replaced with smart meters, of which full deployment to all of Austin Energy's 397,000 customers is expected to be completed by the end of summer 2009. The two-way meters are capable of sending and receiving information to reward consumers who reduce energy use during peak demand periods.

In addition, Austin Energy along with the Environmental Defense Fund, the Austin Chamber of Commerce, the Austin Technology Incubator and other local partners have started the Pecan Street Project to, according to the project's mission statement, "make the City of Austin America's clean energy laboratory" and "to develop, test and implement the urban power system of the future". The project will test prototypes for storing and distributing renewable energy and will be the nation's first project of its type for testing smart-grid technologies.

Austin's Clean Energy Incubator, launched in 2001 by the Austin Technology Incubator at the University of Texas and the US Department of Energy's National Renewable Energy Laboratory, provides space and technical assistance to clean-energy start-up companies. Among incubator companies' products and services are energy-storage devices, evaluation of solar-energy system performance, and irrigation systems to reduce pollution and run-off.

Another initiative is the Texas Clean Energy Park. With $600,000 in start-up funding from the Texas Workforce Commission and additional support from Austin Energy and the University of Texas, it will start with a research park, which will be followed by a business park. In December 2007, HelioVolt chose the park over locations in California, Pennsylvania and New York as the site of a manufacturing facility to test and produce thin-film solar cells. The company was founded in 2001 in Texas but entertained competitive offers from the other states when it decided to build a new manufacturing facility. In addition to $101 million in private venture-capital funding, HelioVolt received a 60% tax abatement for 10 years for locating in Austin and $1 million from a state business-incentive fund. The company will invest $80 million in the facility and has pledged to create 150 jobs.

Another coup was landing DT Solar, a New Jersey-based developer of large-scale solar-energy facilities that located its South West headquarters in Austin. The office will only create about 25 jobs but will have significant impact as it starts to develop solar-energy projects in the $30 million to $300 million range.

But even with all these elements in place, Austin is not seeing the hoped-for development of a large-scale solar-energy industry. To date, HelioVolt is the only company in the Austin area producing solar panels. Most of the solar-energy employment growth has been in system design and installation. This is not trivial but provides only a couple of thousand jobs.

The reality for Austin is that cities and states are entering into a competitive frenzy to attract renewable-energy companies, and the price keeps going up. While nearly every locality can shift to renewable energy and gain installation jobs, every state and city cannot be a national production and design centre. Texas and Austin were early movers in promoting solar energy. However, neighbouring New Mexico and Colorado as well as other states have started aggressively courting renewable-energy companies with attractive incentives packages, and industry happily plays off one against another.

Solar Array, a company incubated in Austin with local subsidies, is looking to locate its first production facility to manufacture large-scale and industrial thin-film solar panels – the emerging next-generation technology. The company's vice-president for marketing, John Merritt, told me that New Mexico and New York are offering more attractive financial packages. The company is weighing these benefits as it seeks to build a plant that will initially employ about 250 workers.

If Solar Array locates elsewhere, it will not be the first renewable-energy company Austin has lost. After nine years in the Austin area, wind-farm developer Renewable Energy Systems Americas announced it was moving its headquarters to Colorado, where it will develop a large wind farm. The firm took along 70 full-time employees and plans to add 70 more workers in Colorado. Company officials cite a more diverse economy and labour market as key factors in the move, along with Denver's larger airport being served by more airlines.

The competition will only get stiffer as the federal stimulus package adds more incentives for renewable-energy development. Despite the disappointing results in solar-energy manufacturing, Mayor Wynn seeks to keep Austin competitive in several green technologies. He notes that Austin has consistently been cited by Forbes as one of the nation's top metropolitan economies and is consistently in the top 10 of various green-city lists. He hopes to capitalise on the indirect benefits of being perceived as a national leader in the climate-change movement and to keep the momentum going with the city's involvement in research on peak load management, renewables, water conservation and other green technologies.

Building on traditional strengths in Toledo, Ohio

If building a solar-energy industry is difficult in even environmentally conscious places like Austin, one might conclude that it would be impossible in Toledo, Ohio. Yet the nation's largest thin-film solar-panel manufacturer is located there, and the metropolitan area employs more than 6,000 people in 15 research and manufacturing businesses and institutions contributing to the solar-energy industry. And if Steve Weathers, director of the Regional Growth Partnership – a private, non-profit economic-development corporation – has his way, the area will gain 100 new high-tech and advanced-manufacturing start-ups by 2010.

The secret is Toledo's capacity to build on a traditional source of manufacturing strength – glass technology and manufacturing. With a third of its manufacturing jobs lost since 2000, Toledo hopes to retool its glass industry to produce thin-film solar panels. Unlike current solar panels, thin-film solar technologies use non-silicon semiconductor materials and are produced using a roll-to-roll manufacturing process that is similar to printing paper. Thin film is cheaper to produce but has lower efficiency. However, this is expected to change.

The transition from producing speciality glass to producing solar-energy technology is not as far-fetched as one might think. Solar panels – whether photovoltaic or thin-film – are primarily a glass product. The most advanced automobile glass uses the same thin-film technology to deposit microscopically thin layers of materials between layers of glass – which, for example, allows a windshield to respond to changes in glare. There is a wind connection too: 70% of the raw material that makes up a wind turbine is made by Toledo-based Owens Corning, which also produces building-integrated solar-energy products.

Solar energy is not new to Toledo. The University of Toledo's Wright Center for Photovoltaics Innovation & Commercialization has been around for 25 years. What is new is an influx of funds from the state in 2007. Hoping to stem the tide of 200,000 manufacturing jobs lost since 2000, the Ohio Department of Development invested $18.6 million in university solar-energy research centres, about half of which went to the University of Toledo. With an additional $30 million in contributions from federal agencies and industrial partners, the university was able to advance dramatically its research and solar-energy-incubator activities. The centre's alternative-energy incubator has spun off seven solar-energy start-ups.

The jewel in the crown is First Solar, which began as Glasstech Solar in 1984. Today it is a national leader in the production of thin-film solar panels. All told, it took about $150 million in public and private funding to develop the product and manufacturing process. In 2000, First Solar built a $16 million factory outside Toledo, the world's largest solar-panel factory at the time. Since then, annual production has increased by 800% and revenues grew from $6 million to more than $500 million in 2007, while production costs fell from $3 per watt to $1.12 per watt.

The company already produces more panels than any other US producer and announced an expansion in late 2008 that will add 134 employees to its workforce of 700. Recently, First Solar invested $25 million in SolarCity, a design and installation company in the San Francisco area. First Solar will sell SolarCity 1.4 million solar panels that will be produced in Ohio. The expansion marks the company's move into the residential market. The two companies had been discussing the deal for over a year, but it was finalised only when the renewal of a 30% federal tax credit, which was part of the federal financial-rescue package, made future growth enough of a reality for First Solar to seal the deal.

Like First Solar, many high-tech start-ups need business assistance, and the private, non-profit economic-development corporation Regional Growth Partnership, or RGP, has stepped up to provide it in north-western Ohio. Until recently, RGP followed an attraction, retention and marketing-based approach to economic development typical of such organisations, but now it is focused on innovation. It offers business assistance to start-up companies seeking to develop their technology and obtain venture-capital funding for commercialisation. The goal is to accelerate the time from conception to production. The partnership also started north-western Ohio's only venture-capital fund for high-tech and renewable-energy companies. In the last year and a half, it has launched 40 companies, with a total of 90 alternative-energy, advanced-manufacturing and biotech companies in the pipeline.

One of its stunning success stories is a start-up called Xunlight. RGP director Weathers recalls University of Toledo physics professor Xunming Deng and his wife, Liwei Xu, walking into his office in 2000 with a scientific paper and an idea about producing flexible solar panels that could be integrated into roofing material. With RGP's assistance, the company wrote a business plan and a funding proposal that produced almost $60 million in venture capital, a $2 million loan from Lucas County, and almost $1 million from the state's Third Frontier programme to improve product yield in its manufacturing process.

Xunlight was founded in 2002, opened a facility in 2007, and will begin shipping product later this year. Eighty people are employed in research and production on the 25-megawatt pilot line. The goal is to tap European and US markets, particularly in California, Ohio and New Jersey.

Another success story is Solargystics, whose flexible thin-film cells can be integrated into building materials. As with Xunlight, RGP helped the company develop a business plan and proposal that yielded a $1 million grant from the Third Frontier programme. Researchers on the Solargystics team started out in Michigan but relocated to Toledo because of its university's research facilities and Ohio's Third Frontier programme, says chief executive Jeff Culver. As members of the university's Wright Center, company researchers have access to testing equipment that they could not procure on their own. Culver's plan is for Solargystics' highly efficient manufacturing process to bring production costs down to 50 cents per watt – half of what industry leader First Solar is achieving.

In addition to Third Frontier, the Ohio Department of Development's Green Places Initiative supports local green energy and technology initiatives. A key programme is the Advanced Energy Jobs Stimulus Fund, which is injecting $150 million over three years into advanced-energy development. Of that, $28 million a year for three years will provide support for advanced-energy projects in the early commercialisation and later stages. The fund also provides incentives to companies that are retooling to add workers or repurpose their equipment to supply the wind- and solar-energy market.

Like Austin, Toledo has all the policies in place to succeed – a university research programme, an economic-development organisation focused on fostering start-ups, and several state government programmes that provide various types of assistance. More than 6,000 jobs is a good start, but can Toledo continue to spin off companies, and will the ones it has remain there?

First Solar has already built plants in Malaysia and has one coming on line in Germany. But RGP director Weathers does not see these as negative developments. In fact, Weathers predicts that Xunlight will also open factories in Asia and Europe. Like long-time Toledo presence Owens Corning and newcomer First Solar, Weathers maintains that successful companies have to locate plants all over the world to compete in international markets. His plan is to create as many successful new companies as he can, knowing that some will stay, some will have a presence in Toledo while expanding elsewhere, and some will fail. The goal is to innovate and stay ahead of the game by assisting new start-ups.

How is it that a high-tech city like Austin has not been able to create a renewable-energy cluster while Toledo, an ailing manufacturing city, is making progress? Both are pursuing similar strategies.

The answer lies in the manufacturing base. Toledo's glass specialists have been able to retool to meet the needs of thin-film solar-panel producers, while Austin's info-tech specialisation evidently does not translate well into the skill sets needed in solar-energy production. Solar-energy companies will continue to locate production facilities in multiple countries. But places doing commercialisation research will also land facilities. There is also plenty of opportunity for retooling manufacturing companies to supply renewable-energy companies, particularly in wind. But as George Sterzinger has pointed out,[1] even though there is the manufacturing capability, federal and state policies to develop renewable-energy projects will not translate into manufacturing jobs without explicit policy to invest in retooling.

In sum, this is a good-news/bad-news story. The good news is a good deal of local creativity as well as some successes in converting old-line industries into the advanced-energy industries of the 21st century. And some cities can rely on state support for research and commercialisation. But for the opportunity to be maximised, the national

1 Sterzinger, G "Beyond Sunny Hopes and Windy Rhetoric" in *The American Prospect*, 23 March 2009

government needs to become involved in a much more coherent way – by combining a clean-energy policy with an industrial policy. Our two leading industries, biotech and aerospace, are the direct result of major federal investment and standard setting.

At the same time, we should be realistic about the direct employment potential of renewable-energy production, which is not massive without the manufacturing component. And we need to assess how much public subsidy to provide to create these jobs. Still, becoming and remaining a world leader in clean-energy technology is an objective too important to pass up. If we remain in this game, it will lead to industrial possibilities that we can only begin to imagine.

Chapter 7

Prospects for a new localism

Peter Hetherington, Journalist

Prospects for a new localism

Devolution has been regarded as part of the solution to regional inequalities. The meaning of devolution, though, is contested. Peculiarly, in Britain, localism and regionalism are seen as alternative forms of devolution. So, recently, a debate about localism has replaced the debate about regionalism, which has been important over the last 15 years or so.[1] In other parts of the world, localism and regionalism are typically viewed as necessary complements, with the key role of local authorities in the provision of local services and the promotion of economic development seen as both supporting and being shaped by regional initiatives.[2] In England things are different; local government has had uncertain political status throughout the second half of the 20th century and has been subject to constant interventions by central government. In the 1970s Lucas and Richards suggested:

At no stage in English history has any government held a consistent and logical policy on the range and limits of municipal services.[3]

The current localist rhetoric must be set in this context. What is the new localism? What shape is it likely to take and what are its likely impacts? All political parties like to consider themselves "localist", a deliberately vague and relatively meaningless term coined a decade ago by the (then) Blairite New Local Government Network to accompany a brave new world of civic renewal embracing elected mayors, "cabinet" style governance, and outsourcing in town halls to enrich up-and-coming service companies. Predictably, the idea has been refashioned by David Cameron to present the Conservatives as the party of devolution and – yes – localism.

If that sounds familiar, remember that new Labour's pledge to restore local democracy was not dissimilar to the Tory one: abolishing the quango state, giving councils greater control over spending and – in Labour's case – coming close to promising that councils could, once again, keep the business rate, which was centralised alongside the short-lived poll tax in 1990. It never happened.

Cameron, however, has gone one step further. Alongside promising new freedoms for councils – with no mention of giving them powers to raise more money – he has promised, in a confusing stroke, to reduce that freedom on one key area: finance. Tories also want a two-year freeze on council tax increases.

1 Jenkins, S *Big Bang Localism: A Rescue Plan for British Democracy* (Policy Exchange/Localis, 2004)
2 Pike, A, Rodríguez-Pose, A and Tomaney, J *Local & Regional Development* (Routledge, 2006)
3 Keith-Lucas, B and Richards, PG *A History of Local Government in the 20th Century* (George Allen & Unwin, 1978)

The plan to allow local residents a veto over council tax rises in referendums has sent a shudder through council offices. This is not surprising. Tory plans simply do not add up at a time when storm clouds are gathering over town halls. Although councils persuaded the Treasury to maintain a relatively generous spending package for local government in this year's budget, the crunch will come soon. Multibillion-pound cuts loom, threatening services from social care to highways and the environment. Some council chief executives privately fear a scorched earth approach to local government, regardless of who wins the next election.

If that seems over-gloomy, consider this: Already the impact of the credit crunch and the global financial meltdown is biting deep into council finances. In England, the latest estimates suggest that authorities have lost around £3 billion, as capital receipts – income from land and building sales, for instance – fall sharply, investment income plunges with low interest rates, and fees and charges from car parking and planning melt away.

Conservatives in local government are right to be concerned. Relations with Cameron and the shadow cabinet have not been good, to say the least. Why, wonder municipal Tories, have David Cameron and his front bench not built on the success of local initiatives being developed by the party's town and county hall administrations? Why, indeed.

With Tories gaining almost all the counties in local elections last June – Labour lost its three remaining shires – the Conservative leader has failed to capitalise on his party's competence in the council chamber. Perhaps we should not be surprised; some of his closest aides – dare one suggest, centralists at heart? – seem as suspicious of local government as new Labour in its formative years. That is why some senior Tories in town and county halls doubt that Cameron's much-vaunted "localism" will lead to meaningful devolution from Whitehall to local government; privately, the shadow Treasury team speaks a different language from Tory council leaders. Nevertheless, necessity is starting to drive invention as Tory councils consider alternative ways of funding key areas before the Whitehall axe falls.

Councils set the pace on commercial initiatives

Bright ideas are emerging, particularly from Tory authorities. They are becoming pace setters in developing longer-term money-making initiatives, from municipal banking, new council-owned bus services, post office takeovers, large-scale property development, council house building, and much else besides.

These relatively small initiatives, from Kent to Essex, Birmingham and beyond, are spawning bigger plans. Key players in the Local Government Association and the New Local

Government Network – which has been remodelled as a think tank, with a campaigning director (former local government minister Chris Leslie) – as well as several senior councillors are floating one of the most far-reaching initiatives seen in local government: a national mutual fund that eventually could be used to fund big infrastructure projects as well as kick starting local economic programmes. Behind the scenes, several big players have been meeting to discuss ways in which councils could collectively use their financial muscle to fill the looming gap left by government spending curbs as the Treasury reins in finances after 2010/11, and maybe well before.

At the heart of the plan is the £30 billion of local government funds held in cash deposits, and the wider money markets, at any one time. "There must be smarter ways in which authorities can exert leverage using their financial muscle," says the New Local Government Network's Chris Leslie.[4] "There is enormous potential in councils pooling their resources and, when you think of it, a lot that can be done on the public works front if people pull together."

According to one of the key players, the initial aim would be to invest collectively on the basis that large sums of several billions can attract better interest rates than smaller investments. Once established, however, the mutual could begin investing in public works projects, particularly those – public transport schemes, such as tram systems, for instance – that offer a return. "The idea could eventually be to fill the void left by the government withdrawing from these big spending areas," Leslie adds.

(Exactly where Cameron and his shadow cabinet stand in this area is unclear, although the signals emerging from George Osborne's Treasury team – insiders see them as orthodox and conservative with a small "c" – are not promising.)

If that all seems fanciful, who would have dreamed at the start of this decade that some councils would be embarking on ventures well away from conventional service delivery? In several areas, a renewed spirit of municipal enterprise is slowly taking root as adventurous authorities exploit little-used provisions in two seemingly innocuous pieces of legislation: the 2000 and 2003 Local Government Acts which, respectively, gave councils an all-embracing power to promote economic and social well-being and then, crucially, to trade and to charge for services.

Becoming bigger business players

With the subsequent addition of powers to ease local authority credit – through so-called

4 "Back in the Driving Seat" in *Public Finance*, 12 June 2009

prudential borrowing – the relatively new freedoms, used creatively, have given larger councils the ability to become bigger business and economic players – either individually or collectively.

Take Kent. Yellow buses daily criss-crossing the countryside have become as familiar to regular travellers as the hop fields and fruit farms dotting a county that describes itself as the garden of England. As well as providing school transport for thousands of pupils, they deliver regular services around Maidstone and Ashford while underpinning one of the country's largest park-and-ride schemes in Canterbury.

For the county council, the 100-strong bus fleet, branded as Kent Top Travel, has become a symbol of its determination to push the boundaries of local government into areas where more timid authorities fear to tread – challenging near-monopolies (in this case, two big national bus companies) to drive down prices while giving local taxpayers better value for money. Significantly, the council is now the third-largest bus operator in the county.

That hard-headed business ethos, under a pragmatic Conservative administration, has seen the county council launch a series of other companies under a profitable and free-standing commercial services division. They range from an energy arm, which bulk buys electricity for 112 other authorities as well as Kent, to an employment agency and an education equipment business that supplies stationery, furniture and IT equipment to schools in the county and elsewhere.

Similarly, when charges for recruitment services were significantly raised, the commercial services division set up its own agency – Kent Top Temps – to serve both the county and other authorities. And with energy prices wildly fluctuating, another company – Laser – was established to bulk buy electricity for the county council. Scores of other authorities soon used its services.

But Kent would like to do more. Like Chris Leslie, senior councillors feel that authorities could punch well above their weight by pooling resources and, perhaps, judiciously using a small part of their sizeable pension funds – Kent's alone is worth £2.6 billion – to fund projects that offer a return. He is pragmatic. Across the Thames estuary, in Essex, county council leader Lord Hanningfield evokes the 19th-century heyday of local government when cities and counties civilised Britain long before a national government developed a social agenda to help communities and people in need.

Hanningfield says he is following the example of municipal pioneers – notably

Birmingham's former mayor Joseph Chamberlain, who provided clean water, public health, energy, transport, education and banking services a century ago. Over the past year Tory-run Essex has provided £1.5 million to rescue, so far, 15 sub-post offices, and recently laid the foundations for the first municipal bank in Britain since Chamberlain created one in Birmingham – testing the legal boundaries of local government to the limit.

Initially, the council is ploughing £50 million of its balances into the project in partnership with the Spanish banking group Santander, which is throwing another £15 million into the pot. While the bank will be operated by Santander, governance will be provided by an advisory board of councillors and invited experts. Loans of up to £100,000 will be made only to healthy small businesses finding it difficult to raise loans from high-street banks. But the eventual aim is to create a full-blown institution, under the "Banking on Essex" label, regulated by the Financial Services Authority.

Now the county council's own policy team has suggested another initiative, with national significance: bringing the whole post office network under local government control, leaving Post Office Ltd to provide the products. Although the government has promised £150 million a year to subsidise the network until 2011, the council fears that only 4,000 of the 13,500 branches nationally may eventually remain. Collectively, it thinks counties and big unitary and metropolitan authorities should assume control of the network.

Joanna Killian, the council's chief executive, says its move into post office takeovers and banking has not been easy. Legal advice was initially discouraging. "We eventually found a way through uncharted territory, challenging conventions all over the place. But in spite of the heavy government directions under which we work, you've sometimes just got to say: 'Sod this, we know what we want, let's just find a different way … our politicians are more ambitious than others I've worked with in that they want to seize their well-being powers [in the 2000 act] and are willing to test the boundaries," says Killian.

Similarly, Birmingham, the original municipal pioneer, has set its sights on banking in a more modest form, using the well-being powers to help small businesses. But the city council, a Conservative-Liberal Democrat administration, is also using its clout as the biggest landlord in the city – it owns almost half the land in Birmingham – to identify 60 prime sites for development, throwing in its ownership as a carrot to attract developers. It also wants to re-enter the housing market, building homes for rental and possibly for sale in partnership with others.

Stephen Hughes, the city council's chief executive and its former finance director, thinks local government can increasingly assume a far wider economic role because of its triple-A credit ratings and access to "relatively cheap money". But he cautions: "We are limited by our lack of imagination and the ability of different organisations to overcome critical barriers to working together [but] I would say we're at the forefront of pushing that forward."

With colleges of further education, for instance, running short of development funds – because, nationally, the Learning & Skills Council capital programme has collapsed – Birmingham has floated the idea of lending local colleges money so that they can redevelop and expand.

While Hughes says the well-being powers, in theory, give councils the authority to do "almost anything", he sees a much bigger picture emerging, particularly in conurbations, where town halls now have a duty to co-operate with others – the health service and various quangos, for instance – under the local area agreement label. Why not, he says, morph big councils into super-commissioning bodies – "this is a personal view" – handing out contracts for a range of public services, from health to training and policing?

Ominously, he adds that time is not on the side of local government. Unless councils reshape their operations to take account of a much harsher financial climate, Hughes fears they will inevitably be "pushed back to the 1980s and 1990s, cutting core services … we are entering really challenging times."

The localist turn is likely to powerfully shape the prospects for development in England's cities and regions over the coming years. At best, though, it is a work in progress. Its impacts are difficult to predict and it will be enacted in the context of financial restraint.

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Chapter 8

Building "phoenix industries" in our old industrial cities

Professor Susan Christopherson, Professor of City and Regional Planning at Cornell University

Building "phoenix industries" in our old industrial cities

The UK and the US face a similar problem: diversifying their economies and, especially, increasing exports of cutting-edge, high-quality manufacturing products. In the United States, when we think about these products, we usually think about a start-up with a big idea, looking for venture capital and anticipating an initial public offering. It is these entrepreneurial companies that attract the attention of politicians, universities and public R&D centres. Everyone is hoping for big gains from a small initial investment. They hope the firm will generate the next new thing, build a business, and expand employment in the region that gave them an initial push towards success.

That hope is frequently dashed. Once on their way, advanced manufacturing companies have a different set of criteria for where to build their business. They look for access to the expertise they need in order to keep innovating, capital to commercialise and reach export markets, and a labour force with the skills required by their production processes. These assets are found where there are many firms working with broadly similar technologies, places where there have been long-term investments in industry knowledge and workforce skills.

If we want to build advanced manufacturing in the UK and the US, we need to bring together R&D and industry environments that provide special expertise and a skills base. What this means is that innovation is about more than finding and helping talented lone wolves. It is about building the industry environments where inventive firms can thrive and grow. While we have all heard about innovative industries in Silicon Valley and Cambridge, some of the best environments for new advanced-technology companies have emerged in unlikely places: our old industrial cities. In the UK, they are in cities like Newcastle and Sheffield, and, in the US, in cities such as Syracuse and Rochester in New York and Pittsburgh in Pennsylvania.

The rise of innovative industries in old industrial cities may be surprising, because their economic troubles have been attributed to the opposite of innovation – inflexibility and "lock-in" to old ways of doing things. What this story misses is that these regions also have the key assets needed to support process and product innovation and the actual application of new technologies. If we want to develop more diversified economies and to translate innovations into jobs, we need to find ways to build the new industries that have emerged out of the ashes of our old manufacturing base.

Building on initial advantage

What I call "phoenix industries" have significant features that set them apart from the vaguely defined clusters that are the bread and butter of economic development gurus. They have what is called initial advantage. They benefit from personal networks, technical skills and market knowledge that have developed over a long time, giving them an edge over less "rooted" clusters in the same industry. In many ways, they are the product of investments in research and development and in the workforce made during the heyday of mass manufacturing, from the 1950s to the 1970s. Although we have lost routine production jobs in our old industrial cities, knowledge and innovative capacity frequently remain in place – in specialised engineering and research programmes in nearby universities, and in workforce skills.

And, fortunately for our old industrial regions, some of those assets are difficult to move. That is why multinational firms such as United Technologies, General Electric and Kodak have kept R&D operations in US cities like Syracuse, Schenectady and Rochester, even as they have dramatically reduced their assembly-line manufacturing there. It is also why major equipment manufacturers such as Boeing have made investments in industry-oriented engineering programmes in UK universities such as Sheffield. They want to tap into the legacy of industry expertise.

Despite their ties to the past, phoenix industries look very different from the old manufacturing industries they have gradually replaced. Instead of one dominant employer, they are made up of many small and medium-sized companies. In contrast with their big-firm predecessors, phoenix companies rarely make products that we see on store shelves. Instead, they produce sophisticated components sold to equipment manufacturers – products such as the high-quality circuit boards certified for use in medical equipment and the defence industry, or sophisticated sensors to measure changes in heat and light used in all kinds of robotic devices. They also design and produce prototypes for products that are manufactured around the world. They are frequently described as "enabling industries" because they research, develop and produce technologies that are used in many different industries instead of just one. And because phoenix industry companies work closely with a variety of customers, they are constantly engaged in incremental processes as well as product innovation.

For start-up companies in a phoenix industry, the incubator is not a technology park; it is the whole urban region. Such start-ups are surrounded by companies engaged in different stages of bringing an innovation to market. What brings them together is a shared interest in particular technologies, access to expertise and capital, and a pool of skilled labour. These urban incubators differ from the ordinary kind in that they provide a better environment for commercialisation, for moving from a bright idea to the sale of a product.

Some US and UK examples

The story of the photonics industry in Rochester, New York, is instructive. Photonics is about the science and technology of light, and the basis for a wide range of industrial applications. Rochester, frequently described as a declining US rust-belt city, is ranked by the Society for Optics & Photonics as one of the top centres in the world for optics innovation. The Rochester metro region produces almost six times as many patents per 1,000 workers as the US average. How did this come to be?

In their heyday, Rochester's dominant employers – Eastman Kodak, Xerox and Bausch & Lomb – invested in optics and engineering programmes at local universities and built the region's strength in optics science and manufacturing skills. As a result of these investments, the region now has major research centres in optics engineering and visual science at the University of Rochester and Rochester Institute of Technology. These Rochester industrialists were not interested in science for its own sake, however. They were practical people. Their investments were specifically geared to creating new commercial products and processes.

In the 1980s these same multinational industrial firms pulled out much of their manufacturing operations from Rochester, but the research and development and engineering programmes rooted in local universities stayed in the area. Those programmes produced a new generation of engineers who foresaw fewer opportunities with a Kodak or a Xerox but more with the growing array of advanced-technology firms in the region, the earliest of which began as outsource suppliers to the Big Three. Rochester was also home to thousands of highly trained workers, including quality-control technicians and specialised machinists. Those that could do so stayed in the region and became the expanding phonics industry workforce. Thanks to this skilled labour pool and knowledge base, over 100 photonics firms have sprouted in the Rochester region.

Pittsburgh is another example. The city may have long ago lost Big Steel, but it has retained a vibrant industry based on steel making that exports goods and services to steel makers all over the world. As in Rochester, these small and medium-sized firms are a diverse group. They produce new types of steel-making equipment, provide engineering services, and do the research and development of devices that improve steel-making productivity and quality. According to Carey Treado, an expert on the region's steel industry at the University of Pittsburgh, this innovation-oriented industry now comprises 329 firms employing 12,000 workers in the Pittsburgh area.

Likewise in Syracuse, a new specialisation in indoor air-quality and environmental systems has emerged from the old HVAC (heating, ventilation and air-conditioning) industry that employed tens of thousands of people in the 1950s. While firms like Carrier (now United Technologies) have transferred their manufacturing operations to Asia, the local pool of labour and expertise has generated an array of small inventors and entrepreneurs, building an advanced manufacturing industry with a global market. Regional leaders have sought to lure firms from all over the world that can add to the regional supply chain, and to educate venture capitalists about the advantage of investing in these new companies because they have a risk-reducing regional support system – the research base and workforce – to help them grow and thrive.

In the UK, one of most important phoenix industry sites is Sheffield. Sheffield was Britain's most important steel production centre, and home since the 15th century to a high-quality cutlery and blade industry. "Made in Sheffield" marked a knife as of the highest quality. Everything fell apart in the 1980s, however, as major corporations outsourced or moved routine steel manufacturing jobs to cheaper international locations. Like other phoenix industry cities, however, Sheffield retained materials and cutting-tool expertise and continued to produce high-quality products for specialised markets, such as surgical instruments.

In the early 2000s investments in Sheffield by both government and private firms created a small but expanding advanced-manufacturing industry built around the region's historical expertise in metallurgy and cutting technologies. Sheffield has managed to recapture its image as a manufacturing centre but now in new materials, including composites and titanium, and sophisticated, high-precision machine tools.

Helping put the economy on a firmer footing

Phoenix industries are renewing regional economies. In addition, as exporters of high-value products and services, they have the potential to renew national economies. In the US, small companies account for 98% of exporters and 30% of the total value of exports. The US commerce department calculates that exports by small and medium-sized companies increased 73% between 2002 and 2007. Much of this increase comes from producing innovative components for expanding world markets. The value of phoenix industries is showing up even in the current economic recession, as US cities like Rochester, Syracuse and Pittsburgh post lower unemployment figures than the national average.

While this new generation of companies may be critical to righting a trade balance thrown off kilter since the 1990s, phoenix industries are largely invisible to the media or to policy makers interested in spurring innovation. They are excluded from the innovation story or policy discussion for a couple reasons.

First, they have emerged in regions that have been categorised as lagging or declining because of lost assembly-line manufacturing jobs. In the US and the UK, policy makers look at gross industry statistics and talk to the big firms. What they come up with is one story – regions and industries going down. Second, policy makers miss what is happening in small and medium-sized companies. As Carey Treado's study of Pittsburgh shows, economic policy in the region was tied to the big steel makers. Now that there is little actual steel making, policy makers assume there is no industry that could benefit from economic development assistance.

If we are to build a new generation of innovative, export-oriented manufacturing industries, what do we need to think about? How can we use our old regional industrial assets to put our national economies on a firmer footing?

The most important thing we can do is to think about innovation as the first step in a long process, the end goal of which is jobs. This would seem to be common sense, but our innovation policy has emphasised science-based research and intellectual property, and has neglected the downstream, where ideas are turned into products and companies that actually employ people.

That means working closely with small and medium-sized companies to improve their productivity and identify how they can transform their operations and move forward with new products and processes. While start-ups are important, so are the already existing companies in industries like photonics, cutting technologies and environmental systems.

Furthermore, we should focus more on the needs of growing companies in innovative industries, and less on the needs of the multinational firms that are reducing their employment in the US and the UK. Right now, big old companies get all the breaks – in tax abatements, energy subsidies, and support for their research and development. Yet they are not building our industries of the future; smaller companies are – frequently in the same cities where the old-model manufacturers once ruled.

Policies to promote phoenix companies

Despite the hype about clusters and networks, small firms rarely have the time or inclination to work together or to find ways to free up capacity for process and product innovation. Policy should concentrate on ways to increase their productivity, thus creating room for innovation, and to help them do collectively what they find difficult or impossible to do as individual companies.

At the regional level, policies have been taking shape to support phoenix industries and their small and medium-sized company base.

Industry partnerships

Industry partnerships build phoenix industry capacity and fill gaps in their resources. Partnerships bring small companies and entrepreneurs together to achieve as a group what is difficult or impossible for them to do as individual firms. Often initiated by leaders among the owners of these firms, they can be joined by non-profit bodies, public-sector technical specialists in workforce development or lean manufacturing, or unions, depending on where the region's leadership lies and what its industry needs.

Public investment in these efforts can help phoenix companies learn about technological advances in the industries they serve, foster global marketing efforts, develop the workforce small firms need in a volatile economy, and represent their interests and concerns to economic policy makers.

Two industry partnerships – one in the US, the other in Britain – illustrate their value to a phoenix industry, and important differences in economic development policy as well.

In the US, Maine's North Star Alliance builds on Maine's historical knowledge and skills in boat building, but aims to create a new-generation industry. State and federal investment in the alliance has enabled it to develop training programmes in boat-building design and engineering, and to host an international conference on composite materials.

The key here is the funding of an organisation that will represent the interests of the boat builders, designers and suppliers *in common*, and help them find ways to reach new markets, get the workforce they need, and continually innovate. But the funding is through a federal Workforce Innovation in Regional Economic Development (WIRED) grant lasting only three years, and the question remains what will happen when that grant expires.

In Britain, there is a co-ordinated national effort to build new industries on old foundations. Regional agencies such as One Northeast in Newcastle and Yorkshire Forward directly support organisations that build the capacity of phoenix industries. One example is Newcastle's Marine Design Centre, whose goal is to create a new industry from the shipbuilding that has existed in the North East of England for hundreds of years.

As similar design skills and technologies have been applied to oil rigs and other offshore installations, the demand for the region's specialised designers has expanded globally. The Marine Design Centre has established a research and development programme with the University of Newcastle, conducted seminars for the globetrotting marine designers headquartered in Newcastle, developed skills training programmes, and hosted firms looking for specialised marine design skills. The centre fills an important marketing role for small firms, giving them the information and visibility they need to compete in global markets.

The Marine Design Centre was started with £1.5 million from One Northeast in 2007, and has subsequently received funding to carry it through to 2012. The centre has the potential to become self-supporting by providing a project facility for visiting companies wanting to collaborate with local firms and tap the region's design capacity. The difference between the UK initiatives and those in the US is that in Britain the commitment to building new, innovative industries is national and long-term. Both design customers such as BAE, and designers thinking about relocating to Newcastle, know that the Marine Design Centre is going to be around to help them stay at the cutting edge.

Regional industry-university centres

Another way we can spur growth in our phoenix industries is by encouraging our universities and colleges to participate actively in the creation of a new generation of manufacturing industries. In this case, strategies pursued in the US and the UK will diverge because of the different histories and geographies of university engagement in the regional economy.

In the US, universities in the 19th century – particularly the "land grant" institutions initiated by the Morrill Act – connected their own welfare to that of their states and regions, and served that connection through industrial extension services. Over time, that connection has been bent or even broken, as universities have focused on technology transfer and on developing revenue streams from products with little or no relation to the regional economy.

In some cases, like MIT or the University of Rochester, technology transfer does result in the establishment of new companies that enhance the regional economy, because the region has the other, complementary assets that companies need. In most cases, however, the benefit of university-originated inventions does not accrue to the region in which they originate. If universities refocus attention on the quality of their regional economy, that economy can become a likelier place for university inventions to take hold.

In the UK, the situation is different because R&D historically was concentrated in a few universities and there was rarely a strong connection between R&D, engineering and industrial production location and capacity. The development of specialised training and research programmes, such as that at Sheffield University, is relatively recent. As the Sheffield initiative demonstrates, a university programme can be a key intermediary for industries developing around small and medium-sized companies. University advocates can educate policy makers and the public about the potential of advanced manufacturing, offer technical assistance and provide access to cutting-edge technology. They can also encourage internships that foster relationships between young engineering graduates and local companies.

National policy initiatives

At a national level, we need to pay attention to the full range of policies that affect the development of phoenix industries and of small and medium-sized companies that aim to reach global markets. These include regulatory, trade, energy and transport policies.

For example, as fuel prices rise, large manufacturing firms that have decentralised their procurement in order to take advantage of regional and international price competition may be looking for ways to re-concentrate. Small firms that have been relying on internationally sourced inputs may be more open to using domestic suppliers as they become more cost-competitive. We may be able to bring at least some of the supply chain back to the US and the UK, building domestic capacity and jobs. But because we have lost much of that capacity, this will not happen as a matter of course. To succeed, we must revamp the incentive structure of our freight transportation systems to support regional needs and find other ways to foster a new wave of supplier firms.

Other strategies emerge from the way in which phoenix industries differ from the conventional mass-production, big-firm-oriented sectors, such as steel, cars and aerospace. Because UK and US phoenix industries are place-based and draw on historical expertise, and because they are composed of small and medium-sized firms that serve global markets, the phoenix industry regions do not compete directly with one another in the same way that regions dominated by one large company do.

While an individual UK phoenix industry company may be competing for a contract with a counterpart in the US, the phoenix industry regions can also potentially benefit from strategic alliances. For example, it is possible to envisage a productive alliance between the Rochester region with its expertise in lasers and the Sheffield region with its expertise in cutting technologies and high-strength, low-alloy steels. These alliances would have the potential for spurring further invention and building markets. Since firms in phoenix industries are not competing solely on the basis of cost, these kinds of alliances and cross-fertilisation of regionally based technical expertise may be possible.

While they do not have lobbyists or communications directors to advocate for them – unlike their bigger brothers – smaller, innovative firms present a strong case that regional and national government attention to policy implications and investment can produce big gains at a relatively modest cost.

Phoenix manufacturing companies will never replace the large, routine manufacturing plants that employed hundreds of thousands of US and UK workers from the 1950s to the 1970s, but they can employ thousands of people in jobs that pay good wages, support the local tax base, and contribute to the diversification of the national economy. While these industries employ a significant number of people with advanced degrees in science and engineering, they also employ middle-skilled craft workers such as welders and solderers, and entry-level production workers too. Even as unemployment rates soar during the current recession, these firms often face chronic labour shortages. That alone should tell us that they offer the possibility for employment growth, as well as building a more diversified economy in which manufacturing plays a different but still vitally important role.

During the 1990s we had the luxury of thinking about innovation as something that took place in universities and science labs. We did not worry too much about whether public investments in innovation translated into products or processes that fed industry growth and created jobs. We no longer have that luxury. We need to move beyond the romance of start-ups, target the next generation of industries appropriate to each region's strengths, and create policy and programmatic environments in which those start-ups can generate thriving businesses that will stick around, endure, and create sustained employment. Perhaps surprisingly, the opportunity to connect innovation to jobs may be strongest in our old industrial cities.

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