Exploring and monitoring change in competitiveness in city regions and cities

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Abstract

Competitiveness is a complex concept. The concept gained in importance as consequence of globalization. There are many ways to measure it and results of these different approaches are published on a regular base, often in a conflicting way. For cities and city regions it is difficult to interpret the results and decide if they have to alter their policies or not.

In this paper I suggest to use a transparent monitoring system based on one source, Eurostat, to measure the economic competitiveness of city regions and cities. The system can be used to analyze changes in competitiveness. The paper ends with some general explanations for the changes that occurred between 1995 and 2011.

What is competitiveness?

‘Improved competitiveness is the path to economic Nirvana’. This is the first sentence of an article on cities and competitiveness.¹ A lot of research is done already on competitiveness and on related subjects like the growth or success of cities.² But still there is little agreement on “either what the term means or on how policy should aim to enhance it. Yet people have an instinctive understanding that some economies function better than others and that there are systematic reasons for this. We know when we see one, but it is difficult to define an elephant.”³

So the concept is clear and kind of diffuse at the same time. Moreover, competitiveness changes over time. Globalization, advances in information technology, structural changes in the economy and political processes like the European integration have changed the terms of competition between city regions and cities.

In this paper the focus is on economic competitiveness between city regions. Do they fight over (specific groups of) inhabitants, (specific groups of) tourists, (specific groups of) companies, universities or do they focus on bike friendliness or sustainability? On all these subjects there is competition going on.

How to measure competitiveness?

The vagueness of the concept is represented in the various ways competitiveness of cities and city regions is measured. Two groups can be distinguished:

- All in one comparison based on clusters
- A benchmark per variable

¹ Begg, I. Cities and Competitiveness, in Urban Studies, Vol. 36, Nos 5-6, 795-809,1999
² For instance by Gordon, Porter, Marshall, Jacobs and Glaeser.
³ Begg, I. Cities and Competitiveness, in Urban Studies, page 79
All in one based on clusters
Most studies dealing with competitiveness come with a ranking based on clusters of variables. Some examples are the European Cities Monitor, the Global City Competitiveness, the ranking of AT Kearney and Soft Welfare Index.

A benchmark per variable
Since 2003 TNO, a Dutch Research Institute, monitors the economic performance of city regions in Europe, based on Eurostat data. Each monitor contains economic variables like economic growth, labour productivity, employment growth, population growth, the level of education of the population, the level of unemployment. The second part of the monitor consists of business climate variables like the connectivity of airports, internet traffic and the accessibility of a region. The monitor focuses on the position of the Randstad, in line with data for the other European city regions and the four largest Dutch cities. The 20 urban areas were selected as follows: from a rather random selection of existing rankings, the 20 urban areas were selected that were mentioned most often. The size of the city region was not relevant.
In this paper the underlying data of the latest Randstad Monitor are used, which contains data for 1995-2011.¹

How do European regions compete?

GDP growth
The twenty most important European city regions have a combined GDP share of 31% of total GDP of Europe. The GDP of this group is growing faster than the GDP of Europe as a whole. This indicates the growing importance of city regions.

The average GDP growth of the 20 city regions in 2009-2011 was 2.2%. Given the recession, this is still quite an achievement. However, there is a considerable difference between the growth path of the Northern and Southern European regions (and Dublin). Stockholm, Berlin, Prague, Ruhr Area, Paris, Frankfurt and Hamburg are growing above average, Stockholm even with 6%. A smaller group is not doing well at all. This is the case with Dublin, Barcelona, Madrid and Lisbon. They are part of the countries that were most severely hit by the recession in Europe.

¹ Randstadmonitor TNO, 2012
Productivity growth

Labour productivity is seen as the main indicator of current and future welfare. It shows how much prosperity is produced with the available amount of labour. TNO considers productivity as the most appropriate indicator of competitiveness with a monetary base.

Paris, Stockholm, München, Flemisch Square, Dublin and Frankfurt and Hamburg have relatively high levels of productivity. Most of these city regions combine a high level of prosperity with a comparable high growth of labour productivity.

The city regions with a relatively high productivity growth consists of both relatively stable regions like Stockholm and Paris but also of regions like Prague, Berlin and Frankfurt that are catching up.

Since 2005 the position of Randstad Holland (and Amsterdam) is becoming less competitive. The main problem is that economic growth of this region is mainly based on employment growth and less so on productivity growth. The productivity growth of Randstad Holland was especially low between 2005 and 2009 (0.4%). During the last period (2009-2011) the productivity growth of Randstad Holland was still below average (2.3%) but on a higher level (1.6%) than in the previous period. Amsterdam shows the same pattern.
Employment growth and growth of city regions

Twenty percent of all the inhabitants of the EU 27 live in one of the 20 city regions. The population of the European city regions (0.5% per year) is growing at a slightly higher level than the EU as a whole (0.3%). This stresses the process of agglomeration: living in a city has become popular again. Madrid and Dublin are the city regions with a relatively high growth rate (1.5%), between 1995 and 2011. Budapest and the Ruhr Area were the only shrinking regions.

About a quarter of all European jobs can be found in the twenty most important city regions. Until 2005 employment was rising more quickly in these regions than in the European Union as a whole. Since 2005 there is no visible difference in growth rates for these groups.

Over the whole period (1995-2011) most city regions combined a relatively low population growth with a relatively low growth in employment. Madrid, Dublin and Barcelona, the city regions that suffer most from the economic recession right now, are the regions that did comparably well on both aspects.

Between 2009 and 2011 the average yearly employment growth of the 20 city regions fell back to 0.2%. Only the city regions with the lowest economic growth faced cuts in employment so far.

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5 Glaeser, E. Triumph of the City, 2011
How does competitiveness change over time?

In theory one city region can be the most competitive for a longer period of time. Stockholm holds a strong position at the moment, as was the case some 15 years ago. However, most city regions changed positions over time. The following graphs illustrate some of the changes.

Between 1995 and 2000 the average yearly GDP growth of the EU-regions was 3.7%. In the last period (2009-2011) it dropped to an average growth rate of 2%. On city region level, some remarkable changes can be observed. Berlin changed its position from slowest growth region to a top position 15 years later. Dublin shows a contrasting move: from running up in the late nineties to a shrinking economy right now.

The change in unemployment rates is also impressive. The average employment rate rose from 6.4 to 8.2% for the 20 city regions. The Spanish cities suffer from the highest unemployment, then and now. When the two periods are compared, Berlin, Rome, Hamburg and Prague are the only city regions that managed to lower its unemployment rate, in spite of the current recession.
There are various, overlapping explanations for the changes in economic performance and in the resulting competitiveness of European regions.
As result of the recent expanding European Union in 2004 and 2007, the number of competitors increased. The result of this expansion is a regional restructuring. There still is a distinction between the “newer” members and the older ones: the newer members did tend to grow more quickly since they used to be on a lower welfare level. This explains the relative good position of city regions like Prague. Especially German cities like Berlin and Hamburg benefit from the increase of the number of member states and its rise in welfare.

More recently, the consequences of the recession are showing. The current period of low economic growth provoke big differences between the stronger and weaker parts of the EU. Apart from Ireland, there is a distinction between the Northern and Southern part of Europe. In the short run this will provoke even more differences between city regions as we have seen so far.

In the longer run less differences are to be expected, at least in the Northern part. The competition will take place in a smaller group. Cities and city regions are becoming more similar as they are focusing on the same goals. The focus on creative knowledge cities started some 10 years ago. Glaeser added the importance of the presence of universities as growth factor of cities. It provokes a permanent inflow of highly educated people. The rise in popularity of living in cities has stimulated the attention for the authentic character of cities, especially the historic city center. Apart from the current - recession based - focus to bring back budget deficits, nowadays the focus should be on innovation, education, in order to boost productivity. This is in line with recommendations of the IMF for the Netherlands.

Conclusion

Competitiveness is measured in different ways. In this paper the focus is on economic competitiveness between city regions. A set of economic variables, based on Eurostat data is used to compare the positions. The positions can be different per indicator, but we see a clustering of city regions that do perform better than the average level. These city regions are situated in the Northern part of Europe. Stockholm is leading this group. Another group is performing below the average of EU city regions. Generally speaking these regions are part of countries that suffer severely from the European recession. To be able to compare overtime, a monitoring system is needed to observe a specific set of indicators on an annual base. The set can always be expanded with new variables, if they can be measured on a yearly basis. However, the goal should be to keep the set as compact as possible and restrict to clear indicators instead of clusters. In this way the significance of the comparison gains in importance. Furthermore, a compact monitoring system based on one source is the most likely to survive.

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6 Glaeser, E. Triumph of the City, 2011
7 Groot, H. de, Stad en Land, 2010
8 IMF Country Report no. 13/115 Kingdom of the Netherlands- Netherlands, 2013 Article IV Consultation