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urban myth

why cities don't compete

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Abstract

When policymakers start talking of cities' competitiveness, *be sceptical. If they discuss a city's* competitors, *be wary. These are warnings of shaky thinking ahead. And this is not just about semantics. The language used to analyse cities' economies matters – poor communication means low quality analysis and ineffective, perhaps even counterproductive policies.*

Cities do not compete. Urban economies are fundamentally interdependent. If one city grows, people in other cities nearby generally become better off. Some investment moves, responding to cities' assets. But the idea that cities are competing for a fixed pot of capital that could locate anywhere is a long way from reality.

Despite this, 'competitiveness' is now a commonplace term in urban policy circles. It is rarely questioned, partly because it is an easy way to talk about complex, difficult realities. The misuse of the word is a handy prop for policymakers, commentators and the business community.

This has a detrimental impact on urban policy. The competitiveness rhetoric leads policymakers to consider economic interaction with other cities as a threat, when it should be seen as an opportunity. And it results in an undue level of attention being given to policies designed to attract *investment, employment and skilled labour from elsewhere, when more attention should be focused on* nurturing *investment, employment growth and skill development locally. This will also attract firms that do have location decisions to make.*

If we want better cities, we need to learn how to talk about them. Cities perform. But they do not compete.

Introduction

Achieving competitiveness has become a key policy objective for British cities. Recent urban policy documents – such as *Cities, Regions and Competitiveness* (ODPM, 2003) and *Competitive European Cities* (ODPM, 2004) – indicate just how deeply the notion of competitiveness has permeated into government thinking. And ODPM's imminent and high profile *State of the Cities Report* will assess 'the competitive economic performance of English cities' (Simmie, 2005).

This mirrors thinking about national economic performance. For example, HM Treasury and DTI have a shared Public Service Agreement to:

> *'Demonstrate progress by 2008 on … raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with our major industrial competitors'* (HMT, 2005).

This paper asserts that British cities do not compete. Neither Britain nor British cities have economic competitors. It is not helpful to use the term competitiveness as a synonym for economic performance. Too often, its use reflects a failure to understand how cities' economies work.

This paper examines what is meant by competitiveness. It explains why this represents an invalid understanding of the performance of cities' economies. It then briefly explores why people continue to talk of city competitiveness and discusses the conse-

quences of the competitiveness rhetoric, highlighting the dangers. It suggests better policy would result from a more accurate, better informed use of the language of urban economic performance.

What do people mean by competitiveness?

It often seems policy makers and commentators do not know how to talk about urban economic performance. At times, competitiveness, performance and productivity are used almost interchangeably. This is unhelpful. It is a barrier to clear thinking and therefore effective policy making. The carefree use of the term *competitiveness*, in particular, is often used to disguise a limited understanding of economics.

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What exactly do people mean when they talk of competitiveness? According to the Oxford English Dictionary, to compete means *'to strive for superiority or supremacy'*. But how is this word applied to cities' economic performance?

Often the use of the competitiveness rhetoric represents the application of the language of business to economics. The work of Porter (1995, 1998) has been hugely influential in seeing the term cross fields. As Begg (2002) notes, 'the expression “competitive advantage” has leapt from business schools, through discourse on national economic performance, to acquire pride of place in many a local economic development strategy document.'

Competitiveness is a legitimate and valid concept in the business world. Many companies are rivals. When operating in the same market, the success of one company is likely to be at the expense of another.

But how this concept can be applied to places is far from clear. Cities cannot go bankrupt in the same way as firms; new entrants emerge slowly if at all; public finance systems and redistribution cushion places against the impact of change. Likewise, cities do not have a single objective like most firms – they are about much more than the pursuit of profit (Turok, 2004).

The competitiveness rhetoric gained currency before acquiring real meaning. Now commentators are playing catch-up, attempting to justify the use of the word after it has become common parlance.

So it is no surprise that urban theorists have no accepted definition of competitiveness (Esposito and Nathan, 2004). *Urban Competitiveness* (Begg, 2002) brings together leading academics to contribute to a significant volume on the subject, but does not *'impose a common definition of competitiveness'* – essentially because contributors use the word to mean different things.

Some policymakers and commentators continue to talk about cities' competitiveness simply as if they were competing firms. Others adopt a much broader approach. This is evident in the work of Simmie (2005) for the Government's *State of the Cities Report*. His paper draws very sensible conclusions – different cities need different policy prescriptions to enable better economic performance through improvements to the business environment, educational base, connectivity and social networks. But to communicate these messages he talks of urban competitiveness as:

> *'the ability of cities to continually upgrade their business environment, skill base, and physical and cultural infrastructures, so as to attract and retain high-growth, innovative and profitable firms, and an educated creative and entrepreneurial workforce, to thereby enable it to achieve a high rate of productivity, high employment rate, high wages, high GDP per capita, and low levels of income inequality and social inclusion.'*

This manages to stretch the concept to cover all core measures of economic performance, with social outcomes added as well. But these are separate objectives that should be analysed as such. How do we assess London's 'competitiveness', for example, when productivity growth is high but employment levels low? The different components of economic performance need to be broken down and prioritised if it is to be assessed effectively.

Finally, more nuanced definitions of

competitiveness take a different tack. They stress the role of place in providing the assets that help firms compete: as Begg puts it, city competitiveness is *'shaped by the interplay of attributes of cities as locations and the strengths and weaknesses of the firms and other economic agents'* (Begg, 1999). Similarly, Turok (2004) suggests that competitiveness stems from:

> *'the common physical, economic, social and institutional resources or assets of a city-region that influence the performance of its firms.'*

So how do these ideas stack up?

The competitiveness myth

All of these competitiveness concepts depend on two basic ideas, that places – nations, regions and cities – compete for investment and, to a lesser extent, highly skilled labour. There is a powerful, inherent logic to this thinking. The reasoning goes that city success depends upon attracting these crucial factors of production (e.g. Castells, 2001; Coyle, 1998). This will allow its firms to produce goods and services that meet the test of national and international competition.

Furthermore, inward investment is a means to improve productivity. It can introduce new technologies to an area and increase competition. And developments in recent decades mean the fight to attract and retain investment has become more fierce. With market liberalisation, international trade agreements, falling transport costs, improvements in information technology and communications and the growth of large multinational firms, capital has become more mobile. Investment can move more easily – both between cities and nations.

"The idea that places compete with each other is a very strange concept for economists to understand or accept"

Competing for investment

According to those who believe competitiveness drives economic performance, the footloose nature of business means that firms can effectively choose where they locate and how long they stay. In a fast-moving global environment, places have to fight for a share of the fixed pot of investment offered by these firms. So employment and living standards almost wholly depend on how attractive cities are to business. Low costs – low wages and low taxes – are likely to be a key component of what draws businesses to a certain place. Efficient infrastructures and a productive workforce will also be important. And any incentives cities can offer inward investors are likely to help their attempts to secure investment (e.g. Leadbeater, 2000).

Competing for highly-skilled labour

As capital has become more mobile, so has highly-skilled labour. With increased economic activity in so-called 'knowledge sectors', an ability to attract and retain a pool of skilled labour is essential to improving a place's prosperity. And attracting highly-skilled labour helps attract investment in high value-added sectors, in turn attracting more highly skilled labour.

For example, Florida (2002) argues that by attracting a 'creative class' (consisting of scientists, engineers, actors, poets and other highly-skilled professions) a city helps bring in inward investment and stimulate high-tech industry. Many cities have policies in place designed specifically to attract and maintain highly-skilled labour, including the development of a particular housing and cultural offer (Nathan and Urwin, 2005).

What are the policy implications of such an understanding of cities' economies? Clearly, making cities attractive to people and firms elsewhere is key. So city branding and city marketing become important. Increasingly we hear how cities have to find a niche through building a distinctive role. And inward investment strategies need to take centre place in economic development policy.

What is wrong with this understanding of cities' economies?

This line of thinking is compelling, but fundamentally wrong. The idea that places – cities, regions or nations – compete with each other is a very strange concept for economists to understand or accept. Writing about

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international trade, Krugman (1994) stated 'it is simply not the case that the world's leading nations are to any important degree in economic competition with each other.' Following his lead, others argue that 'it is at best misleading and at worst positively dangerous to view regions and cities as competing over market shares, as if they are in some sort of global race in which there are only "winners" and "losers"'(Kitson et al, 2004).

A quick look at the way economies operate in practice reveals that 'competitiveness' does not explain cities' economic performance.

The mobility of investment and highly skilled labour

First, cities are meant to compete to attract footloose businesses. For firms that do move, some places are clearly more attractive than others (CWHB, 2004). However, not all firms do move. Although there is a lack of data on the movement of capital between cities or regions, it is intuitive that most investment is geographically constrained. Many firms never relocate.

Call centres and logistics plants may leave one area and go to another. And, when a response to market signals, such behaviour improves economic outcomes. But many retailers, local service providers and small businesses will only ever exist in one location. Their viability may well depend on proximity to customers and suppliers or an expert knowledge of local markets (Kornblatt and Troni, 2005). Consumers will demand that certain goods and services are provided locally.

For small and medium-sized enterprises (SMEs) in particular, local social capital, developed through networking and collaboration, can play a crucial role in business performance (Cooke, 2004). With all job growth of recent years being generated by SMEs and the self-employment, the importance of the sector should not be underestimated (SBS, 2004).

Many businesses come into existence to take advantage of the particular assets of an area – such as proximity to a natural resource or a particularly advantageous location. Rather than being something a company chooses, location can be the reason for a firm's existence. And for many businesses moving is costly.

Furthermore, not all economic activity is undertaken by private firms. Much economic activity takes place in the public sector. Although we look to the private sector to drive productivity growth, the size of the public sector means its performance is very important too. As the Lyons Review showed, some public sector activity can be moved (Lyons, 2004). But much economic activity in the public sector certainly cannot move easily from city to city or region to region in the way the competitiveness rhetoric suggests. Schools and hospitals serving a particular area will have to remain in that area.

Similarly, it is worth analysing the movement of highly skilled labour. Graduates face a national labour market. But in the UK, at least, the extent to which highly skilled labour moves between cities depending on the cultural, social or environmental offer of a city is limited. Rather, it is the job offer that matters. Employment is the main determinant of migration patterns (Turok, 2004).

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The economic interdependence of cities

The competitive rhetoric also fails to recognise that cities are highly dependent on each other and on their hinterland (Cheshire et al, 2004). Trade between countries or cities is not a zero-sum game – it is mutually beneficial, allowing specialisation to the benefit of all participants. This is where it becomes clear that talk of cities' competitiveness really makes very little sense (Adams et al, 2003).

Krugman has made the same point about the economic relationship of nations. He states that 'if the European economy does well, it need not be at US expense; indeed, if anything a successful European economy is likely to help the US economy by providing it with larger markets and selling goods of superior quality at lower prices' (Krugman, 1994).

So, while the competitive rhetoric suggests the strength of foreign economies is a threat, the truth is it represents an opportunity. The rapid economic growth of India and China,

for example, should allow an improvement in UK living standards. Britain will be able to import goods made more cheaply or to a higher standard and export goods to a growing market.

The higher level of economic integration means this argument is even stronger when applied to cities. Compared to economic interaction between nations, there are very few barriers preventing the flow of goods and labour between cities. Cities provide markets for one another, people commute between urban areas and supply chains cross city boundaries. In other words, city economies are highly integrated.

“The living standards of the population will be best served by allowing market forces to operate”

This integration does not result in the emergence of winners and losers, rather it facilitates economies through specialisation resulting in a more efficient allocation of resources across the nation over time.

This is intuitive. Using the word competitiveness to understand city performance suggests it is a relative concept. But nobody would claim that if Manchester's economy performs poorly, this is good news for Liverpool. The demand for Liverpool goods and services will shrink and Manchester will no longer be able to supply it with goods and services as cheaply or of the same quality.

What about when big cities grow? Agglomeration economies in big conurbations can suck in skilled labour from towns nearby (Cheshire et al, 2004; Combes et al, 2005). In the short term, this means more out-commuting; in the longer term, some out-migration.

But if Manchester grows in this way, does this mean it has 'beaten', say, Rochdale? No. People in Rochdale gain from Manchester's growth, bringing back wages to spend locally. The challenge for policymakers in Rochdale is not to out-compete Manchester, but to forge stronger connections to it.

Of course, the appropriate level and type of specialisation of a particular city will change over time. Indeed, the optimal size of a city may both increase or decrease. But the living standards of the population will be best served by allowing market forces to operate, provided the workforce is given opportunities to change and improve their skills and the labour market works flexibly, with few barriers to labour mobility. Within the competitive paradigm, the policy response would be to protect local businesses. Although such measures might ease the short term pain of economic restructuring, the creation of such market distortions would result in sub-optimal outcomes in the long-run.

Why are people still talking about competitiveness?

It has been shown that the notion of competitiveness is highly inappropriate for understanding cities' economic performance. The words 'compete' and 'competitive' should be used differently in relation to businesses, industries and places:

i) In relation to individual **businesses**, the word 'compete' is used to express rivalry. Businesses do compete against each other. Within a particular market, one company's success is likely to be at the expense of another.

ii) Economists talk of the need for particular **industries** or **markets** to be competitive. What they mean by this is that they have to be characterised by the effective working of market forces with entry and exit possible and free of monopoly power. But this is the promotion of competition not competitiveness.

iii) But places – **cities, regions and nations** – do not compete. To perform well, it is important that they contain businesses that compete and industries that are competitive. But places are not economic rivals. Places perform, but they do not compete.

It matters that we get language right. We need to say what we mean. Orwell (1946) wrote that the English language 'becomes ugly and inaccurate because our thoughts are foolish, but the slovenliness of our language makes it easier for us to have foolish thoughts.' There is plenty of evidence that this is happening in discussions of city per-

formance. Furthermore, Orwell argued that 'the decline of language must ultimately have political and economic causes.' And it is clear that both politicians and leaders of big business can gain advantage from the obsession with competitiveness.

Some politicians may use the competitiveness rhetoric because they are caught in a trap. They have to talk of competitiveness because the electorate and commentators believe competitiveness is an important concept. And, at times, applying the logic of the competitiveness paradigm may suit short-term political goals. Protecting poorly performing local industries from market forces might deliver better economic outcomes in the short-run (even if detrimental to long-term, national outcomes) and therefore be politically sensible.

"Using a nebulous concept is perfect if you are trying to talk about something you don't understand"

But for many politicians, explaining economic challenges facing any city as 'a failure to compete on world markets' absolves them of responsibility. Unable to influence international or even national economic conditions, they can present themselves as responsible for global economic conditions as they are for the weather. If business costs are significantly lower in China, what can the leaders of British cities be expected to do about it?

For business leaders, especially those from big business and multinationals, the competitiveness rhetoric can be used to serve their own ends. When making location decisions, it puts firms in a strong position to negotiate with local governments. Enabling firms to play one authority off against another provides them with a way of reasoning that allows them to extract maximum advantage.

And among some commentators, the term allows lazy analysis. Using a nebulous concept is perfect if you are trying to talk about something you do not understand.

Lessons for policymakers

This is not just about semantics. The policy implications that emerge from the competitiveness rhetoric are that cities should make themselves attractive to outsiders who are thinking about where to locate – both investors and highly skilled labour. City marketing, city branding and positive inward investment strategies are therefore seen as key. Of course, these strategies do make a difference. But real results will come from developing a city's assets rather than promoting them.

Instead of *competitiveness*, we should focus on the components of city *performance*. This produces some rather different policy lessons. For example, a city's economic performance is not primarily determined by the ability to attract investment. More important is the ability to nurture investment within the city through, for example, creating an economic climate that encourages existing firms to expand and entrepreneurs to start new enterprises. Productivity growth will be achieved by improving the infrastructure used by existing businesses (or businesses that will come into existence within the city) rather than looking for more productive firms to come into the area. Inward investment is beneficial because it increases competition, providing an incentive for existing firms to improve. It is a desire to increase competition not competitiveness that should drive policy.

Similarly, strategies for attracting skilled labour are relatively insignificant compared to the importance of educating and improving the skills of the existing and future workforce. Offer good jobs and they will come.

Essentially, the focus must be on nurturing the existing assets of the city more than attracting investment from elsewhere. These are not opposite methods of addressing cities' economic challenges. Clearly, making it easier and more efficient for companies within a city to do business (by improving transport and skill levels, for example) will help build the existing business base, and it will make a city more attractive to those companies who are looking to move.

Focusing on performance leads to some subtle but crucial shifts in city strategy. And as calls are made to devolve powers to big cities, it is more important than ever that these points are understood. Currently cities are relatively constrained in the extent to which they can partake in wasteful competition. This contrasts with the experience of American states (Green and Marshall, 2005).

With fiscal powers, US states indulge in wasteful, cut-throat competition in an attempt to capture footloose enterprise from elsewhere (Goodman, 1979). The distortions created result in an inefficient allocation of resources, tax levels that are too low and economic development strategies that are ineffective.

In *City Leadership* (Marshall and Finch, forthcoming), the Centre for Cities will argue that English cities should be liberated to pursue economic development strategies through increased revenue raising and spending freedoms. But for this to be successful, British cities need a better understanding of how to assess – and therefore address – economic performance. That starts with learning how to talk about it.

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There are many elements to a city's economic performance: employment, productivity, living standards, inequality levels. And a city's overall performance also depends on its social, physical and cultural assets. The obsession with competitiveness has tended to obscure all of this. If cities are to fulfil their potential, we need a clear debate about what defines a successful city. Then we can design strategies to help take them there.

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