

The Public Sector and its Contribution to Urban Competitiveness

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Abstract

The topic of this issue of the journal, “Public Sector Productivity and Competitiveness”, is one that has become exceedingly important and relevant at this stage in the development of urban economics and of urban competitiveness. This assertion has been powerfully verified by the recent announcement by the company Amazon that it will seek a site for a second headquarters complex. After inviting applications from cities in North America to host the complex, Amazon received applications from more than 200 cities, with populations from New York City down to some rather small cities, in all but seven US states. Several Canadian Provinces, one joint US-Mexico region also, submitted applications. We will return to this phenomenon later in this paper, but suffice it to note at this point that the criteria to be used in the decision-making are a set of seven elements set by Amazon, as well as a set of other unstated criteria that are implicit in the fact that the city will have to be an attractive place for the young, perhaps family-oriented, technologically skilled workers who will impose their own preferences as to where they are willing to spend their lives. Thus, city planners have more than one constituency to address. Too much attention to bricks and mortar and they lose the work force that is the key to success. This is the story of the past century for city planning for competitiveness. Not only do the tools for competitiveness change over time, but the goals keep changing, as do the humans who respond to their signals. The objective of city planners has therefore changed as the environment in which they function has evolved. As will be suggested in this paper, city planning for competitiveness enhancement has not actually evolved as it has changed fundamentally in nature as the economy has developed over the past century or more. We must start at the beginning.

Keywords: Public sector, urban competitiveness, city planning.

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Introduction: Competitiveness enhancement in 1900

At the end of the 19th century, there was a great expansion of the economy in the United States. Robert Gordon describes the steady economic expansion of this period, 1870-1940, based on advances in retail – Sears Roebuck and Montgomery Ward, in transportation – automobiles and trains, communication, health, insurance and finance, air transportation, and action at the national level of government (Gordon, 2016). Most of this was accomplished by individuals with ideas and access to a stream of finance. Thomas Edison had little education but he was curious. As age 22, he invented a stock ticker that brought in funding he needed for further inventions. One patent generated the funds for further exploration and additional inventions. Henry Ford grew up in Michigan and developed the mass production line for automobiles with his own ideas and with help from other individuals. William Boeing grew up in Detroit, was educated at Yale, and began working in Washington state in the timber industry. He made a lot of money and bought a boat building site in Seattle that with his knowledge of wood and structure set him up for aircraft manufacture. Chicago was a center of meat packing and railroad transportation that owed its success to individuals who developed these two industries at the crucial period 1880-1910. Chicago was transformed but it was not because of the actions of city leaders (Cronon, 1991). Facilitating this growth were institutions of the private sector, such as the stock exchanges of New York and other major cities, and the Chicago Board of Trade.

By the beginning of the twentieth century, Detroit, New York Chicago, and Seattle were all ‘competitive cities’, without a great deal of input from the individual cities. At the turn of the century, most major US cities were dominated by political bosses who were primarily focused on distributing the spoils of their corruption and had little interest in developing the city economy. The federal government was a major player through policies such as the Land Grant College (Morrill) Act, The Homestead Act, and the Transcontinental Railroad Act, patent protection, antitrust legislation, food and drug regulation, and many other measures. But city governments were not prominent at this time. The famously corrupt Boss Tweed in New York City is perhaps the symbol of this period for city government since many cities had his counterpart.

The industries developed by Ford, Carnegie, Edison, Boeing, and the others were based on what we refer to as hard elements of competitiveness – access to raw materials, access to a port or other transportation, an adequate supply of relatively low skilled labor – many of whom were recent immigrants, proximity to manufacturing sites of inputs, and, of course, upon the creativity and imagination and energy of inventors and innovators at the heart of the process. The same was true in Great Britain, the Continent, and all places where the 19th and early 20th century transformation of the economy was taking place. There was, quite literally, little a city government could do to really stimulate economic development or the attractiveness to business of that city – except, of course, to call out the police to control and restrict labor unions and labor activism.

One aspect that made cities attractive to business firms was the city’s architecture. In North America, New York City and Chicago were the two leaders in this respect. The steel frame skyscraper building was invented in Chicago, by local architects. This made it possible to attract head offices of major companies, and all of the firms that support them to concentrate their facilities in a narrow piece of land between Lake Michigan and the Chicago River. The same was true in Manhattan, bounded as it is by the Hudson and East rivers and constrained as it was by the location of solid rock near to the surface of the island. Once again, city officials had very little to do with this innovation that was so crucial to the development of large cities with concentrated central business cores.

This all changes as we progress through the 20th Century. Two world wars and the Great Depression had impacts on all economies in the industrial world. The pace of the increase in production of war goods was far beyond that possible by the private economy. This was less true during the First World War, with the possible exception of production of ships and rifles – this war was one of men in one trench trying to kill their counterparts in another trench. After the war governments tended to return to their smaller less invasive pre-war role in the economy. ‘Do nothing’ governments tended to ‘do nothing’ even when the Great Depression developed.

The Great Depression brought into office governments such as those of Franklin Roosevelt that enormously expanded the power and activities of the central government. This was principally in the area of social relief, specifically the alleviation of hunger. Cities did get involved in providing some relief to the unemployed, un-housed and hungry. But still there was little concern on the part of city governments in making their city more attractive to business firms that might be induced to relocate there. There was little concern for the concept of ‘urban competitiveness’.

World War Two was the event that brought change to the role of cities and to their efforts to adopt policies that would attempt to induce companies to relocate or to develop production and administrative functions to their urban space. War production demanded several magnitudes more of material being produced – ships and guns, of course, but now also aircraft, tanks, sophisticated artillery pieces, and a variety of new electronic communications and other equipment, such as radar, using new technologies, some of which were created by defense producers. Cities began to lobby their congressional representatives, the defense department, and the companies themselves for the siting of facilities in their urban space. Thus, a transformation in the role of the city’s government and its agencies in the development and shaping of the local economy was stimulated, even created, by the exigencies of wartime and, of course, by depression.

Competitiveness enhancement in the second half of the 20th Century

“One of the distinguishing characteristics of American Dynamism is that, at its heart, the United States is an intramural, competitive enterprise. Competition among cities, regions and states for people and investment has been essential to our success as a nation” (Kotkin & Streeter, 2019, p. 1).

Kotkin and Streeter (2019) capture in the above quote the essential characteristic of post-WWII economic development in the United States, and in other industrial societies, as well. The level of decision-making regarding economic location, has devolved from the national government and defense needs to cities and other local authorities, all interested in attracting headquarters, distribution, research, and production facilities of major companies. It soon became clear that if these initiatives were to be successful, decision-makers in the cities would have made themselves attractive, first to the companies, but then to the employees, as well. As technology and high skill labor came to dominate company activities, the needs of highly skilled and highly mobile workers became more and more important.

City leaders soon discovered that they could not do what needed to be done as individual entities; rather, they formed organizations of cities both at the local and state level, and at the national level. In 1927, ten state leagues formed an association that grew dramatically in the post-WWII period as the National League of Cities, to encompass 49 state leagues and 19,000 municipalities of all sizes. Five years later, the US Conference of Mayors was formed by 48 mayors of cities larger than 100,000 population – today the Conference is composed of the mayors of 1,407 cities of at least 30,000 population (according to Wikipedia). Both organizations are engaged in a variety of activities that further their needs, including

promoting programs at the state and national level that support economic development, social programs, and international initiatives. Essentially, things that no city or small group of cities could accomplish on their own.

The development of important technical advance in the United States has been often closely linked to defense procurement and programs. Certainly, the most dramatic event in the recent history of government and the economy is the role that the Defense Advanced Research Products Agency played when it developed, among other things, the internet. This innovation gave birth to much of the technological revolution that has occurred in the post-WWII period. But this, again, occurred at the national level of government, in the Department of Defense, in the late 1970s, with contracts to universities such as MIT. This linking of computers over great space enabled the development of collaboration and of access to data that had never before been possible.

From the early 1980s on, as this transformation of communication and collaboration developed, the nature of the determinants of a competitive city evolved from hard elements, such as access to raw materials, access to transportation and a port, and sufficient blue collar labor, to soft elements – public security, K-12 education, recreation facilities, local transportation, cultural facilities, attractive neighborhoods, and suitable nightlife. This is because the workers in the high-tech sector were younger, better educated, highly skilled, and often with young families. Most importantly, they were also highly mobile – these workers could find employment anywhere in the country, indeed in the world.

A city could not be successful at attracting desirable, clean, and well-paying companies simply through its own efforts. In competitive cities, as we enter the last years of the 20th century, excellent research universities and research laboratories, a full complement of technical consultants, and access to an airport, not for shipment of goods as much as for connectivity of employees of the firms for collaboration with counterparts elsewhere, have all become necessary attributes.

As noted at the outset, Amazon has opened a competition among over 230 cities in North America for its second headquarters complex with at least 50,000 employees being involved. This began with the issuance of a set of more-or-less formal first level criteria for the selection of its HQ2 competition:

- ✓ A metropolitan area with a population of over 1 million;
- ✓ A stable and business-friendly environment;
- ✓ Within 30 miles (48 km) of a population center;
- ✓ Within 45 minutes of an international airport;
- ✓ Proximity to major highways and arterial roads 1-3 miles (2-5 km);
- ✓ Access to mass transit routes;
- ✓ Up to 8 million square feet (740,000 m²) of office space for future expansion.

Optional preferences include airports with direct flights to Seattle, New York, San Francisco, and Washington, D.C., urban locations, and proximity to major universities.

At first glance, this might not provide much opportunity in which an ambitious city government could operate. Certainly, the city government can work to create a “business-friendly environment”, and most active city administrations have been doing this for a considerable time. However, transportation, a major element in the list, would seem to be in the hands of the US Department of Transportation and its state counterparts. But the emphasis on “access to...” does open the door to the city government to provide or to lobby for this aspect of connectivity. Zoning and a variety of incentive programs can and have been used by

cities to enhance their office space offerings. I would say that the ‘sleeper’ on the list is the population requirement – at least one million inhabitants or proximity to such a center. In this case, however, one million does not always mean one million, as it is the qualities of the constituent members of that million or more that is crucial. A large population base that is primarily composed of unemployed or unemployable former coal and steel, and basic manufacturing employees is not attractive to the Amazons of the world. I have used elsewhere the concept of the ‘competitive core’ of a city; essentially asking how many of a city’s million inhabitants are actually involved in the sector or sectors that comprise the essential competitiveness of that city – 50,000? 100,000? (Kresl & Ietri, 2016, pp. 57-58). The rest are at best supportive to some degree. The successful, or competitive cities have worked actively to encourage to development of a highly and appropriately skilled and immediately employable population. This is usually done with close cooperation of the city administration, local universities and tech schools, and the business community. Here is a place for very active engagement by a city’s administration and planners.

The Amazon HQ2 initiative has been very tempting to many public officials, given its potential impact. In this regard, it is worthy of note that the Governor of Maryland had to reprimand his Secretary of Transportation for saying that Amazon had a ‘blank check’ for whatever transportation needs they might have, after stating that he did not know how the state would pay for the \$2 billion already promised for Amazon’s transportation wish list. Such is the enthusiasm of local authorities when confronted by the possibility of a huge success (Neibauer, 2018).

The crucial question for all urban leaders is that of how to become more productive, not just to throw more money at desirable corporations and other investors. Here, we encounter a paradox of sorts. Local authorities often believe they know what is needed by the new high tech economy. The required transportation assets, some facilities, good neighborhoods and night life, public safety and education, and so forth, as noted above. But clearly there is more that must be done. Paradoxically, one notion of a successful city is that: “A city is not at its fundamental level optimizable” – Nicholas de Monchaux, as quoted by Badger (2018). “A city’s dynamism derives from its inefficiencies, from people and ideas colliding unpredictably” (Badger, 2018, p. 2). Creativity always entails a certain degree of uncertainty and unpredictability. Not everything can be, nor should it be, planned. Paths forward always entail several forks in the road and the most productive one cannot usually be determined in advance. It is difficult for a planner to leave important things to chance, but the reality is that some serendipity and messiness are vital ingredients in a successful experience. I remember working on a project in a Nordic city in which there was an underutilized industrial facility that local planners wanted to develop for high level fashion, design and information technology. They refashioned and modernized the space and installed the most current equipment, among others. After several months, they saw that the project was simply not taking off as they had anticipated. They questioned the individuals who were involved at the site and got a significant shock. The middle aged, middle class bureaucrats doing the planning thought all people had dinner, watched a bit of television and the news, and then went to sleep. The young techies’ plan was to work until 11pm or mid-night, then go to a bar and drink and talk about, among other things, what they were doing at work – the famous tacit transfer of knowledge. The planners simply had no knowledge with regard to the work life and life styles of the people they needed for the project to be a success.

In instances like this, it has proved to be insufficient just to work to attract existing firms to a city; ultimately, the real action was in creating an environment that would be conducive to start-up or new firms in technical areas of the economy. Individual entrepreneurs and innovators have requirements that are quite different than those of large firms. One thing they need is access to others in their situation who can share experiences, ideas, and strategies for success.

Furthermore, the best efforts of planners may be offset by aspects of the local milieu that are both intransigent and powerfully negative in their impact. These include income inequality in the city, commutes of two hours or more, social isolation, racial segregation, pollution, public insecurity, and slums. These are features of a city that are exceedingly difficult to ameliorate. While a certain pre-gentrification status is attractive to younger workers who are seeking a ‘cool’ neighbourhood, they can reshape, with retail, restaurants, coffee houses, culture venues, and living quarters, outright racial tension, crime, and *sluminess*, which are powerful deterrents to settlement by the desirable young techies and their families.

While most attention is devoted to the actions of officials in very large cities, very interesting success stories can also be found in many smaller cities, cities of between 20,000 and 250,000 inhabitants. First of all, smaller cities can often avoid the negative aspects of the previous paragraph. Second, smaller cities can often “borrow size” through their proximity to a large city with an international airport, a large pool of specialist professionals, international marketing, and other assets. Third, smaller cities that can develop both a quality university or college in conjunction with a significant medical services complex have been shown to be very competitive. (Kresl & Ietri, 2016). While planners in smaller cities do not have the resources that are available in large cities, it is often easier for them to be effective, in a more intimate environment in which social cohesiveness, familiarity among all of the significant actors, agility, and the ease in fashioning common objectives are all features.

Another thing that benefits all cities, but especially smaller cities, is the changes in communications technology, transportation, and production that make it possible to locate corporate activities almost anywhere in the physical space of a country. Individual tech workers can be in communication with co-workers hundreds or thousands of miles distant, as though they were on two different floors of the same high-rise building. Production no longer requires huge fixed facilities but can now be done on mobile platforms that give many more cities the possibility of participating in global production networks. Finally, airlines linking one hub airport to many others put technical workers in close proximity to counterparts hundreds or thousands of miles distant. For city planners this opens the range of possibilities exponentially.

Conclusion: The evolution of the role of public authorities in recent decades

During the past century, we have seen the role of public officials in the creation of a local environment that was inviting the high tech companies to evolve from rather passive observers of events to crucial participants in the siting of economic facilities, including the encouragement of start-ups. This evolution has taken place in an environment in which companies increasingly found options, alternatives, and bargaining power developing to their favor. Mayors and other city officials now compete for their favor. Before this, cities such as New York, Baltimore, Philadelphia, and Chicago were able to ride the propitious connection with ocean or lake transportation with one or, in the case of Chicago several, major railroads into the interior of the continent. More recently, city officials have become obligated to be more pro-active and imaginative in ‘selling’ their city to major, and somewhat footloose, companies from other parts of the country and increasingly from other parts of the world economy. As a consequence, mayors’ staffs are less likely to be dominated by political appointees and operatives and more by economic development and planning specialists, many of whom have graduate university degrees in the area in which they are working. The latter are the primary key to making city development and planning operations in our cities more productive.

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Peter Karl Kresl has been researching and publishing aspects of urban competitiveness for over 19 years. He is co-founder and president of the Global Urban Competitiveness Project, a group of 18 scholars working in this area. His recent books have been on subjects such as: the place of smaller cities in the global economy, the impact of an aging population on urban economies, and planning cities for the future, and is currently writing a book on how cities use architecture. His Ph.D. is from the University of Texas and he is professor of economics emeritus at Bucknell University, USA.