Competitive cities and problems of democracy

Colin Crouch

Introduction

Cities and regions are under increasing pressure to strengthen their economic competitiveness. As investment funds have become thoroughly internationalized, even globalized, local public elites have both opportunities and needs to strengthen the prosperity of their areas by attracting external investment and providing environments in which economic activities can flourish. The implications of these developments for local democracy are ambiguous and complex, and have been the object of a number of studies.

This is not necessarily a story of the quality of public services and urban amenities being driven down in a race to the bottom as city authorities offer tax breaks to inward investors, depriving themselves of resources to invest in the quality of life of their cities. Such processes do take place, particularly in developing and some transition economies, where national and local authorities seek competitiveness through low cost. But many localities seek instead to attract high-value-added activities and to make themselves attractive places to live in for skilled professionals (Florida 2002). This can involve the opposite strategy of increasing expenditure on high-quality public facilities and social infrastructure (OECD 2006a: 137–152). More generally, living in a competitive city is likely to satisfy local citizens better than living in an uncompetitive one. The problems raised for democracy through local competitiveness strategies, at least in wealthier societies, are more subtle, and mainly relate to the following issues:

i) The geographical areas around which competitiveness strategies can be developed are unlikely to correspond to the contours of elected political authorities.

ii) This fact, together with other attempts at fitting political institutions to a search for competitiveness, places a premium on mixed forms of governance, threatening to dilute the role of democratic institutions within governance.

iii) Stress on competitiveness and inward investment tends to make local (and national) political authorities heavily dependent on corporate interests, which may also be reflected within the mixed governance discussed under (ii).

The following discussion will address each of these issues in turn.
Democracy and flexible geography

It is possible to identify geographical areas that, more or less, constitute economic units, in the sense that most journeys to work take place within them, supplier networks are dense within their boundaries, and collective institutions (such as technical colleges) in the area’s specialisms are likely to be grouped within them. In advanced economies these areas can usually be identified as metropolitan regions, bringing together either a dominant city and several smaller ones, or a group of more or less equal cities. The OECD has identified at least 78 of these among its member states, and economic activity and dynamism in the wealthy countries are concentrated within these spaces (OECD 2006a).

In some cases (e.g. the Öresund region of Sweden and Denmark), or the region around Vienna (Austria) and Bratislava (Slovakia) an economic region crosses national frontiers. There are advantages for competitiveness strategies if public decision-making can be made at the level of a defined economic region. However, not only are the boundaries of economic regions flexible in relation to political boundaries; they also change. Furthermore, the fact that an economic region exists for some purposes (say, commuting patterns) does not mean that it has the same boundaries for others (e.g. supplier relations). This triple flexibility presents democracy with problems (OECD 2006a: 101–135). Political authorities have boundaries that need to remain stable, subject only to periodic boundary reviews, if citizens are to identify with them. There are also advantages if local administrations can provide different services and infrastructures across a similar geographical scale, as there are usually dense links among them. Also, an integrated economic region can contain several million people, raising problems of scale for local democracy.

Advocates of “localism” argue that, as decision-making levels become removed from easy access by citizens, democracy becomes more difficult to practise (Stoker 2004a, 2004b). From a different perspective, advocates of public choice through market mechanisms (e.g. Tiebout 1956) consider it important that citizens be able to “vote with their feet” and move out of local jurisdictions that they find politically unacceptable or administratively inefficient without much disruption to their lives by moving house over long distances. They therefore advocate geographically small local government units.

Voluntary cooperation can of course develop among neighbouring authorities, and there are increasing examples of this, such as the Local and Multi-Area Agreements in the UK. There are however difficulties when a diversity of authorities, often of different political colour, try to tackle issues jointly. Local taxation systems designed to give local authorities autonomous sources of revenue (itself an important attribute of local democracy) often give them perverse incentives – for example, by encouraging suburban authorities to establish decentralized business districts in order to reap returns from business taxes, creating urban sprawl, when it might be both more efficient and environmentally better to concentrate certain activities within a central city.

Further, a high level of institutional fragmentation can mean that some local jurisdictions, generally central cities, bear the costs of public services used by the residents of other areas without receiving income for them – for example, coping with the strains imposed by commuting traffic and disposing of litter dropped in the city during the working day. In other words, lack of cooperation on a territorial base can lead to a mismatch between decision-makers, taxpayers, and beneficiaries of public services (OECD 2006a: 156–158).

A number of approaches have been developed in different parts of the world to reconcile these conflicting demands on cities, and have been summarized by the OECD (ibid. 158–200) as follows. Each contains a different balance between democracy, appropriateness...
of scale and flexibility, and none is able to optimize that relationship:

i) Functional models whereby governance structures are reshaped to fit or approximate to the economic area (e.g. by the creation of a metropolitan government and the amalgamation of municipalities). This can be done only occasionally, as it involves complex political processes, and may eventually lead to the erection of large authorities remote from citizens. It is advocated by those who believe in the superior efficiencies of scale and prioritize this goal over both flexibility of organizational form and local accountability (Newton 1982). Compared with some of the other forms to be discussed below, such formal structural reforms do produce bodies with democratic accountability, but the strength of this will depend on local acceptance of the enlarged structure – the “culture of cooperation” or “actor behaviour” that they induce (Kübler and Heinelt 2005). For example, in Stuttgart and Lyon the creation of metropolis-wide governments derived from long traditions of cooperation, in the latter case dating back to the 1960s.

ii) Inter-municipal joint authorities for specific tasks, such as agencies for transport, urban planning or economic development. These provide a more flexible form and retain actual democratic accountability at a more local level, but at the expense of democracy becoming more indirect, as the joint authority is not itself accountable, only its constituent municipalities. This has been an issue, for example, in France, where Urban Communities and Agglomeration Communities have been given an increasing range of responsibilities and larger and larger budgets without being run by a directly elected assembly (Lefevre 2004; OECD 2006b).

iii) Informal coordination bodies such as platforms, associations or strategic planning partnerships, often relying on existing networks of relevant actors, without necessarily following territorial boundaries. A problem is caused for democratic government by the fact that the appropriate boundary will probably vary according to the function or goal in question. This is of course an issue even where local government takes a tiered form of such entities as regions, provinces, counties, cities, districts. It is magnified when attempts are made to form different task-specific agencies that cut across this existing structure.

Both (ii) and (iii) are advocated by the “New Regionalism” school (Savitch and Vogel 2000). This school does not accept that political regulation should only be organized by public bodies. Rather, metropolitan governance is seen as organized by more or less formal and stable systems of different actors, involving structures of network cooperation between public and private actors with a relatively weak institutionalization (Walter-Rogg 2006). However, where there is a mix of private and public bodies in such flexible governance forms, flexibility is purchased at the expense of clarity in the specific identity of democratic bodies, as these are mixed with the representatives of private firms in the governance structures. This will be discussed again below.

Finally:

iv) Purely fiscal arrangements such as equalization mechanisms and tax-base sharing to deal with fiscal disparities and territorial spill-over as well as public–private partnerships and contract services. These again raise issues of public–private relations that will be discussed in a later section of this chapter.
A further problem for democracy is created by trends towards geographical segregation on class and ethnic grounds that frequently occur in very large urban spaces (Le Galès 2004; OECD 2006a: 190–200). There are conflicts over the location of large, essential but unattractive elements of urban infrastructure, such as major roads or waste-disposal plants, which everyone needs but no one wants to live near. Formal government at remote levels is unlikely to cope with these problems, and may make some of them worse because of its remoteness from street level. Further, the conditions of modern city life generate various social movements and protests that cannot easily translate themselves into formal political and administrative terms. These movements, while not democratic in the formal sense of having participated in elections, are indicators of the health of a vibrant civil society that is part of the infrastructure of democracy. Problems appear when one tries to distinguish between a democracy-reinforcing civil society group, and a lobby using its power to undermine democratic processes.

Flexible governance

The above discussion has introduced a number of themes that are usually discussed within the framework of governance theory. This theory maintains that the regulation of social life cannot be studied through the concept of formal political government alone, but through a range of mechanisms, the word governance being used to distinguish this broader idea from that of government. The other mechanisms usually discussed include markets, corporate hierarchies (or the authority of the firm), business associations and trade unions, networks, and communities. This much is agreed among a wide range of observers. There is however a major division between those who use these ideas purely analytically, and who see government as one among a number of modes of governance (e.g. Hollingsworth and Boyer 1997; Hollingsworth et al. 2002; Crouch 2005) and those who see a historical trend away from government towards other forms of governance, in particular networks (e.g. Giddens 1998; Greenwood et al. 2002; Leach and Percy-Smith 2001; Rhodes 1997). The intricacies of this dispute do not concern us here.

The whole process of authorities being concerned for the economic competitiveness of their areas brings the market to bear as a source of decision-making and regulation. Engagement with private firms in such matters as regional development authorities or contracting out public services brings private corporate hierarchies into local governance. The mobilization of civil society groups can be seen as engaging networks and communities.

Some, mainly British, scholars would also argue that the overall structure of “new” governance thereby produced is itself a network, with different participants linked horizontally rather than in a hierarchy coming down from formal government (Giddens 1998; Greenwood et al. 2002; Leach and Percy-Smith 2001; Rhodes 1997). During the 1990s “lightness” (or “living on thin air” in the memorable phrase of Charles Leadbeater (1999) became seen as a desirable characteristic of institutions. This was a period when many large enterprises were ostensibly “downsizing” and “delayering”, and government seemed clumsy alongside it. One says that firms were “ostensibly” downsizing, because they were simultaneously often becoming enormous global businesses. Elimination of some middle layers of an organization and the use of sub contracting rather than direct employment enabled shrinking to be compatible with centralization of decision-making and the growth of an organization.

It was also the period when stock markets were discovering the possibilities of secondary markets and derivatives, enabling the trading of stocks and making money to become divorced from productive economic
activities. Lightness was seen, not just as a literal quality of high-tech and services sector activities in contrast with “heavy” industry, but as a desired organizational characteristic of all institutions suited to the post-Fordist economy (Giddens 1998). Rapid mobility and flexibility of structures were considered to enable government to resemble, not just firms, but the market itself in its flexible and rapid adjustment to changing needs. The search for flexible forms of governance of local and regional economies is a key instance. Networks were preferred to formal associations for the same reason. The former can adjust quickly and flexibly; the latter have rather rigid structures and definitions of their scope.

Our main focus here is on the democratic quality of these different governance modes, as this might enable us to answer whether shifts among them in local and regional affairs are likely to have implications for democratic responsiveness. Only actual government can possess the formal quality of democratic accountability, though whether individual governments have the substantive quality of public responsiveness that might be assumed to follow from this attribute varies. Only markets, provided they are true markets, are certain to be responsive in this way, but the market cannot be called democratic. Only governments, associations and corporations are formal legal identities; this attribute makes them more accountable at law, but also makes them less flexible. Flexibility is most certainly possessed by the market and networks. Changes in governance arrangements will therefore have implications for this bundle of qualities: democracy, responsiveness, accountability, flexibility. It is however not necessarily easy to work these out a priori, and without well-founded knowledge of particular cases.

Burroni et al. (2005) are sceptical of those who claim to see a major historical trend to “light” governance, but do see a wide diversity of different combinations of governance modes. They speak of “kaleidoscopic” governance. For example, Svensson and Östhol (2003) discuss the “growth agreements” in Swedish regional partnerships, which include measures for dealing with such problems as the public/private balance and accountability. However, the problem of which groups should be included within the networks has remained unresolved, as there are no clear tests for entitlement to participate once one has moved outside formal democracy.

Paradoxically, when authorities deal with individual firms such problems are not raised. Firms do not claim to be representative; they lobby authorities in pursuit of contracts and privileges for themselves, on the grounds of what their activities can achieve for economic growth in the territory concerned. That is the only legitimation that they need, but their participation raises problems for both the proper functioning of markets and the delivery of collective competition goods. Moulaert and colleagues (2001), after examining large new urban projects in a number of European countries, argue that the rhetoric of the market is used by public authorities to conceal granting privileged access to favoured corporate insiders. This confusion between the market and corporate hierarchies is a very common error in public policy-making. Similarly, according to Novy et al. (2001), new coalitions of city council, business and academics in Vienna made urban policy a fragmented, privatized, opaque and ad hoc area. A study of another, particularly large, project, that of the recent reconstruction of Berlin, describes how corporate actors used city authorities in order to unload market risk on to the city, with (the authors argue) strong negative effects (Häussermann and Simons 2000).

The role of networks in the governance of strong territorial economies is well known, from the Italian industrial districts (Burroni and Trigilia 2001) to Silicon Valley (Kenney 2000). Patrucco (2003) describes how different kinds of institution worked together to produce a true complementarity of communication and networks in the
technological district of Brianza in northern Italy. Sydow and Staber (2002), Baumann (2002), Baumann and Voelzkow (2004), and Elbing et al. (2009) have similarly described the role of multi-participant project networks in German and British television. Formal levels of government do however often play a role in such innovations. Izushi (1999) describes the role of the Welsh Development Agency in promoting inter-firm cooperation among suppliers. Several studies show that, even when production becomes internationalized, inter-firm relations and other networks around technological issues retain important local or regional focuses: Swedish machinery producers (Larsson and Malmberg 1999); high-tech small ICT firms around Cambridge in the UK (Keeble et al. 1999), certain Dutch towns (Atzema 2001) and industrial districts of Italy (Burroni 2001, 2007); the biopharmaceutical sector around Oxford (Proudfoot 2004). Kaufmann and Tödtling (2000) report a similar mix of local and global for older industrial districts in Styria in Austria. They put the emphasis the other way round – on the fact that firms are inserted in European as well as local networks; but the findings also support the hypothesis of the continuing importance of the local.

The concept of networks is embraced very easily by policy-makers, partly because the idea has been associated with these and other “success stories”, but also because the apparent looseness and non-specificity of the idea fits very well with the new “light” governance concept. It may seem that if local actors from polity, economy and civil society come together, pooling their different and often complementary governance resources, they will produce networks with a rich diversity of possibilities. But it is not clear whether central government policies of fragmenting their own organizations in order to equip them to participate in such governance, or requiring local authorities to interact with private firms results in the generation of networks. It is by no means new for firms having a private interest in certain development projects to seek to influence local policy concerning them; has the rhetoric of network governance simply provided legitimation for what, from stricter constitutional perspectives, is a dubious practice?

The successful networked economies tend to be rather special places, produced by chance combinations of factors that are difficult to reproduce at will: there have been many unsuccessful attempts at creating new Silicon Valleys. At times the loose, light arrangements of new governance experiments may be not so much an ideal new model of institutions as the best that can be achieved in poor circumstances. This has been proposed by a recent literature on the advantages and disadvantages of light, flexible “projects” as opposed to heavy, firmly established institutions (Grabher 2002).

Grabher’s contrast between “cool projects and boring institutions” is ironic, as “boring” turns out to imply useful stability, but Dornisch (2002) takes him rather literally when discussing the state of economic regeneration in the Łódź region of Poland. Formerly the site of a major textile and clothing industry, the region was in severe economic and institutional decline after the fall of the Soviet system, and (like most textile districts in Europe) competition from low-cost producers in Asia. There had to be highly contingent, improvised experiments with chance sets of actors. Dornisch sees advantages here. Because of the diversity, people are “learning through switching” (ibid.: 310), a quality uniquely produced by the transition context, and particularly suited to projects. He argues that it was precisely the “volatile discontinuity” and “loose coupling” of the project approach that helped achieve success and rapid moves away from unsuccessful paths (ibid.: 315). On the other hand, more recent research on the same area (Burroni et al. 2008) suggested that small-scale clothing manufacturing activities in the area had been unable to get beyond very informal arrangements and limited products,
because of an absence of strong supporting institutions.

This research contrasted the Łódź case with certain similar areas in southern Italy, which had been able to take advantage of formal public policy and links to established major firms. In the Italian cases it was formal local government which guided innovative experiments. The idea of “governance without government” and of the role of light institutions does not seem to be confirmed; on the contrary, both local governments and formal business and labour associations invest in the experience of local development pacts in order to reinforce their own legitimacy within local society, and thereby help embed the pact itself as a form of real co-operation (Magnatti et al. 2005; Burroni 2005). The experience of the pacts also confirms Grabher’s stress on the usefulness of stability, as it favours: (1) the creation of mutual trust between public and private actors, (2) cumulative learning processes, and (3) the creation of collective goods with medium- and long-term perspectives (Cersosimo and Wolleb 2001; De Vivo 2004; Magnatti et al. 2005).

Major examples of “mixed governance” in the UK are the Regional Development Agencies (RDAs). These are creatures of central government, there being no formal and democratic tier of regional government in most of the UK. English RDAs comprise individuals appointed by central government from various central government agencies, representatives of local authorities, private business, trade unions and the voluntary sector. Fuller et al. (2002) suggest that the lack of discretionary power and resources has undermined the capacity of RDAs to pursue strategic aims; and that in response to this they have concentrated on particular activities and have developed relations with certain partners only. A study of new forms of governance of redevelopment in Govan, a long-term depressed area in the Glasgow region in Scotland (where an RDA format had been established before the institution of devolution), also comments on the weak leverage over wider policies and resource flows (Raco et al. 2003). However, these authors do report positive achievements of the system in bringing together public- and private-sector actors in flexible local development companies.

Research on RDA activity in North East England makes a different point, demonstrating the ambiguities of any observed trends away from government and towards networks (Pike 2002). The author argues that central government rather than local actors took the leading role, by creating 28 separate and temporary “task forces”, designed to forge new entities between state and market. These have been very flexible units of central government engaged with local government and other public agencies, as well as some firms. But Pike sees a problem of identifying responsibility and legitimacy among the range of public agencies involved. He also reports concern at the role of patronage available to central government in such a situation, and at the creation of “cosy circles” of private and public insiders produced by such an opaque process of identifying salient participants.

A study of “partnership governance” in rural Wales similarly suggests that the rhetoric of partnership is used to remove competence from local government, either upwards to a regional level or down to “communities” – hence in fact enhancing the role of the central state (Edwards et al. 2001). The authors report that partnerships are able to cross old hierarchical lines and link unfamiliar partners, mainly within the public sector, in precisely the way expected by “new governance” writers. However, the authors make two further points that are unexpected from this perspective. The central state itself appears as far from being “hollowed out” and weakened; rather it takes new powers, particularly away from local government. Second, and related to this, the state uses the new flexible forms to depart from the universalism of the historical modern state, selecting privileged interlocutors from among the institutions in
the territory. The research was carried out before the establishment of a democratic tier of regional government for Wales. Since then, however, the shift from formal local government to “communities” has been followed in England, symbolized in the renaming of the local government ministry as the Department for Communities and Local Government.

Parallel with this change has been a complex shift in the role of local government in England. Under the Sustainable Communities Act 2007 (UK Government 2007) local authorities were given the power to raise issues and carry out inquiries in a wide range of issues going beyond their specified formal competences. At the same time, however, local authorities in this country as well as many others are under increasing pressure to privatize or subcontract provision of their services to private firms, thereby losing substantive powers to take action themselves to provide services. The role of formal local democracy therefore shifts to being one of advocacy on behalf of citizens rather than acting as a public authority on their behalf. In this way the distinction between formal local government and informal community groups is reduced.

Another group of researchers has also questioned whether there is a decentralization to local levels in these new flexible structures, or in fact a centralization (North et al. 2001; Valler et al. 2000). They go on to make a further point, related to the “cosy circles” and “privileged interlocutors”, and to the previously observed shift in the participation of business interests away from associations to individual firms, selected without formal or open process by the political centre out of a large number of potential contenders. Again, this is not the market but the engagement of private corporate hierarchies in governance. A further study of North East England similarly reports problems in the formation of small firm networks because of doubts over the legitimacy of so-called “networks” and “communities” of such firms (Laschewski et al. 2002).

Private firms and local democracy

This last point leads us to the role of private firms in flexible new governance arrangements. This raises certain problems: the protection of special interests, sometimes those of dominant but declining sectors; the exclusion of the concerns of SMEs to the advantage of large corporations better equipped to lobby; the neglect of other legitimate non-economic social interests (OECD 2006a: 212–215). For example, research on Reading, a former railway town in South East England, describes the pressure imposed by central government to persuade the city authorities to operate through partnership with private and voluntary sectors when seeking a new role (Raco 2003). Reading has as a result become a successful regional retail centre, but the core group sharing governance with the city council in determining the policy were certain national property-development firms, not local businesses, representative business associations or the local population. It is difficult to judge whether this was a case of external groups helping a city find a future that it could not have produced from its own past legacies, or a solution serving a particular set of interests. Neither democratic political processes nor the market drove the policy.

Counsell and Haughton (2003) compared efforts to provide employment sites for large-scale inward investment in the two highly contrasting English regions: the declining North East and the prosperous South East of England. They found that new modes of governance had enabled different groups to try to use the system to advance their own interests, in particular taking advantage of the confused meaning given to the idea of “sustainable development”. Based on research that he conducted on local regeneration...
partnerships in four urban areas in Northern and Eastern England (Barnsley, Rotherham, Hull and North East Lincolnshire), Davies (2004) reached several similar conclusions. He describes a complexity of governance modes, which he attributes to the paradoxical pressures placed on the government to achieve certain public regeneration goals while also giving primary weight to market forces. One consequence of this complexity was fragmentation and institutional instability; another was an increasing flow of power to central government. Partnerships did not, he argues, produce the strong role for network governance that Rhodes (1997) and other advocates of the new governance approach criticized above had predicted (Davies 2004: 581).

Conclusions

The arrival of economic competitiveness on the agenda of local and regional politics has had important implications for democracy. First, policy-makers have new incentives to align levels of political decision-making to those of identifiable regional and local economies; but it is not always clear what constitutes a regional or local economy, and in any case it is likely to change more quickly than the organization of elected authorities. Formal democracy either ignores economic change, gradually becoming incapable of producing strategy in this vital policy field; or it runs after such change and loses its stability. Various halfway approaches have been developed to cope with this dilemma.

Second, authorities have tried to produce more flexible structures of local and regional government, “kaleidoscopic” governance. But this can bring a decline in the sovereignty of political government as such. There is also evidence of a decline in the role of business associations and trade unions in favour of individual corporations in policy influence.

Finally, this role of private firms has important implications for democracy. As with the other issues being discussed in this chapter, there is a wealth of research evidence from a variety of cities and countries. While these do reveal the trends that have been discussed, they also show considerable continuing diversity.

Acknowledgement

This chapter draws heavily on work that the author carried out for two projects: as academic adviser to the Organization for Economic Co-operation and Development (OECD) for its report Competitive Cities in the Global Economy (OECD 2006a); and on local economic development with Luigi Burrioni and Maarten Keune (Burroni et al. 2005).

References


Further reading

