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CITY PERFORMANCE

Two-track cities

The challenge of sustaining growth and building opportunity

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Abstract

This paper suggests that UK cities face a number of significant challenges in the years ahead. We have 'two-track' cities – those that have experienced success and renaissance in recent years, and those that have not. All cities still face the challenge of sharing opportunity and have concentrations of deprivation and worklessness[1]. Those cities that have experienced high levels of economic growth face a number of challenges relating to sustaining growth such as congestion and environmental degradation. Overall, this paper discusses the key economic challenges that lie ahead for UK cities and the key processes, factors and drivers of economic performance that must be addressed. It sets out the Centre for Cities' agenda for work in this area over the next three years.

Key points:

- *The nation's cities are divided – into those that have achieved dynamic economic growth over the past 10 years, and those that have not.*
- *There are two key challenges for all of our cities: achieving and maintaining growth, and creating opportunities so that everyone benefits.*
- *Despite economic growth in some of our cities, not everyone has benefited.*
- *Cities do not follow the national economy – they* are *the national economy.*
- *Cities are open economies and do not work in isolation.*
- *The demand side is important but under-emphasised in policy.*
- *Skills and knowledge in the workforce are essential for successful, high performing economies, but a number of misperceptions about skills remain.*
- *Innovation is concentrated in cities and is vital for economic growth, but there are innovation-rich and innovation-poor cities.*
- *Increasing productivity leads to economic growth and development – and cities can play a role in raising productivity.*
- *Cities are where high levels of density and close links between businesses, individuals and institutions exist and are created, with distinct advantages for economic growth and performance.*
- *Cities need to find and exploit sources of competitive advantage and successful niches in order to grow.*
- *Places and institutions are important for growth.*

1. Worklessness is a term that defines those who are involuntarily without a job and are of working age. It includes both the officially unemployed (according to International Labour Organization definitions) and those not in work who do not meet official criteria to be classified as unemployed.

1. Introduction

“The urban renaissance claimed by some to have occurred in the past 10 years has been by no means universal: not all cities have managed to regenerate and renew their economies and social fabric.”

Two-track cities: many UK cities are on diverging economic paths

The UK’s cities are divided – into those that have achieved dynamic economic growth over the past 10 years, and those that have not – ‘two-track’ cities that are on diverging paths. Between 1995 and 2004 12 cities and large towns in England achieved employment growth rates above 20 per cent. In a further 15, however, employment growth rates were below 10 per cent. As well as differences in economic growth, there are large discrepancies between the rates at which city residents have taken up access to opportunities. Hull and Birmingham’s residents have the highest rates of benefit claimants and of people with no qualifications – over twice the rates in Reading, Southampton and Bristol.

The most economically successful cities tend to have lower rates of unemployment and higher rates of employment, associated with better educational attainment and lower rates of benefit claims. In contrast, the worst performing city economies are in cities with the highest rates of unemployment, low educational attainment and high benefits claims. This can be demonstrated with remarkable consistency across a range of economic performance and social cohesion indicators, as shown in Figure 2 on page 6.

So the urban renaissance claimed by some to have occurred in the past 10 years has been by no means universal: not all cities have managed to regenerate and renew their economies and social fabric.

The two main challenges: achieving growth and creating opportunity

There are two key challenges for all of our cities. The first is to achieve and maintain growth and the second is to create opportunities so that everyone benefits.

Before exploring how cities achieve and maintain growth, Section 2 describes why the economic performance of our cities is so important, and the challenges that still remain. Evidence is presented that shows that although there have been significant improvements in reducing problems like unemployment in many of our cities, there are still communities that do not benefit from these opportunities, and in the case of some cities, there are too few opportunities.

How do cities achieve and maintain growth? Section 3 of this paper describes the main factors, drivers and processes behind the economic performance of cities. It explains why these are important and what cities might do about them. It also examines gaps in understanding, which will inform the Centre for Cities’ research agenda in the next few years.

2. Why the economic performance of our cities is so important

Cities: the building blocks of the national economy

The UK is one of the most highly urbanised countries in the world. Nearly 80 per cent of its population lives on just 9 per cent of its land (Barker 2006). Cities do not follow the national economy – they are the building blocks of the national economy. The UK has experienced sustained levels of economic growth over recent years – in all but one year since 1993; the UK’s annual economic growth rate has been above 2 per cent since that year.

Cities are responsible for most of this growth. The 2001 census showed that 63 per cent of employment in England is concentrated in 56 cities that have a population above 125,000 (Parkinson *et al* 2006).These 56 cities accounted for 61 per cent in the net increase in jobs (or 834,300 net new jobs) in England between 1998 and 2004. Between 1995 and 2001 the greatest increases in productivity and Gross Value Added (GVA) occurred in England’s cities. And GVA in 25 of the 56 grew faster than the national average between 1995 and 2002, including six of the eight cities that call themselves the Core Cities (Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield).

Our cities are the economic powerhouses of the nation. They are where the UK derives its economic growth, dynamism and innovation.

“The importance of cities has recently been reinforced by recent reviews such as Lyons (local government), Barker (planning), Eddington (transport) and Leitch (skills) – which have all explicitly recognised the importance of cities.”

However, they are also where the major economic and social challenges and problems are located. This is why cities are so important – they are where we can join economic opportunity with need.

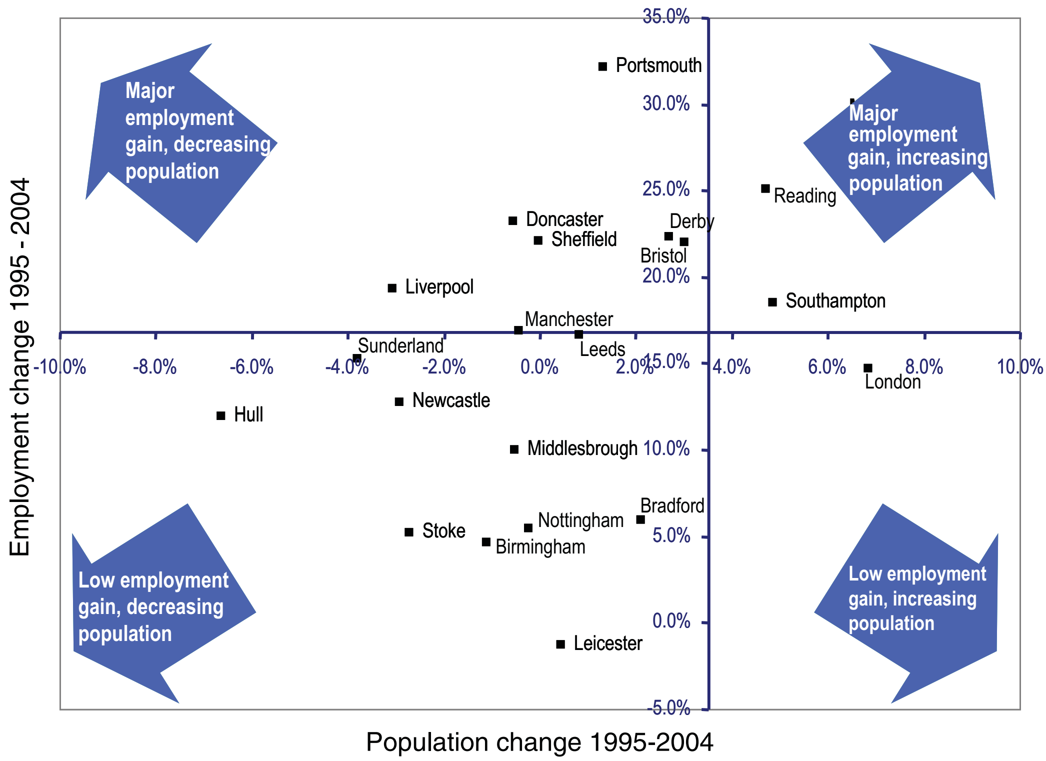
The importance of cities has recently been reinforced by recent reviews such as Lyons (local government), Barker (planning), Eddington (transport) and Leitch (skills) – which have all explicitly recognised the importance of cities. Some, such as Barker, have advocated the prioritisation of city-regions for infrastructure and transport investment. Others, such as Leitch, propose the establishment of planning areas for skills based on the functional economic areas of cities (city-regions).

Two-track cities – cities that succeed and those that do not

What is very clear is that some cities have recovered jobs and residents since the 1990s, have enjoyed economic and physical resurgence and are doing very well. But there are still many cities that have not done well. Figure 1 below compares employment and population growth in 20 English cities and large towns. It shows that Reading, Derby, Bristol and Southampton experienced above average employment and population growth between 1996 and 2004. However, Leicester, Birmingham, Nottingham, Stoke and Middlesbrough had much lower rates of employment and population growth over the period.

Table 1 details a range of economic and social indicators for cities and large towns. It shows that cities with the highest rates of population and employment growth tend to have low rates of unemployment, benefit claimants and low skills. Conversely, the least successful economies have the most serious social problems, and remain unemployment black spots.

Figure 1: Population growth and employment growth in 20 of England’s cities



Source: State of the English Cities Database 2007

Table 1: High performers and low performers among England's largest 56 cities and large towns across a range of indicators – values and ranking for performance

	City/large town	Unemployment rate 2005	Employment rate 2005	Pop'n growth 1996-2004	Employment growth / decline 1995-2004	Working age pop'n claiming work related benefits 2005	Working age adults with no qualifications 2003
High performers	Reading	3.5 (6)	80.4 (3)	4.7 (11)	25.1 (4)	4.5 (2)	8.5 (3)
	York	2.2 (2)	79.0 (7)	7.0 (5)	19.9 (13)	5.2 (4)	12.6 (14)
	South'ton	3.7 (10)	77.8 (14)	4.9 (10)	18.5 (16)	6.9 (11)	10.9 (10)
	Cambridge	4.4 (24)	75.2 (25)	10.1 (3)	8.8 (45)	5.1 (3)	7.8 (1)
	Bristol	4.2 (17)	78.1 (10)	3.0 (16)	22.0 (9)	7.5 (16)	10.4 (8)
Middle performers	London	6.5 (45)	70.5 (44)	6.9 (6)	14.7 (27)	10.3 (40)	13.5 (17)
	Leeds	4.3 (21)	74.7 (26)	0.8 (32)	16.6 (21)	8.6 (23)	13.9 (19)
	Derby	7.1 (52)	70.3 (45)	2.7 (18)	22.4 (7)	10 (35)	16.9 (35)
	Mansfield	4.1 (16)	73.6 (30)	1 (31)	12.2 (33)	9.1 (27)	21 (49)
	Manchester	4.8 (29)	71.7 (38)	-0.4 (45)	16.9 (19)	11 (45)	19.4 (45)
Low performers	Newcastle	6.5 (45)	69.9 (48)	-2.9 (52)	12.7 (31)	11.5 (48)	16.8 (34)
	Sunderland	7.2 (53)	67.6 (55)	-3.8 (55)	15.3 (24)	11.2 (46)	20.1 (47)
	Birmingham	7.4 (54)	69.8 (49)	-1.1 (48)	4.7 (54)	12.8 (53)	21.1 (50)
	Middlesbro'	6.5 (45)	70.1 (47)	-0.5 (46)	10.0 (41)	12.1 (51)	18.8 (43)
	Liverpool	7.0 (50)	64.8 (56)	-3.1 (53)	19.4 (14)	16.5 (56)	28.6 (56)

Source: State of the English Cities Database 2007
Note: percentage followed by ranking in brackets

"Cities face two major economic challenges – creating and sustaining economic performance and connecting economic development and growth with communities that do not benefit from these opportunities."

So there is a set of cities that are on growth trajectories, and another set that do not seem to have recovered during the recent national economic boom. The successful cities are dealing with the pressures of growth such as transport congestion, environmental sustainability and skills provision. The cities with low or no growth are still facing the challenge of developing and, in some cases, rescuing their economies.

How to achieve high performance and ensure that all benefit

UK cities face two major economic challenges – creating and sustaining economic performance and connecting economic development and growth with communities that do not benefit from these opportunities.
In what ways are there differences between and within cities? Reflecting on the extensive work commissioned by the Department of Communities and Local Government (DCLG) (Parkinson *et al* 2006) and the Organisation for Economic Cooperation and Development (OECD 2006a) and adding in our own insights and analysis, we identify the following key challenges for UK cities.

Differing rates of economic growth

Employment growth between 1995 and 2004 was much stronger in the South and East (19.2 per cent), compared with the North and West (10.4 per cent). Economic growth, population and household income growth were also greater in cities in the South and East. The variation in performance is illustrated in Table 2. Over the nine years from 1995 to 2004, Derby's total number of employees grew by 22.4 per cent, whereas Birmingham's rate of growth was just 4.7 per cent.

Table 2: Employment growth in England's cities and large towns 1995–2004

City (Primary Urban Area definition)	Total growth/decline	% growth/decline
Milton Keynes	35,500	36.2
Portsmouth	50,200	32.2
Preston	35,800	25.4
Reading	44,700	25.1
Doncaster	21,000	23.3
Warrington	20,200	22.9
Derby	21,300	22.4
Sheffield	63,600	22.1
Bristol	65,300	22.0
Brighton	23,900	21.4
Peterborough	16,300	21.3
Wakefield	23,400	20.4
York	16,700	19.9
Liverpool	54,100	19.4
Northampton	19,900	18.8
Southampton	27,300	18.5
Barnsley	11,600	18.2
Chatham	12,400	17.0
Manchester	130,500	16.9
Southend	14,700	16.8
Leeds	59,900	16.6
Crawley	19,100	16.1
Ipswich	9,300	15.8
Sunderland	15,000	15.3
Luton	11,100	15.0
Telford	10,200	14.8
London	574,500	14.7
Worthing	5,700	14.5
Blackpool	16,800	14.3
Rochdale	8,700	12.9
Newcastle	41,500	12.7
Bournemouth	17,500	12.7
Mansfield	8,500	12.2
Hull	13,500	11.9
Huddersfield	16,800	11.7
Wigan	10,100	11.1
Grimsby	6,800	11.1
Gloucester	6,100	10.5
Coventry	13,200	10.4
Bolton	10,000	10.2
Middlesbrough	16,700	10.0
Swindon	9,700	9.8
Aldershot	7,700	9.6
Oxford	8,300	9.2
Cambridge	6,800	8.8
Hastings	2,300	8.3

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Birkenhead	10,000	8.0
Norwich	9,200	7.7
Plymouth	7,300	7.5
Blackburn	4,400	7.5
Bradford	11,100	6.0
Nottingham	14,500	5.5
Stoke	7,700	5.3
Birmingham	46,500	4.7
Burnley	600	0.9
Leicester	-2,700	-1.2

Source: State of the English Cities Database 2007

Note: Primary Urban Areas are functional urban areas defined as part of the State of the English Cities research programme for the Department for Communities and Local Government.

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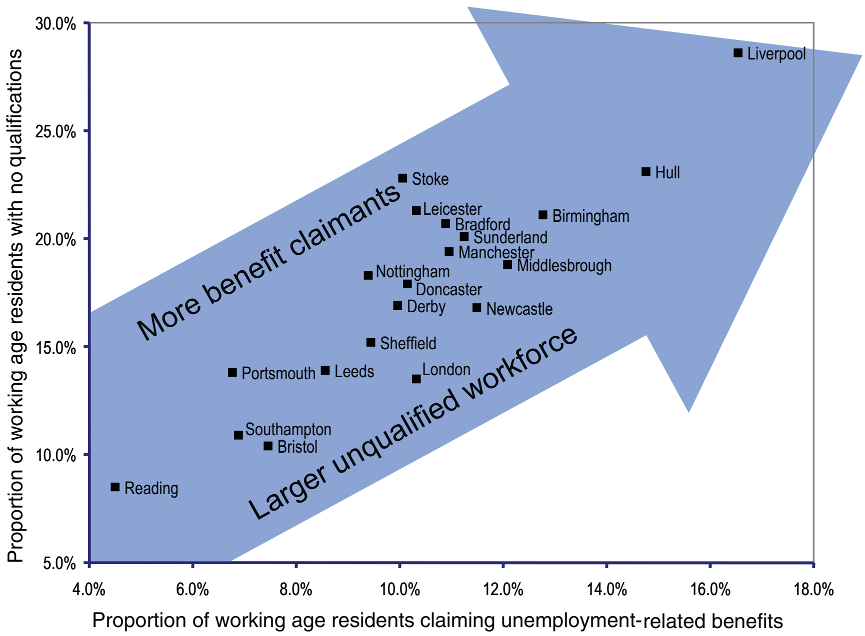
Concentrations of disadvantage and deprivation

Unemployment, disadvantage and deprivation in the UK are primarily urban phenomena, and their distribution is uneven. Figure 2 starkly illustrates this by comparing claimants on unemployment-related benefits with the proportion of working age residents who have no qualifications. Hull and Liverpool have the highest rates of benefit claimants and people with no qualifications – over twice the rates of Reading, Southampton and Bristol.

Within our cities, there is uneven access to opportunity. For example, within Greater Manchester unemployment (as measured by the International Labour Organization (ILO) unemployment definition) is concentrated in Manchester city (8.9 per cent unemployment rate), Tameside (8.4 per cent), and Salford (6.7 per cent). This contrasts with lower unemployment rates in Oldham (4.1 per cent), and Stockport (4.1 per cent). To address disadvantage and deprivation, we need to be better at linking growth to need. There still remains much to do in addressing unemployment, low incomes and low wealth in our deprived urban communities.

Figure 2: Unemployment-related benefit claimants and the proportion of working age residents with no qualifications in 20 English cities (2004)



Source: State of the English Cities Database 2007

"Urbanisation of our economy brings with it pressures on infrastructure, the environment, housing, and costs to businesses."

International competitors are doing better

Our cities may have performed well, but not as well as our international competitors. While cities are making progress, comparisons of GVA against other cities in Europe and the United States suggest that there is plenty more room for performance improvement (HM Treasury 2006).

Different economic structures: uncertain futures

A number of cities lack economic diversity, dynamism or sources of significant economic advantage. For example, there was a net increase of 1.16 million (26.8 per cent) financial and business services employees between 1995 and 2005 in the UK. Cities varied in their ability to capture a share of this increase – Newcastle increased its employment in this sector by 35.7 per cent during this period, whereas Bradford experienced a smaller increase of of 9.8 per cent.

Pressures of urbanisation

Urbanisation of our economy brings with it pressures on infrastructure, the environment, housing, and costs to businesses. In Britain it has introduced urban and suburban sprawl, urban networks, and increased commuting flows – which have reshaped travel patterns, inter-firm linkages, and labour markets.

A major challenge for UK cities is that urban transport infrastructure has not kept pace with these changes, and that is why policy reviews such as the recent Eddington Transport Study (2006) recommend that city regions be prioritised for investment. Additionally, land development pressures, alongside methods of production, waste disposal, transport and other activities, contribute to urban pressures on the environment.

Medium-sized cities need to work together

We need to find a dynamic economic role for some of our medium-sized cities; they do not have the economies of scale or the agglomeration economies (where there are positive economic benefits from proximity and density)[2] to have a significant 'reach' into international markets, and may be overly reliant on local or regional markets.

The OECD suggests that for some medium-sized cities such as Newcastle, greater cooperation with neighbouring towns and cities can create better functioning city regions, which can develop more dynamic agglomeration economies and build bigger markets, therefore potentially competing better internationally (OECD 2006a, 2006b).

"Greater cooperation with neighbouring towns and cities can create better functioning city regions, which can develop more dynamic agglomeration economies and build bigger markets."

Investing in the right skills

The recent establishment of sector skills councils and the Leitch Review's recommendations for City Region Skills Boards to ensure that the skills we invest in are fit for employer demand, all highlight the importance of skills in our economy (Leitch 2006).

Knowledge workers[3] are highly concentrated in cities and their hinterlands. The 2001 Census showed that 73 per cent of England's knowledge workers lived in its 56 largest urban areas, with 30 per cent residing in just six cities and urban areas – London, Aldershot, Cambridge, Oxford, Reading and Crawley. However, there are also substantial numbers of urban residents with low or no qualifications. In Liverpool, Ipswich, Hull, Stoke on Trent and Barnsley more than 20 per cent of working-age residents have no qualifications.

Tightening public expenditure

UK cities have benefited from increased public expenditure on infrastructure and public services over the past 10 years. Following the 2007 Comprehensive Spending Review, the fiscal climate will be much tighter for the next few years. Our cities will therefore need

2. Agglomeration economies are the wider economic benefits arising from the geographical concentration of people and businesses. Increasing the extent to which people and businesses are concentrated together can magnify the impact of agglomeration economies – contributing to improved economic performance and increased productivity for the area concerned.
3. Using the Work Foundation's definition, knowledge workers are all those who work in the top three standard occupational classifications (managers, professionals, associate professionals); with high skills levels, indicated by degree or equivalent qualifications (NVQ level 4); and who perform tasks that require expert thinking and complex communication skills with the assistance of computers.

“Cities are open economies and they link to wider, overlapping markets for goods, services, labour, capital and property, and to other cities and places.”

“Sizeable markets are emerging in developing nations and they present opportunities for the UK’s cities.”

a wider range of solutions to unlock economic growth, addressing the infrastructural and environmental pressures of development, and disparities in economic performance and access to opportunity.

Public–private collaboration is vital

The public sector needs to work with the private sector and other partners to enhance economic performance. The public sector has a vital role in regulating the market, and is also a significant investor and strategic manager of many of the key assets which make our cities work as business locations and places to live.

However, markets and the private sector are critical to economic development and growth. Public–private collaboration is essential to working out strategies relevant to successful market economies and putting them into practice.

3. How do we achieve growth and opportunity?

Unlocking economic performance

A key challenge for our cities is to unlock and sustain sources of economic growth. This section introduces the most important economic processes, factors and drivers that are key to understanding how to achieve economic growth and high performance. It also discusses a number of practical issues facing cities that want to do something about achieving growth. The Centre for Cities plans to build on this outline in the next few years to provide greater detail on how to achieve economic growth and opportunity.

Cities are a part of wider markets

Cities do not work in isolation. Too many policies and studies about the economic performance of cities look at them as standalone economies with no relation to the outside world. Cities are open economies and they link to wider, overlapping markets for goods, services, labour, capital and property, and to other cities and places.

It is critical to understand the ‘open economy’ effects or implications of policies and proposals. Cities and the actors within them compete in markets; the organisations involved in economic development need to understand the impact that markets forces will have on their choices and decisions.

Opportunities in the growing world economy

Both the domestic economy and the world economy have experienced unprecedented periods of sustained economic growth. Sizeable markets are emerging in developing nations and they present opportunities for the UK’s cities. Although many of our cities have economic legacies from industrial restructuring in the face of international competition, they must embrace the global economy and seize the opportunities that growth offers. Since 1992 UK GDP (Gross Domestic Product) has been growing at more than 2 per cent per year (apart from in 2004/05). It is forecast to continue at a rate of between 2.5 and 3.0 per cent up to 2009. Employment has reached a historic high, at 29 million in 2006, and unemployment has continued to fall. The World Bank forecasts continued expansion in global output from US$35 trillion in 2005 to $72 trillion in 2030. Total world exports have increased by 157 per cent since 1990.

Cities need to realise the opportunities globalisation presents – they can take advantage of the increase in total volumes of trade, foreign direct investment, and growth in markets.

Opportunities from trade liberalisation and foreign direct investment

UK cities can potentially benefit from further liberalisation of trade in services. Many of them now specialise in services, and we need to assess how well placed these cities are to benefit from new markets that emerge through liberalisation and global growth.

Cities can also tap into new sources of foreign direct investment (FDI). FDI increased in nominal terms from US$13 billion in 1970 to $648 billion in 2004, and shows continuing growth. Developing nations themselves, such as

"We must not forget about lower-skilled jobs and activities, which are required for a functioning city economy."

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China and India, are becoming direct investors into developed nations such as the UK.

Cities have connections with other cities and places, through markets, enterprises and institutions. Cities can share labour market catchments, and are also embedded in and linked to international markets. The markets to which cities are connected can be a source of economic demand, supply and competitive advantage. We need a better understanding of the economic contribution and potential of city links.

Demand is as important as supply

Successful cities compete effectively in meeting demand in their own city, regional and national markets; and abroad. Failing cities suffer from a lack of demand – domestically, nationally and internationally. Both local and wider demand are important drivers of competitiveness and economic development.

Failing cities often suffer from low demand domestically and fail to compete effectively for wider demand. Domestic demand can be low because of a small or under-developed employer base. Businesses in cities that are not very competitive in local and regional markets will be unable to compete effectively in national and international markets. These failing cities may not be effective business locations, unable to attract employers that may be able to improve their competitiveness.

Competitive advantage comes from home demand

The quality of home demand determines competitive advantage, and sets a precedent for competitive dynamism in home markets. City- and regional-level demand that sets high precedents for quality and competitiveness can build competitive advantage that can be exploited in national and international markets. Successful cities' key industries and employers tend to serve national and international markets. Demand is therefore critical. Some cities do not have economies of sufficient scale of scope to achieve this; one solution, proposed by the OECD, is to develop better linkages and economic integration within city regions (OECD 2006b).

Jobs for deprived communities

Priority must be given to making more jobs accessible to deprived communities. Lagging cities often have a smaller number of employers, and a narrower employer base. In deprived areas more local and accessible jobs need to be provided. Approaches that can encourage employment of local people, enhance local competitiveness and performance, and strengthen or tap into local markets and competitive advantages will be the most successful.

Encouraging the market to provide opportunities

There is scope for cities to engage in more 'demand-side' interventions that incentivise the market and use market mechanisms to achieve economic development, growth and access to opportunity. For example, we need to provide entry-level job opportunities for unemployed people. Often these will be jobs requiring low skills. UK cities have been creating these types of jobs, but often they are not emphasised enough in economic development strategies and practice. Often, our economic strategies pursue the knowledge economy, higher skills, and high-value-added industries. We do need these, but we must not forget about lower-skilled jobs and activities, which are required for a functioning city economy, and we need to get better at linking those who are economically excluded to such jobs – linking labour supply to demand.

Demand-side policies can also be used to attract employers to locate in our cities, and to incentivise existing employers to expand. We can also use demand-side policies to help enteprises expand their markets in the UK and abroad.

Skills are not the only answer

Skills and knowledge in the workforce are essential for successful, high-performing economies and enable industries and enterprises in our cities to compete nationally and internationally. But on their own they are not the only answer and policymakers still cling to several fundamental misperceptions about skills and how the labour market works.

"Another misperception is that no- and low-skilled jobs will completely disappear in the future, and that everyone will be involved in the 'knowledge economy'".

Labour markets are not self-contained

First, many policies and strategies regard cities' labour markets as closed and self-contained. This is incorrect. Cities' labour markets are very much open. If there are skills shortages in a city's economy it is usually preferable, in principle, to train and hire unemployed people from the local area, but it is also possible to hire someone with the skills needed from another region or even nation. This is especially relevant for highly skilled jobs – where competition (and the labour market catchment area) for labour is national and international. These jobs will rarely be suitable as entry-level jobs for the unemployed.

The 'knowledge economy' and beyond

Another misperception is that no- and low-skilled jobs will completely disappear in the future, and that everyone will be involved in the 'knowledge economy'. Although total employment in white collar and skilled occupations has increased and will continue to do so, city economies create a demand for jobs in personal, leisure and other services that require low levels of skill in their employees. The latest forecasts conducted by the University of Warwick for the Sector Skills Development Agency (Wilson *et al* 2006) project that in 2014 there will still be 10.4 million employees in low-skilled jobs such as cleaners, retail sales, warehouse operatives, pub workers, and security guards – representing 33 per cent of total employment.

"Innovation can help a city achieve a competitive advantage as it contributes to new and more productive methods of generating products and services."

Matching labour supply with demand and increasing productivity

Growing economies usually require additional employees and skills. But those skills need to fit the needs of employers. It is one thing to invest in the supply-side of a city's economy, expanding its capacity to produce goods and services, or to supply labour with a certain range of skills. But this potential will only turn into growth if there is also a demand for labour with those skills. And in order to increase productivity – long a UK priority – complementary investments are needed. Investment in capital and equipment requires investment in the skills to enable its most productive use.

Innovation and technology

Innovation contributes to economic growth, and innovation is concentrated in cities. It helps to build new specialised corners of the market, new markets in general, new processes, new business models, new sources of productivity, and new sources of competitive advantage.

Achieving a competitive edge

Innovation can help a city achieve a competitive advantage as it contributes to new and more productive methods of generating products and services. Through this, firms can gain market share and subsequently hire more employees. This creates a cycle of growth, prompting further innovation, competition, enterprise formation and employment creation.

Cities: where innovation happens

Innovation is concentrated in UK city regions. From 1999 to 2001 England's 56 biggest cities and towns accounted for 67 per cent of patent applications; 43 per cent of these patents came from just 10 cities (Parkinson *et al* 2006). Although innovation is concentrated in cities, there is wide variation between innovation-rich and innovation-poor cities.

Variations in urban innovation are linked to wider urban conditions, and wider economic performance. Many of the UK's top-performing cities are also those with the highest levels of innovation. Similarly, urban conditions affect levels of innovation in given cities. Cities offer three basic advantages for innovation: proximity, density and variety. These factors help explain the demand for cities, their resilience in the face of technological change, and the current recovery of many cities. They also help explain urban processes that are responsible for higher rates of innovation (for a comprehensive review of evidence see Frenz and Oughton 2004).

What public agencies can do

By helping to build networks and connections both internationally and between enterprises, higher education institutions, and government agencies within the city, public

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"Reducing travel times and increasing the frequency of transport services can produce agglomeration economies that can increase productivity in the city economy."

agencies can facilitate innovation and the adopting or adapting of recent innovations. They can also nurture an increase in the rate of product and service innovations – through enterprise support programmes, or through brokering better collaboration within the private sector. Finally, they can help firms to adopt process innovations early, enabling their cities to gain an economic advantage over rivals.

Increasing productivity raises economic output

Increasing productivity leads to economic growth and development – and cities can play a role in raising productivity. It is thought that much of the gap between the level of productivity in the UK and levels in other nations is a result of the UK having lower levels of investment in capital and infrastructure and deficiencies in certain areas in the skills supply. In the UK it will take only a small increase in productivity to substantially increase the total amount of economic output (often measured as GDP). For example, GDP would double in 25 years if productivity rose by 3 per cent per year.

Cities' investment priorities

Cities need to improve the quality of, and investment in infrastructure, equipment, land and premises. As the Government has acknowledged, the UK has had a history of low capital investment by businesses and the public sector in the past 30 years, which is one of the main reasons why the UK has experienced lagging productivity relative to other advanced industrial nations (HM Treasury 2004). Cities are where the nation's main infrastructural and capital assets are located, developed and maintained. To maximise potential productivity gains, cities need to ensure that investment is prioritised where it will make high economic impacts.

Cities can ensure they have competitive markets by increasing business start-up and location in cities, taking care not to invest public funds in business activities that simply displace other businesses without enhancing wealth, employment or productivity. Cities are centres for research and development and innovation, and can promote them further, which will also help improve productivity rates.

Cities can continue to both attract businesses with high productivity levels and to develop their own entrepreneurial bases. However, it must be remembered that low productivity enterprises and activities are viable and still required in cities – to provide basic goods and services as well as low-skill jobs for people who are unemployed.

Urban density and linkages matter

Cities are where high levels of density and close linkages between businesses, individuals and institutions exist and are created – which brings distinct advantages for economic growth and performance.

Place, proximity and localisation can have benefits beyond simply enabling transactions and a marketplace to exist – they can promote the development of agglomeration economies and they play a key role in explaining and enabling economic growth in cities (see Webber and Athey 2007). Cities are the key places where economies develop due to proximity and density. They are a source of dynamic competitive advantage.

Policies and institutions can play a part in encouraging increased economic flows and linkages across urban areas, and developing the 'effective density' of urban areas. This includes helping forge networks, knowledge spillovers (where due to close proximity, business networking and labour market mobility knowledge is transferred more easily between people and businesses), and market competition.

Better transport helps increase economic flows

Transport improvements and inter-urban cooperation can increase the economic benefits derived from proximity and density. Reducing travel times and increasing the frequency of transport services can produce agglomeration economies that can increase productivity in the city economy. This is particularly relevant for regional clusters of small or medium-sized cities and large towns, or where there is no dominant urban core.

“Specialising on too narrow a range of activities can make a city vulnerable if there is a market downturn.”

“Cities need to focus on their individual sources of competitive advantage and to address their weaknesses as locations to do business.”

Cities need niches

To achieve high levels of economic performance and growth, and to develop international trade, cities need to build a range of successful niches based on their own specific advantages. Niches are specialised but profitable corners of a market. Cities specialise in activities, services and goods where they are going to reap the most rewards in terms of trading with other cities and places. Also, as they specialise, they get better at what they are good at, increasing their economic advantage and market competitiveness in these activities.

For growth, cities need to find and exploit sources of competitive advantage and successful niches. Not all cities can be world leaders in science and technology, but each city can potentially exploit one or more successful niches in technology or industry specialisms.

Strategies need to be tailored and relevant to individual cities

Too many economic development strategies and initiatives have been implemented without considering, adapting or tailoring to local circumstance. This might reflect a lack of understanding of local economies and wider markets. Cities need to focus on their individual sources of competitive advantage, and to address their weaknesses as locations to do business. They should not follow a general or fixed recipe for competitiveness, but concentrate on their own sources of dynamic potential. Diversification and adaptive capacity are key requirements here.

Cities need to develop successful niches, but it is better if they establish a range of them: specialising on too narrow a range of activities can make a city vulnerable if there is a market downturn, or if a sector or activity becomes less competitive than another city or region.

Places and institutions matter

Places and institutions are important for growth. Strong local institutions – both public and private – play a key role in underpinning the competitive advantage of cities. Institutions such as the legal system, service standards and market regulations create the conditions for market stability and competitive markets, which are important for economic growth. This is one of the reasons why the 59 per cent of the world’s FDI still gets invested in developed economies (UNCTAD 2006). Institutions also help to develop the attractiveness of a place, which helps draw in and retain businesses, investment, and people.

Adaptability is important

The ability to adapt is associated with economic success. Cities that have successfully adapted to changing economic circumstances and market demand have experienced economic growth and built competitive advantage.

Increased local economic development capacity and devolved responsibility offer new opportunities for UK cities to address their economic challenges and opportunities in more effective and relevant ways.

Public–private collaboration

As discussed on page 8, effective collaboration between public and private institutions is essential for economic development and regeneration. For example, it is critical that development and regeneration policies and strategies are devised in partnership with the private sector in order to ensure that they are relevant and will be effective in the market economy.

4. Further questions and our research agenda

This paper shows that all of the themes so far covered by the work of the Centre for Cities – city leadership, city transport, city living, city links, consumer city and city markets – are significantly related to the economic performance of cities. The questions that emerge from the paper cut across all of the Centre’s areas of interest; we will continue to explore them over the next few years. Meanwhile, we briefly highlight some of these questions below.

What have we learned about city economic development strategies?

Economic development and urban regeneration has been taking place in the UK’s cities for at least 20 years. What general lessons for city economic development strategies have emerged? Is there one successful recipe for economic development? What problems are still persistent and have not been addressed successfully by urban policy?

There will always be general lessons for good practice in economic policies, strategies and initiatives, but our cities are all different. Individual cities need to find and exploit their own special roles in the wider economy.

"There will always be general lessons for good practice in economic policies, strategies and initiatives, but our cities are all different. Individual cities need to find and exploit their own special roles in the wider economy."

What is the future for the cities that are not succeeding?

Is there hope and inspiration to be gained from elsewhere? It is not unprecedented for cities to create success from very little – Helsinki, Dublin, Singapore and Dubai, for example, have all managed to do this. What can we learn from cities that bounced back from decline or disaster?

How can we share opportunity?

It is clear that UK cities still suffer from high levels of worklessness and deprivation – which can be high across a city, or locally specific to particular neighbourhoods. What difference has economic renaissance in certain UK cities made to deprived communities? After many years of active labour market policies, what are the next to take and how can our cities get better at sharing opportunity?

What impact has growth based on the consumer economy made on cities?

Many of our cities have experienced growth in retailing, leisure and visitor economies and retail-led regeneration has underpinned much urban redevelopment. What has been the nature and distribution of this growth, and what has been the impact? Our Consumer City workstream is looking at these questions.

How important are demand-led economic strategies?

What do such strategies look like, do they work, and should we be doing more of them?

How do density and linkages enhance economic growth?

What are the linkages between cities and within city-regions? And what can this tell us about economic development and growth? Our City Links workstream is examining these issues.

Sustaining performance: why does transport matter?

What transport initiatives do our successful cities need to sustain performance? What can we do about a lack of investment in transport and infrastructure? What are the economic impacts of transport investment on our cities? Our City Transport workstream is examining these issues.

How can cities seize the opportunities of the global economy?

What can UK cities do about opportunities in the expanding global economy? What opportunities exist and what kinds of economic development tools and approaches are available and effective? This question will be addressed in a paper to be published later in Summer 2007.

How do we overcome the limits to growth?

What are the current limits to growth, and how do we overcome them? How do problems associated with growth such as congestion, pollution, and shortages of housing and skills affect the ability of our cities to continue to succeed economically?

How do cities encourage innovation?

Innovation is a critical source of economic dynamism, growth and competitive advantage. What is the unique role of cities in facilitating innovation? The Centre for Cities is working with the National Endowment for Science, Technology and the Arts (NESTA) over the next six months to answer this question.

How might devolved responsibilities help city economies?

What opportunities do increased local economic development capacity and devolved responsibility offer UK cities? Is their a potential toolkit for economic development that devolution could provide, and what difference could it make? What examples are there of devolution making a significant impact on economic performance in cities?

To address all of these questions, at the Centre for Cities we will be conducting economic analysis and case studies of our own, while continuing to monitor the cutting edge in economic and urban research.

centreforcities

The **Centre for Cities** is an independent urban research unit based at ippr, the Institute for Public Policy Research. We are taking a fresh look at how UK cities function, focusing on the economic drivers behind city growth – investment, enterprise, innovation, skills and employment.

This paper is part of our rolling series of discussion papers which are posted on our website www.ippr.org/centreforcities

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