

Urban attractiveness and local economic development

Tracing complementarities in policy approaches for local economic development



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Starting point

Experience of turn-around cities often shows a parallel and integrated approach of economic development strategies and policies to improve the city's liveability (Frick et al, 2023)

- Dortmund: LED strategy guided by the premise that city had to become attractive for both employers and employees
- Bilbao and the Basque Country: combined an economic strategy of cluster formation with waterfront and cultural regeneration, not only changing the image of the city but also turning it into a popular tourist destination
- Pittsburgh: transformed its urban environment from polluted and industrial into a desirable place for people to live, with parks and heritage buildings
- Duisburg: Early pioneer in urban regeneration efforts but strategy only became effective once these efforts were complemented with LED measures

Starting point

- However, most LED policies revolve around creating a conducive environment for firms → heavily reliant on infrastructure projects, tax incentives, skills formation as well as innovation and cluster approaches (Rodriguez-Pose & Wilkie, 2017)
- Questions around the quality of life and the attractiveness of a place for people rather than firms have not figured much or only indirectly in this perspective
- Little emphasis on the topic in a review of over 1,000 sustainable urban development and territorial development strategies supported by the EU Cohesion Policy (2014-2020)
- Topic not new but growing shortage of skilled labour and its impact on firms is shining a new spotlight on the topic

What we do in this paper

- **Aim**: explore the link and the complementarities between wider urban development initiatives and economic development strategies
- Two sections:
 - Conceptual links between the two topics in light of skills shortages
 - Draws on experiences of three German cities, namely Dortmund, Duisburg and Leipzig
 - German context allows for interesting insights due to the relatively extensive competences of local authorities
- Today focus on the more conceptual arguments

Four key arguments

1. There is a clear complementarity between wider urban and economic development strategies and a need for strategic integration of both fields
2. Recognizing this complementarity is, in all likelihood, even more important now in the context of increasing skills shortages than 20-30 years ago
3. The inclusion of quality-of-life measures in local economic development strategies is particularly important for secondary cities and places in lagging regions
4. Policies to address a place's quality of life need to go beyond the image campaigns and the promotion of creative industries as envisioned by much of the earlier literature

Argument 1: Clear complementarity between wider urban and economic development strategies

- Important role of human capital for local economic development (Becker, 1962; Lucas, 1988); hence skills have long been a part of LED strategies
- But skills shortages have become a serious concern
 - 85% of firms in a survey across 29 countries indicated that recruitment is an obstacle to their investment activities (EIB, 2022)
 - This compares to costs of energy (83%), labour market regulations (59%) and transport infrastructure (48%)
- How is this problem being tackled?
 - LED policies have traditionally focused on skills development (e.g. industry specific TVET or higher education)
 - Firms on creating an attractive working environment within the companies (e.g. flexible working arrangements)

Argument 1: Clear complementarity between wider urban and economic development strategies

- However, skills development and providing an attractive working environment might not be enough for firms in many places to address skills shortages
- Surveys increasingly point to the importance of a good quality of life to retain and attract talent
 - Survey of 600 German firms: ‘soft people related factors’ including healthcare, housing and childcare provisions deemed more important for the competitiveness of a city than firm related factors such as taxes and infrastructure (KfW, 2017)
- Cities and regions need to become attractive for employers and employees alike

Argument 2: The strategic integration is even more important today than before

- Not a new topic: quality of life recognized as an important feature for competitiveness strategies for a while, e.g.
 - Urban regeneration lit on image campaigns (Rogerson, 1999)
 - Literature around the concept of the Creative Class (Florida, 2002)
- However, increasing skills shortages have made this topic arguably even more relevant today (EIB, 2022)
- The annual Talent Shortage Survey conducted by the Manpower Group among 40,000 employers in 41 countries illustrates this trend (Manpower Group, 2024)
 - In 2014, only 36 percent reported difficulties in filling vacancies
 - In 2024, 75 percent reported challenges

Argument 3: The integration of quality-of-life measures in LED strategies is particularly important for places in lagging regions

- The prevalence and characteristics of skill shortages vary significantly between places
 - Larger cities, on average, provide higher skills levels and better matching between workers and firms, while skills shortage and mismatch can be a significant challenge for lagging regions (OECD, 2019; Corradini, Morris & Vanino, 2022)
 - Low-skills trap (Finegold & Soskice, 1988; Sissons, 2021): a limited supply of skilled workers hampers firms' potential to grow and innovate, which in turn leads to less demand for higher skills and thus reduces the incentives for people to upskill
- Places in lagging areas often deemed as less “liveable”. At the same time need to compete with other places for talent
- Relying on one sided strategies, centred around the needs of firms likely to fail to create the desired impact if not complemented by measures to increase the living environment for the residents

Argument 4: Policies need to go beyond image campaigns and the promotion of creative industries

- Emphasis on the high-skilled and creative industries
 - Cultural development, the design of public spaces, the leisure industry as well as an open and tolerant environment (see for example the UNESCO Creative Cities Network; Boschma & Fritsch, 2009; Mellander & Florida, 2021)
- But skills shortages more severe in many other sectors including healthcare and the wider care sector, teachers and childcare workers, the construction sector and logistics as well as ICT, engineers and STEM specialists (Edge Foundation, 2024; IW, 2022)
- Safety, healthcare, affordable housing and availability of schools and childcare top the list of competitiveness factors according to a survey of 600 German firms (KfW, 2017) rather than trendy bars and culture
- Strategies will need to focus on much wider issues including housing, schooling and childcare provision

Conclusion

- The paper argues for a stronger integration of traditional economic development policies and wider urban development strategies aimed at improving the quality of life of a place's residents – relying on traditional LED strategies only likely not to be effective
- We further advance the argument that recognizing this complementarity is even more important now in light of widespread skills shortages than in the past; and particularly relevant for cities and regions in the so-called lagging areas.
- Finally, policies need to go beyond the image campaigns and the promotion of the creative and also include measures to improve the availability and quality of housing, education and childcare facilities and the alike.

Thank You