

D/ BUILDING SUCCESSFUL CITIES IN THE KNOWLEDGE ECONOMY: THE ROLE OF 'SOFT POLICY' INSTRUMENTS

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1. Introduction

'Globalisation' and 'the knowledge economy' are the defining and inter-twining narratives of the last two decades of transformation in the world economy. Yet both incite more myths and scare stories than evidence-based assessments of what has really changed in our economies and societies, and of how cities need to respond. The analysis suggests that both the knowledge economy and globalisation happen in places, albeit unevenly, and that cities and regions often provide the nodal points where these processes interact. This means that globalisation and the knowledge economy offer huge opportunities for cities. Successful cities will be those that recognise these opportunities and rise to the challenges of the shifting economy, building on their strengths and adapting to the changes.

This paper reviews how cities might make use of 'soft' intangible policy instruments, such as skills and leadership, to rise to the challenges of the changing economy. It aims to complement Sir Peter Hall's paper on 'hard', more measurable policy instruments, such as transport and connectivity. The paper is written based on the assumption that city policymakers who are seeking to enable their cities to adapt and to be innovative need to focus on both 'hard' and 'soft' policy instruments, which in practice are intertwined. However, a more detailed understanding of specific issues helps generate an understanding of how the different policy instruments work together. This paper focuses on the four soft policy instruments that are most important for cities seeking to respond to the changing economy:

- **Skills:** cities need to invest in skills appropriate to their key sectors, and can benefit from the innovation associated with higher skills as well as the spin-off benefits of education institutions;
- **Leadership:** if cities are to change direction, they need strong leadership to work with key stakeholders and generate a sense of shared purpose;
- **Distinctiveness:** successful cities are those that have a particular identity that helps them attract businesses, skilled workers, visitors and students. Often this may involve strengths in the creative and cultural sectors, which can in turn impact on economic success;
- **Collaboration:** Different cities have different strengths, but frequently these are complementary and working together can enhance the offer that both cities can make to businesses and to workers, for example a large city could find it easier to employ workers if a nearby city offers a high 'quality of place' offer where they can live with their families. Collaboration may be particularly important for cities where the core industry has declined.

This paper reviews why cities should focus on these four issues and looks at how cities might make use of these policy instruments to thrive in the knowledge economy, assessing the different roles

of the OECD, national governments and cities. These recommendations are set out in more detail in section five. Overall, the paper argues that the transformation of the world economy over the last two decades makes it imperative that place is put back into policymaking. National, regional and local policymakers need to work together, across boundaries, to ensure that places both support the knowledge economy and benefit from its growth. When it comes to ‘soft’ policy instruments, city policymakers can make particular use of skills, leadership, distinctiveness and collaboration to rise to the challenges of changing economies and societies.

2. Context: Globalisation and the knowledge economy

“...a strategic goal for the next decade: to become the most dynamic and competitive knowledge based economy in the world.”

Lisbon 2000 EU Council Strategy objective

‘Globalisation’ and ‘the knowledge economy’ are the defining and inter-twinning narratives of the last two decades of transformation in the world economy. Yet both incite more myths and scare stories than evidence-based assessments of what has really changed in our economies and societies. Before looking at the ways in which cities need to respond to the changing world, it is important to be clear about how the world is changing, and what that means for our economies, societies and cities.

Globalisation & the Knowledge Economy

Over the last two decades, the world has become more globalised as transnational processes have increased. The International Monetary Fund describes this in mainly economic terms, focusing on the growing economic interdependence of countries through increased international trade in goods and services, ease of international capital flows and rapid and widespread diffusion of technology. Arguably, however, increased speed of information flows and migration have also meant that globalisation has not just economic but also cultural, political and social implications.

For many people, however, the main consequence of these increased transnational processes is seen to be job losses. The term “globalisation” is perceived to be shorthand for job losses from developed countries to low-cost competitors and for threats to the welfare state in those countries. Globalisation is often regarded as an incentive for countries to adopt protectionist policies.

A review of the evidence shows, however, that this understanding of the consequences of globalisation is at odds with what is happening. In practice those developed countries most likely to bemoan the impact of globalisation have tended to be the winners in terms of affluence and jobs. China, regarded as an enormous threat by many developed countries, in fact relies on foreign companies for nearly 60% of its exports, nearly all its high tech exports and more than half its patents: “in essence it is a subcontractor to the west, boosting the profits of our multinationals and the real incomes of our consumers” (Hutton 2007).¹ The jobs that have moved to China tend to be in sectors where companies benefit from competing on low wage costs (e.g. some manufacturing jobs) rather than ‘higher value’ more knowledge intensive work. These jobs have grown in number and are overwhelmingly based in developed countries, despite the wage differentials.

This analysis illustrates that, despite the rhetoric about globalisation encouraging a race to the bottom and the chasing of low wages around the globe, the consequence of globalisation has overall been the creation of jobs and greater affluence, but with place-based differentials. Developing

1 . Hutton, W. ‘Globalisation’ in Held, D. (forthcoming)

countries have gained more jobs that are 'low value', as well as some higher value jobs and slightly more international trade; developed countries are reaping proportionately greater benefits through the creation of more 'high value' and high wage jobs.

This balance of low wage work and higher-value work, based in different places, is a strategy that many successful companies adopt. For example, Dell has outsourced many aspects of its business, benefiting from cost savings in doing so, but has retained in-house capacity to customise its equipment, as well as in-house marketing and distribution. Retaining this in-house capacity makes it easier for the company to respond more quickly and innovatively to changing markets. Berger's 2005 survey of 500 multinationals in 'How we compete' supports the importance of this balanced 'costs and innovation' approach, highlighting that the most successful companies are those that are well organised and embedded in strong institutional networks. This work, supported by other surveys of successful companies such as Porras and Collin's (1997) *Built to Last*, suggests strongly that success in the global economy depends above all on responding quickly and innovatively to a changing market.

This importance of responding rapidly to changing markets means that 'globalisation' is still an ongoing process rather than a stage that has been reached and also means that globalisation remains place-based (Sassen 2006²). Despite increased international flows, there are few truly transnational processes. A review of the research and development flows between the United States, the EU and Japan, for example, demonstrates that these are rarely global in nature. Instead, most companies manage their complex processes to disperse money, products and information by having a 'specialised command centre' based in one country and often one city. Sassen (2006) argues that this is the role of global cities, such as London, New York and Tokyo, where many companies base their global operations because of their connectedness, access to talent and the increased ability of companies to respond quickly to changing markets.

This 'place-based' element to globalisation is rarely discussed but very apparent on a closer examination of successful companies. For example:

- The hugely successful clothing company Zara sources half of its products from trusted local suppliers located in and around its base in La Coruna;
- Ford insisted that suppliers were physically close to its new flexible factory in Chicago in order to manage its supply chain more effectively;
- Despite the higher costs of Italian wages, Benetton, Safilo, Max Mara, Tie Rack and Ermenegildo Zegna are globally recognised companies with production bases in Italy. They form a small-firm cluster whose collective output and profitability supports trade fairs, design schools, training and information about foreign markets, all feeding back into their firms' productivity.

Places therefore matter in the globalised economy, as basing functions in particular places helps companies to respond to changing markets innovatively, as well as to manage costs where appropriate.

Yet globalisation mainly affects those sectors that trade internationally and that are sensitive to low wages, which accounts for about 10 % of GDP. The even bigger story, when it comes to describing and understanding changes in the world economy and their impact on cities, is that of

2 . Sassen, S. (2006) *Cities in a World Economy*, Pine Forge: Sage.

affluence and the knowledge economy, which reinforces both the importance of rapid responsiveness to changing markets, and the importance of place to doing this.

The general level of affluence across OECD countries is rising rapidly.³ The level of happiness across many of these countries, however, is remaining fairly static, reflecting the findings of a number of studies (Layard, 2006; Krueger and Kahneman, 2006) that, beyond a certain basic level, higher income does not automatically make people happier. A higher income does, nonetheless, give people more money to try to pursue happiness. As individuals move up Maslow's hierarchy of needs, they can fulfil their basic wants and start to want to 'self-actualise', to meet their psychological, experiential and emotional needs. People with considerable disposable income are identified as "apex consumers", people who want to spend their income on customised services that are delivered at the times and places that suit those individuals best. These are the people who are changing the markets, and whom cities and businesses need to understand if they are to keep up with the changing economy.

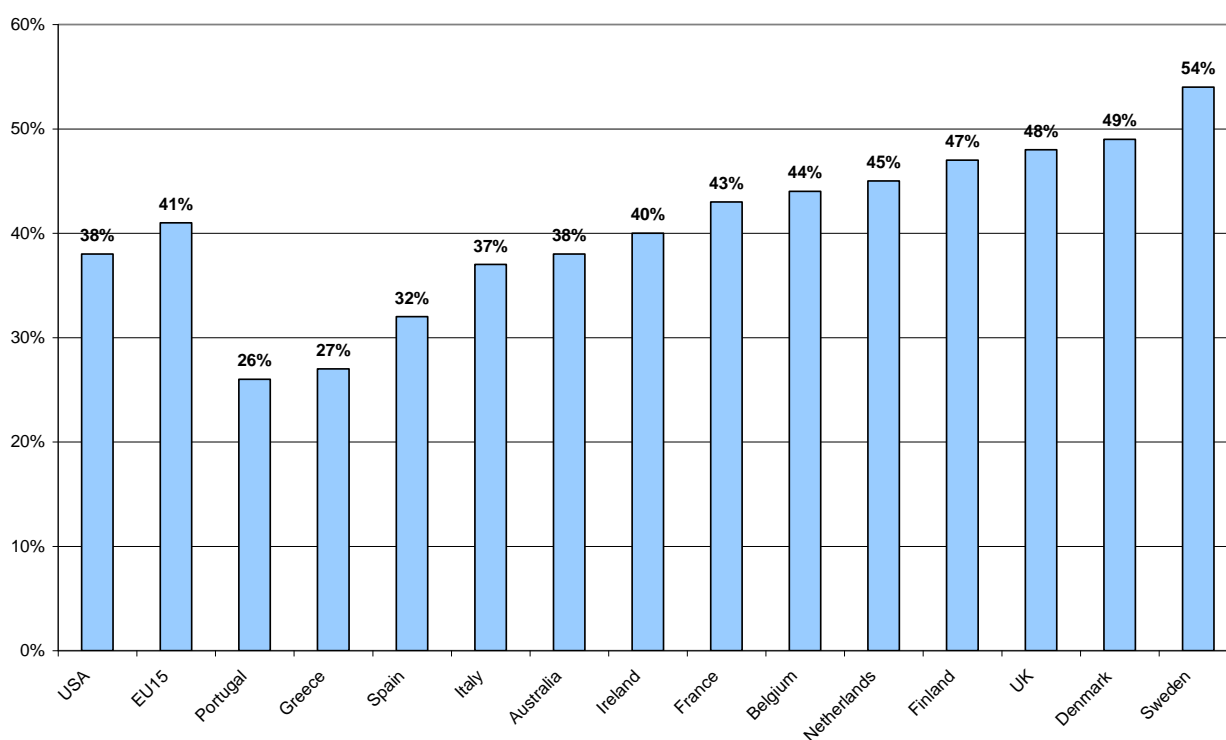
"Apex consumers" tend to demand customised services, and this places a premium on industries where adding value does not just mean creating tangible products, but also creating a particular brand or feel to a product. This 'brand' helps the purchaser feel that they are not just buying a product or an experience; they are buying psychological self-determination, a certain kind of identity associated with that 'brand'. Zuboff and Maxim's work *The Support Economy* (2002) argues that this trend means there are significant rewards for those businesses that create value not just through combining materials into outputs, but by helping consumers navigate complex choices and helping them find psychological well-being. This is reflected in the figures: spending on the services sector has doubled in thirty years in the UK alone, from 27 % of household spend in 1970 to 54 % in 2006. In a world where brand loyalty can be changed with the click of a mouse, it is those companies that respond to these demands quickly, by retaining control over the way their organisation adapts to changing demand, that are likely to win in terms of customer satisfaction and growth.

The economic response to demand for customised products is the rapid growth of the knowledge economy, those industries that rely on highly skilled workers to innovate in order to make more effective use of existing capital and labour. This is the growth of organisations that employ 'hard knowledge' – scientific, technological and skill inputs – with 'soft knowledge' – less tangible production inputs such as leadership, communication, emotional intelligence, the disposition to innovate and social capital – and creates customised products for "apex consumers". Industries that The Work Foundation defines as 'knowledge industries' not just the typical science and technology industries, but also high to medium tech manufacturing; financial services; telecommunications; business services; education and health services.⁴ Based on this definition, the importance of these industries across OECD countries is clear (Figure D.1):

3 . Overcoming Exclusion through Adult Learning, OECD (1999)

4 . See *Ideopolis: Knowledge City-Regions* for a more detailed breakdown of the SIC codes used in this analysis

Figure D.1 Share of Knowledge Based Industries in Gross Value Added (2002)



Within the EU15 alone, Brinkley & Lee's (2006) paper *The Knowledge Economy in Europe* highlights that "over the past decade most of the new jobs across the EU15 have come from the expansion of the knowledge-based industries. Between 1995 and 2005, employment across knowledge-based industries went up 24 %. In contrast, employment in the rest of the EU15 economy went up by just under 6%."⁵ Indeed, this analysis also found that technology and knowledge-based industries created 2.5 times more net jobs than the rest of the economy within the same time period. Knowledge industries are also contributing to export growth, for example knowledge service exports from the UK have trebled in ten years, from GBP 27 billion in 1995 to GBP 76 billion in 2006. Together with demanding "apex consumers", two other factors have also supported the growing knowledge economy and the increased importance of responding innovatively and quickly to changing markets.

One factor is changing supply. There has been a "cognitive transformation", with a quadrupling of those with degrees since 1975. Concurrently, the number of people with no qualification has reduced from half of all men and women in 1974 to 13% of men and 15% of women in 2001. This, combined with a range of other factors, has contributed to the rise of not only knowledge industries but also knowledge jobs. It has enabled individuals to increase their personal affluence and so become "apex consumers" and has enabled businesses to transform their products and strategies.

The second factor is the importance of innovation to increased productivity in any economy, at any time. The only way to increase productivity is through innovating to make more effective use of capital and labour, creating more effective ways of organising work and supporting the creation of

5 . Brinkley & Lee (2006) *The Knowledge Economy in Europe*, The Work Foundation: London, p.7

new products. In a more globalised world, the main difference is speed: more sophisticated technology and faster information flows mean that consumer demands may shift more quickly and companies can respond more quickly. But even in an enclosed economy with no global links, a combination of hard and soft knowledge would be required to support innovation if productivity was to increase.

Overall, then, the increase in transnational processes and the growth of the knowledge economy are creating a world in which companies need to respond more quickly and innovatively to changing markets. What is striking is that many of the most successful companies do this not in a “weightless” world but in a “place-based” world. Those companies who tend to best understand the way in which their customers are changing also tend to stay close to their customers (Berger, 2005), which tends to mean staying close to cities, as this is where the bulk of the population live, work and consume in OECD countries. Companies that do well are inclined to cluster their innovative functions in close physical proximity, making it easier for them to exchange ideas and implement change, and again cities are popular locations for this kind of physical proximity. In other words, in an economy where responding innovatively to changing markets matters, places and particularly cities also matter.

Cities, Globalisation and the Knowledge Economy

This importance of place in the knowledge economy means that the increase of globalisation and the knowledge economy presents real opportunities to cities and city-regions. However, it also means that cities need to understand why they matter in the knowledge economy, how they can enable companies to respond innovatively to changing markets, and then what policy interventions can be undertaken to affect the ‘offer’ a city makes to businesses and its inhabitants.

There are two main reasons why cities and city-regions matter in the knowledge economy and in the globalised economy. First, because they offer productivity benefits, including access to markets and a variety of external economies of scale, including access to large and specialised labour pools (particularly of high skill workers). Cities and city-regions also offer proximity to other knowledge workers, enabling ‘tacit’ knowledge to be shared; the knowledge that cannot be easily ‘codified’ and is best exchanged and developed through face-to-face contact and trust-based relationships. They offer a critical mass of firms, who interact through staff moves, networking and personal relationships. In other words, firms can benefit from ‘spill-over effects’ from other firms’ innovative activity. These spill-over effects are particularly important in the knowledge economy as they can significantly contribute to companies’ ability to respond innovatively to changing markets.⁶

The second reason that cities and city-regions matter in the knowledge economy is consumption benefits: access to a rich variety of goods, services, cultural facilities and social opportunities. Research suggests that the benefits of living in a city or city-region may be particularly attractive for the most talented and entrepreneurial workers⁷ – in other words, the workers that drive the knowledge economy.⁸. This can in turn mean that knowledge workers gain access to a range of employment options, giving them the incentives to develop specialised skills. Clustering consumption services together also supports further innovation, as well as enabling providers to better understand their markets.

Across the OECD member countries, there is growing recognition that cities offer these production and consumption benefits, and that they are both engines of the knowledge economy and

6 . See DCLG (2006) *Enabling Cities in the Knowledge Economy*

7 . See Cheshire, 2006; Hall, 2000; Florida, 2002; Glaeser, Kolko & Saiz, 2001

8 . DCLG *ibid*

places that offer a high quality living environment. This is not to say the problems that post-industrial cities have been grappling with in recent decades have gone away: cities continue to be the sites of some of the most profound social problems and highest levels of poverty in OECD countries. Yet the “urban renaissance” that many cities have undergone in the past twenty years is regarded as a hopeful portent for the future and as potentially “providing an opportunity to narrow the economic gap between regions and to tackle deprivation at the local and neighbourhood levels” (HM Treasury, 2006, UK) by enabling businesses to better respond to the changing demands of “apex consumers” and the knowledge economy.

The argument is that this context of globalisation and the knowledge economy mean that it is vital that businesses respond innovatively to changing markets. Whilst success is partly supported by tangible issues, such as transport to move workers, consumers and products to a particular place, innovation also requires ‘soft’ interventions. The Ideopolis work suggests that there is four soft policy instruments in particular that can help cities respond to the changing economy – skills, leadership, distinctiveness and collaboration. This paper explores these in more detail, focusing on:

- A review of why skills, leadership, distinctiveness and collaboration matter to cities;
- An analysis of how cities and national governments can make effective use of these policy instruments to enable cities to thrive in the knowledge economy.

It is recognised, throughout the paper, that there are substantial differences between the institutional frameworks in different OECD countries, and that these will affect how cities operate. The freedoms available to a city in a relatively centralised state like the UK, for example, are considerably less than those of a more decentralised (and polycentric) system such as Germany. It is beyond the scope of this broad paper to outline in detail each different system particularly as, even within countries, systems can affect different cities in different ways. Instead, each case study example should be considered in the context of the particular institutional and policy structure of that country and city. Institutional frameworks should not become a reason for inactivity: whilst many cities would argue that more autonomy would be the main enabler of greater success, there are many policy interventions that can be undertaken in the meantime that will increase the chances of city success. All cities within the OECD have some scope to shape their future direction. The remainder of the paper is organised into the following sections:

- Drivers of city success in the knowledge economy and the Ideopolis framework;
- Why do soft policies, and in particular skills, leadership, collaboration and distinctiveness, matter to cities?
- How can these four “soft” policy instruments be applied to support cities’ success?
- Conclusions and Recommendations.

3. Drivers of city success in the knowledge economy

Before looking in detail at ‘soft’ policy instruments, it is important to outline the core research on which our paper is based. Recognising that place matters in the knowledge economy, The Work Foundation launched a year-long research programme looking at the factors that contributed to

successful ‘knowledge’ cities,⁹ involving a literature review, data analysis and 14 city case studies, 10 UK, 3 EU and 1 US city. The research project found that there was no one magic way to become a successful knowledge city. Instead, successful cities were those that had built on a city’s distinctive economic and social history, distinctive physical environment and distinctive geography, as well as built links with nearby cities, to adapt to the changing economy.

Building on these findings, and as argued in a publication for the UK Department of Communities and Local Government, *Enabling Cities in the Knowledge Economy* (2006), all policymakers need to keep in mind the following principles when planning policies for cities:

1. **A city’s size has a significant influence upon its opportunities for economic development and its sustainability.** This is not a simple matter of either large or small being good or bad. Large and medium-sized cities have different advantages and disadvantages associated with their size.¹⁰ The size of large cities brings its own advantages, including: higher productivity;¹¹ greater international presence;¹² more diverse range of knowledge industries;¹³ and a greater range of leisure and cultural activities that are particularly attractive to knowledge workers.¹⁴ As knowledge workers tend to be more mobile than other workers, they may also be willing to live outside a large city and travel a reasonably long distance in order to work there. However, medium-sized cities also offer advantages based on their size. When large cities get to a particular size they can become very expensive locations for businesses and individuals, congestion can increase and wages can become higher. This can make it beneficial for businesses and individuals to locate in medium-sized cities offering a smaller range of industries but higher quality of life and lower costs.¹⁵ Urban and national policy instruments need to reflect the differences between different sized cities, and cities themselves need to recognise the way in which their size affects their economy and society, how it affects the way different industries work together, and how this impacts on their ability to adapt to changing demand.
2. **A city’s relationships and proximity to other cities has a significant influence upon its opportunities for economic development and its sustainability.** Although cities of different sizes have distinctive qualities, it is also important to note that they cannot be treated simply as isolated examples of a particular category. All cities are firmly embedded in a network of inter-relationships between different places. A range of evidence from the US and Europe shows that the hierarchy of cities -- their size and economic success relative

9 . See Jones, A, Williams, L. Lee, N & Coats D (2006) *Ideopolis: Knowledge City-Regions* The Work Foundation: London

10 . It is challenging to define city size, particularly because a medium-sized city in China would be a large or very large city in Europe. Hildreth’s comparative approach to describing cities as large or medium-sized is used here.

11 . Polese, M (2005) ‘Cities and National Economic Growth: A Reappraisal’ *Urban Studies* 42 (8) p.1429-1451

12 . Sassen, S (2001) *The Global City: London, New York, Tokyo*, PUP: Princeton

13 . Henderson, V (1997) ‘Medium Size Cities’, *Regional Science and Urban Economics*, 27 p.583-612

14 . Henderson (1997) *ibid*

15 . Henderson (1997) *ibid*

to each other -- has changed little since the early 20th century.¹⁶ Whilst there are exceptions to this rule, the implication of the relative stability is that all cities, regardless of their size, are growing or shrinking at the same rate. So when one large city grows, nearby medium and smaller cities are likely to grow at a similar rate, thus maintaining the urban hierarchy. What this suggests is that all cities - large, medium-sized and small - are inter-dependent within the national economic framework (Polese 2005; Hildreth 2006), and that hence cities need to consider how these relationships work and how to make the most of them. This is particularly important for medium-sized cities, which should seek to work closely with a large city if they are in a city-region, or potentially to work with other medium-sized cities if they are not in a city-region.¹⁷ Large cities, however, can benefit substantially from closer working with their nearby medium-sized cities, who may be an important source of labour in some of their growth sectors, such as knowledge industries.

3. **A city's economic development and sustainability strategies need to be built upon an understanding of that city's history, its strengths and its weaknesses.** As the history of a city has such a significant impact upon its current strengths and weaknesses, future strategies need to be firmly built on an understanding of where the city has come from, where it is now and how the economy is changing. Without this 'building on what's there' approach, there is a danger that some cities could invest in 'fashionable' strategies that are unlikely to be effective given those cities' particular set of economic, social, cultural and physical circumstances. For example, nanotechnology has become a regular feature of economic development strategies, despite the lack of a research base, skills base or accommodation base in many locations that are striving to become 'nanotechnology centres'. Cities that do build on existing specialist strengths are more likely to be able to adapt to the changing economy in a sustainable way.
4. **Economic and social policies – or 'hard' and 'soft' policy instruments - should be linked.** Our research found that growth in knowledge industries drives economic success, but not necessarily quality of life for all residents in a city. Many successful cities continue to have deprived communities that are seeing few benefits from the city's economic progress, and continuing social and economic exclusion means many are unable to benefit from rising affluence. 'Trickle-down' does not occur automatically, making it important that strategies to respond to the changing economy and to create more jobs in a city must also consider how to link with regeneration initiatives. This is both a moral and social imperative, but also about sustainable economic success: growing cities cannot afford to have a large resident population that do not have the skills required to access the available jobs, particularly if they run out of people living nearby with the appropriate skills.
5. **There is a 'tipping point' at which knowledge intensity makes a substantial difference to a city.** In *Ideopolis: Knowledge City Regions*, a detailed empirical analysis was conducted of the knowledge economy in UK cities. One of the findings was particularly striking. There was clear evidence of a tipping point, robust across four different measurements of knowledge intensity and over two different time periods. In short, beyond a 'threshold level',

16 . For example, Black and Henderson (1998) conducted a systematic analysis of all US cities between 1900 and 1990 and found that in general, the relative sizes of US cities changed very little over the ninety years. See Hildreth (2006) for a more detailed discussion of the evidence.

17 . DCLG (2006) *ibid*

a city begins to benefit from knowledge intensity.¹⁸ The findings went beyond this, however. Using an OECD definition of knowledge intensive businesses that excludes Health, Education and some Creative Industries, change over time was examined and it was found that the ‘tipping point’ increased between 1997 and 2002. (Figure D.2). There was also evidence of a second tipping point. Beyond a point where 25% are knowledge businesses the returns are larger, but after 40% the returns are even larger again. There was a similar effect using qualifications as a proxy for knowledge intensity. When more than 20% of the population have degrees the returns are large, but when more than 30% do the returns are even larger (Figure D.3). Given the above, it is obvious that knowledge industries matter for economic success. But it is less clear why this ‘tipping point’ exists, and why a second tipping point has been found for some indicators. One explanation might be composition, where there is a select group of highly productive industries, which are only found in a few local authorities, such as R&D labs or financial services functions. But a second explanation might be that knowledge industries increase the productivity of other workers in a city. This might be through more knowledge sharing, or because a rich cultural sector may attract more staff. It may also be because the presence of a critical mass of knowledge jobs benefit from agglomeration economies – benefits of being close to other firms – which increase the productivity of other similar firms. A final explanation might be about ‘crowding out’. If knowledge industries are really productive, they could be able to pay more for their rents and labour than non-knowledge intensive companies. This forces them out, over a certain level, and so increases the relative effect of the knowledge industries (Figure D.4). Furthermore, there are always problems with the data that need to be borne in mind as part of an analysis such as this. For this piece, Local Authority data was used. As Paul Cheshire has shown,¹⁹ these are not necessarily the most appropriate units for modelling economies, which ignore administrative boundaries. There are also problems in the UK with using devolved data collection and the quality of data at a local level. Nevertheless, given the strength of the association and the consistency using a range of different knowledge intensity variables, the research remains reasonably robust.

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- 18 . A spline regression was used, here, which calculates a normal regression for different areas and allows for multiple slopes at different values of a single independent variable. The research analysed the impact of knowledge intensity on Gross Value Added (GVA) across the 94 largest UK Local Authority areas (excluding London).
- 19 . Cheshire, Paul. 'Economic Indicators for European Cities: Why Boundaries Matter.' In *The Quality of Life in the Cities and Regions of the European Union: Indicators*. Statistical Office of the European Commission, Office for Official Publications of the European, 1999.

Figure D.2: Tipping point with OECD Definition for Knowledge Intensive Businesses

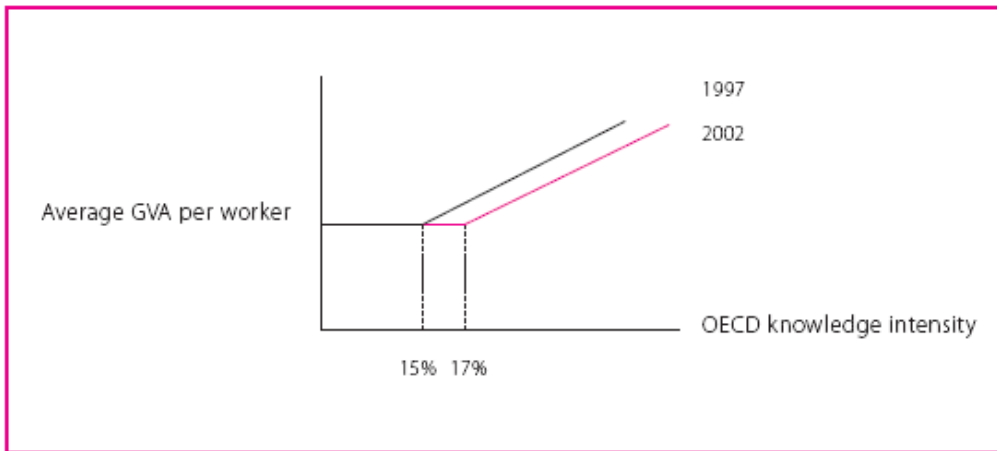


Figure D.3 Tipping point with TWF definition for Knowledge Intensive Businesses

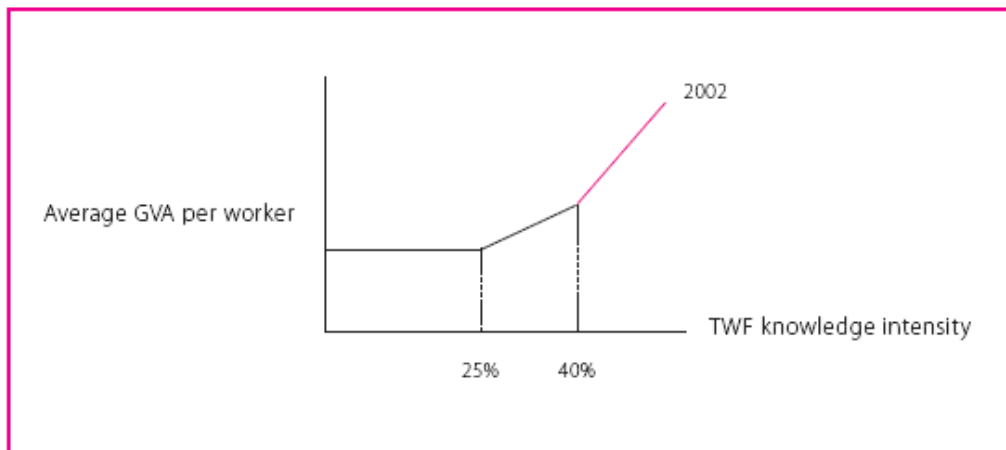
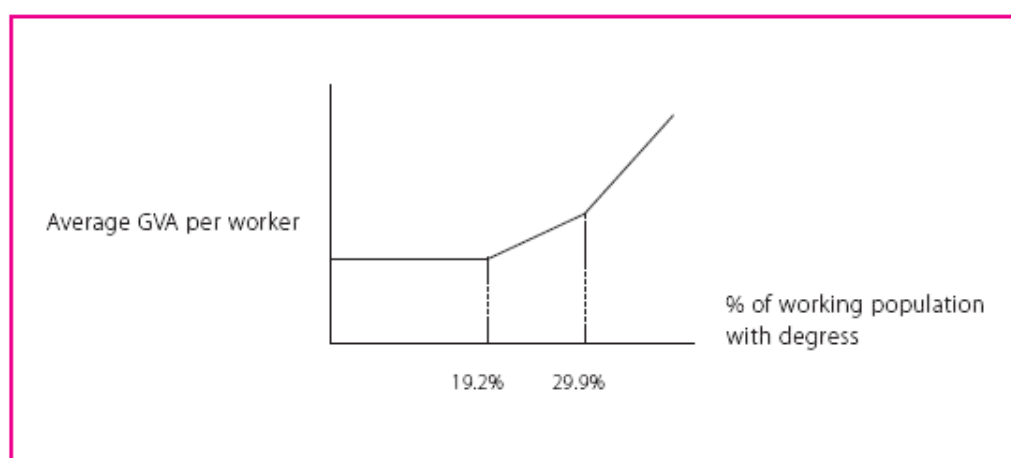


Figure D.4 Tipping point for knowledge intensity by qualifications



6. All cities across the OECD are affected by the knowledge economy but not every city will have the potential to become a primarily knowledge-driven city. Some cities, for example, may prosper more in a knowledge-driven, service-dominated economy by becoming a regional services hub. However, all cities can assess their strengths and weaknesses (using the framework of drivers below) to see how likely it is that they can become a knowledge-driven city and to identify if they have other assets that may have more potential for growth in the changing economy. With these principles in mind, nine key drivers of success for cities in the knowledge economy were developed – see figure four below - intended to demonstrate the different areas which city and national policymakers need to focus on if they are to create and sustain successful knowledge cities. The Ideopolis drivers and principles provide an analytical framework for all cities to use in order to consider their strengths and weaknesses as a potential ‘knowledge city’, and to formulate an economic development strategy accordingly (Box D.1). They also highlight the importance of not only understanding each driver as its own issue, but also of understanding how it impacts on other drivers and on the city’s relationships with other places. Within the framework, it is clear that ‘hard’ and ‘soft’ policy instruments are closely inter-linked. However, certain ‘soft’ policy instruments emerge as particularly important for those cities seeking to respond to the changing economy: skills; leadership; distinctiveness; and collaboration. These issues provide the focus from which the paper assess how “soft” policy instruments can help a city to adapt to the changing economy and what the implications of these findings are for policymakers across the OECD countries.

Box D.1 The Nine Ideopolis Drivers

Investing in the physical knowledge city: Commercial and residential accommodation, public buildings, infrastructure, public space;

Building on what’s there: Recognising historic strengths and building on them where possible, recognising that development is path dependent;

Diverse specialisation: A reputation for excellence in a limited number of industries (but definitely more than one industry);

High skill organisations: Organisations with high skill occupations and workers;

<p><u>A vibrant education sector</u>: Including schools, FE and universities, and embedded in the community and the economy;</p> <p><u>A distinctive “knowledge city” offer</u>: Having something that complements nearby cities but is distinctive from them;</p> <p><u>Leveraging strong connectivity</u> within and outside the city-region;</p> <p><u>Strong leadership around a knowledge city “vision”</u>, supported by networks and partnerships;</p> <p><u>Investing in communities</u>: A determination to tackle social exclusion and ensure that the fruits of growth are equitably shared alongside a commitment to invest in the most deprived communities</p> <p>Source: Work Foundation (2006), <i>ibid</i>.</p>
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4. Why do soft policy instruments matter to cities?

Why look at ‘soft’ policy instruments?

In a rapidly growing knowledge economy, cities matter as the places where businesses tend to congregate and where “apex consumers” tend to spend their money and time. In this context, it seems fairly evident why ‘hard’ policy instruments might matter to cities. Without an attractive city centre, strong transport infrastructure, the appropriate accommodation for knowledge businesses and knowledge workers, consumers would not be able to access products and businesses would struggle to attract workers and to connect with other places.

‘Soft’ policy instruments can appear to be more difficult to justify spending time on, being more difficult to measure and often having outcomes only emerging after a considerable period of time and that are difficult to associate with the initial policy intervention. Furthermore, it is easy to fall into the trap of seeing “hard” policy issues as being economic policy (and thus more worthy of investment) and “soft” policy issues as being social policy (and thus a secondary consideration in economic development). Indeed, policy interventions in response to “hard” issues are frequently funded by large-scale capital investment projects whereas “soft” issues are funded by revenue funding with a generally more short-term focus. Yet more visible “hard” issues, such as transport connections, are only successful if they are enabling less tangible “soft” issues, such as quality of life, to be seen to be improving. Understanding the distinctive nature of different “hard” and “soft” issues is important but prizing one above the other ignores the fact that both are critical to cities’ success in the knowledge economy.

Just as, in the knowledge economy, value can come from a process of innovation that is difficult to codify or pin down, so too in cities does success come as much from more intangible ‘soft’ policy instruments as from the more measurable ‘hard’ policies. In practice, our case studies suggest that ‘hard’ and ‘soft’ policy instruments are difficult to disentangle, for example, city connectivity – a “hard” infrastructural issue – both responds to and shapes decisions made by skilled knowledge workers on where to locate. The analysis in this paper builds on the assumption that “hard” and “soft” policy instruments are both vital to cities and are strongly inter-linked. However, it also recognises that a more detailed understanding of different policy instruments helps generate an understanding of how they all work together in cities.

Whilst there could be any number of ‘soft’ policy instruments, four have been identified that the Work Foundations’ Ideopolis research suggests are the most important for cities when it comes to responding to the changing economy and society. They are also issues over which cities have, in many countries, some degree of influence, and are:

- **Skills:** cities need to invest in skills appropriate to their key sectors, and can benefit from the innovation associated with higher skills as well as the spin-off benefits of education institutions;
- **Leadership:** if cities are to change direction, they need strong leadership to work with key stakeholders and generate a sense of shared purpose;
- **Distinctiveness:** successful cities are those that have a particular identity that helps them attract businesses, skilled workers, visitors and students. Often this may involve strengths in the creative and cultural sectors, which can in turn impact on economic success;
- **Collaboration:** Different cities have different strengths, but frequently these are complementary and working together can enhance the offer that both cities can make to businesses and to workers, for example a large city could find it easier to employ workers if a nearby city offers a high 'quality of place' offer where they can live with their families. Collaboration may be particularly important for cities where the core industry has declined.

As with all soft policy instruments, they are somewhat intangible areas. Even skills, which can be codified through qualifications, are not fully represented by such measures. Many businesses in the UK complain that the skills their highly qualified employees lack, for example, 'soft' skills such as team working and communication. On the flipside, uncertified skills such as on the job training are not recognised in formal measures of skills. The remaining three issues - leadership, collaboration and city identity or distinctiveness - are all emerging areas of research and have no clear measures attached. Yet all four issues emerge in the Ideopolis research as the most important 'soft' factors in supporting a city to respond to the changing economy in a socially sustainable way:

- Three of the four issues are identified as drivers of successful knowledge cities (skills, leadership and distinctiveness);
- Collaboration has increasingly emerged as a way in which cities can effectively build on and enhance their strengths; and
- The four issues help support four other drivers: the embedding of education institutions; building on what's there; diverse specialisation and investing in communities.

This makes these four issues worth investigating in more detail to explore what they mean to cities and how policymakers should respond. This section will review each issue in turn to review how these soft policy instruments can support cities to respond more effectively to the changing economy and to social change.

Why do skills matter to cities?

Skills matter to cities for the same reasons they matter to countries: they support higher productivity and better social outcomes for individuals. The UK Leitch Review of Skills (2007), published earlier this year, drew on international literature and case studies and highlighted that skills are important because:

- Individuals without skills are much more likely to be unemployed, which has an impact not only on their income and physical and mental health but potentially on that of their family;
- Low levels of skills constrain growth and innovation in firms;

- Above level 2, skills have a wage premium for individuals;
- Demand in developed countries is increasingly for skilled or ‘knowledge’ workers;
- Firms employing skilled individuals are likely to be more productive;
- Countries that have high numbers of skilled individuals are more likely to be affluent.

These findings will have resonance across most OECD countries. This summary of the benefits of skills highlights that there is a range of collective and individual economic and non-economic outcomes associated with increasing national skills levels. National policy-makers have recognised this, with 6.1% of collective GDP from OECD countries now spent on education. Reflecting the evidence that graduate skills in particular are important in the knowledge economy, investment has been particularly focused on higher education institutions, and it is starting to reap results. Based on current levels of participation, 53% of young people in OECD countries will attend higher education institutions,²⁰ whilst many countries have benefited financially and socially from foreign students choosing to study in their universities.

Yet whilst countries and cities benefit from skills, there are enormous differences in skills profiles between and within countries in cities. For example, across OECD countries the percentage of adults with higher education qualifications ranges from 20% in Austria, Germany and the Czech Republic to over 40% in Australia, Denmark, Finland and Poland. The countries benefiting from student migration tend to be Australia, France, Germany, the United Kingdom and the United States: the same countries benefiting from the leading ‘world class universities’. Within cities the situation is similar: some highly successful cities such as London or Boston have pockets of poverty and deprivation often associated with poor skills, amongst other issues.

Whilst skills policy may seem a soft issue that has no tangible outcome (beyond simply boosting qualifications which are not always what businesses are looking for), there are clear benefits not only to national economies but also to cities’ ability to respond to the changing economy and provide both production and consumption benefits to businesses and individuals. Specifically, investment in skills and education institutions will mean that a city can:

- Have a labour market with skills that respond to the needs of the knowledge economy, making that city a more attractive place to locate and increasing the likelihood of successful businesses (production benefit);
- Have education institutions that are embedded within the city and which can contribute to the innovation required in knowledge intensive firms (production benefit) and generate their own economic activity through student demand (production and consumption benefit); and
- Have improved social inclusion and healthier residents because of the non-economic outcomes of investment in education.

Responsive labour market

As discussed above, a changing economy demands that cities respond by providing the appropriate skills for new and growing industries, and retraining those who may have worked in

20 . Education at a glance – OECD indicators 2005 – Executive Summary

shrinking industries. The growth of knowledge industries and knowledge jobs is creating demand for higher levels of skills, and cities that can provide those skills are thriving because it is a response to the growing demand for high levels of skills and ‘high value’ work. Research consistently links the average level of qualifications in a city with economic growth, with considerable evidence existing that the highly skilled are more productive. Glaeser and Saiz (2003)²¹ draw on US evidence and suggest that that this may be in large part due to the ability of skilled cities to adapt to economic change. The Work Foundation’s research endorses this, finding that the most successful cities were those that increased their skills levels over time.

However, whilst cities that have high levels of skills reap clear benefits, there is also evidence that the changing economy demands that cities have a good mix of skills. Across OECD countries, employment is not just growing in knowledge services but also in other services, such as retail and personal services. As discussed in section two, it is likely that the increased affluence of some of the more highly skilled workers, combined with pressure on their time, may be driving some of the demand for these retail and personal services. Given this growth, successful cities not only need highly skilled ‘knowledge’ workers but also people with the skills to work in other growing areas of the economy that respond to rising affluence, consumer demand and the marketisation of domestic and personal services.

Many cities, however, struggle to respond to demand for this mix of skills. For example, the Work Foundation’s detailed case study of Manchester highlighted that the Greater Manchester region in the UK struggles with:

- The quality of the education institutions on the supply side, particularly schools;
- Responding to employers’ demands for skills because a significant proportion of the labour market have low or no skills; and with
- Ensuring that employers that will provide high quality jobs to retain Manchester’s graduates are attracted to the city.

Skills are not just an important policy lever because of the economic benefits associated with supporting cities to respond to changing demand, but also because skills can lay the foundations of social inclusion. Lack of skills can contribute to and reinforce polarisation within cities, particularly if the increase in ‘knowledge jobs’ means that there are fewer jobs for those with lower skills levels.

Nationally, most OECD countries have a sense of the extent to which their skills supply matches demand but, as discussed earlier, cities across the OECD are radically different from the countries they are in and the skills picture varies enormously from place to place. A key challenge for cities seeking to ensure they have a responsive labour market is being able to respond to their particular demand and supply issues. Yet many national and regional policies and institutions do not support cities to do this. Returning to Manchester in the UK, one of the main barriers to getting the mix of skills right in that city-region are national and regional policies and funding regimes that prevent the city from responding to its local issues as well as delivering national priorities. Centralised models of policymaking, particularly an issue in countries such as the United Kingdom but relevant even in federalised countries such as Germany, too often tend to enforce national or regional priorities onto

21 . Edward L. Glaeser & Albert Saiz (2003) “The Rise of the Skilled City”, Harvard Institute of Economic Research Discussion Paper Number 2025.

local issues, instead of freeing up these cities to formulate their own response within a national framework.

This can mean that, whilst education policy at a national level is, as discussed in relation to several OECD countries, starting to respond to the demands of the knowledge economy, a lack of flexibility within the skills policies which do not allow for adequate flexibility in places means that the leaders and partners in city-regions such as Manchester are not empowered to make strategic decisions about the skills problems within the city-region. This can prevent them from building on their distinctive strengths in a way that responds to changing demand in the knowledge economy.

Related to this, the separation between thematic policy areas -- skills, welfare to work, regeneration policies -- in most countries leads to a lack of joined-up policymaking at national and regional levels, and means that it is challenging to address some of the root social and economic causes of differential education outcomes. In particular, it can be difficult to address the needs of school leavers with low or no qualifications and the so-called 'hardest to help' in the labour market, because the policies are not joined up.

The disjuncture between national, regional and local priorities in most OECD countries, and the separation between policy areas, combine to make it difficult for local leaders to exert influence over the skills problems. It is very difficult for cities to use their regional and local expertise to translate national and regional skills strategies into local policies that combine different issues into a coherent approach to responding to changing demand and to the needs of deprived communities. This, in turn, makes it harder to achieve nationally desirable outcomes.

Vibrant education sector embedded in the economy, especially universities

A vibrant education sector, from schools to further and higher education, which is embedded in the community and the economy, enables a city to support businesses to innovate in response to changing demand, as well as to transform the cultural and leisure offer of a city because of student demand. Whilst the whole education sector matters to knowledge intensity and sustainability, it is very clear from our case studies that universities and higher education institutions are particularly important for knowledge intensive cities. All of the successful cities examined have universities that either already have, or are growing, an international reputation and have close relationships with businesses based on the particular specialisms of the university, as in the case of Helsinki (Box D.2).

Box D.2 Helsinki – Academic concentration and innovation

Helsinki is a highly innovative city, notable for a high concentration of both Finnish R&D and academics. The population is extremely highly educated, with around 21% of the population over 15 having achieved university level education.²² Meanwhile, around half of all the academics in Finland live in the city-region, there are eight universities including four art academies amounting to around 60,000 students.²³ Meanwhile, the innovation strategy for the city-region maintains a focus on quality of life – recognising the need to keep knowledge workers in the area.

This relatively highly educated environment has resulted in world-class innovation and has paid off in terms of economic growth. The city is highly knowledge intensive, with notable strengths such in high-tech industry with firms such as Nokia. In 2003 value added in the city-region was almost 60% higher than the European average.

22 . Figures for 2004, City of Helsinki Urban Facts

23 . Leo Van Den Berg, Peter M. J. Pol, Willem Van Winden & Paulus Woets (2005) *European Cities in the Knowledge Economy*, Aldershot: Ashgate.

Furthermore, universities are more likely to be located in cities, meaning that the increased importance of higher education in the knowledge economy draws attention to the role of higher education in cities. The increase in participation rates in higher education has benefited cities because it is an attractive offer for businesses to locate near sources of highly skilled labour and of innovation, not just in their specific industry but also in other industries. For example, many German and international hi-tech businesses decide to locate their German headquarters in Munich, despite it not being the capital city. These include Allianz, BMW, EPCOS, Infineon, MAN, Munich Re, Siemens, Microsoft Germany, Oracle Germany, ProSiebenSat.1 Media. One of the reasons for these location decisions is the high level of skills within the labour market in Munich, as well as the city's reputation as offering a high quality of life (consumption benefits), which attracts the highly skilled workers to the jobs that are there.

Across the OECD countries, successful city authorities are creating formal and informal partnerships with universities (e.g. Helsinki city authority makes a financial contribution to Helsinki university). This includes the establishment of intermediary institutions to facilitate the 'knowledge transfer' from academic research into private enterprise (e.g. 'incubators' in cities such as Barcelona and Cambridge), and the establishment of regional economic development and promotion agencies that broker relationships between skills institutions and public authorities (e.g. Oresund Science Region and Manchester Knowledge Capital).

There is also some good evidence that the relative size of the university sector is significant and positively related to urban economic growth. This is for two reasons, first because of the local growth effects, but also because the better the institution the wider will be its catchment area and the better the human capital it will gain. Once students are in a local area there is also a likelihood that they will stay in that local labour market – further increasing the human capital of an area and helping that place to respond to demand for more highly skilled workers.²⁴

Nonetheless, just having a university or strong higher education sector does not in itself drive growth in a city. Those cities that are successfully driving knowledge intensity through their education sector ensure that the education sector is linked closely with the community and the local economy to understand its needs and how it is changing – and this means a partnership that is mutually beneficial. Universities, for example, usually aim to increase their international profile in research and cities need to recognise this. At the same time, cities and universities may have common objectives about developing strong links between research and businesses and improving knowledge transfer within the city itself. Universities also have a role in the social inclusion agenda in the cities in which they are located: for some this means working with the education sector in the city to provide opportunities for lifelong learning for working and non-working residents; for others it is about knowledge transfer to the public, private and voluntary sectors in areas related to tackling deprivation and worklessness.

Too many cities are failing to capitalise on their university(s) as a driver of knowledge intensity because they do not strive to create a mutually beneficial partnership. This may take the form of involving the university too late in conversations about the regional economic strategies and priority sectors for the region, or demanding a great deal of time from the university in multiple partnerships that do not necessarily draw on the university's expertise or help the university achieve its own objectives. There are also universities whose focus is almost exclusively on links with other universities and research and hardly at all on their locality, meaning that cities do not benefit greatly from the work the university is doing. Successful Ideopolises are those that have partnerships between

24 . Paul Cheshire and Stefano Magrini (2002) The distinctive determinants of urban economic growth: does one size fit all? [online]. London: LSE Research Online.

the university, businesses and local authorities that start early, are mutually beneficial and have shared goals, even if not all of their work is pulling in the same direction.

The UK's Lambert Review (2003) recognised and sought to address some of these issues, making a number of important recommendations for easier interaction between universities and businesses which have relevance for all OECD countries. The Review argues that the most effective form of knowledge transfer involves human interaction – 'soft' interventions. Whilst there is no easy, linear path from university-led R&D to its commercial exploitation in every case, the Review makes clear that there are central roles for institutions such as Regional Development Agencies in the UK, or other regional institutions in other OECD countries (e.g. Lander in Germany) in facilitating university / industry relationships and meeting a central challenge of knowledge transfer: raising the demand from business for research.

Improving the quality of skills supply and demand also seems to require more working at a regional and local level not only to respond to current employer demand but to predict, where possible, future demand. Based on demographics (for example, is the population ageing in particular sectors) and current sector growth, plus economic strategies, education institutions and their partners should be able to work together at a city-region level to help plan for some of the current and emerging needs of the city-region. This gives an area large enough to reflect the economic realities and respond to change, but small enough to have an influence. Students also create demand, creating production and consumption benefits for cities.²⁵ These are young people who not only change the culture and feel of the city, but also create new markets for services (restaurants, bars and clubs). Successful Ideopolises are those that are planning how to respond to this demand, managing any difficult consequences (such as housing problems) but also building on the opportunities. As several cities identified, students who enjoy their time in a particular city are also much more likely either to stay there or to return there if jobs are available in future – and this again gives cities a way of effectively responding to the changes in the economy.

Using the education sector to invest in communities

Growing income inequality has been a feature of most developed countries over the last few decades. Some argue that globalisation and the knowledge economy have contributed to this, suggesting that increased demand for high skilled work and for lower skilled 'services' work (such as baristas and cleaners) creates a polarised labour market, with less demand for intermediate jobs in Sassen (2006). Yet whilst Goos and Manning's work in the UK²⁶ and Katz and Kearney's work in the US²⁷ finds that employment growth between 1990 and 2000 is disproportionately in the top and bottom of the labour market, other work such as that by the DTI in Fitzner (2006) and The Work

25 . Glasgow has a large student population with three universities, which take on different roles within the city. Glasgow University was the first UK University to establish a research and enterprise unit, recognising the need to encourage working between the university, public authorities and local businesses. One of the strengths of having several universities relates to the different functions that each has. For example, Glasgow University has a strong medical school, and Glasgow Caledonian complements this by training ancillary medical professionals that work across the West of Scotland and Scotland in general. The university also trains 40 % of teachers in Scotland

26 . Goos and Manning (2003)

27 . Katz and Kaerney (2006)

Foundation in Fauth and Brinkley (2006)²⁸ suggests this may be overstated and that the labour market has been largely stable.

Whether polarisation is a real issue or not, however, the briefest review of places highlights that cities are polarised between those who are in employment and benefiting from increased affluence, and those who are not. The Work Foundation's case studies of eleven UK, three European and one US city highlighted this, finding that in many of the most successful cities there are deprived communities that are socially excluded and do not reap the benefits of the city's growing affluence. Lack of appropriate skills, other barriers to work (such as mental health problems), poor transport links and lack of appropriate employment are among the barriers to excluded individuals finding work, and failure to invest in these issues increases polarisation between those in work and those either out of work or in poor quality jobs.

An economy that requires and utilises different levels of skills is not a problem in itself: the forces of "globalisation" and the knowledge economy require a critical mass of highly qualified knowledge workers as well as a critical mass of people to work in non-knowledge services. But the problem is that evidence from the UK and the US finds that levels of social mobility have been very low in recent decades, meaning that the chances that a child whose parent(s) work as, for example, a cleaner, will go on to higher education and become a 'knowledge worker' are low.

The shifts in labour market structure associated with the knowledge economy create a paradox for policymakers, and specifically urban policy makers: high levels of growth and rising affluence on the one hand and increasing inequalities and low levels of social mobility on the other. Policymakers need to understand and respond to the challenges of the way that globalisation and the knowledge economy is changing cities with one hand, and to manage the consequences this may have for the people who live there with the other.

Skills policies – what should the focus be?

Given the growing importance of skills in the knowledge economy, cities striving to improve skill levels and invest in education institutions in response to the demands of the knowledge economy should:

- Work with employers to understand their skills demands. Successful cities understand how their economy is changing and try to respond to these changes. In terms of skills, the knowledge economy creates increasing demand for high-level skills, for communication ("soft") skills, and for service sector skills. Cities need to work with employers to identify the skill needs of the industries in their locality as well as focusing on future skill needs in the labour market. These should enable them to shape local education policy as well as feed into national initiatives. For employers, this may require a shift in approach as they need to articulate their skill needs and to take a long-term view of the labour market.
- Invest in all education institutions to raise the quality of supply. The knowledge economy requires high quality institutions at all levels as well as having qualifications in courses that respond to the demands of the knowledge economy. Policymakers at a city level need to work within the national policy system to ensure that the institutions within the city meet the needs of individuals and businesses.

28 . Fauth and Brinkley (2006) *Efficiency and Labour Market Polarization* The Work Foundation: London

- Raise aspiration from businesses and individuals Investing in city pride and having a clear strategy for the future of the city can help to raise aspiration for the communities and businesses in the city. This can encourage more people to gain qualifications and to feel they have an opportunity to participate in the future economy in the city. It may also attract better quality businesses to the city, squeezing out “bad jobs” and making room for good jobs.
- Link skills to other policy agendas. Skills cannot be considered in isolation from welfare, health, development strategies and infrastructural investment. Policymakers need to ensure that even if the approach to skills is not joined up with other policy agendas at a national level, it is at a local level, as otherwise cities will struggle to respond to the changes in the economy and the implications this has for their society.
- Work in partnership with education institutions for the benefit of the local economy and community. Education institutions can themselves generate economic activity through local and international spin offs and through student demand. These activities are crucial to cities in the knowledge economy and city policymakers should forge strong and mutually beneficial partnerships with these institutions. In addition, successful skills policies will benefit communities where they are linked to the local economy and to local need.

Why does leadership matter to cities?

Leadership is a difficult concept to pin down - hence our categorisation of it as a “soft” policy instrument – but it is a key issue for successful cities. All our Ideopolis case studies demonstrated that successful cities have strong leadership around a clear vision of how the economy is changing, how their city should respond and what the future of the city might look like. Meaningful networks and partnerships support this leadership vision, enabling it to have a real impact on how the city works and how it responds to changing business and consumer demands.

This is not to say that leadership looks the same in every city. The approach to leadership required for a city depends on its current strengths and weaknesses in the changing economy. Those cities with higher levels of historic assets, enabling them to respond more easily to the changing economy, are likely to depend on leadership much less than those cities, for example, that have suffered post-industrial decline having previously relied upon an industry such as coal or steel as their primary source of employment and wealth.

The role that leadership plays in enabling a city to respond to changes in the economy and society will also vary according to the individual circumstances of a city. Successful cities may need leadership less to enable them to respond to changing demand, and more to be able to manage the consequences of success. The city of Cambridge in the UK, for example, is a highly successful knowledge intensive city that has benefited from university and business leadership, but is now struggling with the consequences of its economic success, such as congestion and pressure on public services. It already has strong leadership from the private sector, but has a growing need for more leadership from the public sector. In contrast, the strong public sector leadership in Sheffield is helping the city to find its feet after the substantial decline of its core industries – but there is a growing need for more business leadership there (Box D.3).

Box D.3 Public and Private Sector Leadership in Cities

Bilbao, Spain: The transformation of Bilbao over the last twenty years was initiated by Bilbao Town Hall: 'The Town Hall's initiative and its firm insistence created a kind of "spark" which motivated other public authorities and some well-known local firms, which joined the process of breathing new life into the city'.²⁹

Cambridge, UK: In Cambridge, a combination of business and university leadership sparked the vision for Cambridge as a leading knowledge city that is driven by the creation of innovative networks to attract investment.³⁰

Despite the variation in the role that it plays in different cities, leadership remains a key driver of success in the knowledge economy. Particular benefits of leadership are:

- It creates a clear vision of the city and how it will respond to the changing economy and society. This acts as a framework for decision-making and helps to attract knowledge intensive businesses and workers, providing production benefits;
- It brings together different stakeholders – local authorities, local community bodies, businesses, and the university – in strong networks that have a clear purpose and can enable ideas to be shared;
- It improves clarity for businesses about where decisions are made and who makes them;
- It helps to engage key stakeholders by being clear about the benefits of engaging in discussions about how the city should develop.

The case studies suggest that the main challenges to leadership supporting cities to rise to the economic and social challenges of globalisation and the knowledge economy are around having appropriate powers to affect the city's destiny and around the capacity to do the things required. The first issue, leadership at the right level, is almost always cited, regardless of the governance arrangements in different countries. International examples reinforce the suggestion that economically successful cities are those that are able to exercise powers at the level of the city-region, where this is defined as 'the enlarged territories from which core urban areas draw people for work and services such as shopping, education, health, leisure and entertainment'.³¹ If cities are to respond to the changing needs of the economy, through providing appropriate transport, office accommodation, education, business support and digital connectivity for growing business areas, then it makes more sense to plan it according to economic boundaries rather than administrative boundaries (Box D.4).

Box D.4: Appropriate levels of governance in cities

Stuttgart, Germany: Stuttgart was facing commercial meltdown in the early 1990s and, faced with this impending disaster, the 179 local authorities voted to transfer resources to a central association with control over planning, transport, marketing and major construction projects to catalyse the economy. The result has been a dramatic improvement in the city's economic health.³²

29 . OECD Territorial Reviews: Newcastle in the North East, United Kingdom, 2006

30 . See www.theworkfoundation.com for a detailed case study of Cambridge.

31 . *A Framework for City-Regions*, ibid

32 . *Seeing the Light? Next Steps for City Regions*: New Local Government Network

The central finding therefore is that cities striving to respond to economic and social change need to have leadership powers at an appropriate spatial scale. What is “appropriate” will vary, however: for some issues the appropriate spatial scale is at community and neighbourhood level.³³ For others, such as planning, transport, skills and housing, it is likely to be a city-region level: (e.g. via elected mayors or city cabinets). Without devolving appropriate powers to different levels, including the city-region, it is highly unlikely that the potential of leadership to enable cities to respond to changes in the economy and society will be fully realised.

The appropriate spatial scale also applies to two other issues, funding arrangements and accountability. On funding, people from outside areas use the facilities in a city, but some of these services are funded by council taxes that are paid only by those in the central city. This means that there is in effect a subsidy on the urban area, leading to under-provision of some services potentially to the detriment of the city as a whole. On accountability, there is an issue about ensuring accountability at regional and local levels if new bodies are created at city-region scale. Otherwise there is the possibility that some institutions may be in danger of having considerable power over how a city develops, without having strong accountability to the public for the decisions that institution makes.

However, as discussed in the first section, despite the variations between countries, those cities in countries where there is little devolution should not focus all their energies on campaigning for further devolution. There are other policy instruments, over which cities do have some control, which cities can deploy to respond to the changing environment and increase their success in the short term.

The second issue, capacity, is raised every time there is a discussion of leadership at a local level. Concerns are raised about the calibre of leadership at local and regional level, although the level of concern varies in different OECD countries, often depending on the degree of power at different levels and hence how attractive those jobs are to talented people. Our Ideopolis case studies also suggested that multi-national firms taking over locally owned organisations may have a detrimental impact on capacity, as CEOs and senior managers may be based elsewhere and potentially be less engaged in the city (although this was by no means the experience of every city). ‘Partnership fatigue’ of the ‘best people’ is also a regular criticism of the way cities are currently led, with concerns that there are too many networks involving too few people in too many meetings. Lack of leadership capacity across the public and private sector is a serious issue for cities seeking to respond to the changing economy, and particularly for those cities already at a disadvantage because of post-industrial decline.

Leadership – what should the focus be?

Effective city leadership requires:

- **Balancing national and local interests.** Across the OECD, cities score differently to the countries in which they are based on almost every socio-economic indicator. This is not to undermine the importance of social and economic outcomes defined as desirable at a national level, nor to suggest that cities are entirely separate from the countries that they are in. Cities should be subject to national initiatives, but should be given sufficient autonomies to make decisions on and respond to national initiatives and targets in a way that reflects local circumstances and enables them to respond more effectively to wider economic and social changes.

33 . Discussed by David Miliband MP, Minister for Communities and Local Government, in his speech to National Council of Voluntary Organisations, 21 February 2006

- **Clarity about responsibilities for strategy and delivery.** There is not a perfect institutional architecture that will support cities in the knowledge economy because of the complexity of the issues that places face and the different historical legacies of institutions and governance arrangements across OECD countries. However, effective city policies require clarity about who is making strategic decisions and who is going to implement these decisions, working with the grain of existing structures and removing structures that no longer serve a purpose. A key part of this clarity includes processes to link up cross-cutting policy areas on which a city needs to focus. It is also important to strive to make decisions at the level of social and economic activity – where people live, work and consume – rather than simply reflecting existing administrative boundaries which may not help cities to respond to the challenges they face.
- **Building capacity at all levels.** In overly centralised models of governance, cities may struggle to find the right calibre of people to lead. In overly localised models, leaders may focus too much on very local issues even if this does not reflect the economic and social realities of the place. Cities and national governments need to invest early in developing future leaders across the public, private and voluntary sectors.
- **Working in meaningful partnerships.** Successful cities rely on strong links between civic leaders, businesses, higher education institutions, the voluntary sector and other stakeholders. Where partnerships are meaningful and have clear objectives it allows a city to draw on a range of perspectives and expertise, enabling more effective use of resources in responding to changing economic and social circumstances and hence increasing the likelihood of better outcomes.

Why does distinctiveness matter to cities?

Distinctiveness is difficult to define or measure, being an issue that tends to focus on intangibles, that is socially and culturally embedded and that is highly subjective. Ivan Turok (2004) has defined it very simply, however, as “differentiation”, with the basic proposition that:

“...by developing unique strengths, original knowledge and creative capabilities that are difficult for other places to replicate, cities can build competitiveness on the basis of ‘non-price’ or quality-based advantages, rather than the cost or availability of local resources.”

The distinctive assets of a city have always been important, whether geographical location or access to raw materials such as coal making particular places attractive for particular businesses. The importance of distinctiveness has increased more recently, however, because of wider economic changes and the growth of the knowledge economy. As discussed in section one, “brand” and identity matter in the knowledge economy. Cities can benefit from offering lower cost business environments, but they can also give products a value by virtue of where they are produced. This value based on place applies for both niche goods, such as Champagne, or knowledge services, such as the language schools that spring up near Oxford or Cambridge to take advantage of the reputation of the Universities.

City policymakers are increasingly recognising that they can make use of distinctive features about their city, such as a recognised culture or identity, to build civic identity and to create a positive image or ‘brand’ for the city. This image can then be used to add value to city products, attract specialised industries or knowledge workers and – hopefully for the cities – create a distinctive comparative advantage by offering distinctive production and consumption benefits that other cities

cannot. The successful cities examined as part of the Ideopolis case studies had identified how they were distinctive and frequently actively sought to promote this distinctiveness, whereas many of the less successful cities were much less clear about how they were distinctive or how this might affect their vision of the future.

Distinctiveness is not just about perceptions, however: it can also have a 'hard' policy edge. For example, architecture is often cited as a way to build distinctiveness, with a great deal of attention paid to 'iconic' buildings, structures or public art that draw peoples attention to the city. Successful examples have included the Guggenheim Bilbao, which has changed the reputation of the city from a Basque port to an important tourist destination, or the Petronas Towers in Kuala Lumpur - the tallest building in the world for a short period, before being overtaken by the Taipei 101 tower. These all require 'hard' capital investment, but have the 'soft' benefit of affecting perceptions of a city's image, reputation and identity. This is an example that highlights the importance of considering 'hard' and 'soft' issues together, as capital investment can also send the 'wrong' messages about a city's distinctiveness (e.g. investment in factories when a city wishes to become known for its knowledge industries).

Despite its abstract nature, distinctiveness can affect both internal and external perceptions about a city. Internally, perceiving a city as distinctive for any reason can help to build civic pride, for example the internal solidarity of Liverpool or the Catalan solidarity of Barcelona. By drawing people around a common theme or identity for the city, a sense of 'distinctiveness' can align developments to help reinforce this distinctiveness, helping policy interventions achieve more than the sum of their parts by ensuring they contribute to a similar vision. It can also help individuals and businesses achieve more than they might have done by creating higher levels of ambition and aspiration for the future.

Internal city identity can also have an external impact by affecting decisions about governance arrangements. For example, debates about city-regions and relevant governance structures often focus on the extent to which people living within the individual towns and cities within the region identify the city-region as an entity of which they are part. This can affect how partnerships between areas work, and can make it difficult for cities to take decisions at the level of economic geography where this crosses administrative boundaries. This, in turn, can make it more difficult for the city to respond to changing economic and social circumstances, making it important that cities that need to work in partnership with other areas find a way to do this without being perceived to undermine the distinctive identity of each area that makes up the "city-region" as a whole.

Externally, a distinctive identity can benefit a city wishing to promote itself. This can be through building on history in order to attract tourism, or can be through quasi-marketing activities such as signature events (such as the Olympics), iconic architecture (like the Guggenheim Bilbao) or festivals (such as the Cannes Film Festival). More blatant attempts at city marketing have also been used, such as the successful "Glasgow's Miles Better" campaign, or a host of forgotten marketing exercises (who remembers "Toronto Unlimited"?³⁴).

For every project that effectively gives a city a distinctive 'offer' to businesses or residents, however, there are projects that have tried to create distinctiveness and failed. For every Guggenheim Bilbao there is a Sheffield Centre for popular music (which went bankrupt). For each 'tallest building in the world', there is a taller one being built, intended to display a similar breed of economic confidence and 'distinctive' international branding. Projects that are not designed with one eye on the

34 . Economist (2006) Cities Guide: Toronto, available from www.economist.com

long term tend to do less well, whereas a focus on quality and long-term prospects reaps dividends. Two excellent examples of this are Edinburgh's New Town and the Gaudi Architecture of Barcelona. The Edinburgh New Town was produced in the 18th century to attract merchants and professionals, the knowledge workers of the day. In this it largely succeeded, and it has left the city with a distinctive architectural legacy it retains today. Similarly, Barcelona offers a model of unique quality - the architecture of Antonio Gaudi for the thirty years from 1880 is still important for the tourist trade and the city's identity today. The lessons from cities that have used distinctiveness to good effect are that it works when the distinctiveness strategy:

- **Builds on what is there.** Effective distinctiveness strategies recognise the unique or unusual aspects of each place, and by recognising these they will produce more appropriate strategies. By building on the existing distinctive features of a place, the city avoids the common trap of attempting to start a new, fashionable industry that has little other reason to site there. This does not mean that cities should be without ambition or drive for the future, or that cities which lack leading edge industries now should be without them forever. It simply means that future plans for economic development should be realistic, and for them to be realistic they should reflect the history and existing assets of that place.
- **Does not over-specialise.** Cities should not aim for an over-specialised (and therefore dependent on one industry) view of their economy, but should try and retain specialisations in diverse industries. Ivan Turok describes many of these, arguing that distinctiveness may encourage flashy, costly projects without substance: "The consequences of a narrow emphasis on distinctiveness may be over-specialisation in a restricted range of industries or occupations, grandiose property schemes and inauthentic branding of places. (Turok, 2004:3)"
- **Recognises where a city sits in an urban system.** For example, Stuttgart would be foolish to style itself as a financial capital while it remains close to Frankfurt. It would do better instead to continue building on its sizeable science and technology base.
- **Links distinctiveness with economic development strategies.** Distinctiveness needs to be linked with plans for the city's future economic development. It should recognise how a city's distinctive characteristics might respond to businesses' desire to locate near their markets and their labour markets, and to consumers' desire to spend their money somewhere that makes their consumption 'special', and strive to make the most of the opportunities that exist. Distinctiveness, as with other policy instruments, cannot be seen in isolation, but needs to work with other drivers if it is to create a longer term and substantial change in cities' fortunes. An image campaign, for example, is only successful if it is reasonably true: there is little point marketing a beautiful city if it not a campaign building either on existing beauty or on the wholesale revitalisation of the city centre if it needs it. Similarly, distinctiveness campaigns pushing an untrue image have been and will continue to be a waste of money and time. A marketing strategy alone will not be successful. Instead, distinctiveness can be used as a conceptual tool to help to create a vision of a future city, in response to economic and social change, and to use the distinctive assets of a city as an advantage in a knowledge economy that prizes 'brand' and identity. It offers an opportunity for a city to create an identity that appeals not only to particular businesses but also to the people those businesses wish to employ by providing a consumption environment that makes living in that city, rather than elsewhere, attractive for both professional and personal reasons.

Distinctiveness – what should the focus be?

In the knowledge economy, the distinctive identities of places, both internal and external, become more rather than less important for cities seeking to respond to changes in demand. For policymakers, the response needs to be:

- Identify the distinctive attributes of a place and use these to formulate a strategy for distinctiveness, linked with the economic development strategy. Cities need to conduct a strategic assessment of their strengths and weaknesses, identifying the attributes that make them distinctive from other places and how they can build on these. This enables them to build on existing strengths or address current weaknesses, but this should not prevent them from taking advantage of other opportunities to build a reputation in new areas, as long as there is some kind of foundation on which this reputation can be built. The key is striking a balance between building on existing strengths and identifying opportunities to change the city in a strategic way, and linking any work on distinctiveness with an overall vision for economic development and the city's future.
- External city reputation and “brand” matters – but it has to be about quality, not gimmicks. With the increasing importance of distinctiveness has come the proliferation of city marketing agencies, identifying often similar “sexy” “unique selling points” or focusing on only one area that does not necessarily reflect what a city has to offer. This is not going to be effective. The reputation of a city externally matters in the knowledge economy because it affects decisions made by businesses and individuals about where to locate and where to consume. However, people can also see straight through a marketing campaign that has no substance, and may require tangible investment, for example physical regeneration, for people to believe in the rhetoric. This is not only an issue for city policymakers but also for the actors within the city, including higher and further education institutions, businesses, cultural and heritage boards and the community and voluntary sector.
- Funding for city development needs to inspire strategic aspirations. This does not mean that cities have to have realised their aspirations before publicising their distinctive assets and applying for funding, but it does require policymakers to understand the way that the knowledge economy is impacting on cities and to enable cities to identify their distinctive way of rising to these challenges.
- City pride and identity has social and economic outcomes. City pride is not necessarily generated by an external marketing campaign but needs to be a separate activity in which policymakers invest to renew pride in the city and to raise the aspirations and outlook of inhabitants and local stakeholders. By shaping social cohesion, city pride can also affect engagement in local democracy, transaction costs for businesses, make a city a more attractive place to live, work, study and consume, and change the feel of a place in a way that is perhaps not measurable but is tangible.

Why does collaboration matter?

The research highlights strongly that cities should not be seen as detached from the wider economic geography of their country. Cities of different sizes, with the different general characteristics that tend to accompany their size, are all inter-linked within the national economy. They are enmeshed in a complex series of overlapping relationships at different local, regional, national and global levels. This means that within a national urban hierarchy are more localised or regional economic structures. These might include areas that are relatively decentralised or polycentric, or mono-centric areas with

smaller urban areas surrounding a central city. The location of a city within this economic geography is crucial to the functions they perform, the potential for change and their economic structure, and so to how effectively they respond to the changing economy.

Evidence for the importance of city locations and the relationships between cities of different sizes can be observed quickly from travel to work patterns in different areas, which can often overlap beyond administrative boundaries. For example, the Polynet study of the South East of England looked at the functional interrelations between different cities and towns, and their relations with London. It was clear that they were defined both locally, by their relations to the towns and cities near them, and by their relations to each other. Near London, therefore, Reading had benefited from businesses 'outsourcing' from London, while Brighton benefited from people commuting for quality of life and tourists.

Sassen (2001), looking at the relations between global cities and their hinterlands has found that functions subject to external economies of scale, such as specialised service functions, often locate in the central city to gain from knowledge sharing and clustering effects, while other offices – such as corporate headquarters – operate outside the congestion of the core. Similar spatial logics apply at a range of levels, and different places need to incorporate this into their economic development plans.

This further suggests that large, medium-sized and small cities could benefit considerably from actively seeking to work with nearby cities and capitalise on the different strengths that different size cities offer if they are to respond to the changing knowledge economy (Duranton & Puga, 2001). The logic is simple: the bigger the size of the area, the greater the diversity of goods and services that can be produced, the larger the local labour pool and so the greater the potential for specialisation and so efficiency. By working with nearby cities, without increasing congestion in a central core, both cities can become more economically successful through generating economies of scale.

Yet the relationships between cities will depend on a wide range of issues: physical proximity; ease of travel between the cities; the different industries; the demographics of cities. For example, cities such as Bolton that are near a large city-region like Manchester are in a very different situation to cities such as Stoke-on-Trent, which sits between Manchester and Birmingham. This makes it important for policymakers considering how collaboration can help them respond to the changing economy to consider not just size and where the city sits in the urban hierarchy, but also the way in which relationships between cities will differ for historical or geographical reasons.

In the UK, some of the main work in collaboration to improve the economic success of more than one city has been between Glasgow and Edinburgh. They have succeeded in working together to support the growth of financial services in the area, with Edinburgh specialising in providing front-office services and Glasgow specialising in providing back-office services such as call centres.

A prominent international example is the Oresund region, which stretches between Sweden and Denmark, and crosses the straights of Oresund. In 2000 a bridge opened across the straight, and the two sides are now linked economically and socially, with over 9000 commuters crossing daily.³⁵ The region has been seen as an emerging region for bio-medical technology,³⁶ and has attempted to

35 . Source: www.oresundregionen.org

36 . Ian Docherty, Philip Drake and Stuart Gulliver (2003) "Exploring the Potential Benefits of City Collaboration"
<http://www.gla.ac.uk/urbanstudies/publications/UCAP8ExploringthePotentialBenefitsofCityCollaboration-Final.pdf>

become a ‘science region’, with collaboration in areas including infrastructure and higher education. There is evidence, however, that the private sector has been less enthusiastic in making links between the two areas than the public sector.³⁷

Collaboration – what should the focus be?

There is increasing interest in collaboration as cities become more entrepreneurial and begin to recognise the role that their position in the wider economic geography of their country plays in the way they can respond to wider economic change. Cities should:

- **Build realistic and genuine links with other cities.** If city authorities acknowledge both their position in an urban system, and the economic and social flows which run through them, the potential for city collaboration becomes clear. Links with other cities must have clear objectives, however, with consensus about what the links are for and how they will work. At a local level, this might be about identifying mutually beneficial collaboration on specific issues in order to respond to economic and social change, for example the transport infrastructure, a shared labour market pool or a shared retail centre. However, links should not only be restricted to nearby cities. Links between different regions or with international cities (for example Cambridge, UK and Cambridge, MA) can be highly beneficial and go beyond notions of twin towns to links that generate real economic activity and exchanges of ideas.
- **Have national governance structures that support strategic decision-making across cities.** There are limited resources in all OECD countries and strategic decisions need to be taken about where funding should be invested to realise the greatest economic and social returns. Where cities collaborate, there is an opportunity to have a more strategic conversation that moves beyond competitiveness or very local issues to take decisions about how to enhance the economic success and quality of life across a wider area and for a wider pool of people. This may require difficult decisions about investing in one place rather than another, on occasion, and governance structures should support cities to work together in a way that generates trust, acknowledges their interdependence, and enables decisions to be taken in a transparent way, with consideration for how all areas may benefit from success. Governance structures should also try to support decision-making with an eye to the short, medium and longer term.
- **Change the conversation about city collaboration.** The literature on ‘competitiveness’ has, unhelpfully, implied a race between cities to become economically successful. Relations between cities are not a zero sum game, however: increased wealth in one city can lead to increased wealth in another (for example through supply chains, increased standard of living, more employment and commuter flows). Collaboration is not an approach to which cities are accustomed, or indeed often encouraged by the way funding streams are structured, but there are mutual gains to be had from cities with common interests collaborating in order to pool their strengths and more effectively rise to the economic and social challenges of the knowledge economy

37. Henrik Sornn-Friese and Janne Simoni Sørensen (2005) “Linkage lock-in and regional economic development: the case of the Øresund medi-tech plastics industry”, *Entrepreneurship and Regional Development*, 17 (4), 267-291.

5. Conclusions and Policy Recommendations

The world economy is changing as processes become more transnational, affluence rises and ‘knowledge’ becomes a key element of countries’ economies. In this context, cities, as the places where most people work, live and consume, have real opportunities to become economically successful, innovative, high quality places in which to live and work. Yet cities also face real challenges around responding to changing demand in the knowledge economy and responding to social change and the needs of their inhabitants who do not have the skills and attributes to participate fully in this knowledge economy.

For policymakers seeking to consider how cities can adapt to the changing economy, it is important to understand how the knowledge economy is affecting demand, what its likely implications are for businesses and for individuals, and how cities can respond by offering production benefits (access to markets, a wider labour pool and tacit knowledge exchange) as well as consumption benefits (access to a wide range of culture and leisure activities). Different policy instruments, both hard and soft, can support different cities to maximise the production and consumption benefits they offer. This paper, whilst arguing that soft and hard policy instruments cannot easily be separated, has focused on the four ‘soft’ issues that Ideopolis research highlighted as important for cities seeking to respond to the changing economic and social environment. These are: skills, distinctiveness, leadership and collaboration.

The assessment of each issue in section three highlights how complex it is for cities to rise to the overall challenges, as well as the specific issues associated with each policy instrument. Before summarising how different policymakers can respond to our findings, it is important to highlight that despite the variation in institutional structures across OECD countries, there are some common policy barriers that cities face:

- **Absence of ‘place’ in policies:** In countries with centralised governance models, many national policies that have an impact on cities, at least indirectly, do not sufficiently recognise or consider spatial factors, and this can mean that policies are inappropriate at a city level because they are not tailored to regional or local circumstances.
- **Lack of “joined-up” working:** Many issues require a holistic and cross-cutting approach. Policymakers are dealing with complex problems -- one initiative may impact on another and unforeseen consequences may materialise as a result. Responding to this demands a much better articulation of policies at national, regional and local level and a sense that policies are pulling in the same direction. Of course, it is easier to make this statement than to put it into practice. Nevertheless, there is no substitute for a systematic and comprehensive approach. Joined-up working must be a reality rather than an aspiration.
- **Too many strategic institutions:** Of course, the institutional map looks different from country to country but it is often the case that there is no shortage of institutions striving to make regional, city and local policy more co-ordinated. In the UK there are arguably too many bodies trying to be strategic, often at the same geographical level (for example Government Offices and Regional Development Agencies). This can result in confusion over responsibilities and accountabilities can mean policies are either over-worked on (wasting resources) or slip between different institutions, and can mean that decisions are not being taken at the appropriate level.

- **Administrative geography is not the same as economic geography:** People and organisations move across administrative and sometimes national boundaries³⁸ for employment, leisure, culture, health, education or other business purposes. All too often policy and funding streams encourage local and regional policymakers to focus internally on their locality or region rather than across boundaries. This approach poses a major barrier to policies being able to meet their objectives, simply because it does not reflect the reality of economic and social activity in the knowledge economy.

These barriers should be borne in mind when considering the policy recommendations.

Framework & principles for policymakers

Drawing on our research, policymakers seeking to respond to the changing economy at the level of cities should ensure they work within the following framework:

- **Tailor policies to the needs of each city:** The nine *Ideopolis* drivers that The Work Foundation has developed provide cities with a framework in which to do this and to understand their strengths and weaknesses given the changes in the economy (source?). Applying the Ideopolis drivers to different cities and in different circumstances requires first understanding and applying the drivers to the city's distinctive set of issues, and second prioritising the drivers and linking them in a way that responds to the city's distinctive situation. Misunderstanding the drivers as being a "one-size-fits-all" route map to success could lead a city-region to use resources inefficiently in pursuit of a policy agenda that is less relevant than other agendas, e.g. focusing on creating a distinctive reputation for the city when the priority should be to invest in its physical development and in developing new areas of expertise. Furthermore, a city-region may have a strong set of policies to build the physical knowledge city, but may lack the focus (and funding) to ensure that businesses have access to the skilled workforce, infrastructure and services that drive economic growth. A city strategy needs to bridge the gap between where a city is now and where it wishes to be in the future.
- **Accept 'institutional messiness':** There is no 'neat' solution to the institutional architecture and governance structures that cities need to succeed in the knowledge economy. Different issues will require a policy response that is developed and funded at the level that is most appropriate, and that is delivered by the relevant agency. To achieve this degree of flexibility, there will be a need for institutional messiness rather than the pursuit of the 'perfect' governance and institutional structures. This may not sit comfortably with local and regional policymakers who often focus on structural change to support the development of urban policy (such as the pursuit of 'city-regions' or a shift in the balance between centralised and localised governance). However, evidence from our case studies and other international work suggests that not getting too caught up on institutional and governance structures is imperative if cities are to work effectively.
- a) **Join up policymaking where possible:** As argued in *Creating an Ideopolis*, cities in the knowledge economy require more than just the 'right' structures; they also require an approach to policymaking that coherently links different policy areas if they are to respond to wider economic and social change. For this to happen, policies must be based not only on evidence about what works in that particular policy area, but also, crucially,

38 . For example in Oresund

on a local and sub-regional understanding of how the issues play out on the ground. A national and more theoretical perspective is much less likely to be successful. The success of cities in the knowledge economy depends on the institutions and the decision-makers at all levels being able to work together and to maintain clear lines of accountability.

- b) Encourage innovation:** Successful cities depend on an entrepreneurial approach from city policymakers themselves - and this innovation cannot be prescribed by national policy or by academics and think tanks. City authorities and leaders who take an innovative approach to partnership working, who develop a vision and take a long-term strategic view of the city that is appropriate to its history, economy and society, will be the cities with the leadership and strong networks required to succeed in the knowledge economy.

Within this framework, the following underlying principles for developing policy instruments to support cities in the knowledge economy are recommended:³⁹

- Desired outcomes should be agreed between national government and lower tiers - regional, city-region and local level. These should be the outcomes against which existing architectures are assessed.
- Policies and institutions should enable strategic decisions to be made at a level that reflects the economic geography of that policy issue and that enables sufficient information to be captured and used in order to develop a coherent strategy.
- Policies and institutions should enable funding to be pooled so that it supports achieving agreed desired outcomes and gives discretion to strategic institutions (at national, regional and local levels, depending on which institution it is), giving them the authority to develop real strategies.
- Policies and institutions should support delivery at the lowest level that is cost-effective, enabling local knowledge to inform the way in which the strategy is implemented and that supports achievement of desired outcomes.
- Policies and institutions should balance incentives to ensure that it is in the interests of different tiers of government to work together to achieve desired outcomes, making the most of links between cities and local authorities, rather than incentivising unilateral working.
- Any recommendations for a new policy or institution should be built on a business case that demonstrates how the new policy will more effectively achieve the desired outcomes – and what it will replace.
- Policies and strategies should have a spatial focus in order to provide the mechanism for matching national and local priorities.
- Institutions should work together to ensure that thematic policy areas -- or the Ideopolis drivers -- are not developed in isolation from each other. Regional, sub-regional and local institutions should play a leading role in this co-ordination.

39 . Adapted from: *Creating an Ideopolis: A case study of Manchester*

Given our assessment of what matters to cities in the knowledge economy and what soft policy instruments can support cities to become successful in the knowledge economy, how can different institutions and tiers of policymakers respond?

What can the OECD do to support effective use of 'soft' policies?

- **Set the agenda on globalisation.** The OECD is in a strong position to present a realistic and balanced view of globalisation and the knowledge economy to cities, and to highlight how cities may need to respond to these challenges. While the impacts of globalisation and the knowledge economy will be different between and within OECD countries, they are likely to have significant economic benefits to these countries and cities while presenting a new set of challenges. A more realistic understanding of what globalisation and the knowledge economy is and means can only help national, regional and local policymakers to respond and to mitigate any adverse effects.
- **Continue developing policies for cities.** The OECD has rightly developed policies for cities. But it needs to continue this, developing a solid international evidence base for regions and urban areas that can inform policy in the future. While there is a considerable body of evidence in the US, and some evidence in European countries, there is a lack of comparable empirical data for cities in the OECD. Our analysis also highlights the need to recognise the distinctive economic geography of cities in their wider spatial economy, but this is not always clear in research or data. This knowledge gap prevents the large scale empirical analysis that would allow informed policy. The OECD is well placed to address that need.
- **Work to develop leadership and collaboration.** Rigorous policy analysis is important, but so too are the local leaders who enact such policy. The OECD can help them to develop their policies, building capacity and sharing best practice. In part, this is about collaboration – helping international cities to learn from each other and work out the best policies for their place. But it is also about providing an evidence base from which the most appropriate policies for each place can be achieved. This should not be prescriptive but allow local leaders to choose the policies for their circumstances. For the OECD, this role may be particularly important for large cities. Within a nation there may only be a few large cities, making it vital they collaborate and learn internationally.

What can national policymakers do to support effective use of 'soft' policies?

National policymakers have a significant role to play in removing barriers to cities responding to the challenges of the knowledge economy, particularly around soft policy instruments. This includes balancing the needs of individual cities and regions with an equitable approach for the whole nation:

- **Devolve power to the appropriate units.** By giving cities the power to develop at the appropriate level, using the framework set out earlier in this section, cities will be better able to respond to their individual needs. Flexibility of functions at a local level should be allowed, ensuring that city and regional authorities can adapt to their particular circumstances.
- **Don't be afraid to remove some functions.** In many countries, redundant structures remain in place when they outlive their usefulness. This complicates the institutional architecture, wastes public money and makes it unclear which agency the public (or businesses) have to deal with. National bodies should be more robust about managing this.

What can city and sub-regional policymakers do?

This paper has argued that both the knowledge economy and globalisation are intrinsically spatial processes, albeit impacting unevenly on different places, and that cities and regions often provide the nodal points where these processes interact. Cities seeking to focus in particular on the four specific soft policy instruments reviewed in this paper could undertake the following actions:

On Skills:

- Work with employers to understand their skills demands
- Invest in all education institutions to raise the quality of supply
- Raise aspiration from businesses and individuals
- Link skills to other policy agendas
- Work in partnership with education institutions for the benefit of the local economy and community

On Distinctiveness:

- Identify the distinctive attributes of a place and use these to formulate a strategy for distinctiveness, linking this with the economic development strategy;
- Cities need to conduct a strategic assessment of their strengths and weaknesses, identifying the attributes that make them distinctive from other places and how they can build on these.
- External city reputation and “brand” matters – but it has to be about quality, not gimmicks
- Funding for city development needs to inspire strategic aspirations.

On Leadership:

- Balancing national and local interests
- Clarity about responsibilities for strategy and delivery
- Building capacity at all levels
- Working in meaningful partnerships

On Collaboration:

- Build realistic and genuine links with other cities;
- Have national governance structures that support strategic decision-making across cities;
- Change the conversation about city collaboration.

The transformation of the world economy over the last two decades offers a mix of opportunities and challenges for the cities in which the effects of this change are most being felt. Across OECD countries, there is a need for a shift in policy to recognise the importance of place to realising desired outcomes, and for national, regional and local policymakers to work together, across boundaries, to ensure that places support the knowledge economy, and benefit from its growth.