

Episode release date: 27 July 2023

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BvA: About 40 per cent of the UK population lives in cities outside London. These cities are not only showing lower productivity compared to our capital but also to comparable cities in other advanced economies. So, how have some troubled cities overseas turned themselves around and what are the lessons learned for the UK? We are going to find out. Welcome to Productivity Puzzles.

Hello and welcome to Productivity Puzzles, your podcast series on productivity brought to you by the Productivity Institute. I'm Bart van Ark, and I'm a professor of Productivity Studies at the University of Manchester, and a director of the Productivity Institute, a UK-wide research body on all things productivity in the UK and beyond.

Welcome to our July show of Productivity Puzzles. Since the start of this podcast series on productivity we've spoken many times about the regional dimensions of productivity performance and how, especially in the UK, there are these persistent differences in productivity performance between regions, and especially between London and the southeast and the rest of the country.

But if we zoom in a bit more on the geographical landscape of productivity a lot comes down to how cities are performing. Cities are concentrations of economic activity where businesses tend to locate, not just because many of their customers are there, but also because that's where most of the skilled workers live and where more broadly innovation is happening. Economists call this agglomeration effects.

But these benefits do not come automatically to cities. Many cities around the western world have experienced massive transformations, facing new technologies, new competitors, new challenges to housing, transport, education and healthcare. And some cities have successfully reinvented themselves, but others struggled. In fact, in the UK many so-called second-tier cities such as Manchester or Birmingham or Glasgow or several others have really struggled in transforming themselves after the glory days of the

first and the second industrial revolutions to become new, vibrant places in the modern economy.

So, what lessons can we learn from other cities in the world that have managed to turn themselves around? How did they overcome their challenges? What did they invest in? How did they organise themselves? How did these turnaround cities become places where companies and people want to be again?

In the past two years the Blavatnik School of Government at the University of Oxford has gone to eight cities in Germany, France, Spain, Australia, the US and Canada to look at the experience of troubled cities. Their work has been published by Blavatnik School and, as always, you can find references to that work in our short notes, as well as a great summary piece published by the Resolution Foundation. And today we will benefit from speaking to some of the authors doing that work, and we'll discuss what they learned and what the lessons could be for UK cities when they're trying to turn themselves around.

So, first of all I want to welcome Susanne Frick. Susanne is a post-doctoral research associate at the Blavatnik School of Government, and she joined the government outcomes lab there in 2021, and was previously at the London School of Economics. And before that she acted in various consultancy roles on economic development around the world. Susanne, great to have you on this podcast.

SF: Thank you very much. Very nice to be here.

BvA: Ian Taylor is a research and policy associate at Blavatnik School of Government where he works primarily on how government can support responsible business practices, building on a decade of experience in the oil and gas industry where he combined policy research and the convening of high-profile stakeholders. Ian, it is great to have you on today as well.

IT: Thanks Bart. It's great to be here and I look forward to the conversation.

BvA: And finally, to pull it all together we are joined by Philip McCann, professor of urban and regional economics at the Alliance Manchester Business School where he oversees most of TPI's work in relation to geography and place. And regular listeners will remember Philip from some of our previous podcasts in Productivity Puzzles. Philip has closely worked with the Blavatnik team on this work on turnaround cities, and he will help us in particular to draw out the implications for the UK. Good to see you again, Philip.

PM: Thanks very much Bart. Really a pleasure to be here.

BvA: All right, very good. Well, let's get going. And maybe the first thing, Philip, is to sort of have a bit of a conversation about what turnaround cities

actually are. What characterises turnaround cities? What do they have in common? Or actually are there more differences than communality?

PM: Well, the timing of the discussion I think Bart is really important, both because of what's happening in the UK but also internationally the debates in this field. And in this regard also a moment's thought to Lord Bob Kerslake who died, as we know, last week, because Bob was actually instrumental in setting this project up. The first week that we did at the Blavatnik School as you know he chaired the 2070 Commission. And Vincent Goodstadt who was the director of that was one of our co-authors. And so, reaching out to other cities, having been head of the Local Government Association, the head of the British Civil Service, he gave us a lot of early guidelines in terms of how to think about the challenges we were going to face.

What was really interesting about the cities that we chose is that we didn't cherry-pick. It wasn't okay, here's eight good examples, let's just go and do a random set of case studies. There was a real logic to it in terms of each of the places we chose, Bart, if you'd gone there 30 years ago and people had asked, what are cities that are in a real mess, these are all cities 30 or 40 years ago that the people in those countries would have said they are facing colossal challenges. It's hard to see the future of these places.

What's remarkable today is when you look back these common transformations are on an enormous scale, but they involve everything: everything about what that city does, how it functions, how people think about it, how it's governed, how you develop a vision, a sense of common purpose, a common mission around which stakeholders can kind of coalesce. That was really the common themes, and Ian and Susanne have done hugely detailed work city by city. But this is the kind of overarching themes that we were picking up.

BvA: Okay. So, let's talk a little about what cities. So, Susanne and Ian, the two of you and your team you kind of divided it a little bit between yourselves. So, Susanne why don't you start with some of the cities you focused on? And again, what sort of characterises them? What is specific in terms of similarities and differences?

SF: So, just as a background, I'm German as you might hear, so I looked at the German case studies. So, I looked at the cities of Dortmund, Duisburg, and then a colleague of mine looked at Leipzig, and I also looked at Lille in France and Bilbao in the Basque country in Spain. So, these were the different case studies I looked at. And what struck me about all the cases in the different cities and regions I looked at was that they did share a certain amount of similarities in terms of the background and the strategies they employed. They were obviously also very different each one of them.

So, if we think about the similarities, and Philip already alluded to that, I think each of them had a similar starting point or, let's say, a shared

background in the sense that each of them are old industrial regions and cities, so cities that were wealthy for long periods of time, they were strong manufacturing hubs in their countries, often focused on heavy industries but also textiles et cetera. But each of them has also suffered a period of decline, so decades of decay, which have left them with the associated socio-economic issues. So, in a way each of them has a shared starting point.

Then the strategies they employed again they are somewhat similar, even though the specific policy they employed might have been different. And I do want to pick out maybe three characteristics that I thought were interesting to see in each one of them:

The first one is that each city focused on the economic side of things, so to think about how can we make the city more attractive for firms; how can we attract employers; how can we generate new jobs. But it didn't stop there, they actually also thought about how can we actually improve the quality of life in this place; how can we make sure the people that are living here actually want to stay here and are not looking elsewhere to go; and how can we make sure that people in other cities are actually thinking about coming to us and finding jobs here. So, this complementarity between economic and urban development policies was really a striking feature across all the case studies I looked at.

The second point that I thought was interesting was the holistic approach. So, all of the cities – when we talk about regional development or city development we often think only about infrastructure or tax incentives and these sorts of things – but all of the cities they went beyond these policies and thought about skills, they thought about cluster building, they thought about consensus building in the population and among the different political parties, they thought about image campaigns, so how can we change what people think about our city. So, it was a really holistic approach that these cities chose.

And then finally the third point I'd like to make is that success was not overnight in any of these cities. These cities have been in the process of turnaround really for two, three decades. And I think that's an important point to bear in mind.

Just quickly to say a word about the differences, and again I thought that was interesting. So, we have this turnaround, we have these similarities, but there are also important differences. And the one I want to pick out is actually the political system and the context in which each of these turnarounds has happened. So, we have the cities in Germany, federal country so very decentralised and a country which has a long-established system of regional and sub-regional governments. The cities of Dortmund and Duisburg they're actually on 50kms apart, so of course they share a very similar political set-up in terms of the institutions. Leipzig in the same

country so in principle a similar set-up, but because it was after the reunification it was really in the process of institution building there.

Then if you think about Lille, it's probably a good comparator to the UK because France is a highly centralised country. But Lille has actually benefited from gaining more and more powers and building capacity and a long process of decentralisation that has been going on in France over the last 30 years, or 30, 40 years really.

And then you have the Basque country coming out of dictatorship, and only really building up democracy.

So, what we find in these case studies is that these turnarounds do happen in a wide variety of different political systems. And I think that's important because when we look at case studies people often say, okay but that's a very specific case, you can't apply this to a different context. And while this is true these case studies show that different contexts can still lead to these turnarounds.

BvA: Yes, so this is a nice sort of tour around Europe, so just before our holidays when people may travel in Europe, they may actually go and see some of these places because it looks like they're interesting places to look at.

Now, Ian the interesting thing is that Susanne has focused on all these European cities, you have focused on cities a little bit further away for the more adventurous travellers, but they are Anglo-Saxon cities. So, one question is: is the story very different looking at the Anglo-Saxon cities that you will discuss compared to the European cities that Susanne has been working on?

IT: I think that it's quite interesting, the Anglo-Saxon cities they're the natural comparators I think when people who are looking at this from the UK perspective are looking for comparators, because we obviously speak the same language so they're quite easily accessible. And a lot of their institutions are fairly similar.

One thing, the similarity that the three cities that I looked at, Windsor, Ontario in Canada, Newcastle, New South Wales in Australia and Pittsburgh in Pennsylvania in the USA is that they have that very strong intermediate level of governance at the state or provincial level. That's a feature of those countries that's very similar.

Thinking about the similarities the one thing that they all have in common is the really strong collaboration between the municipality authority government and that intermediate level of government and the central government. And of course, there are differences in the way their systems work, some nuances and peculiarities that make them slightly different, but it's the way that they all were very cooperative and constructive in the way that they work together.

There are some similarities between the different cities. For instance, in terms of their former industrial activity, Pittsburgh and Newcastle were both about steel, some coal mining going on there, issues with subsidence and brown-field development contamination. Windsor had car manufacturing, so still polluting heavy industry but slightly different. Windsor and Pittsburgh have quite a bit of freedom in terms of the financial instruments that they could use, and Newcastle, New South Wales was a bit more constrained, it was a bit more government led, it was a bit less able to leverage in that private finance through those instruments.

They also have different features in terms of the assets that they had; they inherited the previous years. Pittsburgh is very wealthy in terms of assets like universities, it's got very many educational institutions and can produce very strong educational outcomes. Whereas Windsor and Newcastle they only really have a couple of educational institutions each, so they approach it kind of differently from that angle. But then there's also differences in the strength of the local capacity and how that was expressed. Community agency wasn't important. Commonality, the way it manifested itself was a bit different.

BvA: So, I want to talk a bit more about this point that you made already earlier Susanne, which is about the fact that these turnaround cities didn't only focus on economic strategies but also really on regenerating the place from a more generic urban perspective. And that sounds very obvious that that's what you want to do, but it sounds incredibly hard to do. So, I'd like each of you to talk a little bit about what works in doing that. And I'm sure you also met some failures here about things that were really hard. If you think about this complex different set of policies that you needed to think about at the strategic level, how are you successfully combining economic and urban regeneration policies, and what are the potential pitfalls and failures that I'm sure some of the cities have gone through?

SF: That's a very important point. For me really this complementary between economic and urban development policies was probably the most striking. It does sound very logical, but I think as economists we typically tend to think about other issues. And I guess urban planners they typically think about other things. And similarly in practice policymakers they're sitting in different departments, so often the conversation is going in parallel I would say and it's not necessarily intertwined.

So, for me I think the most instructive case study that I looked at was Dortmund really. And that was surprising to me because I didn't know about this case before. And what they did in Dortmund was in the beginning of the 2000s they came up with a strategy which is called the Dortmund Project, which was this overarching vision of how they wanted to develop the city, but really focused on economic development. But they didn't mean for this economic development strategy to only be an economic development strategy, but to be the overarching vision for where the city was going to go.

And because there was such a collaborative spirit in the city between the different public actors, but also wider actors being public and private sector to civil society, they really managed to take the strategy and use it as the aim they were going towards.

So, for instance in the land use planning in all the zoning documents and all the different masterplans they built up in terms of how to develop the land for housing and how to develop the land for retail et cetera they always refer to this strategy and say, okay this is where we want to go in terms of the sorts of industries we want to attract, the sorts of industries we want to further develop, the sort of talent and the sort of people we want to attract and retain in the city, and now let's think about what do we actually need to do in each of our areas to make this happen.

So, in terms of the housing strategy they focused a lot on young families because they said, actually in order to grow our population again, to make sure people actually stay in the city, we need to make it attractive for families. And that involves making space for people to build houses for young families or have flats that are large enough for young families, to make sure there's enough childcare, to make sure there's all sorts of green space available, playgrounds et cetera.

In terms of the retail space, they said we need to revitalise the inner city. We cannot have everyone going to the shopping centres which are outside the city centre. So, they actually limited the development of further shopping centres outside of the city. They focused a lot on art and the cultural sector to make the city more vibrant, more interesting for people to actually say okay let's go there, it's an interesting place to live.

And of course, they also worked on the economic side by focusing heavily on infrastructure development, so the reconversion of brownfield sites. They focused on skill development, in Germany there's this dual education system where you spend part of the time in university and part of the time in companies was heavily employed and new programmes were established. But they also worked on an image campaign and trying to really support the firms that were already in place, and talking to them to understand what they need and what needed to be done.

BvA: Ian, did you find similar kinds of trends in your cities? I mean, I lived in the US for quite a while and my experience going to some of those cities was always, okay the kind of economic development strategy they sort of have a good idea about, but the place was just a very difficult place to live. And some of that has to do with long-term historical divisions and inequalities that sort of have been driving some of these Anglo-Saxon cities and certainly American cities for a long time.

IT: It's quite an interesting one because the topography was actually a specific characteristic of a city that needs to be kept in mind when you're looking at how it developed, because it actually isolated communities, which meant

that communities weren't competitive. They were more cooperative because of the clear delineation as to where their areas of ownership were. And so that helped I think the community development and working together.

And in Pittsburgh they had very strong community development cooperations that developed their neighbourhood areas. But the local government was very clever, and the central and state government were involved as well, and they nurtured those community development corporations because they could see that they had value. And over the decades community development corporations used to be quite strong all across the United States, and now they're really strong in Pittsburgh; and they acknowledge that that's a strength of theirs.

But beyond that the planners were thinking about liveability quite early on in Pittsburgh again specifically. In 15 years of development, they added 13 million square foot in developments, and they didn't add a single parking space. And they were really proud of that liveability aspect, and they realised that connectivity and making it pedestrian friendly and friendly for cycling was a really interesting one. So, they added parking taxes and traffic controls. And things like that were replicated all over Pittsburgh.

But Windsor in Canada and Australia in New South Wales were very similar as well; they were very focused on developing liveability assets in their cities.

BvA: Philip, can I go back to the economic strategy for a moment? Because one of the things that I think in most of these reports came through is that the advice to really build on the strengths of an economic city. There's a great phrase in one of the reports saying you need to build on each of the city's existing strengths rather than building cathedrals in the desert. And really referring to the fact that these days pretty much every economic development strategy is about developing the digital sector, developing biosciences, you name it; and if we all do this the world will look a great place. It's not going to happen.

But a lot of these city's existing strengths are strengths of the past. So, how does an economic strategy build on existing strengths going forward?

PM: That's a really critical question, Bart, not just for these eight cities but for the process of trying to turn around cities in general.

So, the line about the cathedral in the desert if I recall it was Susanne, I think you coined that one. It's a really important point because sometimes in the desperation to want to change things let's just try this, try anything without really a great deal of thought about how the new activity or technology or initiative dovetails or links in with the existing industrial fabric.

Now, this is actually an issue for example in the smart specialising agenda in the European cohesion policy that obviously Bart, you were involved in right at the beginning, I've been heavily involved with and other members of the Productivity Institute. You want to build new directions of travel but they have to connect with where you already are otherwise it's impossible to build future scale, future strengths, embeddedness, diversity and so on.

And one of the things that was common across these different cities is when they were building their visions it wasn't just brand making, it wasn't just kind of catch phrases and a few, kind of, eye-catching themes, it was building a vision that also connected with both where they want to get to in terms of new sectors, new technologies, but doing it in a way that is persuasive to private investors, because it links directly to the existing assets and capabilities of those places. So, whether they be universities, whether they be multi-level governance relationships, whether they build on existing strong cluster linkages or building new linkages between sectors, also building on the heritage and cultural assets, building on the social infrastructure, this holistic approach really tried to anchor their strategies in where they already have competencies and capabilities and strengths that they want to move forward on.

So, it was both realistic about where they'd come from, so looking backwards to the past in terms of previous attributes, but also using that as an anchor to say this gives us an opportunity to move forward. It's a difficult balancing act, and these are cities that managed to get it right in a way that private investors were convinced.

That's the key thing: to get the private sector convinced so that they are willing to do the heavy lifting.

BvA: Susanne, can you give an example for Duisburg and Dortmund? As a kid coming from the Netherlands, I travelled through these places often going on holiday to Italy; the vision that I have is all these derelict steel plants along the motorway. How did they build on that kind of industrial heritage in terms of creating a new environment for economic activity?

SF: Yeah, I think it was a challenging task for them to do, but they did manage to pick the seeds that were already there. And I think the case of Dortmund again is very interesting here. So, they built already in the early '80s they built up a technology sector around the university there. In the beginning this was a small thing, but over time it has actually developed into becoming a hub for the nano and micro technologies in Dortmund. So, they just really focused on supporting this industry once they noticed that there was actually the seed there. But it was something that they picked out from the past, something that was already established in the '80s and they realised there's something there that could grow into something with the right sort of support.

Duisburg may be a more obvious case. It's one of the largest inner harbours in Europe or maybe, if I'm not mistaken, even in the world, so they already had a quite strong strategic position in Europe as a logistic centre. But they then just went all in and said, okay what do we need to do to convert this into becoming a new hub in Europe rather than just staying in this kind of mid-level position they were in previously.

So, both cities managed to pick something that was already there and then be very strategic about how to support it and make it grow.

BvA: We'll take a break in a second and I want to talk a little bit more about some specifics where we have lessons for the UK. But just to explain to city policymakers that not everything goes right, can each of you, Susanne and Ian, give me one example of something you said, they made a mistake here, they corrected it but they made a mistake? Ian, can I start with you?

IT: Well, I would say when looking at Windsor they made a really big success of their automobility strategy now. They just secured last year the investment, \$5 billion for the largest electronic battery plant in North America. But I think that came after a bit of a long time of insisting on trying to maintain their existing strength in automotive. And there was quite a while where they were working on that and they were getting investments, but it just wasn't going forward. And eventually there was a bit of a failure, and that turned into the catalyst that then made them become laser sharp on what they really wanted to do, which was a futureproof EV technology. And they focused on that, they worked with the provincial government of Ontario and with the federal government and they managed to make that work. And through small investments, moving the needle incrementally until you get the big win.

BvA: Susanne, an example of a place where they learned from mistakes?

SF: I would say an example of where something has not worked again, I can speak about Duisburg best. They were very successful in the logistics sector but they tried to diversify their economy into again also micro and nano technology, services industries more generally speaking. And they're still struggling in doing this. So, definitely Duisburg is an interesting case where you can see how some strategies have worked very well, whereas others they are more struggling to be successful with.

BvA: Let's pick up some of these strategies in a minute where we can learn positive but also avoid making mistakes. But before we go there let's first hear about what else is happening at the Productivity Institute.

[Clip] The Productivity Institute is a UK wide research organisation that is dedicated to understanding and improving productivity. Research covers a wide range of topics, including business investment and innovation, skills and further education, foreign direct investment and trade, and the transition to net zero. The Institute also provides detailed analysis of

productivity in the English region, Scotland, Wales and Northern Ireland. Visit www.productivity.ac.uk to access the Productivity Institute's resources, including research papers, blog posts, insights and regional productivity score cards.

BvA: Welcome back to Productivity Puzzles, discussing experiences from turnaround cities around the western world with Susanne Frick and Ian Taylor from the Blavatnik School of Government at the University of Oxford, and with Philip McCann from the Alliance Manchester Business School and the Productivity Institute.

Now, before the break we spoke about what these eight cities did to get themselves back on their feet. And I want to pick up two areas in the remainder of our discussion that seemed particularly challenging but may also really have some important lessons for our second-tier cities here in the UK.

So, Ian I'd like to start really with this issue that comes back in all the studies on the need for a long-term focus and particularly the relationship to the access to finance and the need to be able to have a long-term perspective to use finance in an effective way. Can you talk us a little bit through how important that was and how that played out in the cities you looked at?

IT: All of the cities were in a context of a financial system that was slightly different to each other. They were all more decentralised than the UK, although some of them were slightly more or less decentralised in terms of private finance; with the ideal situation being in the US where they have the many local banks, 5,000 of those, in the State of Pennsylvania they had 200.

But looking at the way the local and state level governments and federal level government were able to organise their finances I'd say that the important thing about this was a long-term focus. There are lots of different ways that they attained and distributed the funds. And in the Anglo-Saxon case studies they're quite different from the German examples, they had a redistribution system which is slightly different, they usually kept their funds. But it was long term and reliable; they were thinking in terms of blocks of ten years usually, five years of substantial funding. So, in Australia for instance in Newcastle there was a programme which saw \$100 million injected every year for four years into infrastructure projects that the local authority were able to identify and secure from the central government.

In Pennsylvania, in Pittsburgh, it might not be as well known, but in 2003 the actual government bonds were at junk status, and they worked with the commonwealth of Pennsylvania to get an investment plan that got them up by 2008 to a really healthy turnaround position where they were in a positive situation. And that involved \$55 million at the current prices of investment capital projects every year. It's these long-term projects, in Windsor in Canada they have their own property taxes that they can manage, and that

represents about 50 per cent of the income, the revenue of the municipalities. But then they also get direct federal transfers, but they also have things like the gas tax fund, so that provides 2 billion at least of revenue to the municipalities, so they each get a share of that. Now, that only represents about 2 per cent of the municipality's revenue. So, Windsor in 2018, 2019 I think it was got about 13.5 million; they have the discretion to use that as they think is best. And I think that's the thing that makes these places successful is that the communities are able to express their priorities and then they have long-term funding to enact that.

BvA: Now, Susanne in the case of Germany we all know it has a very deep financial system, very embedded into local communities, so you can see how that is a real positive. But what about these other places like Lille and Bilbao where I think we probably know much less here in the UK about how they were actually financing this kind of turnaround?

SF: I think the case of Lille or generally speaking the system in France is very interesting for the UK experience, simply because the political systems are more similar to each other. In France on average, I think about only 40 per cent of government spending is done at the subnational level. I think here in the UK it's quite a bit lower than that. But the important part, the important element of that is – and that links back to what Ian just said about the autonomy to actually decide on the spending – that the vast amount of funding is actually own tax sources for these localities. So, this means they actually have the discretionary power to decide what they want to spend their money on, rather than being dependent on different streams coming from the central government.

And I think that makes a massive difference. So, if we look at the metropolitan area of Lille it's an area of just above one million inhabitants. They have a yearly budget of 2 billion euros, out of which they have spent in the last years around 60 million per year on economic development initiatives. So, these are massive budgets which they have and they know they will have for the foreseeable future that they can actually spend on long-term projects.

In addition to these funds which they have at their discretion they are also able to leverage national programmes, so programmes from central government, and they have heavily done that particularly around the urban regeneration schemes. Typically, these programmes are quite long term, so we're not talking about two, three years, but we're talking about time spent of like five, 15 years, meaning they actually have quite a bit of time to develop and implement the different projects.

BvA: Now, Philip you've done a lot of work around fiscal devolution, or rather the lack of it. In the case of the UK there's actually a paper that you've done for the Productivity Institute which you also put in the show notes talking extensively about this. So, what are some of the lessons learned that you

think realistically could really help to get this sort of more longer-term focus in terms of financing city development in the UK?

PM: Well, I think, going back to my earlier point, the crucial thing in each of these cities or in any city attempting to turn around is that what does it take to convince the private investors, the capital markets that actually this is a place where we can do business, it's a place where we want to invest.

And there are two key elements to this: one of them is the whole joined-up approach that we've already been discussing, that Ian and Susanne found on so many levels in these cities, bringing all the stakeholders together under a common vision.

A second thing is also the development of financial and fiscal literacy. You can't have a situation where investors in the capital markets are on one side of the table, very, very literate in financial things, talking to public local and civic stakeholders who simply don't have anything like the levels of literacy in these issues. It's a completely unbalanced discussion then. And of course, if you're a fund manager sitting on large funds that you're looking to deploy you're not going to have the confidence to invest large sums of money if you don't feel the institution, those places are also equivalently literate in financial issues.

And one of the things that these cities we've looked at, working closely with their other subcentral government authorities, whether it's the German Länder, these meso-level institutions such as the German Länder, the Canadian provinces, the American States and so forth, the autonomous communities in Spain for example, at those levels they have real competencies either in terms of local taxation powers and resources and deployment of those taxes, or in terms of the ability to go to the markets via the bond scheme. So, the German and the US and the Canadian subcentral authorities are very experienced going to the capital markets independently of the central government finance ministries or treasuries. They have huge competence in raising capital.

In the case of Australia, the states are not able to do that. But in Australia what you have is tax assignment, same as in Germany. So, taxes are collected by central government, but a huge proportion of those taxes immediately are assigned to the states, no questions asked, and the states have the competence and the experience of how to deploy those fiscal resources.

So, what you have is you have very high levels of financial and fiscal competence away from the central government's finance ministries, that is extremely important, building that literacy in those institutions so when they're talking to investors, they're sitting round the table in something which is quite an equal, it's a balanced discussion and negotiation. And that is critical for building confidence, because investors realise they are deploying resources in a place where the local institutions, the local

business community, political representatives, whatever, really understand what is involved in financial investment and what does it take to make those things work.

BvA: Now, in the case of the UK we'll talk in a minute about sort of more institutional devolution, but obviously one of the new developments is the combined authorities, which are already operating for quite a while in some places like Manchester and West Midlands. Do you see that they're moving in the right direction in terms of getting more financial autonomy and able to be a better party? Which I think it's very important what you say: you want local government to be a party to the private sector when it comes to investment. Do you see that that is improving and that that is going to help?

PM: In the UK context yes, they're going in the right direction. I think particularly the ones which are the leading edge ones, I would regard probably Greater Manchester, West Midlands are the ones who are really in the vanguard, the leading edge of those changes. And there are many others as well, Liverpool City region, West Yorkshire, moving on in the same direction.

At the same time when I look at these turnaround cases that we've looked at what's happening in the UK still, we have to be honest, are baby steps. The steps that those other city regions took are much bigger, on a much broader basis with much bigger powers and over a much longer period.

So, if you think about devolution in England particularly, the levels at which we're devolving, Greater Manchester, West Midlands are just at the bottom of the OECD average for devolution. They would be the largest devolved subcentral units in England, and they're right at the bottom of the OECD averages. What these other countries were able to do was to link the city regional agenda to a wider level and higher level of meso-level governance, which are the biggest states, provinces, Länder and so on. So, that helps with the building scale agenda, and that is seen as critical: scale and coordination and longevity, these are the three anchor points. And we are moving in the right directions in the UK, but they are still baby steps in comparison to these international examples that we've been discussing.

BvA: So, Ian indicates some of the cities that you looked at, Anglo-Saxon countries, less centralisation obviously certainly in the US, but also in Canada and Australia than in the UK obviously. But still how did they make the change? How did they make it happen that public and private sector came together in a better way in order to co-finance new projects? Can you give one or two examples, and maybe Susanne in a minute as well, of those changes in the finance side?

IT: Yeah, there are different ways that each city went about it. In Australia one of the important methods that they had was asset recycling. So, the states in Australia had the ability to sell off the state assets that they had. And the federal government introduced in I think 2015 an incentive of 5 billion, 15

per cent of the project, that could then be offered as an additional once they sell that.

But the states then had the ability to manage the sales. And New South Wales managed it really well: they got 27 times multiplier on their earnings for the port of Newcastle for instance; they got a similarly good value on energy. But they also sold it with prudence for the future. So, they put on rules and conditions that it meant it wouldn't be exploited in the future.

The other two examples they use, there are lots of different things involved. So, Pittsburgh for instance had a sales tax. They passed a home rule charter that they were able to pass which gave them more autonomy from the state in 1974, so they've got those powers and they could do things like additional taxation. They can invest the money from the sales tax directly into infrastructure.

But they did this thing called the tax increment financing, which has been around and introduced in the UK as well. The problem with that I think is the management, and as Philip was saying, the competency to handle that properly, and the revenue to offset that against. You have to come up with a business case to make sure that you're confident that the increased taxes you're going to get from the development that you're going to build are going to cover the investment that you put into it.

At Windsor and Pittsburgh, they had different ways of approaching this: one was taxing and financing, one was talking taxing and financing light. I talk about it in the case studies. But that was a really useful additional way to bring in funding. In the case of Windsor their analysis said that for every pound of public money spent they draw in £13 of private investment. And there are very interesting statistics on the American case as well.

SF: I think the case of Bilbao and the Basque country in general is very interesting here because they relied heavily on the cluster development approach. So, they essentially said we as a government want to be supportive, but we really need to know and hear from the private sector what they need. So, they established these different clusters of different sectors or cluster associations, which were really used by the private sector as a communication tool with the state to communicate what they needed. I think this was seen as one of the key ingredients for success in the Basque country that it was not only the government saying, okay we are going to pick certain sectors, these are the different things that we think is needed; but they really listened to the private sector to what they thought was needed, to what they felt were the most promising sectors. And also, not only talking about the most promising sectors but also really seeing whether the sectors were properly coming together in reality and working towards a common goal.

So, it was this parallel or supportive approach in a way from the government with the private sector that really helped to create trust here and make the private sector invest in the end.

BvA: We need to wrap up. There's so much to talk about and there's so much in the studies which I would highly recommend. The summary study by the Resolution Foundation is fantastic, but if you have a bit more time, I would recommend you take a good look at these others as well.

But Philip, I just want to come back to the more institutional side of this, and particularly relating it to the UK case. We have this levelling up programme that the government is working on and that has good intentions, but I think the question really is whether it's ambitious enough. But at the same time, we need to be realistic. So, I think my questions to you is: what have you learned from these studies, the one, two or three things where you say we can do that in the UK, it doesn't need to require a complete overhaul of the political system, it's not going to happen in the next ten or 20, 30 years maybe even? But what is it that we could do now to make the levelling up programme really work in order to allow these UK cities to also pursue this turnaround strategy that we've been talking about today?

PM: Well, I think the first thing which for me is the most important is that seeing the experience of these places, if these places can do it it can be done in the UK. That's the important point. These cities were in their own countries places 30 years ago everyone would have said there's no way this place has really got a future. So, it can be done, and it can be done in different situations and it can be done in different ways, as long as these common themes that we've discussed are kept to.

I think in the UK what we still need is major institutional reform, but we are moving in the right direction. But the direction of travel I would argue – and obviously I've published this as part of my work programme in the TPI – I think we do need to move to more fiscal devolution, but we have to do it carefully. There's a lot of enthusiasm in the media for suddenly devolving lots of taxes, people saying this is very easy, that's what you obviously have to do. Well, actually it's not easy; it's something that requires a great deal of thought. So, I think one of them is much greater devolution. I think it is important to build subcentral ability to go to the capital markets independently of the central state; that is essential for building financial literacy. So, more fiscal devolution, but we need to think about the whole central, subcentral fiscal architecture in the UK.

Secondly, more fiscal devolution around the ability to raise capital; that has to be scaled up enormously so that we get equal types of partnership. So, when you're around the table international, national investors talking to local stakeholders.

And I think the third part of this is also an educational aspect on the part of central government as well. I think a lot of people in central government,

both in Westminster and Whitehall, are really unaware of what goes on in other countries and how they've done it. What we tend to do, as you know very well Bart, because our linguistic ability in the UK is so poor, we tend to copy/paste examples from a small number of English language speaking countries. Whereas I think looking across the piece to a broader range of countries, including those particularly in Europe that have more similar urban systems to us, the size of cities, the distribution of cities, I think that's where are a lot of the clues as to how to move forward in a sensible incremental manner, but to build that momentum and that direction of travel, that's the critical thing.

And I think people are persuaded, when they see things working, people think actually, that's great, in my city if this works, I want to keep going down that track. And that's been something we've seen, also the civic engagement in these eight cities, people start to believe, they start to see change and people like change when they know it's going in the right direction. That itself encourages institution building, capacity building, civic engagement because people feel such a sense of pride, not only in their place but the fact that their place is moving forward and is being seen to be moving forward. So, building that confidence is exactly the kind of spirit that you're aiming at. And of course, in the end the capital markets price it in favourably.

BvA: Susanne, you've lived in the UK for a long time now, so what are the one or two things that you took from looking at these other cities that can be done in the UK, I just don't see why it cannot be done in the UK? Is there anything where you said there's a lesson we could take on board fairly quickly if we put political powers behind it?

SF: I think one of the things is just policymakers should think broader or maybe bolder. I think the discussion when we talk about regional development in the UK typically still revolves around infrastructure or tax incentives. So, we think about enterprise zones or high-speed rail. I do think if we are serious about levelling up in the UK then you do need to take into account all the other elements that we've spoken about, like urban redevelopment, skill development, image campaigns, all sorts of things.

And I do think while this sounds very logical to everyone, in practice it's often not done. So, I do think that there's a bit of work to do on that side.

BvA: Yes, and that's interesting because I would indeed think that a lot of our colleagues, certainly in the combined authorities as you say, we are doing that. And when you look at that I think they have put a lot of things in place. But I think there's a lot of the institutional structure is still very short-term focused, not pursuing initiatives for too long, too underfunded – which is obviously a very important discussion that we had here as well – that make it really hard to sort of stay the course in doing that. And I think that's a very important message coming out of that.

Ian, from your point of view anything that you saw in these places where you said, can't see why we don't do that in the UK, it should be possible?

IT: Yes. I mean, one thing I think we could do is in Australia they hold planning in quite a high prestige for politicians, and it's something that isn't replicated in the UK. And I think that's a cultural shift that we could perhaps make. It's because of the way that their government departments are structured, but we could look at changing that. There are some changes in that direction.

And also, I would say that all of these places they really harness their community. They spoke to their community and they got the priorities emanating from the community. Especially Australia they have an interesting method in New South Wales to do that. And they think about ten-year plans and they renew it every four years, and it has a real impact on their infrastructure and what they're doing.

BvA: And that planning we can spend a whole podcast on, which we will certainly do at some point because it is definitely a very big issue for the UK. But it is so interesting to look at these cities; you learn so much from it. But I deliberately also asked you about some lessons that they learned themselves on how to do this, because none of this is particularly easy, and I'm sure that those local policymakers listening to this say well, sounds great you academics talking about this, but try and do it in practice. And what I hope they will get from reading your study are some really practical insights on how you can actually do this.

This was really a great conversation, and more interesting stuff to come, I'm sure. So, thanks very much Susanne Frick, Ian Taylor, Philip McCann for joining us again for this group conversation.

Our next episode of Productivity Puzzles for August will be about pro-productivity policies at a national level. While there's no silver bullet countries around the world have tried different mixes of policies that help productivity growth. There are some policies that don't help, and in particular there are many policies which if badly executed can really have negative effects for productivity. So, for this I'll be having a one-to-one conversation with my friend and colleague Dirk Pilat, who has been more than 30 years at the OECD working on economic, science and technology and innovation policies across OECD countries. We'll talk about what productivity policies work best, when and where. And he'll also share his experience on the work he did for productivity commissions and boards in various countries. So, join us for this episode with Dirk, who's now a fellow at the Productivity Institute.

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Ep. 27 Productivity Puzzles podcast transcript

Turnaround Cities: Lessons learned for the UK

Productivity Puzzles was brought to you by the Productivity Institute, and this was me again, Bark van Ark at the Productivity Institute. Have a great summer. Thanks for listening and stay productive.

End of transcript