

Investing in regional equality:

lessons from four cities

February 2022

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Acknowledgements

We would like to thank Karen Sanderson, Drew Cullen, Khalid Hamid, Joanne Pitt, Sarah Sheen, Viv Russell and Karen Day for helpful comments and support. We are grateful to the many experts we interviewed who graciously shared their perspectives and time.

All views expressed, together with responsibility for any errors or omissions, are those of the authors.

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Executive summary



Reducing inequalities lies at the heart of resolving some of the world's most pressing challenges, from eradicating poverty, to tackling climate change, to creating real sustainable economic growth. Inequality prevents nations from improving health, education and human rights outcomes. Ultimately, countries and their regions can't grow or move forward if they are leaving people behind. But reducing inequalities requires transformative and sustained change.

To inform this debate we selected four city-regions from across the world to investigate the different approaches used to reduce inequalities. Our case studies, Fukuoka (Japan), Leipzig (Germany), Cleveland (USA) and Nantes (France), have all had success in overcoming significant social and economic inequalities in recent years. We assess the various governance, policy and funding factors that have allowed them to grow out of inequality and what lessons can be learned from their experiences as well as their remaining challenges.

Key reasons for success

1

Shared political will and partnerships: each were vital in overcoming political differences and uniting public and private institutions around a common vision. All our cities had strong local institutions, often working in partnership with regional and national governments, which played a key part in leading change. These ranged from a combined metropolitan authority in Nantes to the Cleveland Foundation, an independent philanthropic institution.

3

Investing for the long term: a commitment to scale and longevity in funding is an imperative. In Leipzig, there is a minimum funding commitment of 15 years, while in Cleveland its flagship city project is based on a 20-to-30-year horizon.

2

Clear strategy and vision: each city set out what they should look and feel like as places to live and work. For Fukuoka, the ambition was to become the start-up capital of Japan and an international destination for entrepreneurs.

4

Local knowledge: an in-depth understanding of the strengths and weaknesses that drive local economies, and an ability to build on those strengths. For example, Nantes was able to build on its traditional manufacturing strengths in shipbuilding to transition to high-end specialist cruise ship construction as well as aerospace. Meanwhile, both Leipzig and Fukuoka were able to create specialist economic clusters based on previous strengths.

5

Monitoring and evaluation: a system that allows for policies and programmes to be regularly sense-checked and updated in a timely way that benefits total performance. Flexibility and the ability to adapt to changing needs and circumstances should be integrated at the design stage. The case studies showed the importance of taking pragmatic decisions within an overall guiding vision.

7

Diversification: economic and business growth isn't the only game in town. Fukuoka, Leipzig and Nantes have all invested heavily in cultural and spatial development to make them outstanding and renowned places to live and work.

9

Adequate and responsive funding: identifying where and when finance is made available can be as important as the policies themselves. Both Leipzig and Nantes have systems that redistribute funds across regions and cities to address regional and urban inequalities. With such redistribution, areas with low tax revenues are compensated so inequalities are not further entrenched.

6

Adapting national frameworks to address local needs: the ability to design policies that enable growth strategies to take root and thrive relies on the strength of a local narrative. Recognising how national policies can be adapted to suit a local or regional landscape can spur innovation elsewhere as well. For example, Fukuoka has pursued an open campaign toward international immigration within the context of a more conservative national framework.

8

Key players: individuals and private organisations can serve as enablers of growth, leading by example. In the case of Cleveland, for example, it was the city's philanthropic foundation; Fukuoka and Nantes each had a charismatic mayor with a vision for the city.

Areas for improvement

Along with the successes of our case study cities, we also focused on their remaining challenges and the areas that they could improve. One key area was evaluation. Crucially all the cities had policies and mechanisms in place to assess performance, but these had limitations. In Cleveland, for example, we identified gaps in the availability and assessment of regional data, while in Nantes more focus could be placed on outcomes. Improved evaluation is crucial for understanding the impact on hard to reach groups, which are often those experiencing the greatest inequalities.

Furthermore, the evaluation of competitive bids tends to be at the bidding and project approval stage rather than over the lifetime of the project. This can encourage optimism bias and challenge accountability in project delivery.

Cities and regions attempting to tackle inequalities should be aware of unintended consequences, which again could be highlighted through more incisive evaluation methods. In Cleveland, one of its key initiatives led to a huge increase in employment opportunities in the city, but these new workers subsequently moved out into the suburbs – taking their tax revenues with them.

Public finance professionals

A commitment to long-term, consistent funding has been a core success factor for our case study cities. Public funds need to be managed effectively. Public finance professionals have a key role to play in assessing relative returns on investment and value for money. The sector possesses the networks and expertise to build strategic and operational relationships – both formally and informally – at all geographic scales. Accessing finance can frequently be through competitive bidding, so public finance professionals can help practically to build the capacity of their organisations to secure this funding in the long term.

Cross-sector partnerships can deliver improved economic and social outcomes through peer learning and knowledge exchange. To improve the value creation of public expenditure, public financial management professionals will need to collaborate actively with government, academia and the third sector.

Next steps

The case studies show that delivering a reduction in regional inequalities is highly complex with no magic bullet. Although the frameworks within which policies are executed vary, many of the lessons learned are transferable. While the approaches undertaken may be context-specific, our case studies highlight the presence of common themes. The examples are testament that not everything needs to be centrally led – enabling frameworks that allow freedom for localised solutions can make a real difference.

Meanwhile, infrastructure can support local and regional growth, but the strengths and opportunities afforded by such investments may not be as obvious as they initially seem. A forthcoming report by CIPFA examines the impact of investing in infrastructure at a range of scales across city-regions in different countries.

Aim and structure of the report



This report examines selected city-regions' experiences of promoting local and regional economic growth to reduce inequalities while assessing their potential transferability. It does this through case studies from four different countries. These included interviews with key policy experts, public sector officers and academics from the cities featured.

The key issues addressed

1
Regional and local growth: What factors are associated with regional and local economic growth?

3
Public finances: How do public finances affect local and regional economic growth? What role can public finance professionals play in promoting sustainable growth strategies?

2
Governance: How do political frameworks and governance structures affect the success of policies designed to support local and regional economic growth in a way that reduces inequalities? To what extent are lessons learned transferable to other city-regions?

4
Outcome monitoring, metrics and evaluation: How are performance and outcomes monitored, and by whom? What metrics can be used to evaluate the success of policies promoting local and regional economic growth that reduce inequalities? Over what timeframe should such evaluations take place?

The report is structured as follows:

The section on **context** highlights the nature of the current policy debate by examining the effectiveness of industrial policy or other forms of government intervention in attaining redistributive goals. It looks at the pros and cons of fiscal decentralisation and how political frameworks and governance structures affect the efficacy of policies across jurisdictions.

The following section introduces the **evaluation** process and the **metrics** that could be used to monitor regional inequalities and evaluate the success of initiatives to reduce them. The focus is on metrics that are available internationally.

The report then presents four international **case studies:** Fukuoka (Japan), Leipzig (Germany), Cleveland (USA) and Nantes (France). These were chosen to cover a range of international examples with different forms of governance systems. Within each, we focus on aspects that best illustrate policies addressing regional inequalities. We conducted interviews with policymakers, academics, businesses and third sector organisations between August and October 2021 to better understand the factors that have supported success.

The **conclusion** brings together the case studies and provides reflections from a policy perspective.

Context



Approaches to addressing regional inequalities

Reducing regional inequalities is a highly complex task that requires an understanding of local conditions and experiences. A one-size-fits-all approach risks allocating resources inefficiently to areas where there may be limited growth potential. This can be compounded by ring-fencing funds to certain uses that may not be in sequence or prioritisation with local needs. More flexible financing and the encouragement of collaboration, rather than competition, between cities has the potential to unlock greater value for money. Indeed, the focus of intervention should be on improving standards of living by helping every place reach its potential.¹

There is ongoing debate regarding the effectiveness of people versus place-based policies to reduce regional inequalities. The International Monetary Fund (IMF)² recommends adopting a 'spatially blind, people-based' approach towards development that targets underperforming groups in the population, rather than blanket approaches to entire regions. Alternatively, a place-based policy approach can also be considered essential for successful local policies.³ For instance, place-based approaches to innovation policy (smart specialisation

strategies) can aim to boost regional innovation and contribute to growth and prosperity through helping regions to identify and focus on their strengths. This was demonstrated in Leipzig, which created business clusters across the automotive, healthcare, energy, logistics and media sectors.

What is clear is that addressing regional inequalities is a complex task that extends over long timescales. Convergence in regional economic fortunes may occur where the economies of poorer regions grow faster than those of richer regions, thereby catching them up. However, simultaneous increases in inequality measured across a broader range of metrics can take place both within and between regions, obscuring this picture.

Industrial policy

Industrial policy can be defined as government intervention that attempts to influence the structure of production in favour of specific sectors or geographic areas, which then experience growth or prosperity that would not have otherwise occurred.⁴ These could include measures to facilitate a nurturing business environment or supporting specific sectors and companies.

Industrial policies have re-emerged as a tool for governments to deliver upon economic policy goals. This approach is supported by multilateral organisations such as the World Bank, the European Commission and the Organisation for Economic Co-operation and Development (OECD).⁵ There is evidence of a growing global trend that is moving away from free market capitalism to a greater emphasis on industrial and place-based policies.

What can be crucial to the success of industrial policy is not its existence but rather the state's underlying capacity to deliver it effectively.⁶ Indeed, our four case studies highlight the importance of institutional structures that clearly articulate the role and responsibilities of government, business and the third sector. This transparency can support improved communication and trust which are instrumental in effective partnerships. Policies must also be adequately funded both in terms of quantum and accessibility if ambitions are to be materialised. Efficiency in the use of those funds is paramount.

Decentralisation and reducing regional inequalities

A whole system approach to public financial management (PFM) recognises the interconnectedness of organisations at a global, regional, national and sub-national level. Policy outcomes are strengthened when there is deliberate co-ordination that seeks to optimise total performance rather than that of the individual parts. This involves linking the management of public resources to service delivery with mechanisms in place for checks and balances. Understanding how these public finances can best be managed is integral to addressing regional inequalities.

Political, economic, social and demographic factors have a direct bearing on public spending and revenue generation decisions. PFM operates in an environment where funding envelopes may be set independently of expenditure pressures or set with variable reliability. When there is a divergence between the objectives of funders and local priorities and circumstances, this can challenge administrative and allocative efficiency and the implementation of expenditure programmes.

The experience of fiscal decentralisation, the devolution of spending from national to sub-national government levels, and economic growth is mixed.⁷ In some cases, sub-national governments may have autonomy over their spending decisions while in other cases they may function more as an extension of central government.⁸ While fiscal decentralisation can be linked to lesser rather than greater economic efficiency, the effectiveness of locally-designed policies may be greater and equity considerations can be enhanced as well.⁹

Devolving decision making responsibilities without sufficient funding can intensify regional inequalities.¹⁰ While local governments can leverage their local knowledge to enable a more efficient allocation of financial resources and provision of public services, fiscal decentralisation risks replacing the redistributive role of the state in favour of inter- and intra-regional competition.¹¹ Indeed, competitive bidding processes in which regions apply for funding from central government may have the counterproductive effect of reinforcing inequalities as wealthier regions out-compete poorer ones.¹² This can also be a resource intensive and unfair process given differences in the bidding capacity of local governments, and the information asymmetries between funders and bidders.¹³

However, with the right conditions, devolved decision making can enable poorer regions to compete with richer ones by offering favourable conditions and incentives for businesses. It can increase transparency and accountability through regional bodies that are more accessible than those in national capitals. Devolution can also enhance the participation of local stakeholders and bring local expertise into policy and service design, which can increase trust in institutions. This can unlock the potential for greater allocative efficiency in spending, as policies are tailored to specific regional needs.

So, what should be devolved – and in what framework? Some powers might best be reserved at the national level, while others might be better devolved in the context of long-term, stable funding arrangements. Two examples of federalist states with a high degree of regional autonomy are Germany and Italy. While Germany appears to highlight the positive

benefits of decentralised financial resources and decision-making powers, Italy has a stark North–South divide.¹⁴ In the Italian context there has been a long-term issue with corruption, which has distorted public spending and thus negatively impacted economic growth and stability.¹⁵ In the case of Germany, since the 1990s intra-regional inequality has significantly reduced.¹⁶ This suggests that carefully designed decentralisation, with appropriate inter-regional fiscal transfers, can increase national economic growth and simultaneously reduce regional inequalities.¹⁷

While devolution has a range of benefits, central government remains instrumental in co-ordinating large-scale projects. For example, projects relating to transportation and digital infrastructure often cross a range of jurisdictions with the accrual of benefits that are not always commensurate with costs. Access to and use of such services may also correspond less to geography and more with the mobility of people and wider network effects.¹⁸ Indeed, services that do not vary much from one region to the next might better be delivered by national governments given their capacity to achieve greater economies of scale.¹⁹ It is important to consider what powers and spending are more effectively wielded at the regional and local levels when designing strategies to reduce inequalities.

Macro-economic circumstances remain critical to regional economic development goals. It is also important that interventions have buy-in from across the political spectrum, rather than seeking to maintain party political advantage. This consensus is needed to ensure the longevity and stability that is required for such policies to bear fruit.²⁰

Metrics, monitoring and evaluation

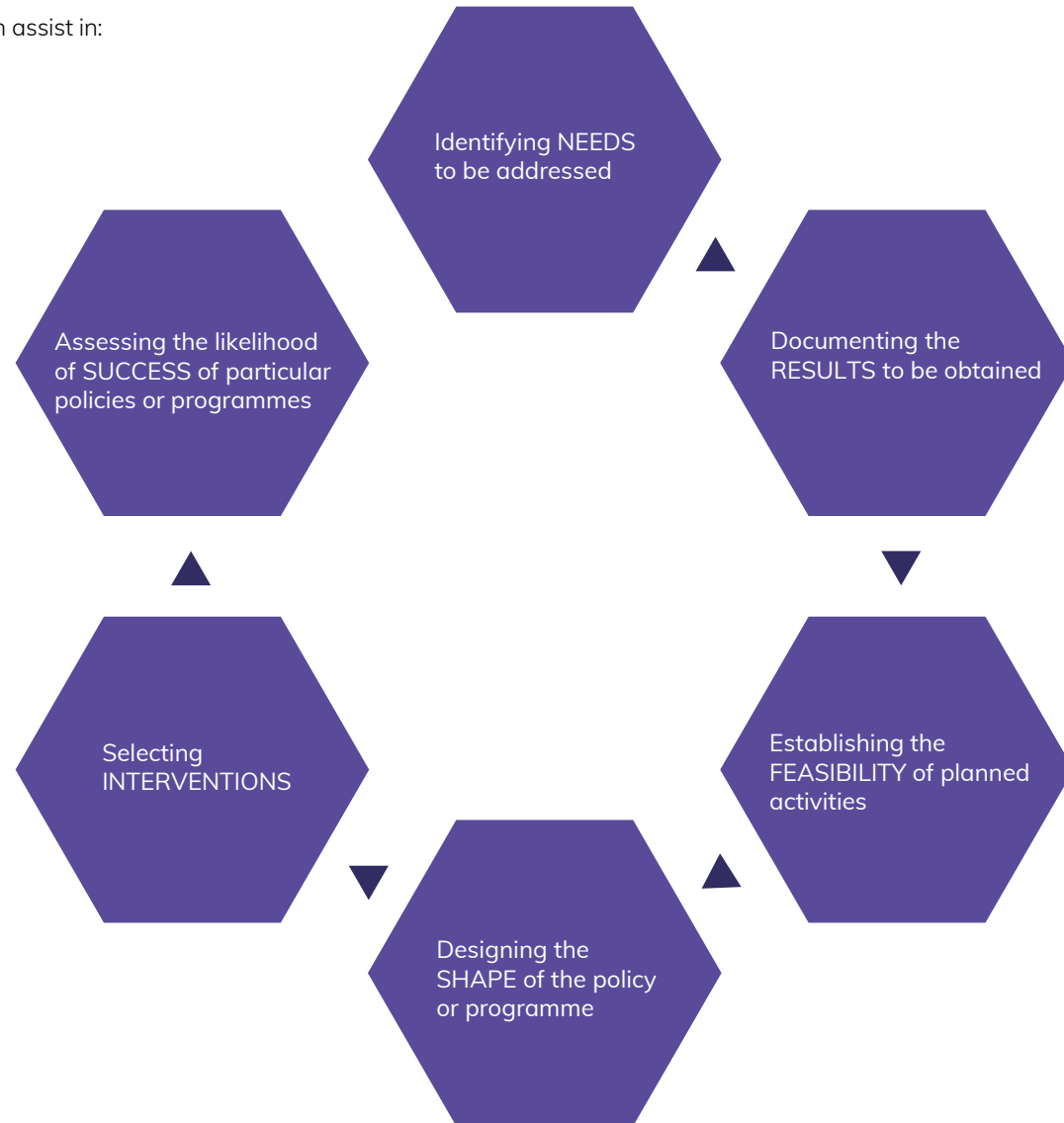


Metrics assist in the effective evaluation of the delivery and impact of initiatives. They also provide a baseline to support the allocation of limited resources to related policy and funding mechanisms.

A key aim of evaluation is to assess “how policies and programmes designed to create change have an impact: how much of a difference they made; also highlighting the difficulties and uncertainties involved in doing this”.²¹ Preliminary evaluation should take place at the design stage of a policy tool programme. Identifying appropriate indicators is a necessary first step in the initial evaluation of government policies and programmes.

Monitoring is necessary to keep track of the progress of policies and programmes and to ensure they are implemented in line with the original objectives. During the implementation phase, effective data collection and analysis in the form of key metrics are important in measuring progress. This is also crucial in identifying local needs that emerge from the data to inform and support further interventions. Evaluation after a specific policy intervention assesses whether it worked as expected. A rigorous package of metrics is needed to analyse the results and contribution of policies and programmes. Such metrics are vital in reviewing how effectively public funds were used.

These can assist in:



Investing in regional equality – lessons from four cities: Metrics and a framework for designing effective policies, a stand-alone report that accompanies this report, outlines internationally comparable metrics that can be used to monitor and evaluate the delivery of policies to address regional inequalities. These metrics have been structured to align with six foundations that have been identified as key to economic development (Figure 3.1):

- **Economic foundation** – analyses metrics commonly used to monitor economic growth, activity and efficiency.
- **Human capital foundation** – outlines skills measures that can be used to evaluate regional economic development; builds upon the OECD definition of skills that emphasises the development of knowledge and abilities that aid the completion of tasks.
- **Innovation foundation** – contains metrics that measure current and potential innovation within an area.
- **Infrastructure foundation** – outlines metrics that can be used to monitor infrastructure and the wider delivery of opportunities to address regional inequalities.
- **Environmental foundation** – focuses on metrics of green growth at the regional scale.
- **Social and wellbeing foundation** – promotes indicators of social capital and wellbeing that can be used to monitor the prosperity of local communities.

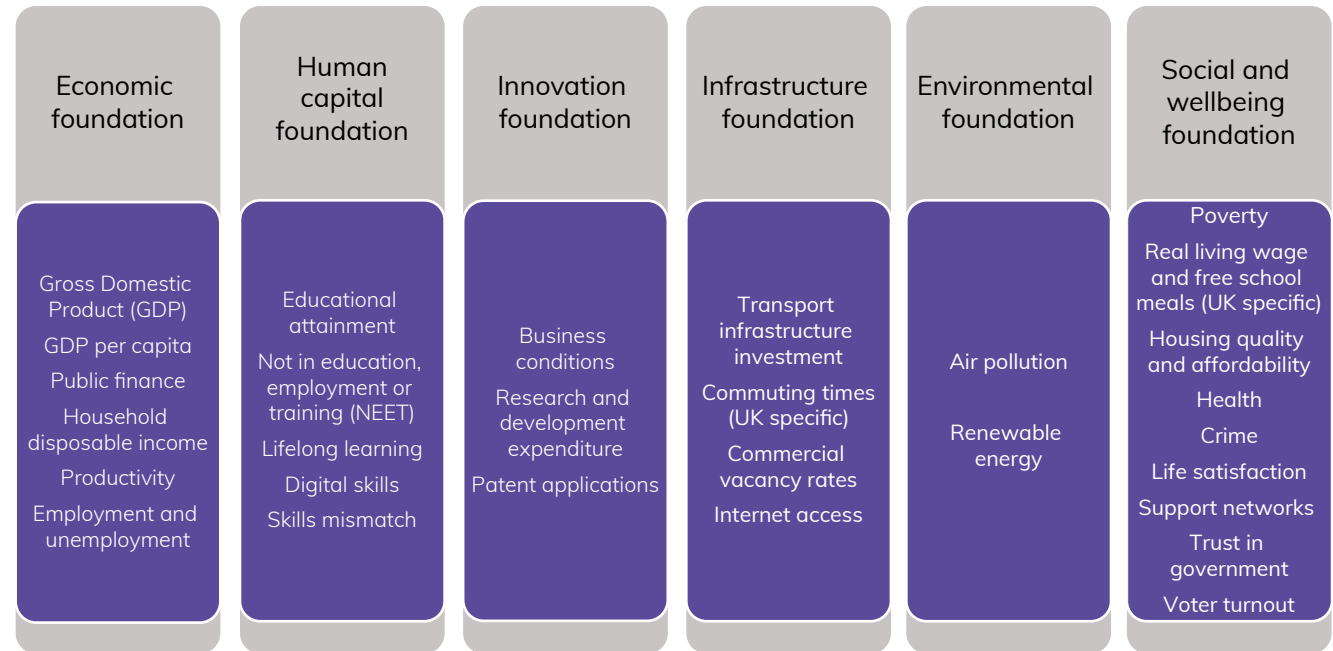


Figure 3.1: Foundations and metrics

The metrics presented in the supplementary report are frequently used or identified as valuable in addressing spatial inequalities but are not a comprehensive list. The criteria used in their selection were:

1
Suitability: how appropriate the selected metrics are in monitoring and evaluating the delivery of policies.

3
Comparability: the ease with which the selected metrics can be compared across time periods and geographical scales.

2
Measurement: the validity and replicability of the calculation methods.

4
Timeliness: the frequency, duration and consistency of data collection.

Our key conclusions on the use of metrics:

- A balanced mix of indicators and foundations is recommended for the monitoring and evaluation of proposals to address regional inequalities and their impact on local communities.
- There are significant limitations posed by the inability to adjust income data for regional price differences.
- Measures of public finance can indicate a nation's level of fiscal autonomy and devolution.
- Despite its cited importance, robust measures of lifelong learning and skills mismatch are significantly lacking.
- Research and development expenditure comes with a debate on its optimal distribution.
- Further measures of green growth and quality of life experiences are needed.

Case studies



Fukuoka | Japan

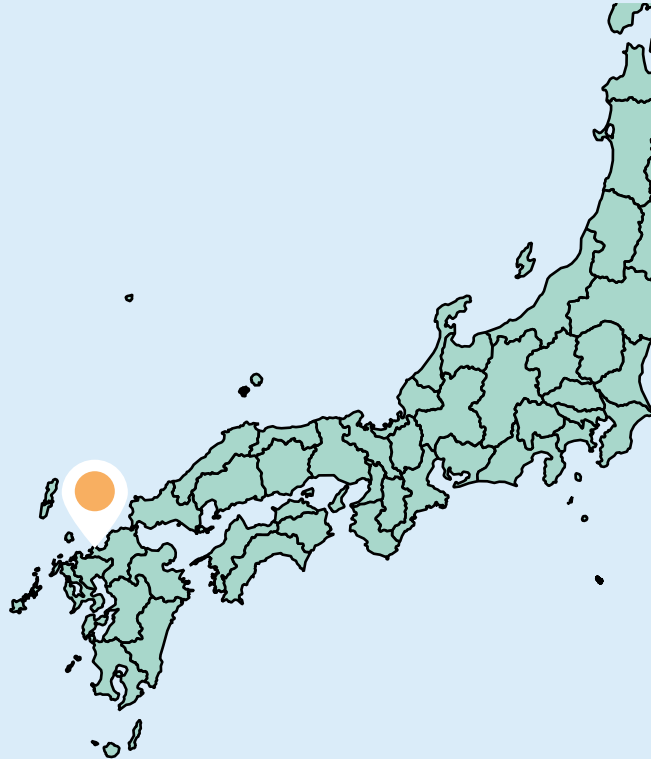


Figure 4.1: Fukuoka in its context

Key facts

Fukuoka is a port in the south west of Japan and, as the nearest point to the Asian mainland, it is a gateway city.

1.6 million people live in the Fukuoka City Council area.²²

The metropolitan area – the city and its suburbs – is home to 2.8 million people.²³

The urban area is Japan's fourth largest regional economy, comparable in size to Barcelona in Spain or Vienna in Austria.²⁴

Historically, it was a small port city that grew after the end of Japan's policy of isolationism in 1868.²⁵

History and context

Fukuoka is a city succeeding against countervailing national pressures such as a shrinking population. Despite this, Fukuoka has maintained rapid population growth, predicated upon an improving local quality of life. The city's longer-term prospects hinge on this trend continuing.

Fukuoka grew rapidly following the 1868 Meiji Restoration, which ended Japan's centuries-long policy of isolation from the outside world. In the following decades, Japan studied advances overseas and applied these lessons to modernise and industrialise the country. This tradition of learning from experiences abroad continues to this day.

Today, Fukuoka is the heart of Japan's fourth largest agglomeration, or urban area. The city has an extensive metro system, a major international airport and is connected via the high-speed Shinkansen network to the rest of Japan. Economic activity is centred on services such as trade, logistics, science and technology business support, creative industries, finance, high-tech manufacturing and information technology.²⁶

The government has designated Fukuoka as a National Strategic Special Zone (NSSZ), which gives the city a special legal framework and tax code. As an NSSZ, the city has lower corporation taxes and aspects of the economy are deregulated. The result is the highest start-up rate in Japan, with a business entry rate of 5.9% in 2018.²⁷

While entrepreneurship in Fukuoka may be high, there is a risk of businesses moving to Tokyo as they scale up and seek venture funding. The city also competes for new residents as the total population of Japan shrinks. Such competition is arguably a zero-sum game, as economically vibrant cities grow at the expense of less successful cities and rural areas.

Competition with Tokyo for resources, investment and young people is a major challenge. While Fukuoka has been the fastest-growing city in Japan outside Tokyo for most of the period since 1945, the difference in size is extreme. There are 37.4 million residents in metropolitan Tokyo, versus 2.8 million in the wider Fukuoka area.²⁸ As such, Fukuoka makes a distinctive offer to lure people and investment, focusing on a higher quality of life and a lower cost of living.

As expressed by one case study interviewee, "it is taken as a given that all economic growth will be inclusive in Japan". As such, promoting growth is viewed as a solution to inequality.



Figure 4.2: Fukuoka's skyline

Socio-economic trends

Japan is an ageing society where the economy is dominated by Tokyo, the world's largest megacity. Regional disparities exist, albeit on a smaller scale than in countries such as the UK or USA. Key challenges for the future include navigating a rapidly ageing and shrinking population, digitisation and encouraging entrepreneurship.

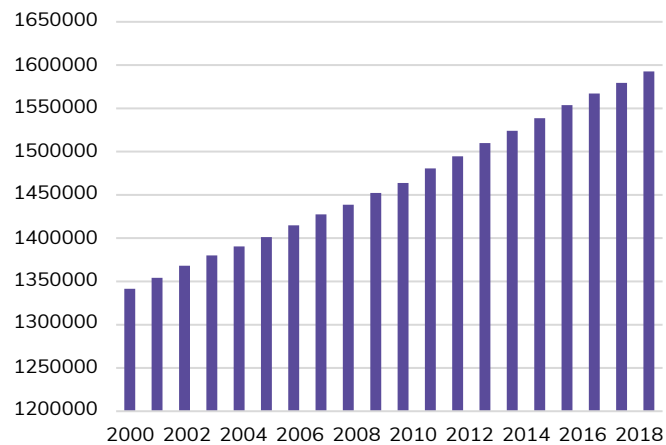


Figure 4.3: Population of the Fukuoka municipality, 2000-2019. Source: [link](#), p.12

More than a quarter of Japan's population exceed the age of 65, the highest share of any country in the world.²⁹ The country has relatively little ethnic diversity and a very low immigration rate. Although the political mood has changed slightly in recent years, support for immigration reform is low. Nevertheless, as one interviewee put it, "some migrants are already here, so the system should accommodate that and give opportunities for integration".

Fukuoka's population grew by 9% during 2010–2019, in stark contrast to the declining national trend.³⁰ The city is particularly attractive to young people, with 18% of its population under the age of 29, the highest share of any major city in Japan. It also has the country's third largest population of students, making up 7% of the city's residents.³¹ This youthful population is instrumental in maintaining Fukuoka's economic dynamism and service-based economy.

Population and economic growth in Fukuoka have outpaced that of the wider Kyushu region.³² While raising the city's international profile remains an ambition, Fukuoka benefits from domestic appeal and is relatively well-known for a city of its size. There may, however, be a blind spot around economic inequality. Our case study participants perceived this to be less of a problem in Japan than the data shows. While income inequality is lower in Japan than the UK and USA, performance still lags far behind the likes of Iceland, the Netherlands and Sweden.³³ Indeed, when compared to other large industrial economies, Japan is slightly more unequal than Germany, France and South Korea.



Figure 4.4: Canal City Hakata, a major mixed-use development in the city core

Governance and finance

Japan has a population of 126 million and is the world's third largest economy. The constitution organises the country into 47 prefectures. These have directly elected governors and assemblies with the power to legislate and set budgets, using a mixture of national and local taxes to fund initiatives.

Nationally, 23 local taxes exist that give prefectures and municipalities diversified revenue streams, with 38% of local spending funded by these means. A further 15% comes from grants linked to specific policies and programmes, and 17% comes from a local allocation tax (LAT), which is allocated on a needs-based formula.³⁴ The LAT is a more important source of funding for small towns and villages, whereas large cities maintain greater financial sustainability from their own revenue. In total, local government accounts for 42% of public spending in Japan.³⁵

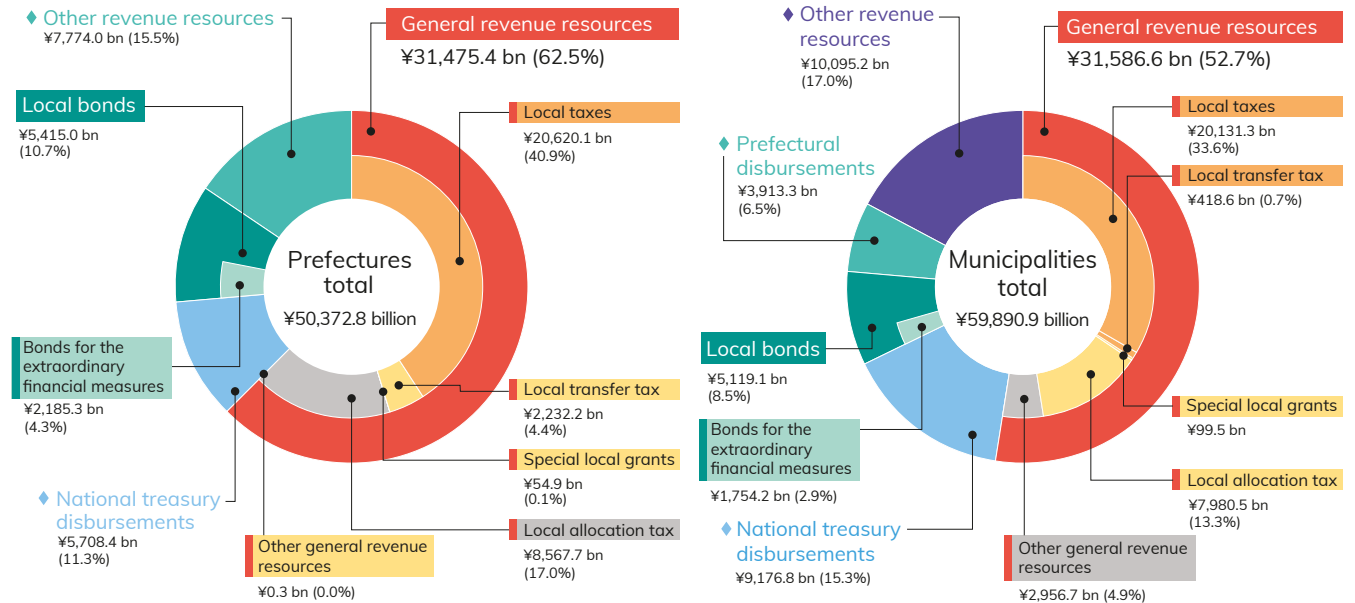


Figure 4.5: Prefecture and municipality revenue sources in Japan. Source: Ministry of Internal Affairs and Communication (2020), p.10

In 2020 the largest revenue sources for the city of Fukuoka came from central government funds, which were earmarked for specific spending needs (28.1%), followed by local taxes (27.1%). However, central government funding for the fiscal year 2020 includes ad hoc COVID-19 related support, which means that the proportion increased from 19% in 2019 to 28% in 2020. In 2019, local taxes constituted 39% of revenue and central government funding accounted for 19%.³⁶

Japan's devolved governance structure is guaranteed by law.³⁷ However, as one interview participant commented, while prefectures have autonomy, the centre maintains fiscal oversight. Prefectures bid for various funding schemes and the national government routinely places staff on secondment to the regions, creating "theoretical, but not mental, autonomy".

The extent to which local authorities in Japan are dependent on central government for subsidies to fund services from national taxes is growing, especially in the wake of the COVID-19 pandemic.³⁸ All spending decisions are reviewed and monitored by the Board of Audit, a Japanese government agency.

Prefectures are responsible for delivering policing, schools, hospitals, roads, sanitation, business licensing and urban planning. Beneath prefectures are municipalities; those with populations above 500,000 are 'designated cities' that gain prefectural-level powers. As a designated city, Fukuoka has guaranteed devolved powers to use in shaping its own future. Our case study interviewees credited the city's mayor, Soichiro Takashima, with being particularly instrumental in creating a strong vision for the future and an agenda to drive the city's entrepreneurship policies. The mayor has been in post since 2010.

A major trend in Japanese governance is ecosystems policies. These build on successful industrial clusters, with the sharing of resources and knowledge between these clusters generating positive spill-over effects for the wider economy. In turn, this can support entrepreneurship.³⁹

Historically, innovation policy has been centrally co-ordinated by the powerful Ministry of Economy, Trade, and Industry (METI). Recently, however, regional innovation policy has been devolved to prefecture and city/municipality levels to develop long-term research and development strategies, support programmes for businesses and new subsidies adapted to local conditions.⁴⁰

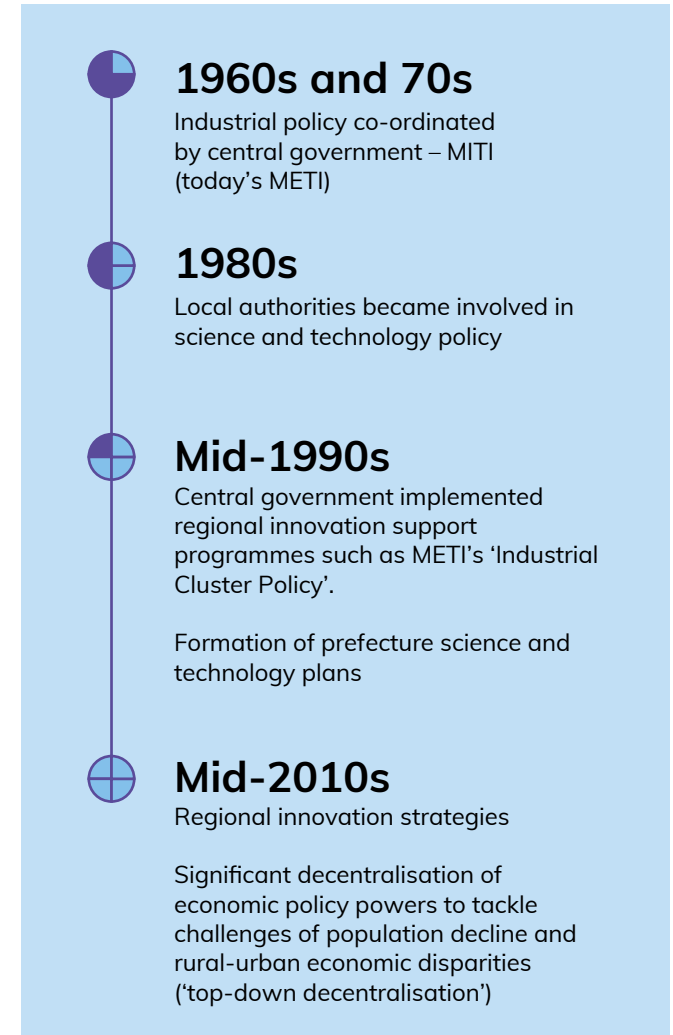


Figure 4.6: Devolution in regional innovation policy 1960–mid 2010s Source: Okamuro et al. (2018)

Initiatives for reducing inequalities

Fukuoka seeks to position itself as the opposite of Tokyo – a low-cost, low-rise, liveable city geared towards families and young people. These aims are vindicated in Fukuoka's excellent performance in national household surveys of quality of life.⁴¹ The city is also encouraging entrepreneur immigration, and using its special legal status to encourage start-ups.

The city has emphasised improving quality of life to attract residents. This was embedded in the Twenty-First Century Plan, the 1986 urban masterplan that sought to mainstream citizen-centred development and internationalisation. There is also a strategy of hosting high-profile events such as the 1989 Asia Pacific Exposition and housing the regional office of the UN Habitat initiative.⁴²

Internationalisation of the city is based on attracting foreign students, entrepreneurs and tourists who can contribute to the local economy and maintain population growth. There is an increasing emphasis on English language skills, overseas exports and developing tourism for Fukuoka's important retail sector. The city has translated signs into English, Korean and Chinese, published city guides in these languages and works to attract foreign students from surrounding countries.⁴³ Building connections with Japan's closest geographic neighbours, while overcoming historically fraught relations, has been prioritised to leverage Fukuoka's proximity to the Asian mainland.

The city has pursued several initiatives to address regional inequality:

1. Startup City Fukuoka

This was launched in 2012 to establish the support and entrepreneurial ecosystems for Fukuoka to become Japan's premier start-up city. It signed a memorandum of understanding a year later with Tech City in London as a statement of values for encouraging tech entrepreneurship. It has now built a network of partner cities across the world to promote its start-up enterprises in new markets.

It has set up 500 new businesses in the city that offer support services to potential new enterprises such as:

- start-up funding
- rent subsidies
- business support, including legal advice and consultations to write business plans
- support in applying for entrepreneur visas
- promoting the city's rate of corporation tax at 23% compared to 30% in the rest of Japan.⁴⁴

In parallel it has introduced a foreign worker and entrepreneur visa that aims to fill skills shortages and further support growth in the city's start-up community.

2. National Strategic Special Zone (NSSZ)

This government designation has benefited businesses in Fukuoka and stimulated urban development through a lower rate of corporation tax. Although the city may lose revenue in the short term, as an interviewee explained, expanding the tax base should allow for more sustainable future growth.

The NSSZ has allowed Fukuoka to adapt its urban planning and zoning laws, permitting taller buildings and streamlining the processes around construction.⁴⁵ Favourable taxation and lighter regulation of property development has supported a planned smart city project within the urban core.

3. Cultural infrastructure

This has received investment as part of a wider strategy to attract more visitors and improve the quality of life in Fukuoka. There has been a significant increase in international students in the city, from around 3,000 in 2004 to almost 12,000 in 2018.⁴⁶

Performance evaluation

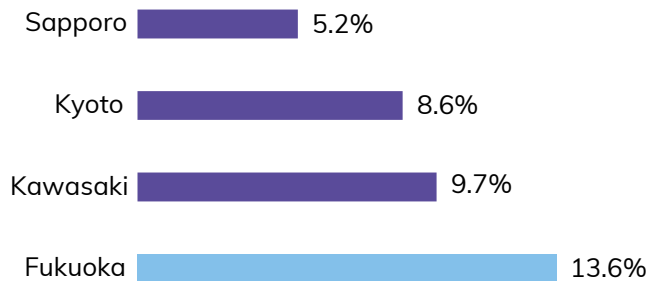


Figure 4.7: Comparison of gross city production in Fukuoka and similarly sized Japanese cities, 2009-2015 Source: [link](#), p.47

Fukuoka positions itself as offering the highest quality of life in Japan. Indeed, improving local liveability has been embedded in successive urban masterplans. Surveys conducted in 2019 show a very high quality of life, with Japanese people ranking Fukuoka as the city they most want to live in.⁴⁷ International research has named it the fifth best city in the world to raise children, based on favourable results on measures of access to childcare, costs, safety, pollution, healthcare, maternity and paternity leave and the local fertility rate.⁴⁸

Initiatives such as Startup City Fukuoka and efforts to internationalise the city and increase quality of life are regularly monitored and evaluated by the city government, with some tasks outsourced to private companies. Progress is reported according to objectives within the city's master plan.⁴⁹ Indicators include the number of companies registered within the city, the number of new businesses and applications for start-up visas. These are supplemented by other metrics including GDP per capita, the value of venture capital investments and the number of spin-off start-up firms from universities.

As an NSSZ and as part of revitalising Japan's economy, the ambition for Fukuoka is 'global start-ups and job creation'. The programme is monitored in NSSZ meetings between city authorities and national government and is evaluated at the end of each financial year. Indicators used to measure success are the growth in numbers of businesses, competitiveness of SMEs and the skills levels of human resources in the city.⁵⁰ Data shows that local tax revenue grew by 11% during 2009–2017, the highest of any city in Japan.⁵¹

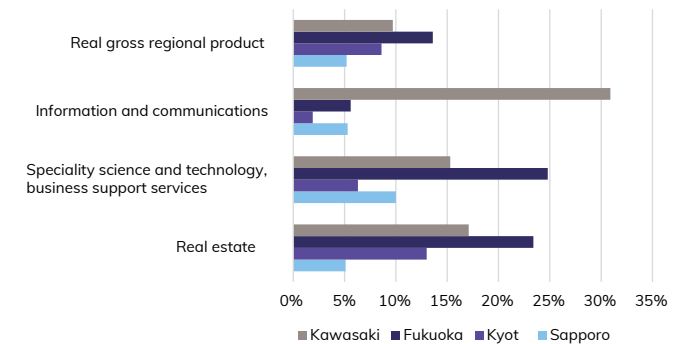


Figure 4.8: Production growth rate by economic activity of key sectors in Fukuoka v similar sized Japanese cities, 2009-2015. Source: [link](#), p.47

All 47 prefectures in Japan have developed their own science and technology plans, but there are resource asymmetries and the share of funding provided by national government is growing as locally raised funding declines. Monitoring and evaluation is carried out using data on research and development expenditure, patent registrations, the number of applicants to SME research programmes and their acceptance rate, and the ratio of SMEs that collaborate in innovation activities with other SMEs and universities⁵².

Remaining challenges

Fukuoka's economic policies offer incentives to entrepreneurs and property developers that over time are likely to alter the fundamental character of the city. Greater density may clash with its ambitions to promote urban liveability. Competition with Tokyo and other cities for funding to support infrastructure, smart city projects and regional development is likely to intensify.

Japan has a high-tech reputation based on the global prominence of its electronics, manufacturing and robotics companies, including Toyota, Honda, Mitsubishi, Nissan, Sony, Nintendo and Panasonic. Nevertheless, the country has been unable to nurture new tech enterprises – known as 'unicorns' when valued over \$1bn. Currently, Japan has just one such company compared to 127 in the US and 78 in China.⁵³

Indeed, several participants in our interviews observed that Japan is only slowly embracing digitisation and entrepreneurship compared to other countries. Within the city, there is an ongoing challenge to create an entrepreneurial ecosystem, scale up new businesses and mitigate the outflow of start-ups to Tokyo.

Fukuoka is a dynamic city that makes a distinctive offer on quality of life. A blend of economic, social and cultural opportunities draws a diverse range of individuals and businesses that has the potential to reinforce longer-term growth.

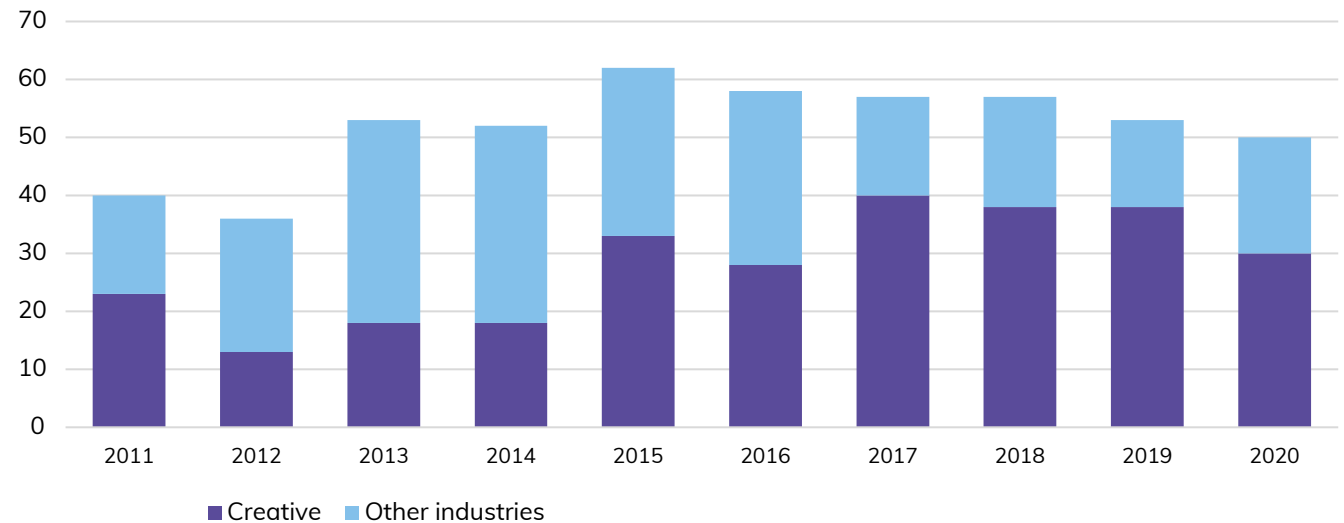


Figure 4.9: Number of newly located companies in Fukuoka 2011–2020 Source: [link](#)

Conclusion

Whereas much of Japan struggles with an ageing and shrinking population that translates into a reduced workforce, increased demand for social services and a declining tax base, Fukuoka has managed to overcome these trends. The city's service-based economy has not experienced the turbulence of deindustrialisation as elsewhere in Japan, and its relative size means that the cost of living and access to housing is far more reasonable than is the case in the megacity of Tokyo.

The city shows a willingness to attract young people, students and new families. As the population crisis grows more acute in the coming decades, competition for increasingly scarce human resources will intensify. To this end, Fukuoka is taking tentative steps to encourage entrepreneur immigration. Young people and skilled migrants are seen as vital to maintaining the city's success as the start-up capital of Japan.

Fukuoka's devolved governance structures and designation as an NSSZ have given it the flexibility to adapt to local specificities and apply local knowledge. These tools enable city leaders to continue the Japanese tradition of applying lessons on 'what works' from across the world, including in increasing liveability and strengthening entrepreneurship. Meanwhile, having a charismatic mayor with a vision for the future, guaranteed resources and powers, and the ability to successfully lobby national government to represent the views of constituents and local businesses, have helped the city thrive.



Leipzig | Saxony, Germany

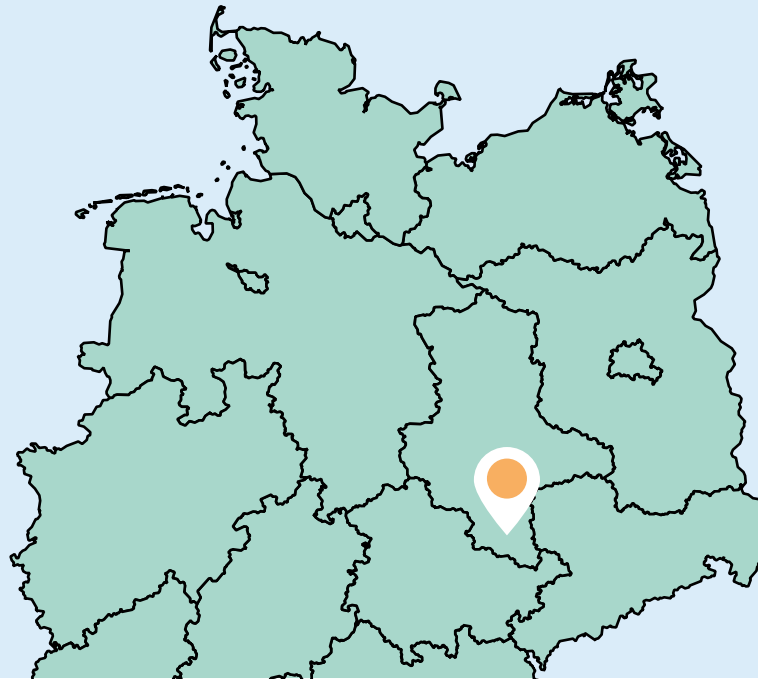


Figure 4.10: Leipzig in its context

Key facts

Leipzig is an historic city founded in 1015 in Saxony, Germany.

The city has a population of almost 600,000 people⁵⁴ and a metropolitan area population of 1 million people.⁵⁵

It is located around 150km south of Berlin, the capital city, and a similar distance from Germany's borders with Poland and the Czech Republic. Leipzig has historically been a centre of trade across central Europe.

Leipzig was part of East Germany between 1949 and 1990.

History and context

Leipzig is an example of a medium-sized city that has restructured its economy to meet the high growth sectors of the 21st century. Leipzig has experienced several economic and political shocks over the last 150 years. As one case study participant explained, “it is important to see Leipzig in the context of its place in Germany, Eastern Germany, and history”. The economic and political change can be split into three time periods, all of which have influenced the economic context of Leipzig today.

The first period is in the late 19th century, where Leipzig was a centre for media, publishing and rail.⁵⁶ It is during this time that Leipzig’s extensive local authority-owned tram network was developed.⁵⁷ The second shock came after the Second World War. Germany was divided in two, and Leipzig became a major city in East Germany where heavy manufacturing was the major economic driver. The Leipzig Trade Fair has showcased the main industries of the region for over 850 years⁵⁸, even continuing throughout the Cold War. This indicates that economic strengths and legacies can persist over time.

The third major change followed the reunification of East and West Germany in 1990. Leipzig experienced a collapse in the heavy industry of the East Germany era, leading to mass unemployment and rapid population decline. Today, the city has an economy that is one of the fastest growing in Europe. Leipzig’s current economic clustering strategy highlights the strategic importance of the automotive, healthcare, energy, logistics and creative media industries.⁵⁹



Figure 4.11: The site of the Leipzig Trade Fair and the iconic Glass Hall.

Socio-economic trends

In the early 1990s, Leipzig was faced with several interconnected issues: rising unemployment, a declining population and poor public services.

As the economy restructured, state-owned unprofitable businesses were dissolved by the German government. The resulting collapse in industry led to a sudden increase in unemployment. Between 1990 and 2005, the unemployment rate in Leipzig rose from 7% to nearly 25% and exceeded the national average until 2005.⁶⁰ The persistence of this trend, more than 15 years after reunification, indicated that the legacy of deindustrialisation had not been addressed and the new economic drivers not capitalised upon. As a result, Leipzig experienced a falling tax base.

Alongside the rising unemployment rate, another challenge was a rapid population decline. The population of the city fell by 20% to 440,000 between 1988 and 1998, predominantly due to the migration of skilled people from eastern Germany to western Germany.⁶¹ The declining population and rising unemployment in the 1990s were not unique to Leipzig.

Combined, these trends led to the increasing deterioration of public infrastructure. The economic, social and demographic impacts of rising unemployment and population loss “simultaneously overlapped”.⁶² Political polarisation has since been a distinctive trend in Leipzig. In the 2021 German

elections, the left-wing Die Linke Party received 23% of the vote in Leipzig. Across Saxony as a whole, the far-right party AfD (Alternative for Germany) was the largest party with 25% of the vote.⁶³ Despite a developing economy in East Germany, which now has a GDP per capita greater than many parts of Northern England⁶⁴, political polarisation has persisted between Leipzig and Saxony. Clearly a growing economy is not a silver bullet to alleviate social and political polarisation in the region.

Leipzig’s economy is twice the size it was in 2000 and is forecast to continue increasing. Despite its economic, social and demographic challenges, the city has experienced remarkable growth. Recognised as one of Europe’s most liveable cities, Leipzig benefits from levels of employment now above the national average.⁶⁵ However, as noted by a case study participant, “Leipzig is unrepresentative in eastern Germany”. Although larger cities such as Leipzig have been relatively successful in economic restructuring since reunification, other smaller places have not.

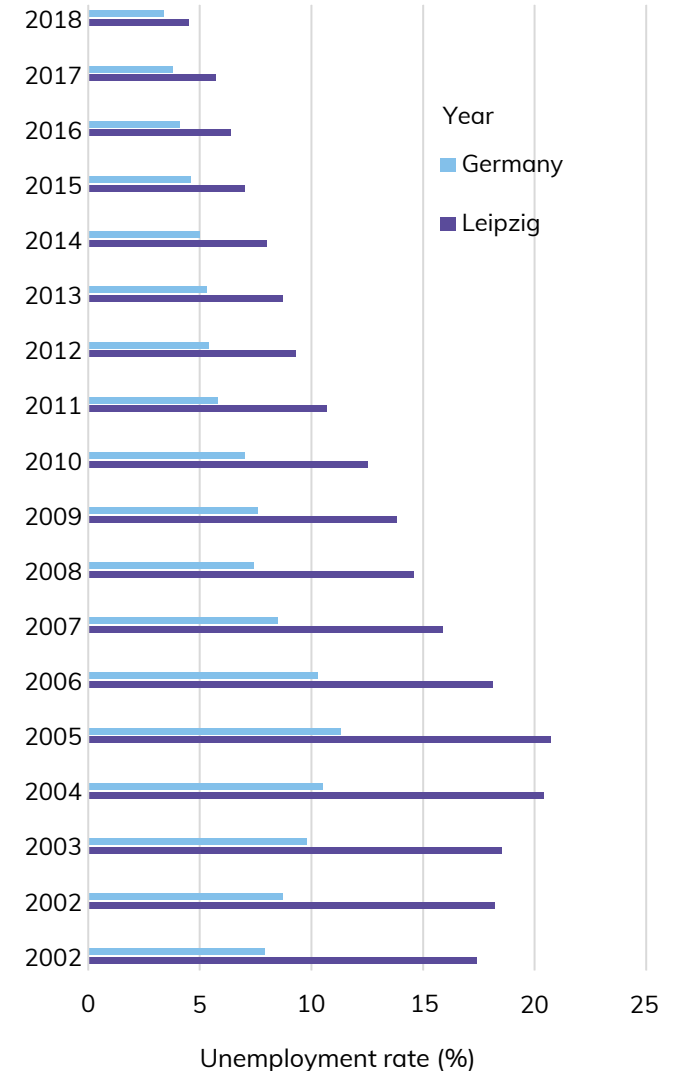


Figure 4.12: Unemployment rate in Leipzig and Germany 2002–2018. Source: [link](#)

Governance and finance

Leipzig is in the federal state of Saxony. The federal structure has implications for the governance and policy context of the city. German states, such as Saxony, have powers over public health, public finance, education and planning.⁶⁶ The federal government has powers over national security and citizenship along with other obligations relating to public spending and finance.

Powers devolved to the city and federal state governments enable Leipzig to implement policies that support the restructuring of its economy. The context for funding and governance enables place-based institutions such as Leipzig City Council and Leipzig University to forge new economic development paths for the city.

As an interviewee observed, “between regions and across the whole of Germany, we have a minimum standard of public services. All federal states have a minimum level of finance and services, and, within the states, each municipality has a minimum level too. When you have that minimum, anything above that can be described as economic development.”

Powers for the state funding of public infrastructure are written into the German constitution and became law in 1996. Each of the states are entitled to a “reasonable equalisation” of national revenue to cover budgets relating to local public transport and education, among others. The redistribution of taxes across Germany in the financial equalisation policy is formalised in law.

Leipzig sits within the federal tax and governance system in Germany. The German national government raises approximately €700bn in tax revenues per year, which is distributed between national, federal and local governments. The taxes that raise the most income, such as value added tax, income tax, corporation tax and capital gains, are allocated across local authorities, federal states, and national government.

Type of tax	Percentage paid to German national government	Federal state	Local government
Value added tax	49%	47%	3%
Income tax	42.5%	42.5%	15%
Corporation tax	50%	50%	N/A

Table 4.1: The redistribution of value added tax and income tax.⁶⁷

Each federal state or local authority has powers to raise their own taxes, but according to one of our interview participants, these are rarely taken. Saxony, the federal state in which Leipzig is located, raises one of the lowest tax revenues in Germany at €1,300 per resident in 2020. This is around three times less than the richest state, Hamburg. Following the regional redistribution of tax revenues by the national government, Saxony receives around €4,000 per resident. The fiscal equalisation policy in Germany ensures that there is a more equal redistribution of revenue between states.

The financial equalisation policy in Germany ensures a deliberate redistribution of tax income across the country as well as a diversified revenue stream. This ensures that no jurisdiction is reliant upon a single source of revenue. In Leipzig, the tax revenues are from numerous sources, as outlined in Table 4.2.

Type of tax	Total revenue (Euros)	Proportion of total revenue
Principal source Local business tax	350,079,384	18%
Secondary source Redistributed income tax	187,739,803	10%
All sources	1,969,618,378	

Table 4.2: Principal revenue sources, Stadt Leipzig. Source: [link](#)

Leipzig City Council has further powers relating to administrative services, community integration, tourism, transport and the environment. The powers devolved to the city level allow Leipzig City Council to own and operate the extensive 16-line tram network that stretches across the city-region. This is the long-term legacy of state-financed infrastructure in the city stretching back to the late 1800s.

Initiatives for reducing inequalities

Leipzig has been supported by policies that specifically build on its strategic economic strengths, which are funded by the redistribution of tax in Germany to support economic development across all regions. The city's geographic location in central Europe and good transport networks contribute significantly to economic growth.

The city has pursued several initiatives to address inequality:

1. Cluster policy

In the early 2000s, in response to the challenges of a declining population and tax base and rising unemployment, economic development policy in Leipzig changed tack to focus on building its productive assets. Leipzig City Council developed a five-sector strategy to promote economic clusters in the automotive, healthcare, energy and environment, logistics, and media and creative enterprise sectors.⁶⁸ This policy focus builds on Leipzig's strengths prior to the Second World War, indicating that the fundamental factors supporting growth in Leipzig have persisted over time.

As a hub for light manufacturing and logistics, coupled with its location in central Europe and an airport at Leipzig-Halle, Leipzig attracted BMW to relocate its business in 2001.⁶⁹ This in turn added to the attractiveness of the region for other companies such as Porsche, Amazon and DHL. According to one case study participant, "these [place-based] strengths do not have to be economic. There are also the soft factors. And these are different in each place ... you need to find what you have in the region that lots of people find are positive as a place to live."

When reflecting on the strengths of clustering, another interviewee noted, "when every place does the same, then that is also not good. That is unattractive. [Each place must ask] where are my strengths?"

2. Innovation and Structural Change Fund

This was set up by the Federal Ministry of Education and Research in 2000 in response to the structural economic divides between East and West Germany. The change fund is designed to "establish a long-term perspective for dynamic development in structurally weak regions".⁷⁰ It looks to support place-based economic development in regions reliant on declining industries, such as the coalfields around Leipzig.

The policy involves three regionally focused competitive funding pots that have invested €2tn since 2000 for "innovative start-up businesses and the strengthening of both science and research in the public sector"⁷¹ (Table 4.3). It includes the creation of research institutes, such as the Centre for Medicine Innovation in Leipzig, which are jointly funded by the federal and state governments. These are important employers alongside universities. A participant in the case study explained that there are plans to establish another large-scale research centre in the region with an annual budget of "about €170–180m per year financed by the federal government ... which is considerable when you consider that the basic funding without the third-party funds of the University of Leipzig is currently €200m per year".

Alongside the structural change fund, the government has also launched Entrepreneurial Regions. This is ring-fenced funding for scientific research institutions in each region of former East Germany. Likewise, the funds for Innovation and Structural Change are dedicated to regions across Germany with structurally weak economies; this is written into law in the 2020 Structural Strengthening Act for Coal Regions⁷². The Act supports new economic development pathways in areas dependent upon declining industries such as coal and heavy manufacturing. Together these policies provide significant funding for research-led innovation and enterprise across poorer regions in Germany.

Policy name	Description	Funding	Geography	Initiatives
<u>Entrepreneurial Regions</u> 2000 – present	To promote regional innovation in Eastern Germany, to align research, enterprise and SME businesses.	Competitive funding from national government.	Former East Germany	<u>LogiLeit</u> – real-time control of logistics systems. <u>abonoCARE</u> – recycling of nutrients from organic sources. <u>Verbund ZIK SONO-RAY</u> – magnetic, ultrasound and radiation therapy for tumours.
<u>Innovation and Structural Change</u> 2019 – 2025	Economic, technological and societal research for new development paths in structurally weak regions.	Competitive funding from national and state governments; €170m per year per research institute.	Former coalfield regions in western and eastern Germany.	<u>Centre for Medicine Innovation, Leipzig</u> – digitising and personalising medical care. Developing new research and innovation clusters in coalfield areas that will be affected by structural change.
<u>Innovations Forums for SMEs</u> 2016 – Present	Connect the links between SMEs and research institutions such as universities to improve business models.	Competitive funding from national government.	60 projects in all 16 states across Germany; 3 projects in Leipzig	<u>PolCarr</u> – immobilising biomolecules for life sciences. <u>AMS</u> – mass-producing fluids for diagnostics and therapy. <u>LESSIE</u> – Leipzig Smart Service Engineering

Table 4.3: Key policy initiatives.

3. SME Development Programme

This supports the development of businesses operating in the sectors identified in the clustering policy with a focus on:

- businesses evidencing socially and economically sustainable growth
- companies in financial trouble with succession plans to adapt
- particularly innovative businesses
- start-up funding for self-employed workers with a master's degree.⁷³

These four overarching themes underpin an approach to innovation that is centred on businesses, institutions, citizens and place.⁷⁴ Leipzig City Council is aiming to connect environmental sustainability, social responsibility, succession planning and adaptability, innovation and education within its economic development policies and funding criteria.

The scheme subsidises the capital investment and rent costs for start-up and growing businesses with the aim to develop more high-growth activity in Leipzig and eastern Germany. Since its launch in 2014, the SME Development Programme has supported over 300 businesses with grants of up to €70,000. In 2021/22, it has a total budget of €1.8m funded by the federal government through the Leipzig Economic Development Agency.⁷⁵

In the aftermath of the COVID-19 pandemic, grants have been focused around adapting to online or digital business practices. One interview participant noted the importance of collective support from politicians across local and federal governments to ensuring the programme's continued viability.

Leipzig City Council has also developed and implemented an integrated transport infrastructure and housing strategy within the masterplan for inner city redevelopments.⁷⁶ This approach supported the aims of bringing people back into the city as well as creating jobs and reducing unemployment.

Performance evaluation

Accountability for measuring, monitoring and evaluating economic development in Leipzig lies with Leipzig City Council and the Saxony government. Table 4.4 outlines some of the aims and indicators used in relation to the key policy themes.

Policy theme	Aims	Indicators
Businesses	<ul style="list-style-type: none"> Engagement with other companies and universities Higher competitiveness Development into global markets Stronger innovative capacity Larger supply of specialist companies 	<ul style="list-style-type: none"> Revenue growth Proportion of revenue in the supply chain also within Leipzig region Links with broader economic/industrial strategy Concentration of businesses and their suppliers in the region
Universities and institutions	<ul style="list-style-type: none"> Knowledge and technology transfer between business and science Increasing third-party funding Better equipment and investment Constant improvement in scientific excellence 	<ul style="list-style-type: none"> Solving problems in collaboration with business Linking research, business, local government and cluster policy together
Citizens	<ul style="list-style-type: none"> Better training and career opportunities A greater number and variety of jobs Opportunities for higher earnings Individual training and further education offer Higher quality of life in the region 	<ul style="list-style-type: none"> Number of jobs created in specific sectors or for people with specific skills Trust in institutions Average income per person Proportion of low paid jobs falling Quality of houses and rent
Leipzig region	<ul style="list-style-type: none"> Above-average economic and employment growth Excellent professionals Stronger ability to innovate Well-defined economic base More direct investment Higher competitiveness at national and international levels 	<ul style="list-style-type: none"> Level of tax revenue generated Mapping sales growth within Leipzig Visitor and citizen perception of the region Compare with similar-sized cities with similar demographics

Table 4.4: Four themes and indicators from Leipzig City Council to evaluate the clustering policy. Source: [link](#) and interview participant, 2021

Remaining challenges

Since German reunification in 1990, Leipzig has experienced economic, social and demographic challenges. The decline of manufacturing industries that the city previously relied on led to rising unemployment, depopulation and political polarisation. These challenges still exist albeit to a lesser extent today, as success has been made in growing the economy and increasing employment in sectors around creative industries, media, logistics and manufacturing. Whether the growth of the far-right AfD will remain an issue in German politics remains to be seen, given that one-third of voters in Saxony chose the party in the most recent state elections.

The policy focus on the economic strengths of the region has helped to initiate an economic cluster in manufacturing and logistics. One interview participant stressed that the strong interconnections between supply chain companies, as well as developing spin-off businesses, is evidence of a strong cluster. Although Leipzig is in the process of forming other clusters, these have yet to materialise in the 20 years since BMW initially moved to the city.

Attracting additional businesses into the region based on economic synergies has not always translated into the benefits of such growth being shared by all. As noted by an interviewee, while companies such as DHL, Amazon, BMW and Porsche have led to “many jobs being created ... [they are] not particularly well-paid ... It is very clear that the average BMW employee earns less in Leipzig than in Munich. Eastern Germany is endowed with relatively well-qualified, cheap labour, cheap land, and cheap apartments that are of high quality for historical reasons.”

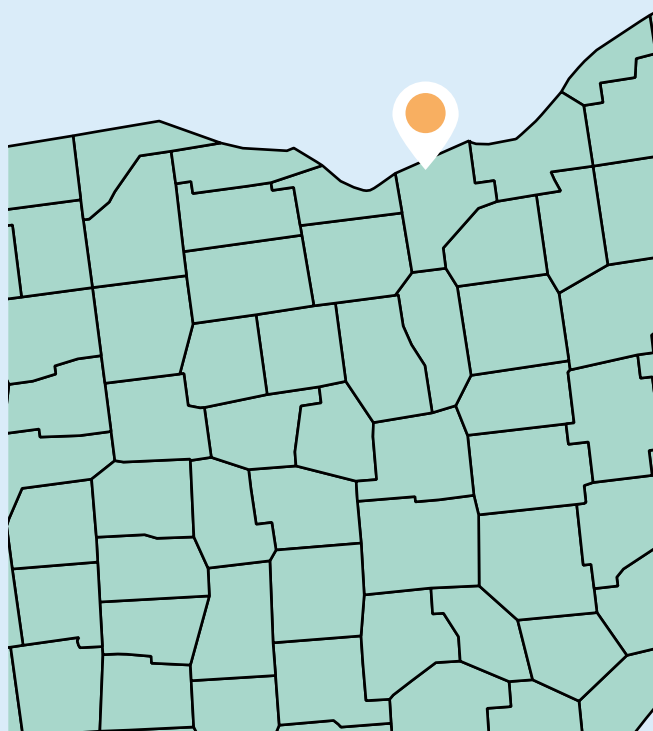
Indeed, while the improving trend in unemployment is beneficial to local residents, the gap between incomes in Leipzig and other cities in eastern Germany, when compared to more well-off regions elsewhere, is increasing. Narrowing such inequalities will take time to address if the aim of government policy is to maximise the potential of all regions and people – and not just the poorest.

Conclusion

- The scale of investment should be significant and long-term. Funding for one research institute in the Innovation and Structural Change Fund is €170m per year. Policies to address regional inequalities in Germany have totalled almost €2tn from 1990–2014.⁷⁷ A minimum of 15 years' commitment to funding supports continuity.
- However, capital expenditure on infrastructure is not a silver bullet to addressing social divides. Even Leipzig's historic strengths as a centre for rail and extensive local authority-owned tram network were insufficient to prevent the collapse of heavy industry as a major economic driver.
- Committing to a minimum standard of public services and infrastructure in every place is important. Within the federal tax and governance system in Germany, the fiscal equalisation policy ensures that there is a more equal redistribution of revenue between states.
- It is vital to invest in the capacity of public institutions and infrastructure to help adapt and pursue new economic development opportunities.
- Specific funding pots can help support places with weaker economies, or places dependent upon declining industries, to develop new economic development paths.
- Leipzig shows the value of acknowledging that each place has unique strengths to build upon, whether that be 'hard' or 'soft' factors, based on their economic history and geography.



Cleveland Ohio, USA



Key facts

An industrial port city in the north east of the US, in a region today referred to as the 'Rust Belt'.

The municipality of Cleveland City Council has a population of 381,000, down from 915,000 in 1950.⁷⁸

The wider metropolitan area (city and suburbs), of which the Cleveland City Council area is part, has a population of 2.1 million, the 33rd largest in the USA.⁷⁹

Greater Cleveland's economy is comparable in size to that of Birmingham in the UK or Lyon in France.⁸⁰

Figure 4.13: Cleveland in its context

History and context

Cleveland is a city that has been hit hard by deindustrialisation, but is now seeking to build a more inclusive, dynamic and diversified future. Its history as one of the wealthiest cities in the US can be seen in the grand architecture of its civic institutions and the surviving mansions of its Victorian-era industrialists.⁸¹ The legacy of these tycoons lives on through the Cleveland Foundation, one of the world's largest community philanthropic foundations, and other similar trusts that play a crucial role in the economic and social life of the city.

The Cleveland metropolitan area is the most populous in Ohio, a state in a region known as the 'Midwest' of the US. Founded in 1796, it grew largely due to its strategic location, supplemented with canals linking to rivers, the Atlantic Ocean, the Gulf of Mexico and beyond. Serving as a logistical and industrial hub for the region encouraged rapid population growth throughout the 19th and early 20th centuries.

While industrial output in the city has sharply decreased from its peak, manufacturing remains among the largest sectors of Cleveland's economy. Other important sectors include education and health services, business services and public sector jobs.⁸² As explored below, the US federal model is distinctive in the extent of fiscal and decision-making powers that are devolved to states, with further devolution to cities in the state of Ohio. This means that the city has the policy tools to pursue strategies for its future.

Major challenges in the city include the concentration of poverty in the urban core, significant urban sprawl without population growth, and high racial segregation and income inequality.⁸³ African Americans form a plurality of the population but record markedly worse life experiences on measures such as educational attainment, employment rate and income. Against this backdrop, a partnership of local anchor organisations is seeking to build community wealth to create a more resilient and inclusive economy for residents of all races.



Figure 4.14: Cleveland skyline

Socio-economic trends

Cleveland's manufacturing sector remained vibrant until the late 1950s, at which point industrial restructuring and the growth of suburbs saw the city's economy and population begin to decline.⁸⁴ The highly polluted river running through the city caught fire in 1969, drawing national attention to the poor state of Cleveland's environment. As one participant told us, the city was thereafter referred to as "the mistake on the lake", and even today "comedians make fun of it all the time". A series of riots through the late 1960s highlighted racial inequalities. Between 1970 and 2000 the poverty rate in the city centre district increased from 44% to 65%.⁸⁵ As multiple participants commented, there was a deep-rooted sense of pessimism throughout the city in the late 20th century.

This sense of crisis was compounded in 1978 when Cleveland became the first major American city to go bankrupt since the Great Depression. In the following decade, deindustrialisation intensified, and the wider region became referred to as the 'Rust Belt'.⁸⁶

Deindustrialisation has severely affected Cleveland and driven a population exodus from the urban core. The population within the Cleveland City Council area declined from 915,000 in 1950 to 381,000 in 2019.⁸⁷ This urban shrinking has rendered parts of the city unoccupied. However, as several interviewees for this case study commented, the boundaries of Cleveland are drawn such that districts are functionally part of the city core and technically independent, thus depriving the centre of tax revenues. Despite population outflow from the city council area, the population of the wider metropolitan area including suburbs is relatively more stable.

Green shoots began to appear in the 1990s and the city core has experienced economic and population growth since 2010.⁸⁸ While manufacturing remains important, the rapid growth in biosciences in Cleveland is an important trend shaping the local economy.

In a 2013 comparative study with Buffalo in New York, policymakers and local leaders there were shown to have had a greater awareness of the scale of the issues faced by their area and recognised sooner the need for interventions.⁸⁹ Indeed, Cleveland's leaders in the 1980s were insufficiently aware of the structural challenges facing the city. They doubted whether biomedical research, now of significant importance to the area, could play a major role in its future. While there is now a deeper understanding of the importance of this sector, it nevertheless points to the importance of local leaders having in-depth intelligence on their area.

Inequality, long-term unemployment and structural racial disparities remain important. In the city centre district, 92% of residents are African American, compared to 19% in the wider metropolitan area. Only 4% had a university degree, compared to 24% more widely.⁹⁰ To address racial inequalities, the Cleveland Foundation is currently measuring the employment of African Americans in projects and procurement, as well as launching a Black Futures Fund to develop Black leadership and participation in the city's economy and decision making, seeking to move beyond simply "checking a box" on diversity, as one interviewee put it, and instead towards structural change.

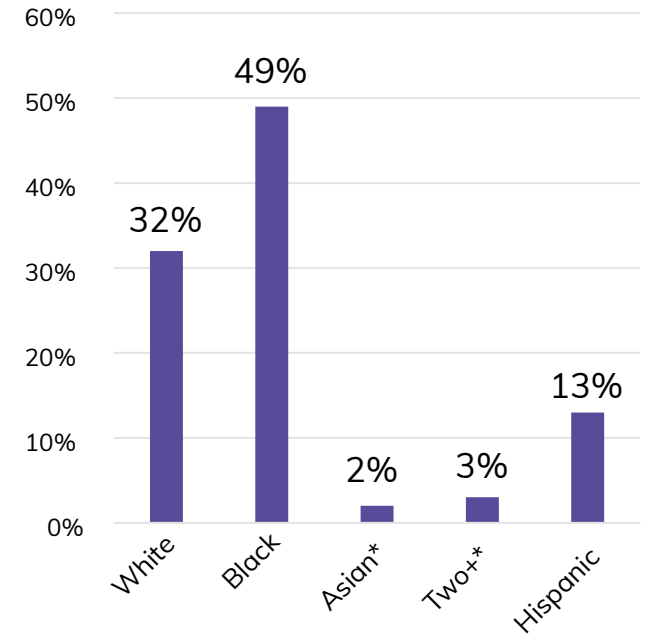


Figure 4.15: Ethnicity demographics of Cleveland in 2019. Labels marked with * indicate a 10% margin of error. Source: [Census Reporter](#) (2019)

Governance and finance

The US federal model is characterised by a wide range of powers devolved to states, which have their own constitutions, budget-setting and tax-raising powers. State courts also enforce state laws. All powers not explicitly reserved to the federal government, such as printing money and engaging in foreign diplomacy, are guaranteed to states. Local, state and federal levels of government share powers relating to taxation, infrastructure development and public spending.

While states have autonomy, national policies continue to have significant impacts, such as the Affordable Care Act ('Obamacare'), which incentivised non-profit hospitals to engage in economic development activities.⁹¹ The constitution of Ohio guarantees municipal home rule, meaning municipalities can legislate on a wide range of issues. Cleveland City Council can pass budgets and ordinances on housing, safety, public services, employment and local economic development.

Most of Cleveland's funding comes from local taxes, principally income tax but also property tax, and income from charges for services, issuing licenses and permits and revenue from fines.⁹² Spending is monitored by the city's Office of Budget and Management, and in turn there is an office of the Auditor of State for Ohio. Given the importance of property taxes to the city's budget, the population outflow to the wider metropolitan area negatively impacts on the financial resources available to the city centre's local government.

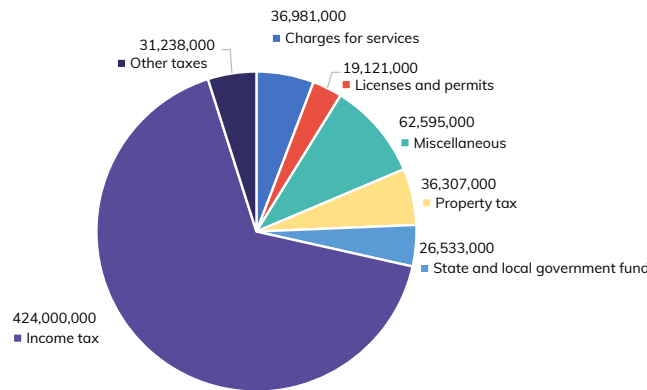


Figure 4.16: Breakdown of sources of income for the City of Cleveland's 2021 budget (all figures in thousands). Source: [City of Cleveland \(2021\)](#)

A benchmarking study of Cleveland's tax profile found that the city has a marginally higher rate of tax than other cities in Ohio. When compared to cities of the same size in the Midwest, Cleveland's local tax rate on a per capita basis is 13% higher than average – almost all of which is derived from local property and income taxes. Additional local taxes charged by Cleveland City Council erase the fiscal benefits for small businesses provided by Ohio at the state level. Meanwhile, for corporations seeking to relocate to Cleveland there is a slightly lower effective tax rate than in comparable cities such as Pittsburgh, Milwaukee and Detroit.⁹³

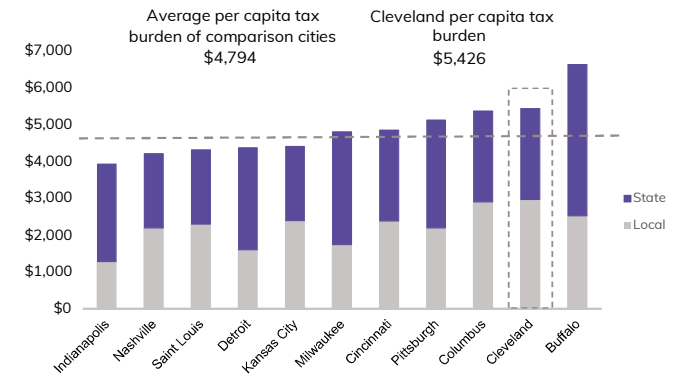


Figure 4.17: Per capita state and local tax burden among Midwest cities, 2016⁹⁴

Case study participants highlighted previous 'revenue sharing' efforts between municipalities in the Cleveland area but noted that these had been unsuccessful due to local political issues. Likewise, political disagreements thwarted attempts to develop a regional economic competitiveness strategy.⁹⁵

In Cleveland, institutions beyond the formal governance structure play a significant facilitative role. Chief among these is the philanthropic Cleveland Foundation, which has assets under management of \$3bn and an annual expenditure of more than \$100m. The foundation funds thousands of grants each year— much of which comes from wills and investments made during Cleveland's industrial heyday.⁹⁶ This secure funding stream enables the foundation to embrace long-term strategies while taking risks in seed funding ideas with potentially greater impact. These types of investments can be politically challenging for local government to make. As participants noted, the current CEO of the foundation previously worked in research and development for Panasonic in Japan, which they felt meant he brings a deeper understanding of risk and innovation.

A network of anchor institutions, including universities, hospitals and cultural organisations, contribute to Cleveland's governance framework.⁹⁷ These tend to be large, typically public sector, organisations rooted in place through significant employment and procurement activities. Unlike corporations that can relocate to reduce costs, the footprint of an anchor is generally fixed. These networks help to define local economies and are key to community wealth building – an approach to economic development that seeks to achieve sustainability through locally-rooted, democratic ownership and control of assets.



Figure 4.18: Cleveland Public Library, one of the city's many impressive civic institutions

Initiatives for reducing inequalities

Cleveland was hit hard by deindustrialisation, which has fuelled racial segregation and intense concentrations of poverty throughout the city. However, its industrial zenith endowed the city with tools that remain viable for overcoming this challenge. Major anchor institutions and the Cleveland Foundation are working with city authorities to build community wealth and support innovation in manufacturing and biomedical research, while experimenting with ways to embed progressive social principles at the core of business practices.

Community wealth building is an important philosophy in Cleveland. Our case study interviewees discussed how local institutions are seeking to integrate this approach in their practice. This means thinking about how to maximise procurement, employment and ownership, so that spending is more rooted in the local economy rather than flowing out.

1. Greater University Circle Initiative (GUCI)

This is the city's flagship project, with a 20- to 30-year strategy to build community wealth and a more inclusive economy. Based on the collaboration of anchor institutions from across the city, the idea is to co-ordinate procurement, hiring and development activities in a way that increases local spending and employment while making 'eds and meds' (universities and hospitals) central to the future prosperity of Cleveland. The Cleveland Foundation was instrumental in establishing this initiative in 2005.

Partner organisations on GUCI include a cluster of 17 hospitals and civic institutions, such as museums, galleries, universities and concert halls, as well as the city council and the city's transit authority. Collectively, the scheme employs over 50,000 people and functions as the 'economic engine' of the area.⁹⁸ Partners employ local people, co-ordinate their supply chains to procure locally, harmonise investment to revitalise the city's physical environment, provide business leadership and skills training and exchange knowledge widely.⁹⁹

GUCI adopts a people and place-based approach, working in marginalised communities to stimulate local economic activity.¹⁰⁰ One participant spoke about how the anchor institution and community wealth building work in Cleveland was the initial spark for similar work in Preston in the UK, but now Cleveland is seeking to learn from the success of cultural change in the British example.

An important aspect of the programme is to encourage local employment. While there was an impressive 47% increase in employment by anchor institutions within the Cleveland City Council area, anecdotal evidence suggests that a sizeable number of these new employees subsequently moved to the suburbs in the wider metropolitan area for reasons that are unclear. GUCI may thus be perpetuating the outflow of residents, and hence their tax revenues, from the city council area.¹⁰¹ This demonstrates the risk of unintended consequences, where economic development initiatives may feed into the very trends they seek to mitigate.

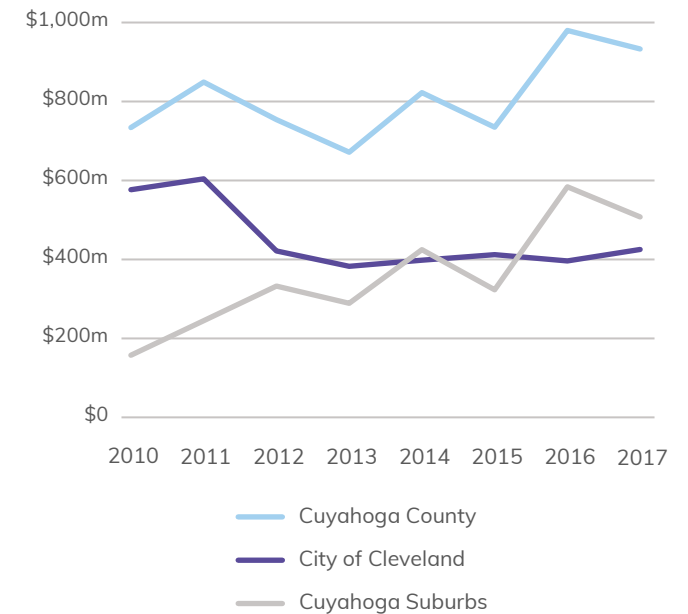


Figure 4.19: Anchor spending by geography, 2010-2017. Source: [Schnoke and Piazza](#). (2018), p.17

2. Evergreen co-operatives

These are collectively owned, for-profit local businesses that prioritise social value and inclusion. As one participant discussed, they are based on the concept that “a job is not enough”. Thus co-operatives are a practical demonstration of the potential to run for-profit, worker-owned companies to fulfil social objectives and operate in environmentally sustainable sectors.¹⁰²

While the project was initially linked to GUCI and funded by the Cleveland Foundation, the businesses have proven sustainable, and the model has since expanded into a range of sectors: from laundry and hydroponic food production to insulation and solar panel installation. The co-operatives aim to enter sectors where there is not an established local business, instead competing with multinationals and companies from outside Cleveland.

Currently, the co-operatives are developing partnerships with local SMEs whose owners are retiring or otherwise seeking to exit the market. By transitioning these businesses to a co-operative model, the intention is to create ‘good jobs’ with better pay, greater feelings of agency and a sense of community wealth building.¹⁰³ This innovative approach aims to create employment opportunities for the most marginalised groups in society, such as former convicts who are typically excluded from the labour market because of their personal history.

3. Health Tech Corridor

This builds on an emerging cluster of world-leading healthcare and bio-science research to encourage business spin-offs, research commercialisation and growth in start-ups. It’s a collaboration that involves the city council, Cleveland Foundation, MidTown Cleveland (a neighbourhood revitalisation non-profit) and BioEnterprise (a non-profit established by local universities to help commercialise their research). Since 2010, Euclid Avenue, an area that is anchored by research-intensive universities and hospitals, has become home to over 170 biomedical research and healthcare companies. By 2016, 2,600 new jobs had been created in the cluster and more than \$4bn of inward investment achieved.

4. Accelerate Cleveland Manufacturing (ACM)

A support scheme for manufacturing firms located in Cleveland to connect SMEs with external partners, training and resources to generate growth and support the ‘good jobs’ offered by manufacturers in the city. While Cleveland is seeking to build on emerging strengths in healthcare and biomedical research, the city has not neglected the manufacturing sector. This programme supports the 1,300 manufacturers located in the city that paid \$1.2bn in wages in 2014. ACM is funded through a mix of local, state and federal public funds, along with philanthropic capital and funding from industry sources.

5. Strong Cities, Strong Communities

This initiative, supported by the federal government, includes the secondment of NASA engineers to local SMEs to improve product design and production processes.¹⁰⁴ Research shows that manufacturing provides ‘good jobs’, with higher-than-average wages and better conditions than in many other sectors, in large part due to greater union involvement.¹⁰⁵ Indeed, while the creation of jobs is a common aim of most regional development policies, the quality of the jobs created also matters.

Performance evaluation

Various metrics are used to monitor and evaluate interventions in Cleveland. Cuyahoga County, which covers much of the area administered by Cleveland City Council, uses the opportunity index score. This combines 16 indicators on wellbeing through to economic, educational, health and community belonging data. Within this, there are key performance indicators on entrepreneurship, attraction and expansion of businesses, workforce development and economic inclusion.¹⁰⁶ Other than population growth, these indicators show that Cleveland's economic and demographic performance is generally improving, albeit from a low base.

To really assess change, several case study participants suggested using a regional scale, rather than the Cleveland City Council area, given that people and businesses may move across municipal boundaries but stay within the same functional urban area.



Figure 4.20: The University Circle district, focus of the GUCI

Remaining challenges

While there is much to show for the success of the initiatives in Cleveland, there are several challenges remaining.

Traditional industry sectors, such as metal foundries, chemical plants and manufacturing, are more evenly distributed throughout Cleveland when compared to the compact clusters of new or emerging sectors, including professional business services, biomedical research and digital.¹⁰⁷ Indeed, there can be a geographic dimension to inequality, as job growth is concentrated in specific areas that are hard to reach for some groups. Poor public transport connectivity in Cleveland disproportionately affects Black and more deprived residents, reducing potential commuting distances and thus access to jobs.¹⁰⁸

Another barrier is clashes between the state and city government. Cleveland City Council is dominated by Democrats while the state is held by the Republicans. These tensions extend to issues relating to local hiring preferences and minimum wage increases.¹⁰⁹ There have also been disputes around Cleveland's desire to pursue green energy projects, with the emergence of a substantial bribery scandal that has implicated multiple officials in the Ohio state government and a major energy company.¹¹⁰ Multiple participants described the relationship between the city and state as 'tense'.

The fragmented political geography of greater Cleveland, with its suburbs and even parts of the functional urban core organised as independent municipalities that retain taxes locally, can impede cohesive decision making across the metropolitan area. As one participant mentioned, there is a "consistent tension" in which there is a feeling of "Cleveland versus the rest of the region". There is an emerging debate as to whether 'mega-regions' that transcend municipal and even state lines might be the more effective way in tackling such barriers to implementation.¹¹¹ The ability to access, analyse and apply data across different institutions, municipalities and geographies will be necessary to better co-ordinate activity across the city-region.¹¹²

Finally, a practical challenge to collaborative projects such as GUCI can be the turnover of key stakeholders in the partnership. Case study interviewees noted that as the leaders of organisations move on, it can be difficult to maintain relationships between institutions. While management may want to engage in community wealth building, this is often difficult to filter through organisations, especially given that legal, procurement and hiring practices may be governed by laws or established institutional practices.

Conclusion

Cleveland's approach illustrates the importance of having:

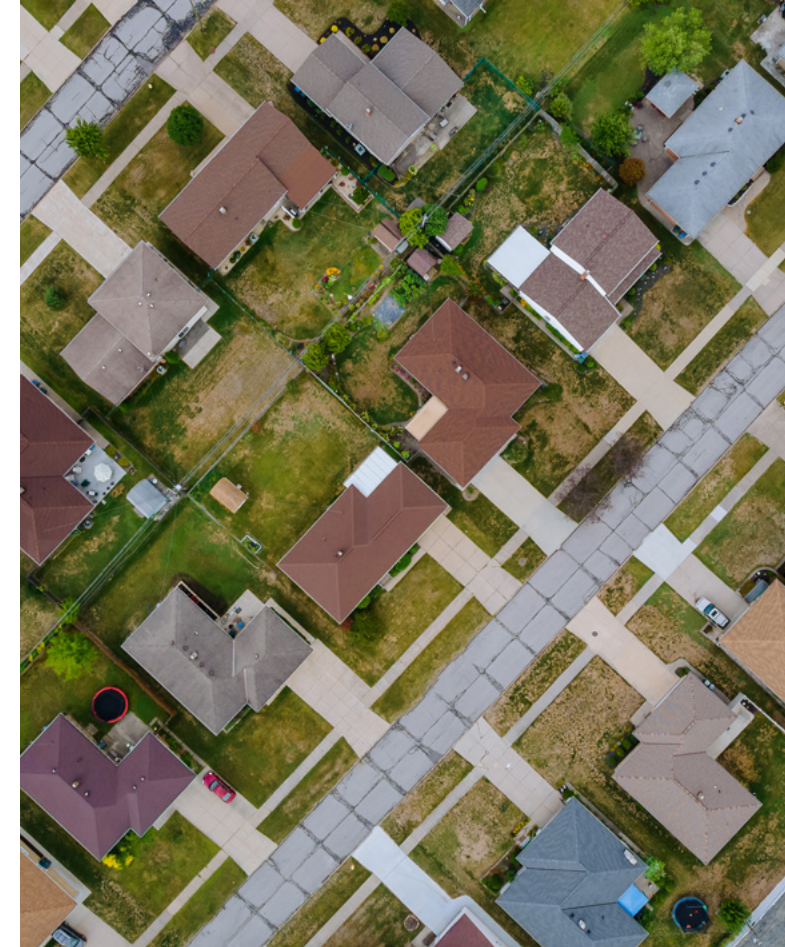
- a trusted convener with money, influence and power
- local assets to build upon, such as hospitals and universities
- a stable source of funding to pay for staff within anchor institutions.¹¹³

While an evidence-based approach to interventions is important in delivering more effective outcomes, this should not be an end in itself. Case study participants spoke of the need to embrace innovation, risk-taking and the funding of new ventures more widely, while recognising that not everything can be successful. Having an awareness of unintended consequences and possessing the agility to adapt to changing circumstances can further empower local decision makers.

Although Cleveland benefits from a large philanthropic foundation, there are transferable lessons in relation to the broader role of a grant-making body with:

- significant resources
- sufficient political independence to finance long-term projects
- strategic aims led by community needs rather than political expediency
- strong facilitative leadership
- experience in community wealth building.

Lastly, the use of a wide range of indicators to measure performance, based on robust and regular data collection, is crucial at both the design and evaluation stages. Using standard metrics such as GDP growth, employment and qualification rates in conjunction with indices of social wellbeing, such as the opportunity index score, can help to create a holistic picture of change that can retain the buy-in of organisational leaders and citizens alike.



Nantes | Pays de la Loire, France



Key facts

Located in western France, 50km from the Atlantic Ocean, Nantes is one of the fastest growing cities in France.

A major industrial city in the 19th century, today Nantes is internationally recognised for its quality of life and dynamism.¹¹⁴

The city was the 2019 European Capital of Innovation.

Nantes is the fifth largest city in France with a population of 314,000.¹¹⁵

Nantes Métropole is the seventh largest metropolitan area in France, with a population of over 650,000.¹¹⁶

Figure 4.21: Nantes in its context

History and context

The city prospered in the 18th and 19th centuries with the development of specialisms in shipbuilding, sugar refining, fishing and the vegetable production industries. Nantes, with nearby Saint-Nazaire, became one of the largest ports in France and was a major trading centre.

The shipbuilding industry subsequently collapsed due to foreign competition. In the late 1970s and 1980s, following a period of decline associated with the closure of the shipyards, Nantes “faced a difficult social climate” and suffered considerable job losses.¹¹⁷

Over recent decades Nantes has overcome the decline of its former principal industry to become one of the fastest growing cities in France. Located two hours by train from Paris, the population of Nantes has expanded rapidly over recent decades with high numbers of professionals attracted to the area by the range of job opportunities, high quality of life and good housing options. The city and the wider metropolitan area have been reinvented. The development of new high-tech industries and a focus on promoting culture, innovative public procurement policies and citizen participation have successfully diversified the economy and addressed inequalities.

Key sectors of the economy today include aerospace, marine and renewable energy manufacturing, high-end shipbuilding, digital, financial and business services, plus health and biotechnology as emerging sectors. What is interesting is that shipbuilding and older traditional industry have been retained at the very high end, supported by research and development, alongside new industries such as energy. Growth of the digital sector has been catalytic for the economic development of the city-region.

Nantes Combined Metropolitan Authority (Nantes Métropole), a formal collaboration of neighbouring local authorities including Nantes City Council, came top among French cities for employment in the 2018 and 2019 Express magazine rankings.¹¹⁸ This was based on indicators such as unemployment rate, growth in employment, youth employment rate, proportion of management roles, rail and air accessibility and resident income level. However, high population growth is creating increasing pressure on infrastructure.

Socio-economic trends

The city of Nantes now has the highest number of jobs in the digital sector in France after Paris and Lyon. The sector employed over 26,000 people across the combined metropolitan authority area in 2019, growing faster than the national average prior to the onset of COVID-19. Data from the first quarter in 2020 indicates the pandemic led to a reduction in the workforce.¹¹⁹

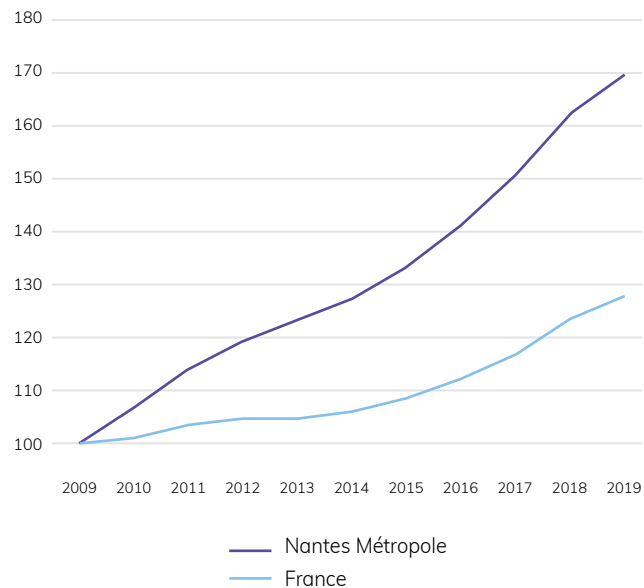


Figure 4.22: Growth in private payroll employment in the digital sector in Nantes Combined Metropolitan Authority and France 2009–2019 (baseline of 100 in 2009).¹²⁰

In recent decades, several high-tech industries have emerged.

- **Aerospace:** Airbus, which employs 5,700 employees, has been a key driver behind the development of an innovative industrial environment. In the Loire-Atlantique county, the sector employs 10,000 people, including subcontractors.¹²¹
- **Specialist shipbuilding:** Capitalising on skills and experience from its commercial past, together with high-tech design and manufacturing developed at the Ocean Campus, an ultra-modern research and development facility, Saint-Nazaire has constructed some of the biggest cruise ships in the world.
- **Marine renewable energy market:** Several traditional industrial firms have transitioned to this sector.

Meanwhile, growth in culture and creativity has contributed to economic development in Nantes and Saint-Nazaire. These industries grew by 63% between 1993 and 2014, exceeding the growth in all other sectors combined.¹²² Over recent years Nantes has seen an increase in the number of jobs in managerial and professional occupations and a decline in the number of blue-collar jobs.¹²³

Prior to the second quarter in 2020, Nantes Métropole was one of only four metropolitan authorities in France with an unemployment rate below 7%. This structurally low level of unemployment can be explained by fewer long-term job seekers than elsewhere in France and a greater proportion in partial employment.¹²⁴

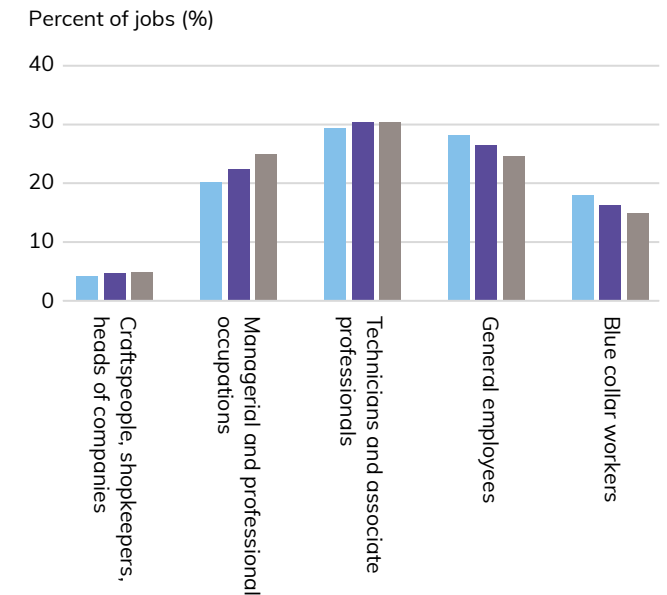
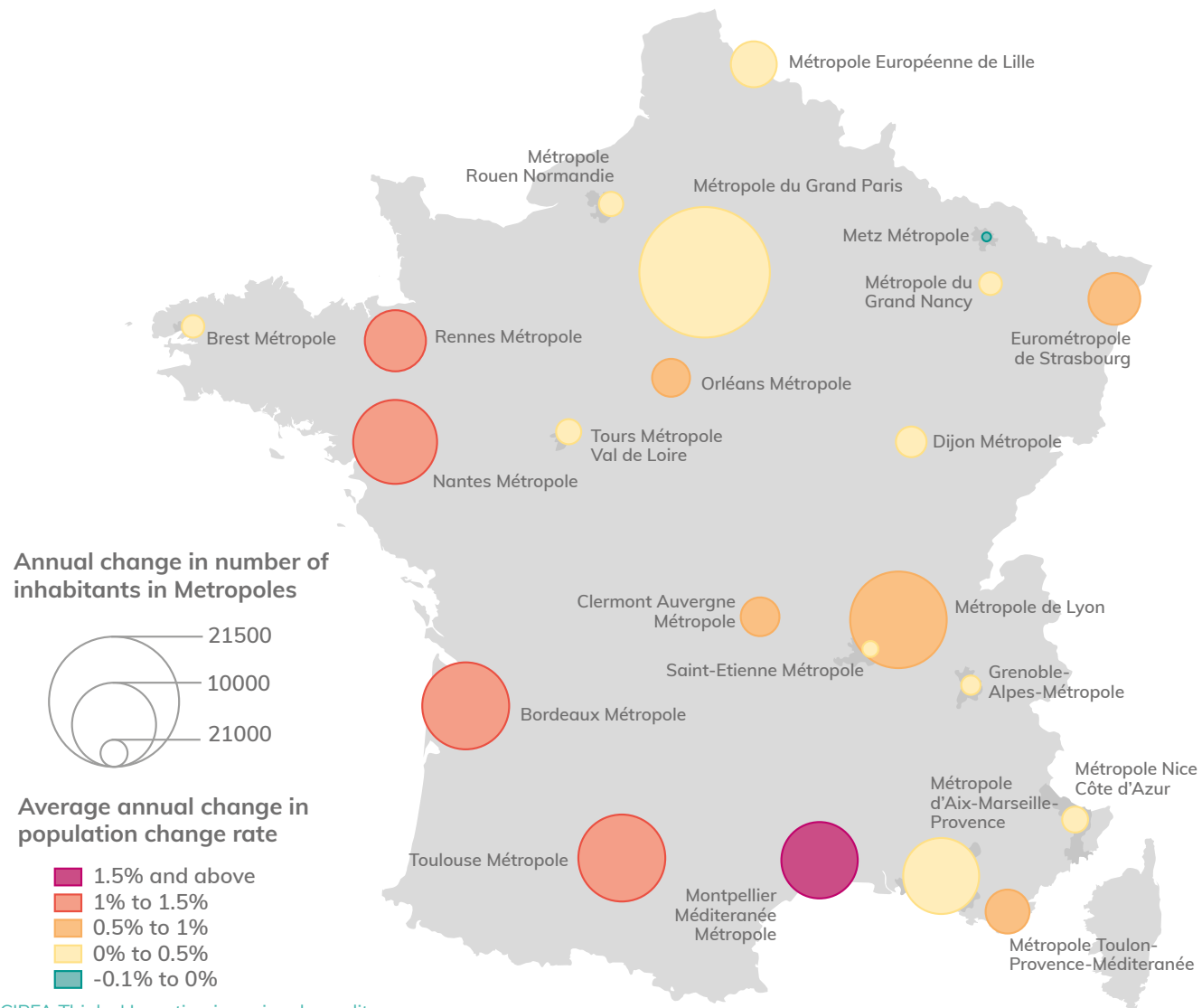


Figure 4.23: Changes in jobs in Nantes Métropole by socio-professional category 2008–2018¹²⁵

The population of Nantes Métropole increased by nearly 60% between 1968 and 2018 to over 650,000.¹²⁶ Recent annual population growth was among the highest of any French combined metropolitan authority. This has emphasised the need to expand infrastructure such as public transport and social housing.¹²⁷

Figure 4.24: Changes in annual population 2013–2018 in combined metropolitan authorities in France¹²⁸



Governance and finance

Over the last 40 years, various powers have been transferred from the French state to the regions. The latter are now responsible for economic development, professional training, business development and tourism. In 2016, the state reduced the number of regions in mainland France from 22 to 13 to reduce waste and make them more dynamic and better adapted to the needs of modern economies.¹²⁹ Pays de la Loire, the region in which Nantes is situated, was one of the few not to have been reformed or merged. One case study participant suggested that Pays de la Loire has benefitted from the continuity in its governance structure, arguing that had the region been merged, it may have lost some of its ability to respond to challenges in an agile manner.

Nantes Métropole is comprised of 24 local authorities including Nantes City Council that started to co-operate in the 1960s before forming an urban community in 2001. Following national legislation in 2014/15, this became “an early forerunner of a new set of French ‘metropoles’ or combined metropolitan authorities”. The establishment of combined metropolitan authorities is voluntary, but they have both obligatory and optional responsibilities. Local authorities in Nantes have delegated the maximum powers possible to the combined authority in areas such as employment, social policy, transport and the environment.¹³⁰ An interviewee observed that while the establishment of the new authority clarified finance and economic development responsibilities, it had delayed the roll-out of new systems.

In France, cities are led by a mayor while the most senior role in combined metropolitan authorities is the president. Several interviewees commented on the pivotal leadership role played by the former mayor Jean-Marc Ayrault in creating a new vision for Nantes, which distinguished it from cities elsewhere.

Case study participants also highlighted the importance of the pragmatic approach taken by local leaders ensuring a consensus over the direction of economic strategy. “Certainly, the left and the right do not say the same thing, do not agree and are against each other during the elections. But in terms of economic strategy, we have a convergence of views.” Newly elected parties do not undermine previously implemented policies. This long tradition of collaborative action may stem in part from a need to overcome the challenges of the closure of the shipbuilding industries in the 1980s.¹³¹

Stakeholders in Nantes have a long history of proactive engagement in international networks such as a European programme linking areas with similar challenges, the Atlantic Arc group of local authorities and the Eurocities Network. This has been important in sharing and disseminating innovative experiences.¹³²

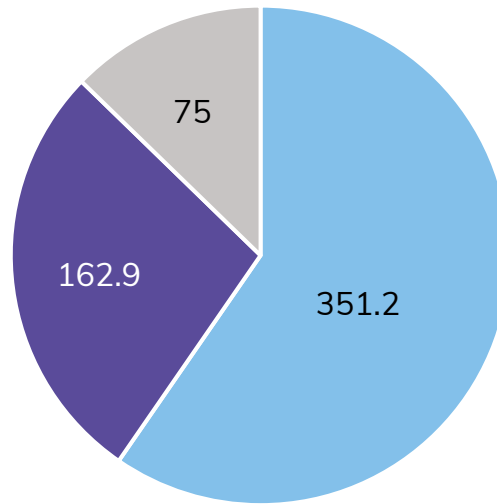
Local authorities across the combined metropolitan authority also benefit from its greater analytical capacity to support national funding bids. Access to such resourcing is a greater issue for local authorities not part of the authority but still under Nantes’ area of influence.

In 2021, Nantes Métropole had an operating revenue of €589m, 60% of which was derived from local and nationally redistributed taxes.¹³³ To address economic inequalities, it relies on household and economic taxes. But following the staged abolition of the housing tax, only homeowners, and not most tenants, pay household taxes that contribute to the cost of public services. This property tax has increased financial pressures on homeowners and removed incentives to build social housing as local authorities can no longer generate revenue from social housing tenants. Despite this change, household taxes still represent 26% of operating revenue at €156m.

Business real estate contribution, worth €78m, is the largest economic tax revenue source. The rate is set locally, but it can only be increased if the household tax is also raised. The combined metropolitan authority can also apply tax breaks to support smaller firms, including those in the cultural sector.

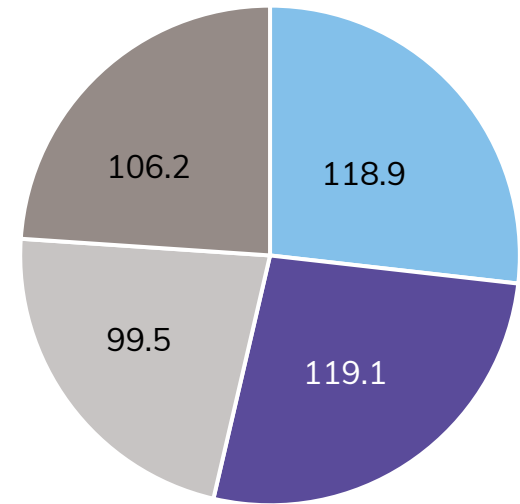
It can also levy a transport supplement to respond to changing public transport needs such as increased demand. This is based on payroll expenditure and is paid for by businesses. It was recently used to fund free public transport at weekends in Nantes, but it has led to high costs for the combined metropolitan authority that were not fully covered by the supplement.¹³⁴

Two systems support the equalisation of funds across local authorities. The state redistributes funds between local authorities through the general operating grant. This is comprised of a block grant and an equalisation component. The block grant is relatively stable and takes account of population trends, while the equalisation component is calculated according to potential fiscal revenue. Nantes contributes to the latter as it is comparatively richer than other areas. Secondly, a proportion of operating expenditure redistributes funds to local authorities within the combined metropolitan authority (Figure 4.28).



- Taxes
- State grant funding
- Other revenue sources

Figure 4.25: 2021 Operating Revenue Nantes Métropole (million Euros). 'Other revenue sources' includes tariff revenue. Source: [link](#)



- Personnel costs
- Public services
- Grants and contributions
- Money returned to local authorities

Figure 4.26: 2021 Operating expenditure for Nantes Métropole (€m) Source: [link](#)



Figure 4.27: The Machines de l'île and the Great Elephant, Nantes.

Initiatives for reducing inequalities

The city has pursued several initiatives to address regional inequality:

1. Cultural initiatives

These include the Journey to Nantes, a publicly funded “framework for grouping the metropolis’ tourist attractions and developing high-quality, environmentally friendly tourism and cultural services”.¹³⁵ The initiative is run through a majority publicly owned development corporation in which Nantes Métropole is the majority shareholder. Operating revenue increased from €21.8m in 2011 to €29.7m in 2015. Over this period, operating subsidies increased from €13.8m to €16.2m.

An 8.5km sculpture trail connects major attractions. One of the key exhibits is the Great Elephant, a 12m tall mechanical elephant that takes up to 49 passengers on walks around Nantes.

2. Public investment in innovation

Nantes has sought to address inequalities through supporting technical innovation in advanced manufacturing and the digital sector. Examples of European and global competitiveness clusters include:

- EMC2, the first French open innovation cluster dedicated to advanced manufacturing technologies. It has been strengthened by two research and technology centres, the Technocampus EMC2 and IRT Jules Verne, designed to promote industry-public research collaboration and support manufacturing of the future.¹³⁶ To illustrate the scale of funding involved, the IRT Jules Verne Institute was established with an estimated budget of €350m over ten years. The state contributed €115m (through its future investment programme designed to promote growth and employment), the private sector €120m and the regional and local authorities provided over €100m.¹³⁷
- Image and Networks, which supports new digital image technologies and new content distribution.

A case study participant highlighted how one of the strengths in Nantes has been the ability to constantly adapt and combine policies. Following the saturation of clearly defined science parks and constraints in telecommunications networks, Nantes has promoted innovation across the city through connecting digital and cultural initiatives.

3. Public procurement

The use of social clauses by Nantes City Council and Nantes Métropole was expanded from 2004–2005, with contracts awarded on a wider range of factors other than just price. These include minimum wage levels, carbon clauses in road contracts, sourcing of labour and training provisions that contractors must fulfil to tender successfully for public contracts.¹³⁸

Nantes Métropole’s public procurement policy includes a focus on the quality of employment and considers it to be “an important lever to support local economic activity and stimulate changes in behaviour among local firms with whom it concludes public markets”.¹³⁹ The key points from Nantes use of responsible purchasing to help address inequalities include:

- identifying priorities, defining parameters and creating a framework of actions that considers feasibility and measurability
- internal organisation and dedicated resources to manage public procurement
- recognising the time required for verifying and defining criteria to be included in public procurement policy.¹⁴⁰

4. Open governance and citizen dialogue

Stakeholders in Nantes have established a vision of economic development that embeds citizen dialogue and collaboration. Engagement has gone beyond legal obligations and seeks to reduce inequalities by addressing acute urban issues perceived as no longer solvable by public sector interventions alone. The importance of policymaking based on citizen and stakeholder involvement was a key factor behind Nantes behind named European Green Capital 2013.



Figure 4.28: Loire River, Nantes.

Performance evaluation

Case study participants stressed the importance of the Journey to Nantes in changing local, regional, national and global perceptions of Nantes. This includes influencing decisions to relocate businesses to Nantes. Cultural initiatives were also associated with the redevelopment of abandoned neighbourhoods. In the summer of 2014, 540,000 people visited the combined metropolitan area, bringing an estimated direct economic benefit of €43m.¹⁴¹ This compares to just 140,000 visitors in 2006.¹⁴² Prior to COVID-19, the number of overnight stays almost doubled from 1,983,031 in 2010 to 3,555,669 in 2019.¹⁴³

In 2018 Nantes City Council and the combined metropolitan authority concluded €545m in public contracts for services such as roadworks, construction, transport and food. This created 235 new jobs.¹⁴⁴ The two entities are principal buyers in the region alongside large companies such as Airbus.

The policies developed following citizen dialogue have prioritised promoting high quality, environmentally friendly tourism, improving air and water quality, safeguarding green spaces, promoting sustainable mobility and addressing social cohesion.¹⁴⁵ For example, transport policy has included investing in the Chronobus next-generation public transport system. Meanwhile, the Great Debate on energy transition in 2018 involved over 50,000 participants and led to the establishment of a shared roadmap on energy transitions based around 33 commitments. Progress is monitored by an independent commission made up of citizens and local stakeholders.¹⁴⁶

Remaining challenges

High population growth and the increase in tourism in Nantes over recent years is placing pressure on infrastructure particularly in transport services, housing, childcare and schools. A key challenge for policymakers is how to develop the economy of the combined metropolitan area while addressing citizen demands for greater environmental sustainability. The average population density of the combined metropolitan area has increased by almost 60% between 1968 and 2018 to over 1,250 inhabitants per km².

The significance of Airbus to the regional economy raises concerns for the future. COVID-19 has already created challenges for Airbus with the firm announcing the loss of 15,000 jobs worldwide including 5,000 posts in France.¹⁴⁷ If the regional aerospace market were to collapse because of increased foreign competition, this would have considerable negative consequences. As part of its recent economic diversification strategy, Nantes is seeking to identify new uses for the materials and skills used in the aerospace industry. But the large number of people employed by the sector complicates finding alternative opportunities.

Developing more evaluation tools and techniques is important. One interviewee remarked, “the problem in France is that the evaluation of public policy is not part of our culture” – suggesting that when evaluation is conducted, it is often solely quantitative. They noted that the evaluation of competitive clusters typically focuses on outputs, such as the number of collaborative research projects established or the number of jobs created, rather than outcomes. Other interviewees said evaluations often lacked a sound scientific base and there was also scope to expand citizen consultation on economic policies.

Conclusion

Nantes offers insights for a range of mayoral authorities as well as areas looking to promote growth through sustainable development and public procurement. The city provides an example of how pooling resources can overcome constrained analytical capacity when applying for national funding bids.

The use of professional contract integration clauses by Nantes and Nantes Métropole is innovative in providing links to contemporary agendas such as 'the quality of work', 'good jobs' and environmental issues. Experiences in Nantes provide numerous lessons on how to develop the role of public procurement to support economic development.

The city and combined authority's approach to addressing regional inequalities includes the following aspects:

- Partnership working across political divides to design and achieve long-term economic development goals.
- Redistributing funds across local authorities that collaborate in larger mayoral authorities and the redistribution of tax revenue between local authorities nationally. This shows how tax powers can be designed to prevent the entrenchment of inequalities in areas of low tax, through state equalisation policies that take account of potential fiscal revenue at the local level.
- Further research could consider the extent to which firms are able to absorb taxes, such as the transport subsidy.
- Further developing analytical capacity to support the evaluation of projects and programmes.
- Investing in capacity, and clearly identifying priorities and parameters for public procurement.

Like many French combined metropolitan authorities, Nantes has benefited from long-term, stable funding. Nantes' experience suggests changing place perceptions in similar medium-sized city-regions will take time and require high levels of state funding.



Conclusion



The context for addressing regional economic inequalities differs considerably across the world, particularly in terms of governance and finance systems. The case studies highlight examples of good practice as well as common challenges.

International comparative research provides rich insights into a range of possible approaches under different governance structures using different policy levers. A holistic approach helps to understand the context within which policies operate, highlighting the features that are helpful – or not – in addressing regional inequalities. Moreover, such research enables a better understanding of cultural differences across places, which helps to shape the formation and likely reception of different policy interventions.

Take a whole system approach

A whole system approach to public financial management (PFM) recognises the interconnectedness of organisations at a global, national, regional and local level. Policy outcomes are strengthened when there is deliberate co-ordination that seeks to optimise total performance rather than that of the individual parts. This involves linking the management of public resources to service delivery with mechanisms in place for checks and balances. Understanding how these public finances can best be managed is integral to addressing regional inequalities.

The case studies highlight the importance of:

1

Political will, commitment and support across geographical scales to make change happen (seen in eastern Germany after German reunification).

4

Anchor institutions and how public sector organisations can support local economies through procurement activities. Nantes is a good example of innovation in public procurement and ensuring sufficient resources are available to manage contracts appropriately.

2

Longevity of political and institutional arrangements that are required to build effective partnerships and understanding of others' intentions. For example, the experiences of Fukuoka and Nantes emphasise how long-term stability in public sector organisations is crucial; Cleveland highlights the role to be played by a grant-making body with significant resources, sufficient political independence to finance long-term projects, and with strategic aims led by community needs rather than political expediency.

5

Community wealth building and how alternative progressive approaches to local economic development, such as in Cleveland, can mobilise partners to work towards common goals.

3

Soft powers for enabling outcomes. Municipal leaders, mayors and other institutional leaders have a facilitative leadership role, bringing stakeholders together to achieve common goals.

6

Citizen engagement to promote social cohesion and address inequalities, as seen in Nantes.

Funding should be sufficient, flexible and well-managed

Devolving decision-making responsibilities without sufficient funding can intensify regional inequalities. While local governments can leverage their local knowledge to enable a more efficient allocation of financial resources and provision of public services, fiscal decentralisation risks replacing the redistributive role of the state in favour of inter and intra-regional competition. However, with the right conditions, devolved decision making can enable poorer regions to compete with richer ones by offering favourable conditions and incentives for businesses. This can unlock the potential for greater allocative efficiency in spending, as policies are tailored to specific regional needs.

Analysis across the case studies points to:

1. The vital importance of long-term flexible funding to allocate to projects and issues of local need (Cleveland), together with long-term strategic planning of interventions and investments (Fukuoka).

2. Considerable variation in the financial mechanisms behind policy interventions. These range from national competitive funding pots to philanthropic investment and strong levels of fiscal autonomy and local agency. The key success factor is the availability of finance – each case study benefited from a significant scale of locally available resource (Table 5.1).

	Principal revenue source	Second largest revenue source
Fukuoka City	Local taxes (39%)	Disbursement from central government (19%)*
Cleveland	Income tax (67%)	Charges for services (6%)
Leipzig	Business tax (18%)	Community share of income tax [redistributed income tax] (10%)
Nantes Métropole	Household taxes (60%)	Allocations (28%)

Table 5.1: Principal revenue sources in case study city-regions

*These figures are based on 2019. In 2020, the disbursement from central government (28%) was the principal revenue source due to ad hoc COVID-19 related funding. Local taxes accounted for 27%.

3. Competence in managing and administering funding is important at all geographical scales. Drawing in expertise, including from consulting firms or through cross-sector partnership working arrangements, can be helpful in building and leveraging such competence.

4. Competitive funding means that local areas may bid for what is available rather than what they need most.

Monitoring and evaluation are imperative

The case studies identify several challenges in relation to programme monitoring, the development of metrics and evaluation practices. The role of metrics in designing policies, and how metrics evolve from pre- to post-implementation, is not consistent. In some instances, metrics guide policies from the outset, while in other cases metrics are matched to outputs and outcomes based on data availability. For example, the extent to which employment is tracked and used to inform accountability in policy making varies considerably.

The case studies highlight the following lessons:

1
Evaluation is imperative, but it may not always get the focus that is required. In Nantes, we found that evaluation tended to focus on outputs and there were limited mechanisms in place to fully assess projects. This can limit the interpretation of which user groups and locations benefited most from any given projects.

4
Broader learning can be hindered by the complexity of geographical scales. Assessing the effectiveness of some projects may require multiple partners, which can be frustrated by a lack of resources and/or willingness to engage on an ongoing basis.

2
Attention on the evaluation of competitive bids tends to be at the bidding and project approval stage rather than over the lifetime of the project.

5
Public finance professionals have a role to play in promoting the independence of evaluations given that some stakeholders may be subject to political expediency.

3
The timeframe for reducing inequalities often spans decades but policies can be designed to achieve nearer-term wins, eg the cultural and tourism-related amenities in Nantes.

Public finance professionals are key actors

Managing public finances to achieve fairer outcomes

Managing finances in the public sector is about much more than accountancy. PFM is fundamental to sound decision making and ensuring that public money is spent prudently. CIPFA has published a separate report that addresses how PFM offers practical solutions to tackling inequality.

For policies to be successful, governments must recognise that regional inequalities stem from a myriad of differences across income, wealth, education, health and social standing. Finance professionals are aware that the allocation of public funds may not reflect need, and that finance streams and sources are not always reliable.

Public finance managers play a major role in improving the financial literacy of organisations, building capacity and understanding. This can improve spending decisions and financial effectiveness, thereby improving equity outcomes.

Other findings of the report include:

- Better use of public funds relies on the understanding of future financial resources. Hence there is benefit in funding streams that are less fragmented, more flexible and longer in duration.
- Funding should be proportionate to the task and responsibilities at hand.
- There is a need for clear and objective criteria in the allocation of public funds.
- Ensure a level playing field – larger or better resourced organisations should not be favoured in the bidding process.
- Accounting and finance professionals can aid in understanding financial vulnerability.
- The role for peer learning and knowledge exchange in improving overall capacity in public financial management.

Management of public finances is integral to addressing regional inequalities. A focus on economy, efficiency, effectiveness and equity can help to maximise value and the mileage achieved with limited public funds.

Public financial management (PFM) is a process whereby the targeting of efficiency gains can free up resources within existing budgets. Public finance professionals play a key role in effectively managing funds, ensuring relative returns on investment and assessing value for money. This underscores the importance of developing and maintaining strategic and operational relationships across all geographic scales.

The global adoption of common standards – for example, accounting, auditing or educational – and practices can enable the managers of public services to understand cost drivers and behaviours in a shared language. Meanwhile, cross-sector partnerships can deliver improved economic and social outcomes through peer learning and knowledge sharing. To improve the value creation of public expenditure, PFM professionals will need to engage and work more effectively with a range of other disciplines across government, academia and the third sector.

Learning and growing through enhanced knowledge exchange can build trust across the PFM system, nurturing developments in legislation, standards, execution, assurance and scrutiny. Strengthening the voice of stakeholders and service advocates can improve transparency and accountability through the identification of practical gaps and weaknesses. Leadership, vision and planning run parallel to performance and risk management in linking demand to the delivery of services and products.

Appendices



Appendix 1:

Glossary

Agglomeration The extended urban area of a city and its suburbs, possibly incorporating other cities, that is one continuous built-up area.

Anchor institution A large, usually public sector organisation that is 'rooted in place' (unable to relocate) and typically has a significant impact upon the local economy.

Bund National government in Germany that has sovereign powers over national security and citizenship; it devolves many powers to the Land and Kommune level.

Community wealth building An approach to local economic development that centres local ownership, local procurement and local employment within the context of fair employment and environmental rights.

Commune The lowest level of civil administration in France. Over 36,000 communes exist. They vary in size and area, ranging from small hamlets to large cities with millions of inhabitants.

Co-operative A business that is owned and run by its members, who share the profits of its activities and typically reinvest a portion of these profits back into the business.

Competitive funding Bids where local or regional authorities, private companies or other organisations bid against others to secure funding for a particular project from a pre-determined budget.

Deindustrialisation The reduction of manufacturing activity in a place, caused by a range of factors from relocation of businesses to areas with lower costs, fall in demand for products and weak competitiveness of outputs.

Designated city Municipalities in Japan with a population greater than 500,000, gaining prefecture-level devolved powers.

Devolution The transfer of legal and fiscal powers from a higher level of government to a lower one, decentralising decision making.

East Germany Also known as the German Democratic Republic (GDR) or Deutsche Demokratische Republik (DDR). The state existed between 1949 to 1990: after the end of the Second World War until the fall of the Berlin Wall. Leipzig was in East Germany.

Eastern Germany The regions in present day Germany that were formerly part of the state of East Germany.

Economic diversification An aim to increase the variety of different economic sectors and industries in a country, region or locality.

Ecosystem policy An important trend in Japanese governance, aiming to build successful economic clusters sharing resources and knowledge between each other, backed by prefectural science and technology plans.

Facilitative leadership Influencing behaviour and working collaboratively with a team to agree mutually beneficial decisions according to a shared vision.

Financial equalisation The policy written into the German constitution to ensure a redistribution of taxes across the country.

Fiscal autonomy The financial powers that a nation state, regional state or any other geographically defined locality has under its own jurisdiction.

Fleet utilisation Approach to optimising the use of transport and vehicles of an organisation.

Ghettoisation Refers to the spatial segregation of marginalised population groups, such as poorer people or those from ethnic minorities.

Green growth A term used to describe economic growth that is perceived as environmentally sustainable.

Income inequality How unevenly income is distributed through a population, typically measured statistically using the Gini coefficient.

Kommune A local authority district or municipality in Germany (eg Stadt Leipzig) that has sovereign powers such as planning, transport and administrative services.

Leipziger Messe A trade fair and exhibition hall in Leipzig showcasing 270 events and attracting 1.2 million visitors. Known as one of the leading trade fairs in Germany, with a distinctive 850-year history.

Life-science industries The generally high-tech economic sector where businesses operate in pharmaceuticals, biotechnology, medical devices and similar.

METI Japan's Ministry of Economy, Trade and Industry (previously MITI, the Ministry of International Trade and Industry), a powerful government department co-ordinating economic, industrial and trade policies.

Métropole Intercommunal structures in which several communes co-operate. They have the right to levy local tax. There are 19 métropoles in France surrounding the largest cities (excluding Lyon, Paris and Marseille).

Municipality A form of local government whose status varies from country to country, with ranging powers over taxation and decision making.

National Strategic Special Zone (NSSZ) Areas in Japan with special regulatory status designed to encourage specific economic sectors, for instance through reduced taxes and deregulation.

Prefecture A form of regional government in Japan with directly elected governors, assemblies, some tax-raising powers and the ability to pass policies on devolved matters. Japan is divided into 47 prefectures.

Private public partnerships Funding, ownership and governance arrangements where both the public sector and private sector have a stake in a development.

Productivity The efficiency of production of goods or services, in economics measured by the quantity of output produced per unit of input.

Public procurement The process by which public authorities, such as government departments or local authorities, purchase work, goods and services.

Public tender A contract published by a public sector organisation to invite private companies to bid for a contract to build, maintain or provide services.

Région France is divided into 18 administrative regions, 13 of which are in mainland France. Regions are responsible for: regional transport; education, in particular high schools; vocational training and apprenticeships; culture; regional planning; economic development; environmental measures; and scientific development.

Rust Belt A region of the Northeastern and Midwestern USA that has experienced a long-term industrial decline.

Smart specialisation A place-based approach to innovation policy concept that aims to boost regional innovation and contribute to growth and prosperity through helping and enabling regions to identify and focus on their strengths.

Stadt Leipzig The local authority (Kommune) that governs Leipzig.

West Germany Also known as the Federal Republic of Germany (FRG) or Bundesrepublik Deutschland (BDR). The state existed between 1949 to 1990: after the end of the Second World War until the fall of the Berlin Wall.

Western Germany The regions in present day Germany that were formerly part of the state of West Germany.

Appendix 2:

Translations of technical terms used in case studies

Income tax (Germany)	German translation: Einkommenssteuer
Local business tax (Germany)	German translation: Gewerbesteuer
Redistributed income tax (Germany)	German translation: Umverteilte Einkommensteuer
Value added tax (Germany)	German translation: Mehrwertsteuer
Business real estate contribution (France)	French translation: Cotisation foncière des entreprises
County (France)	French translation: département
Housing tax (France)	French translation: taxe d'habitation
General operating grant (France)	French translation: dotation de fonctionnement
Local authorities (France)	French translation: commune (see definition above)
Public procurement (France)	French translation: les marchés publics
Nantes combined metropolitan authority	French translation: Nantes Métropole

Appendix 3:

Interview participants

With grateful thanks to the following interview participants (in alphabetical order):

Andrew Stevens	Head of Policy Research, Japan Local Government Centre
Professor Bernard Fritsch	Professor of Spatial and Urban Planning, University of Nantes
Dominique César	Business Development Director, Nantes St-Nazaire Chamber of Commerce and Industry
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Professor Emmanuel Bioteau	Professor of Geography, University of Angers
Eve Vicquenault	Head of Territorial Economy Division, Nantes Urban Planning Agency
Fumi Kitagawa	Senior Lecturer, University of Edinburgh Business School
Professor Dr Gunther Schnabl	Director, Institute for Economic Policy, Leipzig University
India Pierce Lee	Senior Vice President, Cleveland Foundation
Professor Jacques Fache	Professor of Urban Development and Planning, University of Angers
Jens Sommer-Ulrich,	Project Manager, Business Development, Stadt Leipzig
Keisha González	Program Manager, Cleveland Foundation
Kiyoshi Okuma	Chief, Startup City Fukuoka
Kyle Fee	Senior Policy Analyst, Federal Reserve Bank of Cleveland
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Misato Yamada	Researcher, Fukuoka Asian Urban Research Center
Pascal Glemain	Senior Lecturer in Management, University of Rennes II
Pascal Lamanda	Director, Finance, Markets and Performance, Nantes Métropole
Ted Howard	President, Democracy Collaborative
Tetsuaki Miura	Director, Startup City Fukuoka
Professor Dr Thomas Lenk	Director, Institute for Public Finance and Public Management, Leipzig University
Tomoko Nakashima	International Co-ordinator, Fukuoka National Strategic Special Zone

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