Competitive European cities: where do the core cities stand? (Summary No. 13)

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Executive summary

What is the challenge for our Core Cities?

The English Core Cities - Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield - have begun an economic renaissance in recent years. Nevertheless, there remain concerns that they: are not punching their weight economically in the national context; are falling behind London; lack the right powers and resources to improve their performance; and do not make as great a contribution to the national economic welfare, as comparable cities in continental Europe. Is it true?

Urban competitiveness - what really matters?

To find out, this study defined and measured urban competitiveness in terms of six critical characteristics: economic diversity; skilled workforce; connectivity; strategic capacity to implement long-term development strategies; innovation in firms and organisation; quality of life. We collected evidence on these characteristics from a wide range of successful European cities and compared it with our Core Cities, the biggest cities outside London.

How do Core Cities match up to their European competitors?

Not all continental or English cities do equally well - or equally badly - in every aspect of competitiveness. And Core Cities have improved their performance in recent years. But the big picture is clear. Many lag behind their competitors in terms of GDP, innovation levels, educational levels, connectivity, social cohesion, quality of life, political capacity and connections with their wider territories. Crucially, they lag in the eyes of international investors. This is made worse by the fact that European cities do not perform well globally.

Lack of competitiveness is a national problem - but a bigger urban problem

The successful European cities in our sample considerably outperform their national GDPs. But with the exception of Bristol, the Core Cities lag significantly behind the national average. If the Core Cities could improve their performance to match that of their continental counterparts, the gains to the national economy would be enormous.

Can we catch up?

Yes we can. There are structural characteristics of competitiveness, which mean that cities which performed well and were well regarded by the private sector a decade ago, still lead. Nevertheless, cities can significantly improve their performance. Helsinki, Barcelona and Madrid have done so.

National government policy matters

Cities have to maximise their opportunities if they are to succeed economically. But the framework set by national government matters a great deal, exemplified by the impact on successful provincial cities of even limited decentralisation in France over 20 years.

Money and powers matter

Continental cities have responsibilities for a wider range of functions which affect their economic competitiveness than do their English counterparts. The mix varies but their combination of powers and resources seems to make continental cities more proactive, more entrepreneurial and probably more competitive.

Cities live in systems

Many European governments recognise that cities are in a relationship with each other in their own domestic system and develop policies which make this explicit. This has shaped their investment
policy in transport, higher education and location of Research & Development (R&D) facilities. In the UK, there has been little sense of the relative roles and contributions of different cities and how they impact upon each other. But this issue will have to be faced if the Core Cities agenda is to be made a reality.

**Grown-up government helps**

Two of the countries which have placed most attention on cities, and have been two of the most centralised countries, France and The Netherlands, are attempting to specifically build better working relationships between the national state and urban areas. The details vary but the principles remain the same - to operate on a contractual basis with the large cities. There needs to be greater levels of trust between national and city governments. A more contractual, outcome-based approach that minimised micro-control could be a helpful way of encouraging city economic competitiveness.

**Size matters**

Large urban areas frequently have substantial assets in hard and soft infrastructure, which give them the potential to be successful. Not all large cities are successful. But the successful cities in this study were often the larger cities in Europe and certainly the largest in their national system. On that basis, the Core Cities are an appropriate target for a sustained government strategy.

**City and regional competitiveness - a bridge not a barrier**

The two do not conflict. We found no successful urban regions that did not have successful cities at their core. The regions which performed well were those where the Core City performed well - and vice versa. Many national and regional governments on the continent have recognised the contribution that cities make to regional economic performance. There is an imperative to develop strategies, policies and instruments that pull Core Cities and their economic hinterlands together rather than apart.

**Cities and sub-regions are getting their act together**

Many European policy-makers are convinced that to be competitive in the global marketplace they have to organise and act at a wider metropolitan or sub-regional level. However, most have decided it is not worth attempting to create formal institutions to achieve this, since they are unlikely to be implemented. Informal, strategic alliances between willing partners on agreed territories, powers and resources are better than either acting alone or fighting unwinnable battles for institutional change.

**Economy, territory and government - the weakest link?**

Economic processes are changing, as are economic geographies. Institutions need to catch up with those processes of change. The key issue is to make the territorial impact of national policies and decision-making more transparent and open to debate. But in addition to regional policies there is a need for a national policy for regions, which takes a strategic view of the appropriate relationships between different parts of the English territory and the impact of government machinery, policies and resources upon them. It would form part of a wider debate about the best way of improving the economic competitiveness of the English urban, regional and national systems.

**Does economic competitiveness drive out social cohesion?**

Not necessarily. First, the successful cities in Europe have the most skilled and better educated workforces. Second, the highest performing economies have had the lowest rates of unemployment. In European cities the social agenda is critically important - not least politically. But pursuing an economic growth strategy is not incompatible with a socially balanced strategy.

**Cities can help themselves**

Cities operate within a set of powerful structural, economic, social, physical and institutional constraints. But they are not powerless to shape their economic trajectories. Cities can and should do
everything within their limits to maximise the critical success factors we identified earlier - innovation, diversity, connectivity, skilled human capital, quality of life and strategic decision-making capacity.

**Conclusion**

We have identified a set of key policy messages based upon the experience of some of the most successful European cities that might help increase our cities' - and hence our regional and national - economic competitiveness. They do not constitute a magic bullet. They are more like commonsense. But they are not quick. Some we are already pursuing. However, they are worth pursuing with greater vigour - because the prize is very high. Progress has been made in many of our cities. We need to capitalise upon it more consistently.
Section 1: Cities are back

Introduction

Cities are high on the British policy agenda. After two decades of economic and demographic decline, the idea that cities are not economic drains upon - but the dynamos of - the national economy has seized the imagination of politicians, researchers and business. It has been an increasingly significant dimension of national policy. And it is not just a English phenomenon. In continental Europe there is equally growing interest in the contribution that cities can make to the national welfare - and to economic competitiveness in particular. But how that contribution can be maximised remains a big policy challenge.

This study of competitive European cities by a consortium led by European Institute of Urban Affairs, Liverpool John Moores University, is firmly located in that wider context. It was commissioned by ODPM and supported by the Core Cities Working Group a partnership consisting of the 8 English Core Cities (Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham, Sheffield) the 9 Regional Development Agencies (RDAs) and the departments of central government primarily concerned with national economic performance including the ODPM, the Treasury and the Departments of Trade and Industry, Transport and Culture, Media and Sport.

What is the city challenge?

The Working Group's agenda is to make cities drive urban renaissance and improve economic competitiveness at national and regional level. It is concerned that the Core Cities: are not punching their weight economically in the national context; are falling behind London; lack the right mix of responsibilities and resources to improve their performance; are not as competitive, or do not make as great contribution to the national economic welfare, as comparable cities in continental Europe.

This report explores if these concerns are justified. It asks whether - and if so how and why - the Core Cities perform less well and make a smaller contribution to national economic welfare than successful provincial cities on the Continent. It is based on a review of a wide range of literature, interviews with senior policy makers throughout Europe, a postal questionnaire to over 50 cities and more detailed reviews of Helsinki, Stockholm, Copenhagen, Lille, Amsterdam, Frankfurt Rotterdam, Dortmund Stuttgart, Munich, Lyon, Toulouse, Turin, Milan and Barcelona, including fieldwork in the last nine of those cities. The full report is available from ODPM. It can also be read in conjunction with the earlier Core Cities report.

How well have Core Cities been doing?

The study took stock of where the Core Cities themselves stand and how they have been performing during recent years. The evidence is mixed. But it supports the view that - however uneven - a process or urban renaissance is taking place in England. The Core Cities have been through their worst period and are recovering economically. In some respects in recent years Core Cities have been performing as well as, if not better than, their regions. Fewer people are leaving and some more are moving into Core Cities. More people are working in the Core Cities. Regional airports are growing. People in Core Cities are earning higher wages. Unemployment is falling. House prices are going up. But problems remain. Educational attainment is not good even though it is getting better. The Core Cities are becoming safer. Despite recent falls, the number of households in receipt of income related benefits remains high. There are real grounds for optimism, even if substantial social problems remain. The question is where does that recent progress leave them in comparison to the leading European cities.
What is urban competitiveness?

There is much debate about the meaning of urban competitiveness. We follow Michael Storper and define it as the ability of an economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it. The competitiveness of cities is not just about the income of firms but also how that income goes to residents. And competitiveness is different from competition. Competition can be a zero-sum game, in which if one city wins another loses. By contrast cities can all increase their competitiveness at the same time, so that all cities and the national economy can simultaneously grow and benefit.
Section 2: How do Core Cities match up to their European competitors?

The quantitative analysis first reviews the evidence on three of the key characteristics of competitiveness - innovation, connectivity and skilled workforce. Then it provides evidence about connectivity, social cohesion and the private sector's views of the relative attractiveness of different European cities. Where available we have reproduced data for a larger number of European cities to put our sample into a wider context. How do these indicators work and what do they tell us about the comparative performance of English cities? The picture is not a very happy one. The evidence is that the Core Cities do significantly lag behind the best continental cities in economic competitiveness.

Table 1 shows the GDP per capita of the top 61 cities in Europe.

Table 1: GDP per Capita 2001

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<th>Rank</th>
<th>City</th>
<th>Euro per Capita</th>
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<td>2</td>
<td>Karlsruhe (Germany)</td>
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<tr>
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<td>Paris</td>
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<td>Bonn</td>
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<td>Rotterdam</td>
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<td>Florence (Italy)</td>
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<td>Leeds</td>
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<td>Duisburg (Germany)</td>
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<td>Enkhooven (Netherlands)</td>
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<td>56</td>
<td>Birmingham</td>
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<td>Newcastle-upon-Tyne</td>
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<td>59</td>
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<tr>
<td>61</td>
<td>Liverpool</td>
<td>16,466</td>
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(Source: Barclays Bank 2002)

Capital cities tend to be at the top of the league table. Large cities tend to do well. German cities, despite the country's current economic difficulties, perform very well with 15 out of the top 20. The Core Cities do not perform well. Bristol and Leeds, at 34 and 43 respectively, perform best. But several are at the bottom of the list. (Sheffield and Nottingham were not included in the Barclays Bank 2002 report.)
study) The majority of Core Cities have per capita GDPs less than one-third of the richest cities in Europe.

How innovative are Core Cities?

We examined the performance of the top 50 European regions - rather than cities - on innovation. The European Innovation Scoreboard has seven indicators: tertiary education; participation in life-long learning; employment in medium/high-tech manufacturing; employment in high tech services; public R&D expenditure; business R&D expenditure; high-tech patent. These are combined to generate a Revealed Regional Summary Innovation Index (RRSII), which compares each region against the EU mean. Even though the precise ranking varies, a familiar pattern emerges. Northern European cities and countries perform well - Sweden, Finland, Netherlands and Germany. Few southern European cities perform well, except for Madrid. German cities as a group perform well. From England only London and the south-east make the top ten. Of the Core Cities, Bristol leads. But the remainder fall in the bottom 25, with innovation scores about half that of the high performing regions. Figure 1 shows the performance of our smaller selection of cities. Obviously the pattern is the same.

Figure 1: European Innovation Scoreboard

![European Innovation Scoreboard 2002: EU Regions](image)


How well educated is our workforce?

Figure 2 shows the qualifications of the workforce of our sample cities in their regional context. A familiar pattern emerges. Northern European cities, especially German ones, perform well. Bristol and
Leeds perform best of the Core Cities. But again the majority congregate at the bottom part of the league table.

**Figure 2: Qualifications of population**

![Percentage of population](image)

Source: Eurostat, Regions, Statistical Yearbook 2002

**How well connected are we?**

We measured external connectivity in two ways, passengers through airports and Internet connections. Figure 3 shows the airport data. A familiar pattern emerges. Capital cities perform best. Frankfurt, Amsterdam and Milan perform well. The leading Core City is Manchester. But only Birmingham of the remaining Core Cities is in the top 50 European airports and many lie very low down the league table.

**Figure 3: Airports and Connectivity**
What are the demographic trends?

Population Change

Figure 4 graphically illustrates that the Core Cities, which have been under-performing economically in relation to their counterparts in Europe, have also been losing people. By contrast the majority of the more economically successful cities have actually been gaining population. Of course if the trends in the wider conurbation were taken into account the picture would be rather more complex. But the big picture is clear. Continental cities are becoming more attractive to live in, as Core Cities apparently have become less so.

Figure 4: Population Change
Who Lives In Cities?

Figure 5 gives another insight into the structure of the population living in English and continental cities. It calculates the cities with the highest percentage of people too old or young to be in the workforce - and therefore not directly contributing to the city's economy. All the Core Cities, with the exception of Leeds, have more dependent populations than their counterparts.

**Figure 5: Population Dependency Index 1996**
**Who Works In Cities?**

Figure 6 indicates regional employment rates in cities. All the Core Cities regions have lower rates than their continental counterparts.

**Figure 6: Employment rate**

![Bar chart showing employment rates for various cities](image)

*Source: Eurostat, Regions: Statistical Yearbook 2002*

**How does the private sector see our cities?**

One important dimension of cities' competitiveness is their relative attractiveness to business and private sector investors. We explore this here by examining the most reliable study of these issues, the Healey and Baker city surveys, which are commonly accepted as a robust measure of cities' attractiveness. Table 2 lists the cities, which during the last decade have been seen by over 500 business people and private sector investors as the best 30 in Europe in which to locate a business.

**Table 2: The best cities to locate a business today**
In important respects these surveys confirm what our comparative quantitative data have already shown. First the global cities of London and Paris are rated the best. Second capital cities in general are the most attractive. Third, only one Core City, Manchester, made it into the top thirty. The cities that we have identified as having the highest GDP, highest innovation levels, more skilled workforces, better external connections are frequently seen by the private sector as the best places in which to locate.

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<th>City</th>
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<th>2002</th>
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<tr>
<td>Moscow</td>
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</tbody>
</table>

Source: Healey and Baker European Cities Monitor 2002
Section 3: Competitiveness

So where are we? - not yet in the premier league

This study reviewed a wide variety of data on the economic competitiveness of the Core Cities in comparison with a set of leading cities in continental Europe. Inevitably qualifications apply to such an ambitious exercise. There are differences of view about the meaning and measurement of concepts like competitiveness. The study primarily took a snapshot of a sample - not a movie of a wider universe. There is important variation within the Core Cities as well as within continental cities. Not all do equally well - or equally badly - in every aspect of competitiveness. And there is evidence that Core Cities have improved their performance in many important ways in recent years. But despite all this, the big picture is clear. English cities do not punch their economic weight in a European context. They lag significantly behind many of their European continental counterparts. This is made worse by the fact that European cities do not perform well globally.

Urban Competitiveness - what really matters?

Our review of research and fieldwork led us to conclude that there are six critical features of urban competitiveness:

- Economic diversity.
- Skilled workforce.
- Connectivity - internal and external.
- Strategic capacity to mobilise and implement long term development strategies.
- Innovation in firms and organisations.
- Quality of life - social, cultural, environmental.

Economic Diversity

The cities, which are most successful in responding to economic change, are those which are least dependent on a single sector. Cities that are dependent upon a single sector - whether old-fashioned coal, steel, shipping or new-fashioned financial services, mobile telephones, culture or computers are most vulnerable to the vagaries of global economic forces. This applies as much to Helsinki, Frankfurt and London as it does to Liverpool, Sheffield and Newcastle. Munich is the clearest example of this, with the Munich mix constantly cited as the key to its success. It has strength in global and local firms, large and small, manufacturing as well as services, the old as well as the new economy. Nobody believes a city can build on greenfield site economic strength where none currently exists locally. The trick is to work with what you have and to modernise.

Skilled Workforce

A skilled workforce is a critical feature of competitive cities. Modern economies increasingly depend upon knowledge intensive sectors, even within manufacturing. The policy makers we surveyed rated this characteristic consistently highly. It was rated as the most significant single factor by the private sector. And the comparative data on cities underlined the relationship of skilled workers to the innovation and GDP levels of the most competitive cities.

Connectivity - Internal And External

Another thread of our case study work is the significance of internal and external communications whether it is physical, electronic or cultural. The most successful cities have the physical and electronic infrastructure to move goods, services and people quickly and efficiently. External connections are important since exporting remains critical to success. So airports are critical. They
facilitate face-to-face communication, which has been supplemented not replaced by technological communication. Connectivity is not simply physical. There is a cultural dimension to it as well. For example, a significant feature of our successful continental cities is the importance they attach to internationalisation and having city foreign policies. Munich, Rotterdam, Lyon, Helsinki, Barcelona, Stuttgart in their different ways have invested significant time and effort in international networking to raise their profile, gain new allies, expand market share, influence decision-makers and learn new strategies and practices.

**Strategic Decision-Making Capacity**

One of the constant themes in the literature, our survey and fieldwork discussions was that systems, institutions and organisations do shape competitiveness. But processes and politics matter equally. The narrative from our individual cities constantly generated the same themes: the significance of networks and relationships between key players in the public and private sectors; the importance of crucial politicians in shaping strategies or influencing key programmes; the significance of having allies to influence the decisions of regional and national governments. Such factors, for example, help explain the relative underperformance of Milan in contrast to the substantial improvements made by Turin in recent years. Economic competitiveness strategies have to be fashioned and implemented - they do not just emerge. And they take a long time to develop and to implement. Although they now become virtual clichés, it is still true that all of our competitive cities emphasise the notions of vision, leadership, partnership and politics in shaping long-term development.

**Innovation In Firms And Organisations**

This is perhaps the most crucial characteristic of a competitive city. Four features lead to regional and urban competitiveness: investment in modern, knowledge based physical equipment; investment in research and education; investment in innovation and labour productivity. In all these knowledge and innovation are closely linked, the main drivers of place competitiveness. Knowledge based industries are the key to innovation and the development of world-class standards of living. Innovation is defined as the introduction of a new or changed process, service or form of organisation into the market place. The OECD estimates that between 1970 and 1995 more than half the total growth in output of the developed world resulted from innovation. And since most economic activities are concentrated in city regions, knowledge and innovation are two of the most significant contributors to the economic growth and competitiveness of cites. The European Commission has estimated that over 40% of the variation in per capita regional income can be explained by differences in innovative performance. Until recently relatively little attention has been paid to the local characteristics of innovation systems, rather than national characteristics. But differences in the governance of local innovation systems can make a difference to the economic performance of city regions and raise the prospect that good practice might be transferable from the more competitive to less competitive places. Our work on Toulouse, Stuttgart and Core Cities suggests there are 3 possible models of local innovation. The English grassroots model of innovation is essentially a diffuse market driven model with little outside coordination. In a networked model like Germany, multi-level networks are established that seek agreement between firms, banks, educational establishments and different layers of government. In the dirigiste model like France, innovation is initiated at least partly by central government.

Innovation has been recognised for many years as crucial to the success of cities by public authorities. Although the details have changed, the basic strategic aim has remained the same - to transform technological knowledge into innovative products and processes. The contrast with English cities could not be greater. Before the 1990s it was unusual for any English city to have a coordinated policy for investment in innovation. The RDAs have changed this position. Nevertheless, it still remains rare for individual cities to have strategies for improving the collective investment in innovation. In this way they lag two or even three decades behind some of the more competitive cities in Europe.
Quality Of Life

It is clear that soft location factors are becoming an increasingly important part of economic decision-making. One of the constant threads of interviews with public and private decision-makers was the significance of attracting and retaining skilled workers to their cities. And in their calculations, the quality of life for themselves and their families is an increasingly important factor. Cities with the assets of good environment, distinctive architectures, cultural facilities, diverse housing stock, access to natural amenities are attempting to preserve and improve them. Munich, Lyon and Barcelona have different mixes of those characteristics and their policy makers are trying to enhance them. Those which are not so well blessed with such assets are attempting to create them in their cities. Equally Dortmund and Rotterdam are not so privileged and are actively seeking ways of improving their quality of life offer to influence private investment and retain skilled workforces. Quality of life may not be the absolutely critical variable like innovation, diversity or connectivity. But like governance and strategic capacity it does increasingly matter. In this sense, the urban renaissance agenda of ODPM and a range of government departments, complements rather than contradicts, the hard-edged regional agenda of Treasury and DTI. Both matter and should be encouraged.
Section 4: So who's going to do what?

The European urban hierarchy is stable - but cities can improve quickly

A key question for Core Cities is the extent to which cities can improve their relative performance in relation to their European competitors. The evidence underlines that there are structural characteristics of competitiveness, which are acquired over a long period of time and not lost quickly. The cities, which performed well a decade ago and were well regarded by the private sector as places to do business a decade ago, still head the league table. Nevertheless, there is evidence that cities can change their performance. The quantitative evidence showed how Barcelona and Madrid had improved their position - as had Helsinki. In the longer term it is also instructive to recall the experience of the three most successful non-capital cities in Europe - Frankfurt, Stuttgart and Munich.

Fifty years ago all had been virtually destroyed. Indeed, in those cities many believe that this destruction of older industrial structures and attitudes encouraged the view in the cities that change, innovation, reinvention was both desirable and possible.

Successful cities - successful regions?

The most competitive regions also had the most competitive cities. Conversely we found no examples of successful regions which had unsuccessful cities at their core. Many policymakers believe that cities actually lead their region's economic performance. There is not a conflict of interest between cities and regions nor should there be one between urban and regional policy. This emphasises the need for continuing greater alignment of DTI and ODPM policies in the search for urban and regional competitiveness.

Cities and Sub-Regions Get Together

The appropriate relationship between Core Cities and their economic hinterlands is an increasingly important issue. Despite the assumption that things work better on the continent, this did not prove to be the case. Few urban areas have yet devised a satisfactory set of arrangements that capture the wider economic territory. But in all the cities we looked at, there is a view that the core city is not large enough to serve as the basis for economic development. All are attempting to create informal strategic alliances, often led by powerful Mayors as in Lyon, Barcelona and Helsinki.

One message for Core Cities and RDAs is that their counterparts in Europe are convinced that to be competitive in the global marketplace in future they have to organise and act at a wider metropolitan or sub-regional level. Another message is that, despite Stuttgart's achievements, most of them have decided it is not worth attempting to create formal institutions to achieve this, since they are unlikely to be implemented. The most common view is that informal strategic alliances between willing partners which can be mobilised around agreed territories and powers and resources are better than the alternatives of acting only on a local basis or of spending a great deal of time and energy fighting unwinnable battles for formal change.

Does Economic Competitiveness Drive Out Social Cohesion?

There is considerable interest in Core Cities in ways of resolving the apparent tension between strategies that focus upon economic growth and those which focus upon social equity or welfare agendas. What does the European experience tell us? First, it is clear that all the competitive cities are concerned about issues of social exclusion and in all of them there is a concern that growth should not increase inequality. Many cities want to pursue a balanced agenda rather than a simple economic competitiveness strategy. The evidence shows two things. First, the successful cities in Europe have the most skilled and better educated workforces. In that sense in the long run there is no conflict between an economic growth strategy and a balanced society strategy. Improving the educational performance of individuals helps them and helps the wider economy. Second and most important the evidence from our successful cities is that in fact the highest performing economies often have the
lowest rates of unemployment. The lesson from our cities and their policy makers is that the social agenda is critically important - not least politically.

But pursuing an economic growth strategy is not incompatible with a socially balanced strategy.

**National Government Policy Matters**

Cities have to maximise their opportunities if they are to succeed economically. But the framework set by national government matters a great deal. The experience of France is instructive. The decision to decentralise and create alternative urban centres to Paris over 20 years ago has had a major impact upon the French urban hierarchy. Paris still dominates but many of the second cities now perform well. For example our work on Toulouse underlined the importance of investment by the central state in technology and R&D facilities over a twenty-year period, which means that it is now one of the leading centres of innovation. Our work on Lyon underlined the critical importance of state investment in transport infrastructure and the TGV, which allowed the city to become more clearly connected to European markets. Equally, the current national reluctance to allow expansion of the Lyon airport at the expense of Paris, or the reluctance to extend the Lyon-Milan TGV system, underlines the critical significance of continuing national investment in transportation to the future performance of cities.

**Lack Of Competitiveness Is A National Problem - But A Bigger Urban Problem**

Lack of competitiveness is a national problem. However, the problem is even more an urban one. The UK may have under performed. But its cities have under performed even more. We can see this by comparing the relative performance of key European cities and their national economies in Figure 8.

**Figure 7: Urban and National GDPs**

The picture is very clear. The competitive cities in our sample considerably outperform their national GDPs. Recently improved performers like Helsinki or Barcelona match or beat their national performance. The cities we included in the study as comparable to the Core Cities - Dortmund, Rotterdam, and Lille - perform less well, as we would expect.
But with the exception of Bristol, the Core Cities lag significantly behind the national average. Just as the continental cities in our study are leading their nation's performance, arguably the Core Cities are constraining our national performance. The implication must be that if the Core Cities could improve their performance to match that of their continental counterparts, the gains to the national economy would be enormous.

**Cities matter**

It is increasingly clear that cities matter. European governments, the European Commission, many regional governments and agencies in continental Europe recognise that to achieve national economic success it is necessary to have successful cities. The evidence that in many continental countries cities perform better than the national economy - whereas the majority of our large cities perform worse - provides substantial empirical support for the belief. Increasingly governments regard cities as crucial to national well being - not something government can be agnostic about. It is not clear that this view has been absorbed by important parts of government in the UK. The position and policies of ODPM in recent years have shown growing commitment to and awareness of the potential economic contribution of cities. It is less clear that other departments share that view or commitment. Our European evidence suggests they should do so in future. The economic conditions and contribution of cities need to be nearer the top of the collective governmental agenda.

**Money And Power - Letting Go Matters**

The trend in continental Europe is to decentralise and regionalise decision-making, placing powers at the lowest level. Continental cities have responsibility for a wider range of functions which affect their economic competitiveness than do their English counterparts. Continental cities typically have more diverse forms of local revenue and more buoyant tax bases, which make them less fiscally dependent upon the national state and more proactive in their development strategies. Many European cities have powerful elected mayors who give clear leadership to economic development. Many successful cities have been deeply involved in European systems and networks, which has encouraged them to be internationalist, expansionist and entrepreneurial. The mix varies but it is difficult to disagree with the view that their combination of powers and resources make continental cities more proactive, more entrepreneurial and probably more competitive. The most successful cities in Europe remain German. They have substantial powers and resources and operate in the most decentralised national system. English cities arguably have fewer powers, resources and responsibilities than their competitors and have been less engaged in the European project. And they have been less successful economically. The more centralised governmental, institutional, and financial system must be one dimension of the under performance of English cities. The policy implication is not a short term one. But it is clear. Letting go achieves more.

**The English Urban Plc - Cities Live In Systems**

In many European countries cities are increasingly seen less in their national economic hierarchies than in global or at least European hierarchies. The French and Dutch planning systems, for example, underline that cities are in a relationship with each other in their own domestic system and it is better to have policies which make this explicit and try to act upon it. This has shaped their investment policy in transport, higher education and location of R&D facilities. This has implications for the UK. In the past there has been little sense of the relative roles and contributions of different cities and how they impact upon each other - their particular contributions and niches. But this issue will have to be faced if the Core Cities agenda is to be made a reality. For example, Core Cities stress that to improve their economic position it is neither necessary nor desirable to constrain the role and contribution of London. The relationship can be win-win rather than zero-sum. This inevitably focuses attention upon the economic relationship between the provincial cities and the capital and raises the question how they can complement, rather than compete with, each other. Policymakers - national and local - will need to identify ways in which their collective interests can be promoted separately and jointly.
They will need to think about systems and relationships as much as about particular places. This is already beginning to happen at local level as Core Cities find ways of sharing and collaborating. The Lyons review is a welcome part of this process. It will need to happen more at national government level as well.

**Grown-Up Government Helps**

As urban challenges become more complex and the actors involved become more numerous, partnership working becomes increasingly necessary. Partnership operates at all levels. It is instructive to note that two of the countries which have placed most attention on cities and have been two of the most centralised countries - France and the Netherlands - are attempting to specifically build better working relationships between the national state and urban areas. The details vary but the principles remain the same - to operate on a contractual basis with the large cities. Neither has necessarily fully achieved their ambition. But their efforts do underline the need for more grown up - in addition to more joined up - government. In particular there needs to be greater levels of trust between national governments and the big urban areas and a willingness to let go of central control over the process of delivery while retaining a strong influence over the outcomes of policy. Moving towards a more contractual, outcome-based approach that minimised micro-control would be a helpful way of encouraging city economic competitiveness in future.

**Size Matters**

One question raised in this study is whether large cities are different from other places and whether they need separate policy attention. In other words - are the large Core Cities special? It is perfectly possible for small and medium sized cities to be economically successful. It happens in England and on the continent. But the reality is that size does matter and larger places frequently have substantial assets in hard and soft infrastructure, which give them the potential to be more successful. The empirical evidence across continental Europe is also persuasive. Not all large cities are successful. But our review of the comparative economic performance showed that the cities that score highly were very often the larger cities in Europe and certainly the largest in their national system. The policy implication for the UK is clear. All cities matter. But the larger Core Cities have the potential to contribute significantly and as a consequence are an appropriate target for a sustained government strategy.

**Connectivity Is Crucial**

The study underlined the critical significance which European policy-makers and the private sector attaches to connectivity in terms of economic competitiveness.

Connectivity is part physical - trains, planes motorways; part ICT and part cultural having a foreign policy. Those who were contemplating in which cities they should invest consistently cited the factors. It is a high priority for those who want to attract investment and encourage exports. Those policy makers who have good connections want them improved. Those who do not want them even more. It is less clear that the relevant bits of English government have taken fully on board the significance of connectivity both internal and external to economic competitiveness. Such issues need to be placed more clearly on the competitiveness agenda and the stakeholders should be more frequently at the table. Improving the regional transportation infrastructure, improving rail connections with the capital, exploiting the potential of the major northern airport in Manchester all need to be encouraged. The continental experience is that it is an investment which pays off in terms of urban and national competitiveness.

**Cities Can Help Themselves**

Cities operate within a set of powerful structural economic social, physical and institutional constraints. Global economic change, national policies and decision making, history and geography can all place real constraints upon an individual city's capacity to perform well economically. For example, it is clear that cities which are in good strategic locations, have benign climates, attractive
natural environments, no legacy of traditional industrial structures attitudes and values, operate in
decentralised systems, have access to powerful regional governments, or simply benefited from the
consequences of the post-war relocation of private firms are more likely to be successful than cities
which do not have those advantages. The experience of successful southern German cities underlines
this point.

There is no point denying those powerful realities. One reaction to their encouraging economic
competitiveness of the Core Cities is that it might be best to start from somewhere else. But that is a
counsel of despair. Cities are not powerless to shape their economic trajectories. The evidence from
our successful - and currently less successful - continental cities indicates that cities need to do
everything they can within their limits to maximise the critical success factors we identified earlier -
innovation, diversity, connectivity, skilled human capital, quality of life and strategic decision-making
capacity.

Encouraging Innovation

This study demonstrated in a variety of ways that innovation is the key to urban economic
competitiveness. It also underlined that different countries have different ways of managing that
process. In particular, the most innovative cities were in countries, which had more coherent national
and local innovation systems. England, which has the least competitive cities, has the least coherent
innovation system. Indeed it is barely developed.

It is beginning to change with the increasing role of RDAs. But much more attention should be paid to
exploring what local innovation systems should look like and the barriers to success. The evidence
from our cities is that this is not rocket science. But it is a process which needs to be focused upon, is
long term, involves consistent networking and commitment from national as well as local
government. Where that process is happening locally it is to be encouraged. Where it is not it should
be developed.

Economy, Territory and Government - The Weakest Link?

The primary focus of this report has been the shape and distribution of competitive European cities
and the standing of the Core Cities. But the wider message is about the impact of economic
globalisation and restructuring upon the patterns of our territorial governance. Economic processes are
changing, as are economic geographies. Institutions need to catch up with those processes of change.
The key issue is no longer a narrow concern that the city defined as an administrative entity no longer
makes sense. The more important issue is to make the territorial impact of national policies and
decision-making more transparent and open to debate. This will involve a number of things. Local
authorities will need to recognise, as they increasingly do, that their boundaries are not the natural
places in which to plan economic development. Sub-regions and regions will come into play. And
they will need to recognise the importance of variable geometry, where the locus for action in one
policy sphere will not be the same for a different policy sphere.

At national level it will involve a greater recognition of the significance of economic and territorial
relationships. There needs to be greater clarity about the intention of - and relationships between -
national policies for different areas - whether neighbourhoods, cities, sub-regions or regions. There
also needs to be greater awareness of the impact of national state policies upon particular places. At
one level, it can be argued that there is not, as the Treasury claims, a third generation of regional
policy. Indeed the explicit regional apparatus is relatively weak and relatively poorly funded. But
these issues cannot be simply confined to the concerns of conventional explicit regional policy. There
will have to be wider debate about the consequences of a very powerful implicit territorial policy,
whereby substantial public resources flow into different areas of the nation through a range of
disconnected policies and institutions in higher education, research and development, transportation,
housing and health. Often these policies and programmes support already prosperous regions as much
as - if not more than - the less prosperous places, which need critical support and intervention. The
nature of that implicit policy system and its merits needs to be discussed. This could lead to a more
constructive national debate which rather than being zero-sum between leading and lagging places could be win-win.

The European evidence suggests that the letting go of central control bears the fruit of economic prosperity. But it also indicates that in addition to regional policies there is a need for a national policy for regions. This would involve taking a strategic view of the appropriate relationships between different parts of the English territory and the impact of government machinery, policies and resources upon them. If this were created, it would reinforce the Core Cities position that they are not asking special treatment for themselves - nor for London and the south east to be constrained. It would form part of a wider debate about the best way of improving the economic competitiveness of the English urban, regional and national systems.

**City And Regional Competitiveness - A Bridge Not A Barrier**

The policy agenda has evolved in recent months. In particular there is concern with PSA 2\(^1\), which is designed to improve regional performance and reduce regional inequalities in England means that there is as much concern with the contribution that large cities can make to regional performance as there is with the performance of those cities in their own right. What does our study tell us about this?

**Economic Relationships Between Cities And Regions**

How are city and regional economies connected? Three general comments can be made on the basis of the existing research literature. First, the majority of all economic activity is concentrated in large cities. Most economic activity in most regions is dominated by what happens in the major or a small number of large cities. Therefore, if you can improve the economic performance of cities, this will have a major impact upon the economy of the entire region.

Second modern service industries are highly concentrated in the central areas of regional capitals. These are often the major growth industries in advanced economies. Modern high-tech industries such as ICT and the life sciences are also concentrated in the centres of regional capitals. So regional capitals tend to be privileged in the new growth industries or are the places where they would typically like to be located. Sponsoring these sectors in cities will also have a disproportionate effect on the competitiveness of the entire region.

Third trading cities have always been the most economically successful areas. Once they were located at river crossings and ports. Now they are located at international airports. Cities are the connecting nodes of the international trading economy. Therefore fostering the efficiency and connectivity of regional capitals provides an economic gateway to the international economy and benefits the whole regional economy. But we can add some specific comments on the basis of our study. First, not all regions across Europe are urban. And there are examples of successful non-urban regions. However, in our study there were no successful urban regions which did not have successful cities at their core. The regions which performed well were those were where the core city performed well - and vice versa. Nor did we find cities that wildly outperformed their region or vice versa. Second in some regions the economic weight of the central city/ies is so large that the GDP of the urban area is often a significant part of the regional GDP and one is actually measuring the same kind of thing. Third, even though many regions are polycentric, outlying areas still depend heavily upon the central city since many of their residents commute to and work in them and the central city provides them with a variety of economic, social and cultural services. Fourth, many of the features that successful modern industries require - innovation, creativity, skilled human capital, access to markets - are the qualities that the urban areas, institutions and residents we studied typically possessed. Fifth, the significance of urban-regional relationship has been recognised by many governments in Europe. For example, much of the thrust of EU policy in the past decade has been to seek improved regional performance by focussing upon the contribution of cities. And many national and regional

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\(^1\) PSA 2: Public Service Agreement 2 – Regional Economic Competitiveness.
governments on the continent have also recognised the contribution that cities make to regional
economic performance.

**Institutional Relationships Between Cities And Regions**

First we are not alone in these concerns. There is great awareness in continental Europe of the
importance of the economic relationships between cities and regions. Everybody recognises that city
administrative boundaries do not correspond with current economic realities and that the wider region
or sub-region needs to be taken into account for long term policymaking. Second there are increased
efforts to devise sub-regional institutional relationships so that cities and their surrounding regions can
work together more efficiently, partly to manage internal issues - economic development, physical
infrastructure, human capital, environment, transport issues - and partly to market their regions
externally. The nature of the relationships ranges from formal to informal. Both approaches have costs
and benefits. Third, these urban-regional relationships are never simple with a range of economic and
political tensions making it difficult to get easy solutions. Fourth, drawing boundaries and deciding
who is in who is out - formally or informally - is not simple. Different cities have worked with
different boundaries. Political realities and relationships are a key consideration. But in many urban
areas there are efforts to build relationships between neighbouring local authorities, or occasionally
between more distant towns and cities, which all emphasise the economic advantages derived from
critical mass and increased collaboration. Working on as wide a scale upon which you can get
political agreement is probably the best advice.

In the UK, the governmental and institutional landscape of regions, cities and neighbourhoods has
changed dramatically in recent years. The result is that the spatial architecture of economic
competitiveness is complex - if not confused - and unstable. Finding the right levels at which to pull
policy levers remains an elusive goal. But the present arrangements in England seem sub-optimal.
This study found that the challenge of getting the right geometry for economic functions and
institutions is as complex in continental Europe. There is no magic bullet. But the evidence from
continental Europe is that increasingly the city is regarded as too small and the region too large a
platform on which to base economic competitiveness. The trend is to develop city-regional solutions,
most often on an informal basis, although occasionally and successfully, on a formal basis.

This suggests that what is good enough for the successful urban economies of continental Europe
ought to be good enough for our under-performing cities. There is an incentive - if not an imperative -
for places to develop and implement strategies, policies and instruments that pull core cities and their
economic hinterlands together rather than apart. This may not be easy when there are fully developed
or developing regional and neighbourhood institutions, strategies and instruments. But all players -
local, regional and national - need to focus upon the logic of this approach. This is already happening
in some RDAs. The process needs to be deepened and widened. All these factors suggest that in order
to achieve improved regional performance and to reduce regional inequality, national policy makers
ought to focus on the relationships between Core Cities and their regions. Core Cities are one of the
key levers to improve regional performance.

**Conclusion**

This study has identified the characteristics of the leading European cities and compared them with
our biggest cities outside London. The evidence is sobering. Despite recent improvements, many of
our provincial cities lag behind their competitors in terms of GDP, innovation levels, educational
levels, connectivity, social cohesion, quality of life, political capacity and connections with their
wider territories. Crucially, they lag in the eyes of international investors. In contrast to their
successful continental counterparts, many English cities are a drain upon national economic
competitiveness. The study has identified a set of key policy messages based upon the experience of
some of the most successful European cities that might help improve our cities competitiveness - and
our regional and national competitiveness. They do not constitute a magic bullet. They are more like
common-sense. But they are not quick. Some - not all - we are already pursuing, if not energetically
enough. However, they are worth pursuing with greater vigour - because the prize is very high.
Further information

Further information is contained in the full report *Competitive European Cities: Where do the Core Cities stand?*, ISBN 1 85112 690 2, Price £14 available from:

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