Lessons from successful ‘turnaround’ cities for the UK

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May 2023
Navigating Economic Change

As the UK is buffeted by the economic shocks and challenges of the 2020s, The Economy 2030 Inquiry, a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics (LSE), funded by the Nuffield Foundation, is publishing a series of essays examining how policy makers from a range of advanced economies, including the UK in the recent past, have managed periods of disruptive economic change. As we seek to reformulate the UK's economic strategy for new times it is vital that we learn the lessons of these comparative and historic perspectives.

Some consider the trajectory of a national economy following a major shock – for instance, Germany after unification, New Zealand after the UK joined the European Community, Estonia post-USSR and the UK during the tumultuous 1980s. Others examine the experience of particular cities – for instance a group of post-industrial 'turn-around cities' - or the adjustment of key features of a national economic system, such as Danish ‘flexicurity’. Together they offer a powerful and timely set of insights on the successes and failures of economic policy makers in the face of economic shocks and structural change.

The essays are written by a range of leading economists and national experts and reflect the views of the authors rather than those of the Resolution Foundation, the LSE or The Economy 2030 Inquiry.

They have been commissioned and edited by Gavin Kelly (Chair of the Resolution Foundation and member of the Economy 2030 steering group) and Richard Davies (Professor at University of Bristol and fellow at the LSE's Centre for Economic Performance).

The Economy 2030 Inquiry

The Economy 2030 Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, funded by the Nuffield Foundation. The Inquiry’s subject matter is the nature, scale, and context for the economic change facing the UK during the 2020s. Its goal is not just to describe the change that Covid-19, Brexit, the Net Zero transition and technology will bring, but to help the country and its policy makers better understand and navigate it against a backdrop of low productivity and high inequality. To achieve these aims the Inquiry is leading a two-year national conversation on the future of the UK economy, bridging rigorous research, public involvement and concrete proposals. The work of the Inquiry will be brought together in a final report in 2023 that will set out a renewed economic strategy for the UK to enable the country to successfully navigate the decade ahead, with proposals to drive strong, sustainable and equitable growth, and significant improvements to people’s living standards and well-being.
Acknowledgements

The work on turnaround cities was funded by the Lincoln Institute of Land Policy, Boston as part of the project entitled “Local Land Market Regulations and Land Use Planning Systems and the Use of Derelict Land in the UK: A Study of the Tees Valley and Sheffield” undertaken by a joint team comprising researchers from the Universities of Oxford, Manchester, Sheffield, the UK2070 Commission and the Lincoln Institute of Land Policy in Boston. Thanks are due to Dr Armando Carbonell from the Lincoln Institute. Both Kate Penney and Philip McCann were at the University of Sheffield for the duration of the project, and both have since moved on to The Productivity Institute at the University of Manchester prior to the time of writing of this RF UK 2030 report.
1. Introduction

What are the necessary ingredients for a city to reverse long-term economic underperformance and move towards a new trajectory? Improving the economic prospects of post-industrial cities in particular has long been a pressing issue in the UK and beyond. In the UK's post-Brexit era, against the backdrop of ongoing debate about ‘Levelling Up’, there is a vigorous discussion on this issue even if it hasn’t translated into meaningful policy action.

This paper seeks to shine a new light on this issue by learning lessons from abroad. It examines the characteristics of seven turnaround city-regions across five countries which have all faced severe economic shocks but have managed to break away from the resulting cycles of decline and transition to a more successful development path. These cities are Dortmund and Duisburg in Germany; Bilbao in the Basque Country of Spain; Lille, in northern France; Newcastle in New South Wales, Australia; Windsor in Ontario, Canada; and Pittsburgh in Pennsylvania, USA. Importantly, the experiences of these turnaround cities provide insights into the challenges facing the UK’s Levelling Up agenda and the governance reforms required to increase its chances of success. The individual details of each city are complex, but in the next section, we provide pen-portraits of each city and its turnaround experience. The third section then sets out six common themes emerging from these case-studies which are instructive for the challenges facing UK city-regions. The fourth section suggests five changes which are required to help city-regions in the weaker parts of the UK prosper. The fifth section discusses the endemic barriers in the UK’s governance systems and the key aspects of the system which need to be reformed to take on board the lessons from the turnaround cities.

2. International examples of 'turnaround' cities

All the seven cities discussed here suffered major deindustrialisation shocks between the 1960s and 1990s, and in each case the populations of the cities declined for several decades. However, over the last two decades, various aspects of their economies have slowly started to improve. As shown in Table 1, in comparison to their respective national trends, local unemployment rates have improved in Newcastle, Windsor, Pittsburgh, Lille and Bilbao, and participation and activity rates have increased in all cities except Lille. At the same time, productivity levels have improved in Windsor, Pittsburgh, Dortmund, and Bilbao and remained steady in Newcastle, Lille and Duisburg. More widely, these cities been building reputations as places that intentionally aim to ‘turn around’ by developing better governance and institutional arrangements for private sector investment.
Navigating economic change | Lessons from successful ‘turnaround’ cities for the UK

<table>
<thead>
<tr>
<th>City</th>
<th>GDP per Capita 2001</th>
<th>GDP per Capita 2020</th>
<th>Population Growth % 2001-2020</th>
<th>Unemployment Rate 2001</th>
<th>Unemployment Rate 2020</th>
<th>Participation Rate 2001</th>
<th>Participation Rate 2020</th>
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<td>11.4</td>
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<td>Spain</td>
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<td>58.2</td>
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Notes: All data except for Dortmund, Duisburg come from OECD Metropolitan Urban Database using the OECD Metropolitan Urban definition. Dortmund and Duisburg are incorporated into the broader Ruhr region, so the figures reported here for these cities come from the OECD-TL3 regional definitions in the OECD Regional Datasets.
SOURCE: OECD Metropolitan Urban Database; OECD Regional Datasets; US Bureau of Labor Statistics;
GDP values in US$, PPP; 2015 prices

In each of our case studies the fortunes of the city in question needs to be put in the context of the wider sub-central government structure which, are all very different to the UK’s governance system.

For instance, in cities such as Dortmund and Duisburg in Germany state-level finances, together with legal and planning powers, are highly significant – at the same time as the national interregional...
Navigating economic change | Lessons from successful 'turnaround' cities for the UK

system of fiscal stabilisation and transfers is very strong. This provides a powerful fiscal and institutional backdrop for turning around cities, in that the lines of communication between decision-making at the city and state level are very short, and state-level institutional, organisational and financial capabilities are very significant. The result of this institution-building process, along with substantial interregional transfers, is that Germany is now far more inter-regionally equal than the UK. As we move through each of these case studies it is important to keep this wider system of sub-national governance in mind.

Dortmund, Germany

Dortmund, a city of some 600,000 today, is in the former steel and coal heartland of the Ruhr region. It lost most of its heavy industry jobs between the 1960s and the 1990s, and over time service industries have grown (especially logistics, ICT, financial services and other technical and scientific activities). As part of the effort to turn the city around in 1999 the ‘Dortmund-project’ was launched - initiated by a public private partnership between the steel company Thyssen-Krupp and the City of Dortmund and supported by the consulting firm McKinsey. In 2000 the strategy was approved and adopted by the City of Dortmund and later fully integrated in the Economic Development Cooperation of the city. The overall ‘Dortmund-project’ was financed by a mixture of city funds, Länder² funds, EU regional development funds, and private funding. Combining traditional economic development policies with urban development projects, the Dortmund-project was designed to make the city attractive for both employers and employees. The strategy had four main pillars: (i) a strategic focus on selected industries; (ii) land, infrastructure and business service development for the priority sectors and the development of a liveable city; (iii) targeted human resource development; and (iv) internal, national and international investment promotion to change Dortmund’s reputation and make it internationally more known.

Dortmund emphasised local entrepreneurship in its redevelopment with the start-up competitions “start2grow”, which still exist today, with two competitions initially focused on priority sectors while the third was open to all sectors. These competitions support participants throughout their journey in the development of business plans as well as through accessing financing, aided by a network of 600 mentors and coaches with expertise in different areas. At the same time, the redevelopment of large brownfield conversions from former heavy industry sectors provided new business infrastructure and upgraded the quality and attractiveness of the environment. The development and regeneration of the city centre was prioritised, with support for the retail sector and the promotion of the centre as a hub for the arts and creative industries. Skills upgrading programmes directly linking young people to potential employers were also seen as being essential. A locally designed two-year IT degree system involving many local further and higher education providers in conjunction with the local Chambers of Commerce was established. Finally, a series of roadshows and strategic partnerships allied with a communications campaign targeted national and international investors.

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1 A Carrascal-Incera et al., UK Interregional Inequality in a Historical and International Comparative Context, National Institute Economic Review 253, July 2020.  
2 The German state has a federal political structure with a three-tier system of sub-national government, at which the highest level are the 16 regions, the so-called Länder; each Land has its own legislative, executive and judicial body.  
4 https://www.wirtschaftsfoerderung-dortmund.de/kuendung/start2grow
The development of a new preparatory land use plan was initiated in the year 2000 and approved in 2004, and this helped to tie all these various policy fields together. The oversight of the plan development and deployment involved a steering committee comprised of stakeholders from many walks of life, and direct lines of communication to both the city mayor and the Länder minister were essential to ensure high-level political buy-in. These activities were bolstered by the involvement of the local saving bank, the Stadtsparkasse, which re-adjusted its departments and services to reflect the new focus on the priority sectors and set up a specific venture capital fund in 1999 to close the funding gap for local start-ups.

**Duisburg, Germany**

Duisburg, a Ruhr city of 500,000 people, was also badly affected by the structural changes to heavy industries since the 1960s. Unlike Dortmund, however, Duisburg is still somewhat dependent on these sectors and struggling to diversify away from its industrial legacy. Over the last four decades Duisburg has implemented several initiatives to attract new business and raise employment levels. A priority focus has been on the logistics sector, and a modern logistics hub has emerged through a concerted and collaborative effort between different levels of government. Today, Duisburg is one of the most important logistical hubs in Central Europe with employment in firms related to the port, including logistics activities, having increased more than 2.5-fold over the last 20 years.

Duisburg has also been a pioneer in urban regeneration, turning derelict brownfield sites into places for modern living, entertainment, and work. Restoring a sense of local identity and pride in the city was underpinned by a programme aimed at regenerating the city landscape through large-scale redevelopments of the vast amount of derelict industrial sites. Architectural exhibitions at the state level showcased new ideas and visions for the city over a sustained period of ten years, and key arenas of transformation included areas of parkland and the inner port area.

The city’s economic development strategy, entitled ‘Impulse.Duisburg’, was approved in 2001 and has undergone several changes over time. The strategy’s main objective has been to promote the diversification of the economy away from its reliance on steel and coal, and to develop specific locations within the city for different sectors. The policy shows the importance of integrated strategies. While the highly successful support for the logistics sector was comprehensive and included the provision of infrastructure, skills development, international promotion and start-up support, diversification into other sectors proved more challenging with the support being focused mainly on infrastructure. The city also established the start-up competition ‘StartUp Duisburg’ in 2005, in collaboration with the University DuisburgEssen, the local saving bank ‘Sparkasse Duisburg’ and other local partners. Since 2007, the Impulse.Duisburg programme has been embedded in a more comprehensive city land use plan and development strategy. As with Dortmund, the financing for the various development programmes has come from a mixture of city, Länder and EU funds, as well as private sector contributions, reflecting a multi-level governance approach to addressing these problems.

**Bilbao, Spain**

The city of Bilbao, with a population of 350,000, is part of the wider Basque Country region of Spain with a population of 2.2 million. Although it is not officially a federal country, Spain operates largely as a federal system. In effect the large regional ‘Autonomous Communities’ operate like individual
states or provinces in federal countries, with their own revenue-raising powers. As with Dortmund and Duisburg, the Basque Country initially built its modern wealth on the heavy industries of steel and coal. However, in the post-Franco era, since gaining high levels of governance autonomy the Basque government has pursued a policy of economic restructuring aimed at promoting balanced social and economic development. This approach has been underpinned by close co-operation among all levels of government and between public and private sectors. Over four decades the Basque government has deployed a ‘cluster’ logic to support and upgrade existing industries alongside the gradual diversification of the local economy to related and more knowledge-intensive sectors. It has also focused on the overall regeneration of the lived environment, including key cultural and heritage assets, with the Guggenheim the most notable example.

The cluster development agenda has been focused on two overarching objectives: namely, the promotion of R&D activities within firms and the establishment of non-profit technology centres which complement firm internal R&D and facilitate knowledge transfers and learning. Multiple programmes to improve the technological and innovative capacities of existing firms were essentially funded by the state government. The underlying idea was to move away from top-down to bottom-up policies in which cluster associations articulate the needs of the different sectors themselves.

In parallel with industrial and innovation policies, the city of Bilbao embarked on a series of urban regeneration projects from the early 1990s. Bilbao embraced a cultural-led and project-led approach to urban planning with the aim of improving urban competitiveness within the framework of a new 1989 city master plan. This had three main principles: a proactive stance on land management and spatial planning; embedding spatial planning within the wider discussion on strategic city development; and a focus on large scale redevelopments and infrastructure projects. The new master plan prioritised the reclamation, redevelopment and repurposing of derelict former industrial sites as places for the expansion of new economic activities, along with mixed-use areas with housing, offices and commercial activities. This was supported by a focus on large scale emblematic urban development and infrastructure projects to stimulate the re-emergence of the city, and to raise the profile of Bilbao on the national and international stage.

**Lille, France**

Lille, with a population of around 230,000, is in the heartland of the largest former coal-mining region in France, and France’s former largest textiles producing region. Technological change meant that the region began to suffer severe deindustrialisation between the late 1960s and 1980s. By the 1990s the Lille region had amongst the highest levels of unemployment and population decline in all of France. The city still struggles with the consequences of deindustrialisation, but over the last three decades, important economic progress has been made. Today, Lille is home to France’s third largest centre for service industries, with new sectors having emerged based on the city’s strategic position and the existing capabilities found around the traditional sectors and the university. The financial industry has an important hub in Lille with more than 70 credit institutions and another 80 firms within insurance, private equity and other financial services providers present. Clusters for the mail order and large-
scale retail sectors have also developed with a range of auxiliary industries such as logistics, graphics and advertising anchored around it.\(^8\) In addition, a mix of research labs have been established around the university and some of the traditional sectors.\(^9\)

Over the last thirty years, Lille's strategy for recovery revolved around making the city more attractive for its current and prospective residents and making its economy more competitive. Enhancing liveability and competitiveness were understood as being two parts of the same challenge, both essential for bringing about wider urban renewal. At the core of this strategy was to leverage its newly enhanced strategic position between Brussels, London and Paris after its connection to the TGV Nord line in 1993 and the Eurostar in 1994 and to develop Lille as a new tertiary hub in the North-East of France. The Euralille development agenda promoted a new mixed-use area including green spaces, housing and an international business centre. Its construction started in 1990 on 114ha of former railway land in the city centre between the old and the new train station, and the subsequent Euralille 2 and the Portes Valetiennes projects further extended the area, converting Euralille into the third largest business quarter in France. The zone is still being developed with the Euralille 3000 and the St Saviour projects under construction. Euralille 3000 aims at improving the quality of use of the Euralille complexes by offering a more appealing mix of shops, housing and restaurants. The regeneration of Lille is not, however, only about this development. There was a complementary tripartite focus on competitiveness, culture, and urban renewal. Lille took advantage of the central government-funded competition poles (‘pôles de compétitivité’) programme, alongside a locally driven sites of excellence (‘sites d’excellence’) programme. These initiatives focus on driving innovation in fields such as advanced textiles, transportation and logistics, food, healthcare, e-commerce, financial services and creative industries.

Lille also aimed to create a denser inner city - reducing further urban sprawl. Traditionally, a lot of the housing stock in Lille was in the form of single houses (typical of nineteenth century industrial housing). To counter this trend, the city imposed an explicit aim to develop two thirds of new housing within the existing city limits rather than allowing a further extension of the city as well as imposing a minimum density requirement on new developments. The conversion of centrally located brownfield sites into mixed use areas including housing played an important role.

In addition, Lille employed the development of the cultural sector as an important policy tool. The 2004 European Capital of Culture award provided the initial cornerstone in this strategy and is frequently considered as key moment in Lille’s transformation process. Initiatives aimed at enhancing cultural and creative assets and associations have run alongside the rehabilitation and upgrading of heritage buildings and spaces.

Lille’s redevelopment agenda was given a tailwind by institutional reforms in the wake of France’s effort to decentralise governance from the 1980s. Today, France’s system is composed of 18 regions with an average size of five million inhabitants, 101 departments and over 35,000 municipalities. The French devolution agenda afforded local leaders covering large regions with greater powers and resources to make decisions. The institutional fabric in Lille, and in particular the efforts to create a coherent metropolitan governance system, have been an important driver in the city’s development over the past three decades.

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A combination of factors have been key for Lille's transformation. The widespread regeneration of derelict industrial sites in central locations, cultural regeneration, housing policy focused on densifying inner-city areas, an economic development backing specific clusters, and an institutional and governance set-up conducive to stronger local leadership, have all played their part in turning around Lille. The city’s population, population density and levels of prosperity are once again all rising.

Newcastle New South Wales (NSW), Australia

The city of Newcastle, New South Wales (NSW), with a population of around 170,000, is a former coal and steel centre. Most of the local steel industry has closed, and although Newcastle is still one of the world’s largest coal exporting ports, the global move away from coal generated power means that this era of Newcastle’s economic history is coming to a close. Over recent decades the numbers of people working in these sectors has shrunk dramatically, and the city has had to reinvent itself. The closure in 1999 of the largest steelworks spurred a community-led response in which the community leaders of Newcastle came together to form a joint Common Purpose Group tasked with articulating a common vision for future economic development. The 1999 economic development strategy consulted hundreds of business and community leaders in its formulation, ensuring that the future strategic development of Newcastle was driven by the community agency. The priority emerging from the community vision, was to make Newcastle a more liveable city through greening and tree planting alongside job creation and diversification of the economic base.

The renewal of the urban fabric was framed in the context of the strategic direction provided by the NSW government. The 2012 planning strategy, that laid out the strategic framework of land use in Newcastle, was drawn up by the NSW government and prepared by the Director-General of the Department of Planning & Infrastructure under State Environmental Planning Policy. The ambition of the strategy was for creating new homes, new buildings for businesses, desirable open spaces, and transport connections, while emphasising heritage and liveability, with the harbour a focal point for regeneration and modernisation. The intention here was to transition Newcastle so that it can attract the post-industrial economic drivers, and the 2012 planning strategy is still the foundation of development planning despite changes in political parties. The University of Newcastle became active in contributing to planning for the city, engaging with community groups and conducting studies such as a skills analysis for how the city could best position itself for future economic development. An expansion of the University’s presence in business and law in the city centre, and especially in the redeveloped areas where new business was being targeted, became a key element of the plan.

Land contamination associated with the former heavy industries has been a serious obstacle to redevelopment, and rehabilitating land into new activities has been central to the aims of the Newcastle turnaround. Many different actors and institutions have been involved in this turnaround process, and alongside local government and the private sector, the involvement of the NSW State government in the process has been key, with the state able to create agencies with the authority to drive land use developments. In particular, the State government established, and then further upscaled, a Development Corporation as a local public development body with both funding resources and statutory powers responsible for undertaking a wide range of tasks related to regeneration and infrastructure provision.

These powers were also backed up by the State appointing a specific minister with responsibilities to oversee the transformation process. Infrastructure funding was facilitated by the engagement of ‘asset recycling’, the selling-off of existing government owned assets at high prices to fund new projects, and the NSW state government undertook the financial management of the process. Asset recycling is a way to ensure that infrastructure growth is not achieved with budgetary expansion driven by debt, and in 2012 New South Wales passed the Fiscal Responsibility Act (FRA) in order to ensure the state retained a triple-A credit rating whilst engaging in an infrastructure boom.

Meanwhile, the cluster development at Newcastle Airport will be partly nurtured in the future by a Special Activation Precinct (SAP), which is an instrument that assigns opportune land from its existing designation to development status and streamlines the planning regulations for future developments. The support services for businesses in a SAP include a development concierge, to coordinate business growth synergies and opportunities. In the case of Newcastle NSW, higher level financial management was allied with development planning and policy actions, in a genuinely multi-level governance approach.

**Windsor, Ontario Canada**

Windsor, Ontario, is a mid-sized city of approximately 230,000 people, directly across the Detroit River from the City of Detroit. Windsor's economic fortunes were closely tied to those of Detroit, as Windsor was the automobile components and manufacturing centre in Canada, supplying directly into the Detroit economy. As its larger neighbour suffered repeated economic shocks, these headwinds also buffeted Windsor, which has suffered ongoing employment declines since the mid-2000s.

The federal, provincial and municipal levels of government all cooperate on regional development in Canada, reflecting the nature of their constitutional responsibilities. The Federal government has been a key partner in stimulating investment in Windsor, especially with large projects that develop land and provide infrastructure, including the new bridge development. Overall, effective multi-level governance has been central to Windsor's economic improvement.

Windsor has also benefitted from strong and stable local leadership. Windsor was an early adopter of the Community Improvement Plans (CIP) instrument, which encouraged private sector investment into the city. A CIP allows a city to take a variety of measures supporting local businesses that would ordinarily be prohibited by Ontario's Municipal Act 2001, including the acquisition, improvement or disposal of land and buildings, and the provision of grants to owners or tenants of land, all in the service of community regeneration. The CIP provides financial incentives via the removal of property tax levies, to encourage new investment in targeted economic sectors aimed at diversifying the local economy and creating or retaining jobs.

In terms of the urban transformation, much of the focus of this work centred on rehabilitating brownfield sites across the city, with the regeneration of the downtown riverfront into a waterpark and leisure space a focal point. Improvements in liveability has been achieved through the creation or upgrading of public amenity green spaces and heritage areas, increased walkability and limited vehicle traffic streets, along with increased public transit options. Meanwhile, a concerted effort between

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the city, the province, education providers and industry associations, aimed at increasing Windsor’s innovation capabilities in automotive-related technologies has been underway for more than a dozen years. It has recently been rewarded with the March 2022 announcement of a $5bn investment into Windsor to build the largest battery plant in North America, run by the Dutch automotive company Stellantis, partially funded by incentives provided by federal and provincial governments.

**Pittsburgh, Pennsylvania USA**

Pittsburgh is an example of a city successfully adapting to changing circumstances with a strong sense of community that leverages impressive assets. The challenges facing steel and coal production meant that by the late 1970s Pittsburgh was a city in disastrous decline, and a fundamental change of approach to policy was warranted. From the 1980s and 1990s onwards Pittsburgh developed a pro-active approach to turning around its fortunes. The ‘Pittsburgh model’ became something of a template for the development of cities around the world, as it combined business interests with not-for-profit community organisations and research institutions. It involved meaningful cooperation between federal and state government as well as powerful private sector players within and outside the city. Mayors also played an important part in leading the transformation, with leaders such as Tom Murphy and Bill Peduto having a vision for success and the long-term commitment to investment in the city’s future.

A combination of federal, state and mayoral investment and support has been key to Pittsburgh’s development. A green environment and connective transport infrastructure was built into city planning and Pittsburgh’s Urban Redevelopment Authority championed the cause of improving inner-city areas, so they became attractive for families to move into as well as businesses. Alongside this, the development of key partnerships with research universities helped the city to retain some of the skilled graduates it produced. Tax increment financing and city bonds also enabled the construction of major infrastructure projects and helped attract the likes of Uber and Google to base themselves in the city.

In the 1980s the role played by community organisations in development grew in Pittsburgh. Community Development Corporations (CDCs) are not-for-profit organisations that produce and rehabilitate real estate for housing and economic development, and they were a prolific actor in the USA during the 1970s and 1980s before falling out of favour in many parts of the USA, halving in number by the turn of the Millennium. However, in Pittsburgh CDCs remained a strong force as a result of robust state, private and philanthropic support.

In addition to this effective multi-level governance, Pittsburgh has also taken advantage of legislation which allows it to take the initiative without higher-level permissions where it deems is the decision beneficial for its own interests. Home Rule Charters are permitted in the Pennsylvanian constitution by adoption through a referendum and they give the city the ability to engage in actions such as the raising of taxes. One of these actions was to require local pension funds to invest a greater share of

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14 Uber opened an advanced research and development centre in Pittsburgh and Google’s office in the city is a tech hub for hundreds of staff working on engineering and product management.

15 US states have authority over any area not reserved to the federal government and in turn, due to the Pittsburgh Home Rule Charter approved in 1974, the City of Pittsburgh does not need to seek permission from the Pennsylvanian state capital for actions that are not reserved to the State.
their funds locally in entrepreneurial start-ups. In addition, Pittsburgh spearheaded a programme to engage its own Pittsburgh diaspora across the USA and internationally, particularly those working in the financial markets, to help develop the local entrepreneurial investment community.

For the last decade the Pittsburgh Urban Initiatives (PUI) has been stimulating investment in areas of Pittsburgh that need regeneration through federal tax incentives. New Market Tax Credits were established by Congress in December 2000 that allowed Community Development Entities (CDE) to exchange tax credits with investors, such as local bank PNC, to back investment in business projects in distressed communities. The PUI, like all CDEs, competitively bids for award of tax credit allocations and has won $243m of credits across seven rounds. 30 projects have been carried out in Pittsburgh using the PUI’s tax credits, leveraging $700m in additional investment.

Pittsburgh also explicitly aimed to increase graduate retention levels. With institutions such as Carnegie Mellon University, the University of Pittsburgh and Point Park University, Pittsburgh has produced plenty of talent, its challenge has been retaining it. To address this problem, since 2004, Pennsylvania has operated a major ($60m per annum) incentive programme of tax credits for firms in the media sector, which helps attract and retain graduates of media and related fields such as motion capture, robotics, graphics, and programming. Indeed, Pittsburgh is the origin of the ‘creative class’ thesis advanced by economic geographer Richard Florida who was involved in the early generations of these programmes. Across the board, visionary leadership and imagination have been essential features of Pittsburgh’s turnaround, along with the requisite governance powers enabling leaders to coordinate development across a range of fronts.

3. Common themes for ‘turnaround’ cities

These seven ‘turnaround’ cities differ in many respects in that their governance, institutional and national contexts heavily shape their individual experiences. However, we identify six common insights and lessons which can be gleaned from their diverse stories.

First, there is a clear complementarity between urban and economic development strategies. One of the key challenges for firms locating or growing in declining or economically weaker locations is their ability to find people with the right skills set. At the same time, local people – and often especially those with higher qualifications – tend to move elsewhere in pursuit of more attractive employment opportunities. Cities and regions need to become attractive for employers and employees alike to generate successful turnarounds. Bilbao, Dortmund, Newcastle, Pittsburgh and Windsor all show this parallel approach, focusing on improving the attractiveness of the city environment, especially for high skilled workers and families, as well as for firms. Dortmund had a clear strategy for “liveability,” involving regenerating the city centre and building carefully placed mixed-use spaces, and a housing strategy focused on retaining and attracting young families. Similarly, Duisburg was at the forefront of multi-layered urban regeneration from the early 1990s and has invested significant amounts in the social and physical modernisation of the city in parallel to its economic promotion activities. Improving the quality of living was seen as being essential for attracting and maintaining a skilled workforce.

Second, comprehensive strategies for the promotion of the local economy are more effective than piecemeal and ad hoc approaches. Firms require complex ecosystems in which to flourish, comprising

16 Defined as a neighbourhood with a 20 per cent poverty rate and where median earnings are 80 per cent of those in the wider area.
elements such as access to finance, a skilled workforce, a conducive business environment and the right infrastructure among others. Too many local economic development strategies have been biased towards one of these elements, leaning too heavily on (say) infrastructure or tax incentives, rather than developing a truly integrated and cohesive strategy. This impedes effectiveness. The case of Duisburg is instructive here, illustrating both what works and what doesn’t. The highly successful support specifically for the logistics sector was comprehensive, including provision of infrastructure, skills development, international promotion and start-up support; by contrast, when the focus of policy was diversified into other sectors, the support was narrower, mainly concerning infrastructure, and it worked less well. Dortmund’s successful strategy is also telling it integrated hard infrastructure development with other ‘softer’ measures such as training, business services, investment promotion and the establishment of local investment funds, specifically designed to foster local innovation and entrepreneurship.

Third, successful strategies are built upon a region or a city’s existing strengths rather than building ‘cathedrals in the desert’. While this is intuitive, too many local and regional development strategies still aim to attract industries for which the requisite pre-conditions are simply not in place. But Bilbao, Windsor and Pittsburgh all shrewdly focused on enhancing the scientific and innovation-led features of their economy, building around existing core competences. In the case of Duisburg, the successful development of the logistics cluster was facilitated by the favourable starting point of that sector. In contrast, the choice of other target industries lacked a similar foundation to build on and hence support measures were less effective. Dortmund’s strategy also took an approach of ‘strengthening the strengths’, focusing on those sectors in which Dortmund was starting out with clear, pre-existing comparative advantage. It is important to note, however, that identifying very narrowly defined priority sectors is notoriously difficult. Even in the successful Dortmund case, not all the target sectors realised the envisioned growth potential, while some other sectors, initially not included in the strategy, grew significantly. This highlights the need for addressing cross-cutting constraints and complementarities in ways that can facilitate growth in all sectors, plus continuous monitoring to allow for policy adjustments when required.

Fourth, local and/or regional leadership rather than central government-led policies were central for all the turnarounds. All seven case studies are set in countries which are highly devolved in terms of resources and decision-making, so policy discussions and negotiations between the city and other sub-central government institutions, for example at the state or regional level, are a natural part of policymaking. In the case of Newcastle and Windsor, the leadership came from both the city and the state or province, working in parallel. This was also clear with Bilbao, which worked alongside the government of the Basque Country. In the German system, the Länder, rather than central government, have the responsibility for the promotion of their own economies in the round, and the structurally weaker areas within their territory. Over the last two decades, municipal governments and sub-regional associations of municipalities have taken an increasingly active role in the initiation and implementation of local economic development initiatives. This inspires a stronger motive to drive local change and allows them to leverage local knowledge about an area’s potential. The German case studies reflect this dynamic, with municipal leaders working in collaboration with Länder governments, taking a key role in the efforts to regenerate the cities, while leveraging support from higher levels. The specific roles can differ depending on the context: in Duisburg, local actors were relatively fragmented, and the regional level took a more active role to facilitate the development of
the policies; in Dortmund, with its strong collaborative tradition, the city was at the heart of the efforts. In the cases of both Newcastle and Windsor, state-level government provided critical financial and institutional support.

Fifth, significant, stable and long-term funding is required, via a strategic approach which steadily develops local capacities, rather than sponsoring a multitude of piecemeal projects. This general approach has proved its worth in Newcastle, Bilbao and Windsor. Pittsburgh focused particularly on developing an ecosystem of local finance also linked to outside actors. In Dortmund, the local savings banks adjusted their strategies and operations specifically to support the city-region economic development plan. In Germany, this has been helped by the fact that a complex system of equalisation payments (through revenue-sharing and supplementary grants) operates between the states, with the federal government also facilitating long-term and stable local finance.

Sixth, the engagement of a variety of actors and a sense of collaboration for the common good play an important role in the design and implementation of “turn around” strategies and policies. This is clear in all cities. Such collaboration is effectively built into the German system by design: in Dortmund and Duisburg, many public roles and responsibilities were transferred to different actors, such as the chambers of commerce or the system of public banks. It is also central to the turnaround experience of Bilbao and the Basque Country. Similarly, Lille, Pittsburgh, Newcastle and Windsor have all worked hard to ensure widespread local engagement in the effort to transform their cities. While the public sector typically takes the initial lead and holds a coordinating function, other actors from both the private sector and civil society play a crucial role.

Each of these seven ‘turnaround’ city-regions has managed to effectively marshal these six key elements to convince private capital that they are good places for long-term investment. In terms of the UK, the clear implication here is that the policy and institutional changes ushered in by the Levelling Up White Paper also need to provide UK city-regions with the wherewithal to marshal these same elements to follow similar ‘turnaround’ trajectories.

4. Lessons from international ‘turnaround’ cities for the UK context

The evidence surveyed here regarding successful international ‘turnaround’ cities, points to five main conclusions for the types of changes in the UK required to help city-regions in the weaker parts of the country.

First, while the 2022 Levelling Up White Paper robustly spelled out the nature of the UK’s regional imbalances and under-performance, there are still many unanswered questions about the ensuing governance-reform agenda. The White Paper correctly clarified that the under-performance of many of the UK’s large cities was a core component of the UK’s overall productivity weakness, and also that the over-centralisation of the UK contributed to the under-performance of many UK cities. However, there are no major new powers or funding streams for city-region combined authorities. In the last 40 years in the UK, expenditure on regional economic development never surpassed 0.2 per cent of GDP and in recent decades has been of the order of 0.1 per cent of GDP. In contrast, countries such as Germany routinely spend four to five times as much overall, and if we focus specifically on policies for enhancing weaker regions, Germany spends something of the order of 25-30 times more than the

UK. Although it is possible that in future Spending Reviews further significant funds will be allocated to supporting regional economic development at present there is no indication of this.

Second, there are also real concerns that the actual evolving governance arrangements set in train by the Levelling Up White Paper mostly focus on areas too small to realistically drive fundamental changes. In defence of the proposed governance reforms, it could be argued that greater county-level devolved responsibilities may encourage bottom-up engagement. However, the formation of county deals is over and above individual local authority powers. Pre-existing local authorities are best-placed to garner bottom-up engagement, since they are closest to citizens. However, in terms of the market-facing role of sub-central government, both councils and individual counties are individually usually too small to have any real economic development effect. This proposed direction of UK reform contrasts with our successful ‘turnaround’ cities. The historically drawn lines between counties bear no relationships whatsoever to today’s underlying economic geography. The weaknesses of devolved counties are compounded by the mismatch between the a “mission-oriented” framing of the Levelling Up agenda, and Whitehall’s continuing oversight and approval of the submitted local funding programmes, which together risks even more extreme top-down centralisation. Instead, new powers and mechanisms need to be established to enable individual combined authorities to work together in a formal manner, rather than informally, to address strategic challenges which are larger than their individual remits and resources currently allow for.

Third, there are currently no new proposals to create institutions, powers or governance mechanisms aimed at addressing any broader region-wide land use or planning issues which traverse individual devolution ‘deal’ areas. There is an institutional vacuum at the middle tier. There are nationwide investment priority recommendations from, for example, the National Infrastructure Commission or the Natural Capital Commission, and the only actors able to bring about change are central government. The recently announced programme of Investment Zones looks set to have nowhere near the clout required to address these issues, and there are precious few formal links between individual city-regions or combined authority areas. Earlier attempts at cross-jurisdictional initiatives, such as the Northern Powerhouse, the Midlands Engine and Transport for the North have had little real authority, and few resources beyond some extra funding envelopes associated with the British Business Bank. Exactly how these funding envelopes will fit with the evolving county-based devolution agenda remains unclear. Crucially, as well as genuine coordination between different tiers of governance, horizontal learning between sub-central governance institutions is vital in turning around cities and regions. In short, new institutions are needed to facilitate coordination and learning between combined authorities.

Fourth, combined authorities need to have the power and capacity to undertake the long-term redevelopment evident in other successful ‘turnaround’ cities. Well-constructed land use and spatial planning processes provide clarity and certainty for investors. Unfortunately, in the UK, many of these attempts at coordination even within Combined Authority areas founder on problems of local housing allocations and how these relate to land use, which remains in the grip of nationally directed policies. The land use planning system in the UK, and especially in England, operates largely as an ad hoc development control system, heavily subject to political pressures. Where local agreements cannot be reached, these inevitably are ‘called in’ to central government for decision-making, which leads

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to further centralisation by default. If they undermine goodwill, local disagreements over housing allocations can undermine the efficacy of Combined Authorities. Moreover, these problems are likely to get worse if the current housing proposals are implemented, since those proposals will mean exposing housing supply targets to external forces unrelated to strategic planning.\textsuperscript{19} In terms of land use, not only do most parts of the UK outside of London and the devolved nations have no regional spatial plans, but most local areas do not have up-to-date Local Plans (and many don’t have one at all). This is unimaginable in other successful high population density countries such as Germany, Switzerland or the Netherlands. There needs to be a genuine and comprehensive upgrading of spatial and land use planning and its proper integration with the economic development plans at a combined authority level.

Fifth, in the economically weaker UK city-regions, finding ways to increase access to capital, especially for SMEs, is a priority.\textsuperscript{20} By far the most important form of entrepreneurial collateral for business start-ups is housing equity, and part of the reason why London and its hinterland receive so much start-up capital of different forms is the presence of strong underlying land and real estate markets.\textsuperscript{21} This underlines the importance of well-thought-out land use and spatial planning. Good spatial and infrastructure planning helps to make a city-region an attractive location for businesses and families, and this is essential for building confidence both on the part of external investors and on the part of residents wishing to use their real estate assets as entrepreneurial collateral. One novel option for the UK post-Brexit is to allow UK pension funds greater discretion in terms of where they can invest. (The EU’s regime for governing the fund management industry, Solvency II, made it difficult for fund managers to invest in new companies and assets that do not have an established track record). Post-Brexit, the UK could potentially move closer to the Australian system where some 4 per cent of its pension funds are invested in private equity, compared with 0.3 per cent in the UK.\textsuperscript{22} Potentially, it would be possible to assign some spatially preferential tax incentive in this regard, whereby targeted public funds and preferential tax treatment encourages private capital into priority areas most in need of investment. Indeed, the Mayor of the West Midlands City-Region Combined Authority has explicitly asked for local powers to attract international as well as domestic capital into the city-region.\textsuperscript{23} However, no such powers currently exist, or are even being debated, and exactly how new institutions such as the UK Infrastructure Bank will work with city-regions with under-performing economies and weak land markets is unclear.

5. Challenges for the UK Local and Regional Institutional System

The five lessons from these seven international ‘turnaround’ city examples pose major challenges for the reform of the UK’s economic governance system. In particular, the proposed governance changes set in train by the Levelling Up White paper aim to give the same or similar powers to all places, and in a context of inter-city and inter-region competition arbitrated by central government. By contrast, each of our successful case studies has developed locally tailored city-level responses backed up by higher-level state-wide and regionwide mechanisms.

\textsuperscript{20} APPG & WPI Economics, on Fair Business Banking, Scale-Up to Level Up: Reforming SME Finance, September 2021.
\textsuperscript{22} E Duncan, Let’s turn Covid and Brexit to our advantage, The Times, January 2022.
\textsuperscript{23} A Street, Give Us Powers to Boost Levelling Up with Foreign Cash, The Times, May 2022.
Navigating economic change | Lessons from successful ‘turnaround’ cities for the UK

Given the starting point of vast interregional inequalities in the UK, it is almost impossible to see how similar reforms everywhere will address our yawning productivity differentials. Devolved governance reform is part of the potential solution, together with targeted public and private funding. Only with a specifically prescribed policy focus on weaker places, and intentionally designed systems which encourage private sector investment in these economies, can the goals of Levelling Up be achieved.

In sum, there needs to be a properly constructed set of institutional vehicles which foster private sector investment into economically weak areas. However, pushing directly against achieving this is the whole centralised logic and structure of the UK fiscal system.\textsuperscript{24} Individual devolution ‘deals’,\textsuperscript{25} and the ultra-centralisation, fragmentation and under-funding of the new Shared Prosperity Fund\textsuperscript{26}, is likely to entrench the UK’s regional inequalities, especially the lack of any scale-productivity relationships in many city-regions.\textsuperscript{27} Promoting economic development in the UK’s weaker regions demands that we address these issues, but in order to do this it is essential to understand how the UK’s current governance system, along with the governance reforms currently proposed, limit our ability to address them.

That governance system might be called “pyramidal”: hyper-centralised, top-down and sectoral, rather than truly spatial, in thinking. Local and sub-central government is overwhelmingly dependent on central government funding, decisions and control systems. In terms of addressing local and regional economic development challenges, our pyramidal power architecture has two pernicious features. For one thing, it maximises the separation between citizens and decision-makers; for another, it generates congestion at the top, in the narrow space where interests can jostle influence, congestion which only those with established connections can easily overcome. It is often only well-connected businesses, privileged social networks and London-based research institutes whose pleadings or recommendations receive a hearing from central government. Few, if any, of these actors, are representative of the wider UK. The combination of this separation between citizens and power plus preferential influence at the top of the pyramid disincentivises bottom-up engagement: where to start? And why bother? This in turn leaves central government utilising top-down ‘expert’ knowledge which flows down the governance system in the form of policy directives and guidance, with no offsetting experiential knowledge ‘flows up’ the system. Central government, therefore, fails to learn from local or sub-central arenas.\textsuperscript{28} Not surprisingly, this results in overwhelmingly top-down policymaking, largely devoid of context, nuance or engagement with citizens.\textsuperscript{29} These unidirectional flows constitute a systemic knowledge failure on the part of the UK governance system.

In other OECD countries, these governance-knowledge problems are addressed in one of three ways: namely, by being a small country where power is closer to the people; by federating or federalising; or, by unitary states undergoing fundamental decentralisation and devolution. In the latter two cases, intermediate “meso-level” governance institutions defined variously as states, provinces, länder, cantons, autonomous communities, prefectures, or regional levels, act as the focal point for much decision-making. Across the OECD, the typical size of these devolved meso-level decision-making

\begin{itemize}
  \item \textsuperscript{24} P McCann, The Fiscal Implications of ‘Levelling Up’ and UK Governance Devolution, Occasional Paper 63, National Institute of Economic and Social Research, July 2022.
  \item \textsuperscript{25} Institute for Government, What are County Deals? IFG Explainer, February 2022.
  \item \textsuperscript{26} D Marlow, Trying to Make Sense of the UK Shared Prosperity Fund, Local Government Information Unit, May 2022.
  \item \textsuperscript{27} P McCann & P-Y Yuan, The Productivity Performance of Different Types of UK Regions and the Challenges of Levelling Up, National Institute Economic Review 261(1), January 2023.
  \item \textsuperscript{28} D Coyle & A Muhtar, UK’s Industrial Policy: Learning from the Past? Bennett Institute for Public Policy, October 2021.
  \item \textsuperscript{29} J Slater, Fixing Whitehall’s Broken Policy Machine, The Policy Institute, King’s College London, March 2022.
\end{itemize}
Navigating economic change | Lessons from successful 'turnaround' cities for the UK

institutions is a population range of between of 3m-5m. These population sizes for governance and decision-making combine two key features which have been absent in England since the abolition of the Regional Development Agencies (RDAs) in 2012. On the one hand they are small enough to encourage, foster and facilitate ongoing mutual contact and knowledge flows between citizens and decision-makers. The lines of communication are sufficiently short that citizens and business can see the point of petitioning and seeking hearings with decision-makers, which fosters bottom-up knowledge flows. On the other hand, these population areas are also sufficiently large in economic terms that if a policy is well-designed and delivered, it is likely to be effective. While the OECD-wide evidence suggest that devolution and decentralisation are critical for shortening these lines of communication, governance in England is rapidly moving towards a highly centralised decision-making core surrounded by myriad devolved local units too small to be effective. Transferring economic development responsibilities from the soon-to-be abolished LEPs to local authorities will not solve this problem.

The reasons for this drift towards excessively small governance units is related to a second problematic feature of the UK institutional system: the way central government perceives sub-central government. As it stands, much of the current devolution logic is based on misunderstanding or misconception of the nature and proper potential function of sub-central governments; the increased salience of local cultural identity issues and cultural caricatures of localities as “rustbelt cities” or “red wall towns” only intensifies the misunderstanding.

As the OECD makes clear, sub-central government has three citizen-facing functions, namely: the representation of citizens; the provision of services and amenities; and the (loosely defined) regulation social order and community wellbeing. These three citizen-facing functions can typically be undertaken effectively at a local government level and constitute the issues which dominate local politics.

However, sub-central government also has a fourth ‘market-facing’ role of stimulating investment and development. Given the economic geography of spillovers, supply-chain linkages, labour mobility and commuting patterns, this ‘market facing’ role is typically better carried out at a city-region or a wider regional level. To be effective, this role must be carried out over much large spatial areas than is the case for the citizen facing roles. It touches on issues like inter-connectivity which, although often opaque to local electorates, are extremely important, especially in economically weaker places. Unfortunately, the devolution debates emanating from Whitehall ignore the difference between the properly local citizen-facing roles and the scale-dependent market-facing role. Instead, the prevailing view bundles the very different sub-central government roles into the same geographical units. The market-facing role needs a distinct institutional geometry that is overlooked.

Drawing on the insights of the seven comparator ‘turnaround’ cities, sub-central government in the UK needs to be given much greater powers and resources to decide their own priorities and design

Navigating economic change | Lessons from successful ‘turnaround’ cities for the UK

their own policies. Combined authorities must be empowered and encouraged to coordinate with each other and neighbouring areas without requiring central government permission. Building localised scale rather than fragmentation is essential for turning around cities in economically weaker regions. Legal devices must facilitate horizontal coordination between localities, helping them build larger geographical institutions as required to fulfil that crucial market-facing roles. Central government should play a supporting rather than an overbearing role in shaping local economic policy. The current debate is bogged down in questions about forming new local governance units without any real discussion of how to widen and extend the middle tier, sub-central governance systems that have contributed a good deal in each of the turnaround cities. In terms of the real economics of Levelling Up, addressing the market-facing role of sub-central government is far more important than the three citizen-facing roles which, unfortunately, tend to dominate our discussion.

Navigating economic change: lessons from abroad and history

As the UK is buffeted by the economic shocks and challenges of the 2020s, The Economy 2030 Inquiry, a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics (LSE), funded by the Nuffield Foundation, is publishing a series of essays examining how policy makers from a range of advanced economies, including the UK in the recent past, have managed periods of disruptive economic change. As we seek to reformulate the UK’s economic strategy for new times it is vital that we learn the lessons of these comparative and historic perspectives.

Some consider the trajectory of a national economy following a major shock – for instance, Germany after unification, New Zealand after the UK joined the European Community, Estonia post-USSR and the UK during the tumultuous 1980s. Others examine the experience of particular cities – for instance a group of post-industrial ‘turn-around cities’ - or the adjustment of key features of a national economic system, such as Danish ‘flexicurity’. Together they offer a powerful and timely set of insights on the successes and failures of economic policy makers in the face of economic shocks and structural change.

The essays are written by a range of leading economists and national experts and reflect the views of the authors rather than those of the Resolution Foundation, the LSE or The Economy 2030 Inquiry.

They have been commissioned and edited by Gavin Kelly (Chair of the Resolution Foundation and member of the Economy 2030 steering group) and Richard Davies (Professor at University of Bristol and fellow at the LSE’s Centre for Economic Performance).