



## Inclusive Local Economic Development

This paper has been written by the EUKN on behalf of the Danish Presidency of the Council of the European Union (The Ministry of Housing, Urban and Rural Affairs). The paper has been produced for the meeting of Directors General responsible for urban development to be held on 13th and 14th of March 2012 in Copenhagen. On this occasion the paper will serve as inspiration and a point of departure for a roundtable discussions and a related on-site visit in the city of Copenhagen.



### Discussion points

- **What is the level of exclusion of low skilled labour from the labour market of various major cities throughout Europe?**
- **What are the underlying causes of this exclusion? To what degree is the exclusion a short or medium term cyclical phenomenon and to what degree is it a long term structural problem?**
- **What kind of urban policies and programmes at the national level are likely to be successful in creating inclusive, local economic development and combat exclusion?**
- **What kind of urban policies and programmes at the city level are likely to be successful in creating inclusive, local economic development and combat exclusion?**
- **How can innovation be stimulated through an Inclusive Local Economic Development strategy?**



## Executive Summary

Given the 5 main goals of the EU2020 Strategy, Inclusive Local Economic Development is an important policy issue. In the current mode of economic production, human capital and a well-educated labour force have become valuable commodities for which many cities compete. The other side of the coin has been that the segment of unskilled, underpaid, unstable jobs in the service sector is also growing. The people who do them, working for instance in cleaning services, personal services or restaurants, work long hours but form a new class, the working poor, as the remuneration for their efforts is so low.

This huge and growing contrast between the successful and connected members of the 'creative class' and those who for multiple reasons 'missed the boat' is a political challenge to take on, especially in times of crisis. Cities now face the challenge of restructuring their local economies in such a way that it increases their competitiveness and includes a wide spectrum of their labour force. For people to be able to participate in the current knowledge economy, a high level of human capital and inclusion in micro-electronic based technologies and networks are of vital importance.

The current crises have aggravated the challenges associated with local inclusive development, and cities are the level of government closest to the people and businesses who are suffering directly. There are many routes that cities can explore to attract strategic industries: Growth Poles and Multiplier Effects, High Tech Industrial Parks, Clusters, Community Economic Development and City Marketing are all examples. The latest addition, with a focus on 'soft' factors, emphasises the importance of the quality of life, tolerance and arts present in a city: in this logic work follows employees, instead of the other way round.

Whichever path is taken to stimulate the economic vitality of an urban area, the economic vitality of the urban labour force also needs to be maintained. For this reason, the European Commission and the Danish EU Presidency in particular are working to reach a Europe wide balance between flexible employment policies, while also securing a smooth transition between jobs by promoting *flexicurity*. Lifelong learning strategies need to be stimulated, specifically in times of crisis but also in the light of changes that have made a career in a single organization a rarity. In this context, it is in the local and regional context that labour market supply and demand need to be balanced.

E-inclusion is a vital element also, as high quality networks and almost 100% involvement of citizens in these networks greatly empowers individuals and stimulates the economy at large. This means that investment to integrate these networks in the urban fabric is important, as is stated in the EU Flagship Initiative 'A Digital Agenda for Europe'. Also at the local level one can establish in which cities or areas groups at risk of being excluded from the digital society are living, and in which areas social support services need to be implemented to prevent this from happening.



## **Introduction: Inclusive Economic Development in a polarising context**

Inclusive local economic development is one of the main objectives of the Europe 2020 strategy. In March 2010, the European Council adopted the EU2020 strategy with five specific targets for re-establishing Europe on the path to economic growth:

- 75% of the population aged 20-64 should be employed;
- 3% of the EU's GDP should be invested in Research & Development;
- The twenty/twenty/twenty energy targets should be met;
- The proportion of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree;
- 20 million fewer people should be at risk of poverty.

When planning local economic development strategies, an important element relates to the ongoing shift towards a service-based knowledge economy. Within this type of economic production, human capital and a highly educated labour force have become valuable commodities for which many cities compete. Furthermore, this new knowledge economy has a tendency to produce a dual economy, with increasing polarization between a class of well-paid knowledge workers and an underclass of people who lack the skills and resources to participate fully.

Cities face the challenge of restructuring their local economies in such a way that it strengthens their competitiveness and includes a wide spectrum of their labour force. In the face of the economic and financial crises, economic development has become a vital concern for many European cities. Employment figures are falling in many places and sectors, and land values are still declining. Through these issues, the crises have had a considerable impact on low skilled and manual workers, and on the ability of governments of all levels to support local economic development and employment initiatives. In these circumstances, the EU2020 goals mentioned above are still beacons, and require a greater effort to be achieved.

This paper aims to analyse the main threats and challenges to the economic vitality of urban areas, and how inclusive economic growth can be stimulated. Within the theme of Local Inclusive Development, several grand themes are in delicate balance with each other. Local economic strategies, a shift from government to governance, flexicurity and progressing digitalisation are all issues to be taken into account from a spatial point of view as well. A two-way approach will be adopted: on the one hand the focus will be on how to increase the competitiveness of cities, while on the other hand profound attention will be given to policy measures and examples aimed at including the long-term low-skilled unemployed.



## The challenges posed by a globalised knowledge economy

The current crises have aggravated the challenges associated with local inclusive development, and cities are the level of government closest to the people and businesses who are suffering directly. Credit has become very difficult to obtain, the tax base has contracted and land values are declining. Unemployment is rising, though this is very sector specific: where manufacturing and construction activities have been shedding workers on an appalling scale, the service sector has been relatively successful. Across all sectors, however, it has been young people who have suffered the most from this crisis. The effects of the adage ‘last in, first out’, the low costs of firing young employees and the difficulties these relatively inexperienced workers encounter in competing on the labour market are painfully clear from youth unemployment statistics (see figure 1, PM). In countries such as Greece, Spain, Romania and Bulgaria, a brain drain of young people to other EU countries and beyond is taking place.

Unemployment rate of persons younger than 25 years	2007	2008	2009	2010	2011
<b>EU (27 countries)</b>	15.7	15.8	20.1	21.1	21.4
<b>Germany</b>	11.9	10.6	11.2	9.9	8.5
<b>Estonia</b>	10.0	12.0	27.5	32.9	:
<b>Ireland</b>	8.9	13.3	24.4	27.8	28.9
<b>Greece</b>	22.9	22.0	25.7	32.8	:
<b>Spain</b>	18.2	24.6	37.8	41.6	46.4
<b>Netherlands</b>	7.0	6.3	7.7	8.7	7.6
<b>Slovakia</b>	20.3	19.0	27.3	33.6	33.6

Source: Eurostat

### A challenge to all levels of government

Many elements central to the economic vitality of an area (such as fiscal, financial and trade policies) are developed under the auspices of national governments, and are becoming a competence at the EU level as well. Nonetheless, national economic performance is to a significant degree dependent on the performance of the largest cities in each country – the urban dimension is critical in the overall vitality of national economies. As such, cities are in direct competition with other cities, often on a global scale: and so it is vital for urban governments to formulate sound economic policies.

The current economic epoch has been described in multiple terms: a third industrial revolution, a ‘great reset’, or a shift to an information and network society. In this new society and its associated mode of production, the creation, distribution, mixing and manipulation of information have become a main economic activity, with clear political, social and cultural implications as well. For people to be able to take part in this society and economy, a high level of human capital and inclusion in micro-electronic based technologies and networks are of vital importance. Innovative ideas and creativity seem to be the way ahead: “the places that thrive today are those with the highest velocity of ideas, the highest density of talented and creative people, and the highest rate of metabolism” (Florida, 2011).



The other side of the coin has been that the segment of unskilled, underpaid, unstable jobs in the service sector is also growing. Many of the occupations have degenerated into dead-end career steps, in which an individual is required to perform standardised and repetitive tasks. This work gives no opportunity for individuals to develop themselves further, or to use their creativity to obtain a fulfilling and meaningful job. These people, working for instance in cleaning services, personal services or restaurants, work long hours but form a new class, the working poor, as the remuneration for their efforts is so low. This huge and growing contrast between the successful and connected members of the ‘creative class’ and those who for multiple reason ‘missed the boat’ is a political challenge to take on, especially in times of crisis.

It has been argued that the current crisis is rooted in the transition to a knowledge economy. Every mode of production has its effect on the way cities and space are organised, and creates a specific “spatial fix”. However, these fixes can be temporary only: the growing discrepancy between an old mode of production and consumption and altering realities inevitably leads to a crisis and a “reset” into a new landscape. This new landscape leaves society better placed than before: as such, a physical variation of Schumpeter’s process of “creative destruction” takes place.

This new, ideal urban space would do much to attract the input for our new economic model: human capital. This new spatial fix is best reflected in dense neighbourhoods, the ability to move round on foot or by bicycle, by city wide WiFi coverage and high quality public transport modes. These cities will be very green, accommodate a wide spectrum of cultural activities, and a large service sector. However, even local economic development has a clear global aspect, which is clearly and wittily related in the publication ‘The World Is Flat’ by Thomas Friedman (2005). The spatial fix of Europe and the USA cannot exist in isolation from the fixes of other places and economies. David Harvey, who defined the notion of a ‘fix’, argues that “behind the façade of a green, clean and innovating [Western Society] is the true global spatial fix including China’s smokestacks, Dubai’s pleasure domes, and a planet of slums”. The QR code in box 1 is a link to an interestingly animated lecture illustrating Harvey’s interpretation of the current crises – as well as a call to all decision makers to step up to the challenge.

**Box 1** – an alternative view on economic problems and their origin



<http://boingboing.net/2010/07/04/econopocalypse-the-m.html>



## Policy options: trickle down, life-long learning and e-inclusion

As the local economic performance is so central to governments, many studies and strategies have been undertaken with a view to achieving economic development.

### Measures to attract strategic industries

A first set of options that has been explored for decades is measures to draw specific industries (and their associated employment opportunities) into a given city. Many varieties on this theme have been tried and tested, though it has proven impossible to develop a 'one-size-fits-all' strategy. Common sense and adaptation to local specificities are of central importance in stimulating local economic development, but the following 6 ingredients can offer inspiration:

**Growth poles and multiplier effects** – these initiatives have often led to large industrial complexes. With hindsight, many investments in these strategic industries have proven somewhat disappointing, concentrated on heavy industry developments.

**High Tech Industrial parks** have had their heyday too – though it is clear now that not every city (at least not those without a major research university and competitive costs) can successfully establish this type of development.

**"Clusters"**, as promoted by Michael Porter, are en vogue still: the key to success within this strategy is to select a cluster in which a city feels it has a competitive advantage, and further to develop this sector through targeted investments. A pitfall to this approach is however that clusters which are successful today may not perform as well in the future – and that the selected cluster needs to match endogenous economic developments.

**"Community economic development"** is another policy option that has been explored, and is based on initiatives by locals themselves. They too become responsible for encouraging the right businesses to settle there by means of attractive loans or tax breaks. This concept is popular still, as it fits well with the current shift from 'government' to 'governance'. It is however hard to ascertain to what degree 'additional' jobs would not have been created without the intervention of local business-development corporations.

A 5<sup>th</sup> main strategy has been, and still is, **City Marketing**: a powerful brand can attract companies as well as human capital-rich inhabitants. The main lesson learned has been that the message of the brand must be based on qualities that inhabitants as well as outsiders can relate to.

**A focus on 'soft' factors** has been the newest addition to these policy options: quality of life, tolerance and the arts. While the policy options summarised above all operate from the assumption that ① strategic industries ② generate employment that ③ attracts people – now the theory goes that by ① developing a high quality, amenity rich urban space ② highly educated and talented people can be attracted who are ③ followed by strategic employers. This direction of causality is a main source of criticisms of course: "does a vibrant cultural scene *cause* local prosperity, as Florida's view on it goes, or is it a *consequence* of local prosperity"?



### The Copenhagen Carlsberg area

In 2006 Carlsberg decided to move the production of beer from Copenhagen to Fredericia 200 km west of the capital. More than 160 years of brewing had come to an end, and the door opened to a totally new use of the site which lies in the heart of Copenhagen and covers an area of more than 300,000 square meters (75 acres). The site's history and location present a clear opportunity to create a new city quarter which will arouse international attention and attract visitors from all over the world.

In total, 3.000 homes are being built - all varying in size, shape and form of ownership - hereby ensuring homes fitting all age and income groups.

To support and ensure diversity Carlsberg will construct 300 decentralized affordable homes in accordance with the model being applied in the municipality of Copenhagen. The City of Carlsberg is going to contribute to and support a society where people with different backgrounds will be able to live peacefully side by side and find themselves at home in a multifunctional, dense, modern city, that borrows elements from the old city.

### Measures to ensure a smooth transition between different occupations

Over the past decennia, it has become less and less usual to spend one's whole working life with one and the same employer. In fact, a rigid contracting system that would be implied by this way of life is having a negative effect on competitiveness and innovation. For this reason, the European Commission and the Danish EU Presidency in particular are working to reach a Europe wide balance between flexible employment policies, while also securing a smooth transition between jobs by promoting *flexicurity*.

In a global context, forces exerted by the market are governing relations. The European social model has its own reading of market relations which supports businesses but also individuals. Flexicurity is an integrated strategy to enhance flexibility for employers and security for employees on the labour market at large. This security is based on training and retraining programmes, in order to keep skills up-to-date. This means that individuals can connect to the labour market in multiple ways, while they also receive unemployment benefits if for a period of time no employment can be secured.

A flexicurity strategy impacts on four related policy fields:

1. Flexible and reliable contractual arrangements;
2. Comprehensive lifelong learning strategies;
3. Effective active labour market policies;
4. Modern social security systems providing adequate income support during employment transitions.

According to the European Commission, these measures help to create a more inclusive labour market, and can be targeted to offset the polarising characteristics of the information and knowledge society. However, 'some critics regard the flexicurity model as a Trojan horse designed to abolish work protection', to deregulate labour markets and to weaken industrial relations. In addition, Trade Unions have voiced concerns about the interpretation of the concept, which in practice focusses



overwhelmingly on the flexibility aspect, while largely neglecting the issue of security. A clearly balanced approach to the subjects is vital to its acceptance.

### **Measures to achieve the digital inclusion of all citizens**

A final policy option that urban planners need to take into account is that for optimal economic development and inclusion, a high quality digital infrastructure needs to be in place throughout the city. A related matter is that all citizens need to be able to use internet-based facilities. Digital communication can be a powerful tool to include citizens in local economic development, but has a highly excluding nature as well, as Manuel Castells detailed in his seminal work on the 'space of flows'.

The decision to connect some areas in the city to higher quality networks than others has real consequences for the people living and working in these areas. For that reason, it entails a political decision about economic growth and equality in the city: a focus on the most competitive area, or an emphasis on the inclusion of weaker segments of society?

The EU2020 Flagship Initiative "A Digital Agenda for Europe" stresses these issues as well: "[t]he digital era should be about empowerment and emancipation; background or skills should not be a barrier to accessing this potential". About 30% of Europeans do not use the internet, and in practice it is particularly people on low incomes, the unemployed, the poorly educated, the disabled and elderly people who have no access. In the Draft Regulations of the European Social Fund (2014 – 2020), the promotion of digital literacy and competences has been prioritised, and local areas can benefit from these funds.

The FP7 project Maseltov (Mobile Assistance for Social Inclusion & Empowerment of Immigrants with Persuasive Learning Technologies & Social Network Services) is an interesting example of a way to stimulate the inclusion of a vulnerable societal group. Maseltov recognises the major risks for social exclusion of immigrants from the European information society and identifies the huge potential of mobile services for promoting integration and cultural diversity in Europe. The project researches and develops novel ICT instruments in an interdisciplinary consortium with the key objective being to facilitate and foster local community building, raising consciousness and knowledge for the bridging of cultural differences. For further information about this ongoing project, you can visit <http://www.maseltov.eu/>.





## **Conclusion: Inclusive economic development requires enabling measures**

In the local urban fabric, social, political, cultural and economic aspects of daily life converge, and each of these spheres plays its part in achieving Inclusive Local Economic Development. Each city has experienced the economic and financial crises in a different way, but even in relatively positive circumstances supporting a vibrant and inclusive local economy requires dedicated policy. Especially so in the current service-based knowledge economy, in which the contrasts between a well-paid class of knowledge workers and an underclass of low skilled individuals tend to aggravate. Due to economic constraints, a newly disadvantaged group is young people, who are for various reasons finding it hard to connect to the economies all over Europe.

When it comes to the economic vitality of cities, it is impossible to present a 'one-size-fits-all' development model. Many policy options exist and have been experimented with, and different accents can be brought out according to the political angle from which the topic is approached. The general shift from 'government' to 'governance', however, necessarily includes delivering tools to citizens to enable them to participate in an economy based on this philosophy: inclusive local economic development requires the localized planning of linking up individuals with the global economy in which they need to perform.

E-inclusion is a vital element, as high quality networks and almost 100% involvement of citizens in those networks greatly empower individuals and stimulate the economy at large. This means that investment to integrate these networks in the urban fabric is important, as is stated in the EU Flagship Initiative 'A Digital Agenda for Europe'. It is also at the local level that it can be established in which cities or areas groups at risk of being excluded from the digital society are living, and in which areas social support services need to be implemented to prevent this from happening.

Furthermore, lifelong learning strategies need to be stimulated, specifically in times of crisis but also in the light of changes that have made a career at a single organisation a rarity. It is in the local and regional contexts that labour market supply and demand need to be balanced. Flexicurity can be an integrated strategy to create flexible employment rights, while upgrading the skills of employees throughout their working life to maintain their links to an evolving labour market.

Research has shown that work is of significant value on a personal as well as a society level. Self-development, emancipation, integration, security, happiness and wealth creation are all central outcomes of employment: a stronger argument for having Inclusive Local Economic Development on the political agenda cannot be made.



## Interesting further reading

- The World is Flat: A Brief History of the Twenty-first Century. T. Friedman (2005).
- The Information Age Trilogy. M. Castells (1996 – 1999).
- The Great Reset: How New Ways of Living and Working Drive Post-Crash Prosperity. R. Florida (2010).
- Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier. E. Glaeser (2011).
- The Enigma of Capital And the Crises of Capitalism. D. Harvey (2010).
- Life at the Bottom: The Worldview that Makes the Underclass. T. Dalrymple (2001).